

MAYES COUNTY RURAL WATER DISTRICT NO. 9

SALINA, OKLAHOMA

AUDITED FINANCIAL STATEMENTS AND NOTES
For the year ended March 31, 2016

Audited by

ROBERT ST. PIERRE CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT
1113 NORTH SECOND ST.
STILWELL, OK 74960

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MANAGEMENT

DISCUSSION

& ANALYSIS

**MAYES COUNTY R.W.D. No. 9
3134 EAST 523
SALINA, OK 74365-2367**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Mayes County Rural Water District's financial performance provides an overview of the District's financial activities for the fiscal year ended March 31, 2016. Please read it in conjunction with the Auditor's reports and financial statements.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets shows the net assets and liabilities of the District at year-end. The Statement of Activities shows the District's income and expenses for the current year. The Statement of Cash Flows shows the cash position of the District at year-end and reflects the change in cash balances from the beginning of the year to the year-end.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the District report information about the District using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Assets includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenues and expenses are accounted for in the Statement of Activities. This statement measures the success of the District's operations over the past year and can be used to determine profitability, credit worthiness, and whether the District has successfully recovered all of its costs through its user fees and other charges. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reporting year. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and capital and non-capital financing activities and provides answers to such questions as "from where did cash come?," "for what was cash used?," and "what was the change in cash balances during the reporting period?"

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

One of the most important questions asked about the District's finances is "Is the District, as a whole, better-off or worse-off as a result of the years activities?". The Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets report information about the net assets of the District's activities in a way that will help answer this question. These two statements report the net assets of the District and changes in them. You can think of the District's net assets—the difference between assets and liabilities—as one way to measure financial health or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, population growth, and new or changed legislation that may affect the District.

Our analysis below focuses on the District's net assets (Table 1) and changes in net assets (Table 2) during the year.

Table 1

	March 31, 2016
Current Assets	426,191
Restricted Assets	375,148
Other Assets	35,607
Capital Assets - Net of Depreciation	6,660,421
Total Assets	<u>7,497,367</u>
 Total Liabilities	 3,570,831
 Net Assets, Invested in Capital Assets Net of Debt	 3,118,030
Net Assets, Restricted	308,909
Net Assets, Unrestricted	499,597
Total Net Assets	<u>7,497,367</u>

Changes in the District's net assets can be determined by reviewing the following condensed Statement of Revenue, Expenses, and Changes in Net Assets for the year.

Table 2

	March 31, 2016
Total Operating Revenues	728,268
Total Operating Expenses	(592,271)
Other Operating Expenses	(138,629)
Other Non-Operating Income	2,296
Net Income (Loss)	<u>(336)</u>
Net Assets Beginning of Year	3,926,872
Net Assets End of Year	<u>3,926,536</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of March 31, 2016, the District had \$9,298,180 invested in net capital assets with (\$2,637,759) in related depreciation to reflect Net Fixed Assets of 6,660,421.

Debt

The District had outstanding notes payable of \$3,542,391 as of March 31, 2016. The District's total obligation on these notes decreased by \$119,422 during the fiscal year as a result of principal payments. Additional information on the District's long-term debt can be found in Note II to the financial statements.

ECONOMIC FACTORS AND NEXT YEARS BUDGETS AND RATES

Water consumption has increased slowly over the past year, though the amount and timing of rainfall affects this consumption. Billing will generally increase in years of less, or non-consistent, rainfall, and decrease in years of more, or more consistent, rainfall. Whereas the prior two fiscal years had reflected the latter, this year has shown improvement of gross revenues of over 15%, a trend which has already carried into this next year. A part of the increase was an increase of the per month basic fee during the year by \$5 per customer. Also, new taps are being placed for new customers which are allowable with the prior year capacity expansion.

The District is currently showing positive net profits, and is in compliance with its loan covenants. The Board expects an increase of 8-10% in the current fiscal year's revenues from new customers and higher usage from current customers, with only a marginal increase in associated costs.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Board of Directors at Mayes County Rural Water District No. 9, 4802 South Muskogee Ave, Tahlequah, OK 74464. For district operations questions contact them at 3134 East 523 Road Salina, Ok 74365.

