

Independent Auditor's Report

Rural Water, Sewer, Gas and Solid Waste Management

District No. 7, Grady County

May 31, 2016

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT
DISTRICT NO. 7, GRADY COUNTY, OKLAHOMA
May 31, 2016**

Table of Contents

	Page
Independent Auditor's Report	A – 1

Basic Financial Statements

Statement of Net Position – Modified Cash Basis – Enterprise Fund	B – 1
Statement of Revenues, Expenses, and Changes in Net Position – Modified Cash Basis - Enterprise Fund	B – 2
Statement of Cash Flows – Modified Cash Basis – Enterprise Fund	B – 3
Notes to Financial Statements	C – 1

Internal Control and Compliance Report

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 <i>Government Auditing Standards</i>	D – 1
Schedule of Findings and Responses	E – 1
Disposition of Prior Year Audit Findings	F – 1



INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rural Water, Sewer, Gas and Solid Waste Management
District No. 7, Grady County
Ninnekah, Oklahoma 73067

Board Members:

We have audited the accompanying modified cash basis financial statements of the business-type activities of the **Rural Water, Sewer, Gas and Solid Waste Management District No. 7**, Grady County, Oklahoma, as of and for the year ended May 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 District'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 District'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, 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 opinions.

Opinions

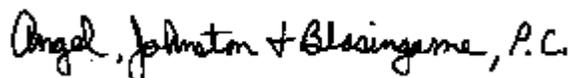
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the business-type activities of the District as of May 31, 2016, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 5, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The 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 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 the District's internal control over financial reporting and compliance.



Angel, Johnston & Blasingame, P.C.
Certified Public Accountants

Chickasha, Oklahoma
July 5, 2016

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT
DISTRICT NO. 7, GRADY COUNTY, OKLAHOMA
Statement of Net Position - Modified Cash Basis
For the Year Ended May 31, 2016**

<u>ASSETS</u>	<u>May 31, 2016</u>
Current Assets	
<i>Cash and Cash Equivalents</i>	
Cash on Hand	\$ 44
Checking Account	211,720
Savings Account	16,101
Debt Service Fund - Restricted	11,945
Reserve Fund - Restricted	80,302
<i>Total Cash and Cash Equivalents</i>	<u>320,113</u>
 <i>Total Current Assets</i>	 320,113
Non Current Assets	
Capital Assets - Net of Accumulated Depreciation	<u>2,533,980</u>
<i>Total Non Current Assets</i>	2,533,980
 <i>Total Assets</i>	 <u>2,854,093</u>
 <u>LIABILITIES</u>	
Current Liabilities	
Current Portion Long Term Debt	<u>69,000</u>
<i>Total Current Liabilities</i>	69,000
Non Current Liabilities	
Note Payable - OWRB (net of current portion)	<u>149,700</u>
<i>Total Liabilities</i>	218,700
 <u>NET POSITION</u>	
Net Investment in Capital Assets	2,315,280
Restricted for Debt Service	92,248
Unrestricted	227,865
<i>Total Net Position</i>	<u>\$ 2,635,393</u>

The accompanying notes are an integral part of the financial statements.

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT
DISTRICT NO. 7, GRADY COUNTY, OKLAHOMA
Statement of Revenues, Expenses, and Changes in Net Position
Modified Cash Basis
For the Year Ended May 31, 2016**

	May 31, 2016
Operating Revenue	
Water Sales	\$ 603,741
Sewer Sales	10,148
Late Charges	11,351
Unit Fees & Assessments	32,584
Miscellaneous	17,524
Redeposits	781
Rental	4,054
FEMA	4,223
Insurance Claim	1,560
<i>Total Operating Revenue</i>	685,966
 Operating Expenses	
Salaries & Benefits	163,943
Maintenance & Operations	140,427
Office Expense	20,154
Water Wells Expense	114,411
Insurance & Professional Expense	47,186
Returned Checks	1,376
<i>Total Operating Expenses</i>	487,497
 <i>Operating Income before Depreciation</i>	 198,469
 Depreciation Expense	 101,184
<i>Operating Income (Loss)</i>	 97,285
 Non Operating Revenues (Expense)	
Interest Earned-net of fees	62
Interest on Loan	(3,995)
Loss on Sale of Asset	(2,203)
<i>Total Non Operating Revenues (Expenses)</i>	(6,136)
 <i>Change in Net Position</i>	 91,149
 <i>Net Position - Beginning of Year</i>	 2,544,244
<i>Net Position - End of Year</i>	\$ 2,635,393

The accompanying notes are an integral part of the financial statements.

