

# AUDIT REPORT

MUSKOGEE COUNTY RURAL WATER DISTRICT #7  
MUSKOGEE COUNTY, OKLAHOMA

DECEMBER 31, 2016

## KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE  
MUSKOGEE, OKLAHOMA 74401  
PHONE (918) 684-1040  
FAX (918) 684-1041

WEB: [KERSHAWCPA.COM](http://KERSHAWCPA.COM)  
E-MAIL: [RK@KERSHAWCPA.COM](mailto:RK@KERSHAWCPA.COM)

607 NORTH 1<sup>ST</sup> STREET  
PONCA CITY, OKLAHOMA 74601  
PHONE (580) 762-1040  
FAX (580) 762-1047

MUSKOGEE COUNTY RURAL WATER DISTRICT #7  
MUSKOGEE COUNTY, OKLAHOMA  
DECEMBER 31, 2016

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MUSKOGEE COUNTY RURAL WATER DISTRICT #7  
MUSKOGEE COUNTY, OKLAHOMA  
DECEMBER 31, 2016

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>	<u>TERM EXPIRATION</u>
Terry Swanner 1966 Cedar Bluff Road Fort Gibson, OK 74434	Chairman	March 2017
Doug Dortch 1589 N. County Line Rd Fort Gibson, OK 74434	Vice-Chairman	March 2019
Gabe Mosteller 115 Spurlock Drive Fort Gibson, OK 74434	Secretary/Treasurer	March 2019
Tony Sheets 2002 Cedar Bluff Road Fort Gibson, OK 74434	Member	March 2017
Jeremy Clinkenbeard 116 Leaning Tree Road Fort Gibson, OK 74434	Member	March 2018

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Muskogee County Rural Water District #7  
Muskogee County, Oklahoma

### *Report on the Financial Statements*

We have audited the accompanying financial statements of Muskogee County Rural Water District #7, as of and for the fiscal year ended December 31, 2016, as listed in the table of contents and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of significant accounting estimates made by management,

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as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Muskogee County Rural Water District #7 as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## *Other Matters*

### *Required Supplementary Information*

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

### *Supplementary and Other Information*

The introductory and the other supplementary information sections listed in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the District. Such additional information has not been subjected to the auditing procedures applied in our audit of the basic financial statements, and accordingly, we do not express an opinion or provide and assurance on it.

### *Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2017, on our consideration of the Muskogee County Rural Water District #7's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The

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purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Muskogee County Rural Water District #7's internal control over financial reporting and compliance.

*Kershaw CPA & Associates, P.C.*

Kershaw, CPA & Associates, PC

February 28, 2017

**MUSKOGEE COUNTY RURAL WATER DISTRICT #7  
MUSKOGEE COUNTY, OKLAHOMA  
STATEMENT OF NET POSITION  
DECEMBER 31, 2016**

	2016	Memorandum Only 2015
<b><u>ASSETS</u></b>		
<b><u>Current Assets:</u></b>		
Cash and cash equivalents	\$ 799,942	\$ 697,304
Accounts Receivable - water	37,346	35,227
Accounts Receivable - benefit unit sales	-	-
Inventory	23,573	22,176
Prepaid Insurance	6,397	6,410
Utility Deposit	100	100
<b>Total Current Assets</b>	<b>867,358</b>	<b>761,216</b>
<b><u>Capital Assets:</u></b>		
Land	10,000	10,000
Building	68,101	68,101
Water system and lines (Note 1)	1,236,353	1,236,353
Office furniture & equipment	18,160	18,160
	1,332,613	1,332,613
Less: Accumulated Depreciation	(700,266)	(673,821)
<b>Total Capital Assets</b>	<b>632,348</b>	<b>658,792</b>
<b>TOTAL ASSETS</b>	<b>\$ 1,499,706</b>	<b>\$ 1,420,008</b>
<b><u>LIABILITIES &amp; NET POSITION</u></b>		
<b><u>Current Liabilities:</u></b>		
Accrued Payroll Taxes	\$ 2,448	\$ 2,391
Accounts Payable	13,401	523
Current Portion of Long-Term Debt	10,313	9,723
<b>Total Current Liabilities</b>	<b>26,162</b>	<b>12,637</b>
<b><u>Long-Term Liabilities:</u></b>		
Note Payable - CRG	32,197	41,920
Less: Current Portion of Long-Term Debt	(10,313)	(9,723)
<b>Total Long-Term Liabilities</b>	<b>21,884</b>	<b>32,196</b>
<b>TOTAL LIABILITIES</b>	<b>48,046</b>	<b>44,834</b>
<b><u>NET POSITION:</u></b>		
Net investment in capital assets	600,151	616,873
Restricted for debt service	-	-
Unrestricted	851,509	758,302
<b>TOTAL NET POSITION</b>	<b>1,451,660</b>	<b>1,375,175</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 1,499,706</b>	<b>\$ 1,420,008</b>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