**INDEPENDENT
AUDITOR'S
REPORTS**

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Mayes County RWD #9
Salina, OK

Report on the Financial Statements

We have audited the accompanying financial statements Mayes County Rural Water District No. 9 as of March 31, 2016, and the related notes to the financial statements, which collectively comprise the District's 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 accounting principals 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 financial statements that are free of 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. 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 purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly we express no such opinion. An audit also includes evaluation 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mayes County Rural Water District No. 9 as of March 31, 2016, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1-3 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historic context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have issued a report dated May 18, 2017, on our consideration of Mayes County Rural Water District No. 9, internal controls over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 Mayes County Rural Water District No. 9 internal control over financial reporting and compliance



Robert St. Pierre, C.P.A., P.C.
Certified Public Accountant
May 18, 2017

**FINANCIAL
SECTION**

MAYES COUNTY RURAL WATER DISTRICT NO. 9
BALANCE SHEET
March 31, 2016

ASSETS	2016
CURRENT ASSETS:	
Cash in Bank (Note C)	174,608
Certificates of Deposit (Note C)	179,169
Accounts Receivable (net of allowance) (Note F)	72,414
Prepaid Insurance	35,607
	<hr/>
TOTAL CURRENT ASSETS	461,798
RESTRICTED ASSETS:	
Restricted Debt Reserve	257,597
Restricted Cash Depreciation Reserve	66,239
Payment Account	51,312
	<hr/>
TOTAL RESTRICTED ASSETS	375,148
FIXED ASSETS:	
Land (Note G)	4,175
Vehicles (Note G)	107,094
Buildings (Note G)	145,000
Office Furniture and Equipment (Note G)	260,907
Water System (Note G)	8,748,211
Construction in Progress	32,793
Accumulated Depreciation (Note G)	<u>(2,637,759)</u>
	<hr/>
NET FIXED ASSETS	6,660,421
	<hr/>
TOTAL ASSETS	<u><u>7,497,367</u></u>
 LIABILITIES AND FUND EQUITY	
CURRENT LIABILITIES	
Accounts Payable	7,783
Accrued Expenses	8,788
Accrued Interest	8,650
Payroll Taxes Payable	3,219
Current Portion of Long-Term Debt (Note H)	<u>125,698</u>
	<hr/>
TOTAL CURRENT LIABILITIES	154,138
LONG TERM LIABILITIES	
Note Payables (Note H)	<u>3,416,693</u>
	<hr/>
TOTAL LIABILITIES	3,570,831
NET ASSETS	
Invested in Capital Assets Net of Related Debt	3,118,030
Restricted for debt service	375,148
Unrestricted	<u>433,358</u>
	<hr/>
TOTAL NET ASSETS	3,926,536
	<hr/>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 7,497,367</u></u>

MAYES COUNTY RURAL WATER DISTRICT NO. 9
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN NET ASSETS
March 31, 2016

	2016
REVENUE:	
Water Sales	\$ 684,731
Memberships	27,150
Late Charges	16,387
Other Operating Income	<u>-</u>
TOTAL OPERATING REVENUE	<u>728,268</u>
EXPENDITURES:	
Salaries & Wages	109,340
Employee Benefits	9,833
Contract Services	6,510
Bad Debt	5,690
Professional Fees	10,107
Bank Service Charges	3,264
Office Expense	2,780
Postage	3,945
Insurance & Bonds	28,362
Payroll Taxes	8,837
Auto Expense	15,012
Dues & Subscriptions	1,906
Telephone	4,590
Utilities	34,823
Water Purchased	10,829
Chemicals	67,288
Field Supplies	23,288
Water Testing	12,991
Repairs & Maintenance	18,251
Miscellaneous Expense	4,314
Depreciation Expense	210,311
TOTAL OPERATING EXPENDITURES	<u>592,271</u>
NET INCOME FROM OPERATIONS	<u>135,997</u>
OTHER INCOME (EXPENDITURES):	
Interest Income	2,296
Interest Expense	<u>(138,629)</u>
TOTAL OTHER INCOME AND EXPENSE	<u>(136,333)</u>
CHANGE IN NET ASSETS	(336)
NET ASSETS, BEGINNING OF THE YEAR	<u>3,926,872</u>
NET ASSETS, END OF THE YEAR	<u><u>\$ 3,926,536</u></u>

MAYES COUNTY RURAL WATER DISTRICT NO. 9

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2016**

	2016
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Inflows:	
Payments Received from Customers	714,069
Other cash Received	-
Cash Outflows:	
Payments for Salaries & Wages	(119,172)
Payments to Suppliers for Goods and Services	<u>(324,241)</u>
Net Cash Provided (Used) by Operating Expenses	<u>270,656</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Additions to Capital Assets	(54,413)
Capital Contributions-Grants	-
Change in Restricted Assets	(3,198)
Principal Reduction of Long-Term Debt	(119,422)
Interest Payments on Notes	<u>(138,629)</u>
Net Cash Provided(Used) for Capital & Related Financing Activities	<u>(315,662)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Income	2,296
Net Cash Provided (Used) for Investing Activities	<u>2,296</u>
NET CASH INFLOW (OUTFLOW) FROM ALL ACTIVITIES	(42,710)
CASH AND CASH EQUIVALENTS BEGINNING OF THE YEAR	<u>217,318</u>
CASH AND CASH EQUIVALENTS END OF THE YEAR	<u><u>\$ 174,608</u></u>
INTEREST EXPENSE	<u><u>138,629</u></u>