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT
DISTRICT NO. 7, GRADY COUNTY, OKLAHOMA
Statement of Cash Flows - Modified Cash Basis
For the Year Ended May 31, 2016**

	<u>May 31, 2016</u>
Cash flows from operating activities	
Cash received from customers	\$ 689,486
Cash paid to employees	(163,943)
Cash paid to suppliers	(323,554)
<i>Net cash provided (used) by operating activities</i>	<u>201,989</u>
Cash flows from capital and related financing activities	
Interest Expense	(3,995)
Purchase of capital assets	(66,297)
Principal paid on capital debt	(65,300)
<i>Net cash provided (used) for capital and related financing activities</i>	<u>(135,592)</u>
Cash flows from investing activities	
Interest Income-net of fees	62
<i>Net cash provided (used) by investing activities</i>	<u>62</u>
<i>Net increase (decrease) in cash and cash equivalents</i>	66,459
<i>Cash and cash equivalents at beginning of year</i>	253,654
<i>Cash and cash equivalents at end of year</i>	<u>\$ 320,113</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income (loss)	\$ 100,805
Adjustment to reconcile operating income to net cash provided	-
Depreciation expenses	101,184
<i>Net cash provided (used) by operating activities</i>	<u>\$ 201,989</u>

The accompanying notes are an integral part of the financial statements.

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT
DISTRICT NO.7, GRADY COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
May 31, 2016**

Note 1 – Summary of Significant Accounting Policies

1 A. The Reporting Entity

Grady County Rural Water, Sewer, Gas and Solid Waste Management District No. 7 (The District) was created in 1992 as a quasi-governmental unit under Oklahoma State Statute O.S. 82. The District is a body politic and corporate and an agency and legally constituted authority of the State of Oklahoma for the purpose of developing and providing an adequate rural water supply. Prior to 1992, it was accounted for as a non-profit corporation under Section 501(c)(3) of the Internal Revenue Code. The District provides water and limited sewer services to patrons within its district boundaries. A 5-person board duly elected by its members governs the District.

The District is under limited supervisory control of the Grady County Commissioners. After considering the lack of financial interdependency and the lack of exertion of significant influence over the District's operational matters, it was determined that the District is not a component unit of the Grady County governmental unit.

1 B. Basis of Presentation

The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position display information about the reporting government as a whole. These statements generally distinguish between governmental and business-type activities. However, all the activities of the District are business-type activities. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts, which are comprised of each fund's assets, liabilities, net position, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements. The funds of the financial reporting entity are described below:

RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT
DISTRICT NO.7, GRADY COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
May 31, 2016

Note 1 – Summary of Significant Accounting Policies, (continued)

Proprietary Fund Types

1. **Enterprise Fund** – These funds are established to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. There is one fund within this fund type.

1 C. Basis of Accounting and Measurement Focus

Measurement focus refers to how transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recognized and recorded in the financial statements regardless of the measurement applied.

The District's financial statements use the economic resources measurement focus and are presented on the modified cash basis of accounting. Revenues, are recognized when they are received and expenses are recorded when paid with the following modifications:

- Capital assets are recorded when purchased and related depreciation is recorded.
- Long – term debt is recorded when incurred.

This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

If the District utilized the basis of accounting recognized as generally accepted, the financial statements would use the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred.