## EXHIBIT B

**MUSKOGEE COUNTY RURAL WATER DISTRICT #7  
MUSKOGEE COUNTY, OKLAHOMA  
STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET POSITION  
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2016**

	2016	Memorandum Only 2015
<b><u>OPERATING REVENUES:</u></b>		
Water Sales	\$ 458,367	\$ 411,353
Benefit Unit Sales	32,000	26,000
Miscellaneous Income	-	-
<b>TOTAL OPERATING REVENUES</b>	<b>490,367</b>	<b>437,353</b>
<b><u>OPERATING EXPENSES:</u></b>		
Water Purchased	180,658	161,505
Auto Expense	-	-
Contract Labor	43,355	40,905
Repairs & Maintenance	4,710	7,105
Insurance	10,954	9,882
Materials	20,855	13,453
Miscellaneous	2,191	2,399
Office Supplies & Expenses	4,516	4,049
Payroll Tax Expense	6,659	6,579
Postage	3,960	4,308
Professional Fees	2,587	2,098
Telephone	2,100	1,746
Utilities	9,474	10,417
Wages	82,579	81,557
Bad Debt Expense	-	-
Depreciation	26,445	26,445
<b>TOTAL OPERATING EXPENSES</b>	<b>401,043</b>	<b>372,448</b>
<b>NET OPERATING INCOME (LOSS)</b>	<b>89,325</b>	<b>64,905</b>
<b><u>OTHER REVENUES (EXPENSES):</u></b>		
Interest Income	3,016	3,075
Interest Expense	(2,213)	(2,768)
Insurance Proceeds	-	-
<b>TOTAL OTHER REVENUES (EXPENSES)</b>	<b>802</b>	<b>307</b>
<b>NET INCOME (LOSS) BEFORE CONTRIBUTIONS</b>	<b>90,127</b>	<b>65,212</b>
<b>CAPITAL CONTRIBUTIONS</b>	<b>-</b>	<b>-</b>
<b>CHANGE IN NET POSITION</b>	<b>90,127</b>	<b>65,212</b>
<b>TOTAL NET POSITION, Beginning of Year</b>	<b>1,375,175</b>	<b>1,309,963</b>
<b>TOTAL NET POSITION, Prior Year Adjustment</b>	<b>(13,642)</b>	<b>-</b>
<b>TOTAL NET POSITION, End of Year</b>	<b>\$ 1,451,660</b>	<b>\$ 1,375,175</b>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements



## EXHIBIT C

**MUSKOGEE COUNTY RURAL WATER DISTRICT #7  
MUSKOGEE COUNTY, OKLAHOMA  
STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016**