1 D. Assets, Liabilities and Equity

Cash & Cash Equivalents - For the purposes of the statement of cash flows, the District considers all cash on hand, demand deposits, interest bearing checking accounts, time deposit accounts and highly liquid investments, with an original maturity of three months or less when purchased, to be cash and cash equivalents.

Restricted Assets – Restricted assets include assets that are legally restricted as to their use. The primary restricted assets are related to debt service.

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT
DISTRICT NO.7, GRADY COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
May 31, 2016**

Note 1 – Summary of Significant Accounting Policies, (continued)

1 D. Assets, Liabilities and Equity (continued)

Capital Assets - The cost of capital assets has been accumulated from audit reports since the inception. The assets are recorded at cost and are depreciated over the estimated useful lives using the straight-line depreciation method. The District policy is to capitalize assets of \$1,000 or more. The range of estimated useful lives by type of asset is as follows:

Building and Water System	40 years
Office Equipment	5 years
Other Equipment and Vehicles	5 to 15 years

Long-Term Debt - Long-term debt to be repaid from the Districts resources are reported as liabilities in the Statement of Net Position. The long-term debt is presently comprised of one (1) note. See Note 2.D.

Net Position – Net position is divided into three components:

- a. *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 attributed to the acquisition, construction, or improvements of those assets.
- b. *Restricted net position* – Consists of net position with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c. *Unrestricted net position* – All other net position that do not meet the definition of “restricted” or “net investment in capital assets.”

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

Operating and Non-Operating Revenues – Operating revenues are considered those whose cash flows are related to operating activities, while revenue related to financing, capital and investing activities are reported as non-operating.

Expenditures/Expenses – Expenditures/expenses are reported by object or activity.

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT
DISTRICT NO.7, GRADY COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
May 31, 2016**

Note 1 – Summary of Significant Accounting Policies, (continued)

1 E. Use of Estimates

Certain estimates are made in the preparation of the financial statements, such as estimated lives for capital assets depreciation. Estimates are based on management’s best judgments and may vary from actual results.

Note 2 – Detailed Notes on Transaction Classes/Accounts

2 A. Deposits, Investments, and Collateral

Deposits and Investments - The District’s investment policy is governed by the board of trustees and any restrictions in the trust indenture.

Custodial Credit Risk - Deposits – Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The District does not have a written deposit policy for custodial credit risk, but *Oklahoma Statutes* requires collateral for all uninsured deposits of public trust funds in financial institutions. As of May 31, 2016, the District’s bank balances of \$176,785 were not exposed to custodial credit risk. The funds held by the bank’s trust department are invested in U.S. Government obligations and total \$92,248.

2 B. Restricted Assets

The amounts reported as restricted assets on the Statement of Net Position are comprised of cash and investments held for debt service. The restricted assets as of May 31, 2016 were as follows:

<u>Type of Restricted Assets</u>	<u>Current Cash and Cash Equivalents</u>	<u>Current Investments</u>	<u>Total</u>
Restricted for Debt Service	\$ 0	\$92,248	\$92,248

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT
DISTRICT NO.7, GRADY COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
May 31, 2016**

Note 2 – Detailed Notes on Transaction Classes/Accounts, (continued)

2 C. Capital Assets Activity

The following is a summary of capital assets and accumulated depreciation:

	<u>Balance 5/31/15</u>		<u>Additions</u>		<u>Disposals</u>		<u>Balance 5/31/16</u>
Business Type Activities:							
Non-depreciable assets:							
Land	289,857	\$	-	\$	-	\$	289,857
Construction in progress	<u>-</u>		<u>-</u>		<u>-</u>		<u>-</u>
Total non-depreciable assets	<u>289,857</u>		<u>-</u>		<u>-</u>		<u>289,857</u>
Depreciable assets:							
Buildings	193,238		-		-		193,238
Vehicles	71,210		32,405		26,709		76,906
Office & Other Equipment	61,409		-		-		61,409
Water Lines/Improvements	<u>3,899,613</u>		<u>33,892</u>		<u>-</u>		<u>3,933,505</u>
Total depreciable assets	<u>4,225,470</u>		<u>66,297</u>		<u>26,709</u>		<u>4,265,058</u>
Less accumulated depreciation:							
Buildings	35,857		4,806		-		40,663
Vehicles	51,355		11,286		20,986		41,655
Office & Other Equipment	32,506		4,314		-		36,820
Water Lines/Improvements	<u>1,821,018</u>		<u>80,778</u>		<u>-</u>		<u>1,901,796</u>
Total accumulated depreciation	<u>1,940,736</u>		<u>101,184</u>		<u>20,986</u>		<u>2,020,934</u>
Net depreciable assets	<u>2,284,734</u>		<u>(34,887)</u>		<u>-</u>		<u>2,249,847</u>
Net business type activities capital assets	<u>2,574,590</u>	\$	<u>(34,887)</u>	\$	<u>5,723</u>	\$	<u>2,533,980</u>