	2016	Memo Only 2015
<b><u>Cash Flows from Operating Activities:</u></b>		
Receipts from Customers	\$ 488,248	\$ 435,950
Payments to Suppliers & Laborers for Goods & Services	(376,689)	(345,324)
Receipts of Customer Utility Deposits, Net of Refunds	-	-
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>111,560</b>	<b>90,625</b>
<b><u>Cash Flows from Capital &amp; Related Financing Activities:</u></b>		
Additions to Capital Assets	-	-
Capital Contributions	-	-
Proceeds from long-term debt	-	-
Principal paid on long-term debt	(9,723)	(9,168)
Interest paid on Debt	(2,213)	(2,768)
<b>Net Cash Provided (Used) by Capital &amp; Related Financing Activities</b>	<b>(11,937)</b>	<b>(11,937)</b>
<b><u>Cash Flows from Investing Activities:</u></b>		
Interest Income	3,016	3,075
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>3,016</b>	<b>3,075</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>102,639</b>	<b>81,764</b>
<b>Cash &amp; Cash Equivalents, Beginning of Year</b>	<b>697,304</b>	<b>615,539</b>
<b>Cash &amp; Cash Equivalents, Prior Year Adjustment</b>	<b>-</b>	<b>-</b>
<b>Cash &amp; Cash Equivalents, End of Year</b>	<b>\$ 799,942</b>	<b>\$ 697,304</b>
<b><u>Reconciliation of operating income (loss) to net cash provided operating activities:</u></b>		
Operating Income (Loss)	\$ 89,325	\$ 64,905
<b>Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities</b>		
Depreciation	26,445	26,445
(Increase)Decrease in Accounts Receivable	(2,119)	(1,404)
(Increase)Decrease in Inventory	(1,396)	1,417
(Increase)Decrease in Prepaid Insurance	12	(647)
Increase(Decrease) in Accounts Payable	(763)	(157)
Increase(Decrease) in Payroll Taxes Payable	57	67
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>\$ 111,560</b>	<b>\$ 90,625</b>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

MUSKOGEE COUNTY RURAL WATER DISTRICT #7  
MUSKOGEE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

Organization & Reporting Entity

Muskogee County Rural Water District #7 is incorporated as a non-profit corporation under the Oklahoma Rural Water, Sewer, Gas and Solid Waste Management District Act (82 Okla. Stat. 1324.1 - 1324.26). At the annual meeting each year the participating members elect a Board of Directors consisting of five members. The Board elects a Chairman, Vice-Chairman, and Secretary and Treasurer from their members. More than one person may hold the offices of Secretary and Treasurer. The Board may employ a manager to manage the day-to-day activities of the District.

Basis of Presentation

The District is accounted for within the framework of enterprise fund accounting. Enterprise funds are used to account for operations that are operated in a manner similar to private business enterprises wherein the intent of the District's Board of Directors is to recover the cost of providing goods and services through user charges.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses when incurred.

Budgetary Data

In accordance with Article 9 of the District's By-Laws, the District prepares an annual budget for internal bookkeeping purposes.

Assets, Liabilities, & Equity

Cash & Cash Equivalents

Cash is comprised of deposits in demand deposit checking accounts and certificates of deposits. For the purpose of the statement of cash flows, the District considers all highly liquid assets, including restricted cash, to be cash equivalents.

MUSKOGEE COUNTY RURAL WATER DISTRICT #7  
MUSKOGEE COUNTY, OKLAHOMA  
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DECEMBER 31, 2016

Allowance for Uncollectible Accounts

No provision for an allowance for uncollectible accounts has been made as all accounts deemed uncollectible are written off against revenues upon Board approval.

Inventory

Inventory is valued using the lesser of cost or market. Obsolete inventory is written off at the time it is determined to be obsolete.

Capital Assets

Capital assets are stated at the cost and depreciation has been computed using the straight-line method based on the estimated useful lives of the assets as follows:

Water district facilities	40 to 50 years
Water district equipment	5 to 10 years
Office equipment	3 to 5 years

The dollar threshold for capitalization has been set at \$500.00.

Long-Term Debt

Long-term debt is reported at face value, net of applicable discounts and deferred loss on refunding. Costs related to the issuance of debt are deferred and amortized over the lives of various debt issues.

Equity Classification

Equity is classified as net position and displayed in three components:

1. Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.

MUSKOGEE COUNTY RURAL WATER DISTRICT #7  
MUSKOGEE COUNTY, OKLAHOMA  
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2. Restricted – Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted - Net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

It is the District's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

Revenues, expenditures & expenses

Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

Governmental Accounting Standards Board Statement No. 34

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Certain of the significant changes in the Statement include the following:

1. For the first time the financial statement should include:
  - a. A Management Discussion and Analysis (MD&A) section providing analysis of the District's overall financial position and results of operations. However, the District has chosen not to present the required MD&A for the current year.
  - b. Financial statements prepared using full accrual accounting for all of the District's activities, except for including the General capital assets or infrastructure (lines, pump stations, etc.).

MUSKOGEE COUNTY RURAL WATER DISTRICT #7  
MUSKOGEE COUNTY, OKLAHOMA  
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2. A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The District has elected to implement the general provisions of the Statement and report infrastructure acquired after December 31, 2003 as provided by GASB standards.

Income Taxes

As a political subdivision of the State of Oklahoma, the District is exempt from income taxes.

Compensated Absences

The District had no vacation and sick leave policy during the current year.

Use of Estimates

The District made estimates and assumptions required in the preparation of its financial statements on the basis of accounting described above that affect certain reported amounts and disclosures accordingly; actual results could differ from those estimates.

Memorandum Totals

The "Memorandum Only" captions above the total columns mean that totals are presented for overview information purposes only.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

As a local government unit, the District is subject to various federal, state, and local laws and contractual regulations. In accordance with Government Auditing Standards, the auditor has issued a report on his consideration of the District's internal control over financial reporting and tested its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be read in conjunction with this report in considering the results of the audit.

MUSKOGEE COUNTY RURAL WATER DISTRICT #7  
MUSKOGEE COUNTY, OKLAHOMA  
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Finance-related Legal & Contractual Provisions

The District does not have any loans which would require reserve accounts or budget preparation.

Deficit Fund Balance or Retained Earnings

As indicated in the financial statements, there are no fund balance or retained earnings deficits for the District for this fiscal year.

NOTE 3 - CASH AND INVESTMENTS

Custodial Credit Risk

At December 31, 2016, the District held deposits of approximately \$799,942 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name.

Investment Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The District has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money

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NOTES TO FINANCIAL STATEMENTS  
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judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.

- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

NOTE 4 - RESTRICTED ASSETS

The District has no restricted assets.

NOTE 5 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended December 31, 2016, was as follows:

	Balance at Dec. 31, 2015	Additions	Deductions	Balance at Dec. 31, 2016
Land	\$ 10,000	\$ -	\$ -	\$ 10,000
Building	68,101	-	-	68,101
Water system & lines	1,236,353	-	-	1,236,353
Office Furniture & Equipment	18,160	-	-	18,160
Subtotal	1,332,613	-	-	1,332,613
Less: Accum. Depr.	(673,821)	(26,445)	-	(700,266)
Total Capital Assets (Net of Depreciation)	<u>\$ 658,792</u>	<u>\$ (26,445)</u>	<u>\$ -</u>	<u>\$ 632,348</u>

NOTE 6 - LONG-TERM DEBT

The District has a note payable, dated May 18, 2010, to Community Resource Group, Inc. (CRG) in the original amount of \$90,000.00. The purpose of the loan is for replacing and extending existing water lines. The loan includes interest at 5.9% for a period of ten years maturing on May 18, 2020, with monthly payments due of \$994.71. Collateral for the loan is a pledge of District Revenue. Repayment began in June 2010.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended December 31, 2016:

MUSKOGEE COUNTY RURAL WATER DISTRICT #7  
MUSKOGEE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

	Balance at December 31, 2015	Additions	Deductions	Balance at December 31, 2016
Notes Payable	\$ 41,920	\$ -	\$ (9,723)	\$ 32,197
Total Long-Term Debt	<u>\$ 41,920</u>	<u>\$ -</u>	<u>\$ (9,723)</u>	<u>\$ 32,197</u>

Debt Services Requirements to Maturity

The annual debt service requirements to maturity, including principal and interest, for long-term debt, as of December 31, 2016, are as follows:

Year Ending December 31,	Principal	Interest	Annual Payment
2017	\$ 10,313	\$ 1,624	\$ 11,937
2018	10,938	999	11,937
2019	10,946	335	11,282
2020	-	-	-
2021	-	-	-
Total	<u>\$ 32,197</u>	<u>\$ 2,958</u>	<u>\$ 35,155</u>

NOTE 7 - FUND EQUITY

As described in Note 1 above, equity is classified as net position and displayed in three components:

1. Net investment in capital assets
2. Restricted
3. Unrestricted

NOTE 8 - CONTINGENCIES

Litigation

According to management there were no known contingent liabilities at December 31, 2016, which would have a material effect on the financial statements.