Depreciation expense for the year was \$101,184 and was all charged to the enterprise fund.

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT
DISTRICT NO.7, GRADY COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
May 31, 2016**

Note 2 – Detailed Notes on Transaction Classes/Accounts, (continued)

2 D. Long-Term Debt

On May 27, 2004 the District entered into a loan with the Oklahoma Water Resources Board (OWRB) in the amount of \$805,000 for a period of approximately 15 years bearing an initial interest rate of 1.780 percent per annum. The interest rate is variable. The current variable rate is 1.51 percent per annum, with a recalculation quarterly. The estimated future interest as listed in the table below is calculated using an average interest rate of 4.3 percent per annum. The District’s water revenue and the assets of the District back the loan.

The changes in long-term debt are as follows:

	<u>Balance</u> <u>5-31-15</u>	<u>Loan</u> <u>Proceeds</u>	<u>Interest</u> <u>Paid</u>	<u>Principal</u> <u>Paid</u>	<u>Balance</u> <u>5-31-16</u>
OWRB	284,000	0	3,995	65,300	218,700

<u>Fiscal Year</u>	<u>OWRB</u> <u>Principal</u> <u>Payments</u>	<u>Estimated</u> <u>Interest</u>
2016-2017	69,000	9,076
2017-2018	72,800	5,929
2018-2019	76,900	2,608

Note 3 – Other Notes

3 A. Meter Deposits

Prior to 1980 the District collected refundable meter deposits from the water line users. Since that time it has been policy for new members to pay a non-refundable membership and installation fee. Because the corporation’s records disclosing meter deposits have been subsequently destroyed, there is no documentation as to who still has a refundable meter deposit outstanding. The corporation feels this amount is not material and that they would have sufficient funds available to refund any outstanding meter deposits.

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT
DISTRICT NO.7, GRADY COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
May 31, 2016**

Note 3 – Other Notes, (continued)

3 B. Vacation, Sick leave and Compensated Absences

Compensated vacation and sick leave absences are recorded as expenditures when they are paid. Any unused sick leave and/or vacation as of December is paid to the employee the following January at the employees normal rate and thus does not vest or accumulate.

3 C. Employee Pension Plan

The retirement program is a 401(k) deferred compensation plan. The District is contributing 8% of the three employees' compensation. Additional voluntary employee contributions are allowed. The plan allows contributions of 15% up to a maximum of \$22,500 per person per year. The contributions are immediately 100% vested.

The retirement contributions for the years ending May 31 are as follows:

2016	\$11,463
2015	\$11,864
2014	\$7,749
2013	\$7,493
2012	\$8,733
2011	\$7,480
2010	\$8,730
2009	\$8,049
2008	\$7,493
2007	\$5,887
2006	\$5,712

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT
DISTRICT NO.7, GRADY COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
May 31, 2016**

Note 3 – Other Notes, (continued)

3 D. Water Rights Lease

The District leases water rights from area residents to provide the water service to its customers. The District currently is party to seven separate leases for such water rights:

- 1) Bailey lease (\$150/month) – started in 1981 with rights for 40 years but renewable month to month.
- 2) Adams lease (\$1,000/month) – started in 1981 with no definite term and renewable month to month.
- 3) Dahl lease (\$93.75/month) – started in 1990 for a 40 year term with renegotiations every three years.
- 4) Rust lease (\$400/month) – started in 1998 for a 40 year term with renegotiations every five years.
- 5) Sumner lease (\$300/month) – started in 1999 for a 40 year term with a set payment scheduled for 5 years.

3.E. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health; and acts of God. The District manages these various risks of loss by securing commercial insurance. Management believes such insurance coverage is sufficient to preclude any significant uninsured losses to the District. There have been no significant reductions in insurance coverage from the prior year and settlements have not exceeded coverage in the past three years.

3 F. Commitments and Contingencies

Contingencies – Grant Program Involvement - In the normal course of operations, the District may participate in various federal and state grant programs from year to year. Amounts received or receivable from grantor agencies are often subject to audit and adjustment by the grantor agency. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund. The amount, if any, of expenditures which may be disallowed by the grantor agency cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

3.G. Subsequent Events

Management has evaluated subsequent events through the date of the audit report, which is the date the financial statements were available to be issued and has determined that no additional information needs to be added to the financial statements.

**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**

Board of Directors
Rural Water, Sewer, Gas and Solid Waste Management
District No. 7, Grady County
Ninnekah, 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, the financial statements of the business-type activities of the Rural Water, Sewer, Gas and Solid Waste Management District No. 7, Grady County, as of and for the year ended May 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated July 5, 2016. Our report on the financial statements disclosed, that, as described in Note 1 to the financial statements, the District prepares its financial statements on a modified cash basis of accounting, which is a comprehensive basis of accounting other than 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 Rural Water, Sewer, Gas and Solid Waste Management District No. 7, Grady County'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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 District'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 the 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses. 16-01.

Compliance and Other Matters

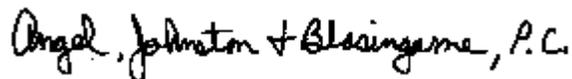
As part of obtaining reasonable assurance about whether Rural Water, Sewer, Gas and Solid Waste Management District No. 7, Grady County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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*.

Rural Water District No. 7's Response to Findings

Rural Water, Sewer, Gas and Solid Waste Management District No. 7, Grady County's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The District'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 the *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Angel, Johnston & Blasingame, P.C.
Certified Public Accountants

Chickasha, Oklahoma
July 5, 2016

**Rural Water, Sewer, Gas and Solid Waste Management
District No. 7, Grady County
Schedule of Findings and Responses
For the Year Ended May 31, 2016**

16-01 *Condition* – The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the entity’s assets and ensure accurate financial reporting.

Criteria – Presently the same individual performs all accounting functions; receives utility service related cash payments and is responsible for service billing and adjustment, also balances the daily cash drawer, posts payments to customer accounts, makes bank deposits, writes checks and reconciles the monthly bank statements and prepares monthly financial summaries.

Cause – The entity’s limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

Effect or Potential Effect – Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to the accounting functions, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation – While it may not be cost effective to hire the additional administrative staff that would be necessary in order to adequately segregate the responsibilities, the Board should consider a formal evaluation of their risks associated with this lack of segregation of duties. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with lack of segregation of duties.

Management response – Management agrees.

**Rural Water, Sewer, Gas and Solid Waste Management
District No. 7, Grady County
Disposition of Prior Year Audit Findings
For the Year Ended May 31, 2016**

15-01 *Finding* – Presently the same individual performs all accounting functions; receives utility service related cash payments and is responsible for service billing and adjustment, also balances the daily cash drawer, posts payments to customer accounts, makes bank deposits, writes checks and reconciles the monthly bank statements and prepares monthly financial summaries. Lack of Segregation of duties

Recommendation – While it may not be cost effective to hire the additional administrative staff that would be necessary in order to adequately segregate the responsibilities, the Board should consider a formal evaluation of their risks associated with this lack of segregation of duties. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with lack of segregation of duties.

Disposition – This continues to be a finding.