Federally Assisted Programs

In the normal course of operations, the District participates in various federal or state/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that may arise as a result of these audits



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NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

NOTE 9 - WATER PURCHASES

The District purchases its water from the Fort Gibson Utility Authority.

NOTE 10 - RELATED PARTY TRANSACTIONS

The insurance agent, maintenance contract laborer and a member of the Board of Directors are all relatives.

NOTE 11 - SUBSEQUENT EVENTS

The District did not have any subsequent events through February 28, 2017, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending December 31, 2016.

NOTE 12 - PRIOR YEAR ADJUSTMENT

A prior year adjustment of \$13,641.62 was made to include water purchases and other utilities in accounts payable. The adjustment was made to the beginning balance.

# KERSHAW CPA & ASSOCIATES, PC

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## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors  
Muskogee County Rural Water District #7  
Muskogee County, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes, the financial statements of the Muskogee County Rural Water District #7, as of and for the year ended December 31, 2016, and the related notes to the financial statements, and have issued our report thereon dated February 28, 2017. Management has omitted the MD&A required by accounting principles generally accepted in the United States of America.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Muskogee County Rural Water District #7's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Muskogee County Rural Water District #7's internal control. Accordingly, we do not express an opinion on the effectiveness of Muskogee County Rural Water District #7's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may

# KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE  
MUSKOGEE, OKLAHOMA 74401  
PHONE (918) 684-1040  
FAX (918) 684-1041

WEB: KERSHAWCPA.COM  
E-MAIL: RK@KERSHAWCPA.COM

607 NORTH 1<sup>ST</sup> STREET  
PONCA CITY, OKLAHOMA 74601  
PHONE (580) 762-1040  
FAX (580) 762-1047

exist that have not been identified. We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings that we consider to be significant deficiencies. Those deficiencies are listed as Item 16-01.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Muskogee County Rural Water District #7's financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Muskogee County Rural Water District #7's Response to Findings

Muskogee County Rural Water District #7's response to the findings identified in our audit is described in the accompanying Schedule of Findings. Muskogee County Rural Water District #7's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Kershaw CPA & Associates, P.C.*  
Kershaw, CPA & Associates, PC

February 28, 2017

MUSKOGEE COUNTY RURAL WATER DISTRICT #7  
MUSKOGEE COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS  
DECEMBER 31, 2016

Item 16-01: Segregation of Duties

Criteria: A good system of internal control requires a proper segregation of duties to prevent one person from being in a position to authorize, execute, and record the same transaction.

Condition: Due to the size of the District's major areas of internal control, that would be prevalent in a larger District, such segregation of duties is not available for this size operation. Duties are concentrated in the hands of the Manager, who is responsible for all phases of the accounting functions. Because of this lack of division of responsibility, internal control is determined to be weak, and in some instances, non-existent.

Cause/Effect: Due to the limited number of personnel, a breach of internal controls could occur and not be detected in the normal course of operations.

Recommendation: The Board should continue to be actively involved in the operations of the organization.

Response: The Board continues to be actively involved in the operations of the organization.

MUSKOGEE COUNTY RURAL WATER DISTRICT #7  
MUSKOGEE COUNTY, OKLAHOMA  
SCHEDULE OF WATER RATES AND CUSTOMERS  
DECEMBER 31, 2016

Water Rates

0 - 1,500 gallons	=	\$17.33 Minimum Bill
Next 7,000 gallons	=	\$ 6.66 per 1,000 gallons
Next 15,000 gallons	=	\$ 6.86 per 1,000 gallons
Over 23,500 gallons	=	\$ 7.06 per 1,000 gallons

Total Gallons Pumped	61,698,000
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Total Gallons Sold	54,150,800
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Percentage of Loss	12.23%
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Customers

The Muskogee County Rural Water District #7 had 849 customers at the close of this fiscal year.

Current membership/tap fee \$2,000 per meter sign-up.