**MAYES COUNTY RURAL WATER DISTRICT NO. 9
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2016**

	2016
Reconciliation of Operating Income (Loss to Net Cash) Provided by Operating Activities:	
Operating Income	135,997
Depreciation and Amortization	210,311
(Increase) Decrease in:	
Accounts Receivable	(14,199)
Prepaid Insurance	(5,748)
(Increase) Decrease in:	
Accounts Payable	(55,705)
Accrued Expenses	-
Payroll Taxes Payable	-
	<hr/>
Net Cash Provided (Used) by Operating Activities	<u><u>270,656</u></u>

FINANCIAL

STATEMENT

NOTES

MAYES COUNTY RURAL WATER DISTRICT NO. 9
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2016

I. Summary of Significant Accounting Policies

Mayes County Rural Water District was incorporated under the Rural Water District Act of Oklahoma, for the purpose of acquiring water rights, and to build and acquire pipelines and other facilities and to operate the same for the purpose of furnishing water to serve the need of owners and occupants of land located within the district. The District is exempt from federal and state income tax.

The more significant of the government's accounting policies are described below.

A. Reporting Entity

The District complies with GASB Statement No 14, "The Financial Reporting Entity." This statement establishes standards for defining and reporting on the financial reporting entity. It defines component units as legally separate organizations for which the elected officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The District considered all potential component units in determining what organizations should be included in the financial statements. Based on these criteria, there are no component units to include in the District's financial statements.

B. Measurement Focus and Basis of Accounting and Basis of Presentation – Fund Accounting

The District's fund is an enterprise fund. Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with Generally Accepted Accounting Principles (GAAP) promulgated in the United States of America. The accounting and financial reporting treatment is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation are included on the statement of net assets. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) in net total assets. Depreciation expense is provided for capital assets based upon estimated useful lives.

Financial activity is accounted for on the flow of economic resources measurement focus using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. In compliance with the Governmental Accounting Standards Board (GASB) Statement No. 34 "Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments which requires the classification of net assets into three components—invested in capital assets, net of related debt, restricted; and unrestricted.

C. Assets, Liabilities, and Net Assets

1. Deposits and Investments

Oklahoma statutes authorize the District to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the District can invest in direct debt securities of the United States unless such investment is expressly prohibited by law.

All the bank deposits are held at financial institutions and are carried at cost. For purposes of statement of cash flows, the District considers cash and highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Custodial Credit Risk

At March 31, 2016, the District held deposits of approximately \$728,925 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit, are entirely 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

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 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.-f.).

The investments held at March 31, 2016 are as follows:

Type	Weighted Average Maturity (Months)	Credit Rating	Market Value
Investments			
Cert of Deposit	6	N/A	334,266
Total Investments			334,266

Concentration of Investment Credit Risk

The District places no limit on the amount it may invest in any one issuer. At year end all the Districts Certificates of Deposit were covered by FDIC insurance, therefore the District has no credit risk related to CD's.

2. Fair Value of Financial Instruments

The Districts financial statements include cash and investments. The District's estimates of fair value of all financial instruments do not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

3. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates

4. Inventory

Inventory consists primarily of distribution repair supplies and is counted annually. The inventory is valued at the lower of cost or market on a first-in-first-out basis, but not in excess of market. At year end the District did not have any inventory on hand.

5. Accounts Receivable

Accounts receivable consists primarily of charges for water sales. Management has not established a provision for uncollectible accounts. Such amounts are written off the month in which management determines they are uncollectible.

6. Restricted Assets

The terms of the loan agreement with the Rural Development and Oklahoma Water Resource Board require that the District maintain restricted funds for the use of servicing debt in the amount of one year's debt service of the total annual payment. The balance in the restricted cash account is sufficient to fulfill this requirement.

7. Capital Assets

The water storage and delivery system and furniture and equipment are recorded at cost. Donated capital assets are reported at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

All reported assets are depreciated on the straight-line basis over their estimated useful lives ranging from five to fifty years.

Assets purchased with a value of \$500 or more that benefit more than one period will be depreciated.

8. Equity Classifications

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

- a. Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets—Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of their governments; or (2) law through constitutional provisions or enabling legislation, or (3) elected restrictions by management concerning cash to be used for capital improvements.
- c. Unrestricted net assets—All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

D. Basis of Presentation

The District's fund is an enterprise fund. Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied.

The proprietary funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or non-current) associated with their activities are reported. Proprietary fund equity is classified as net assets.

All proprietary funds utilize 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 or an economic asset is used.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. The District also recognizes as

operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

E. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

F. Accounts Receivable

Following is an aged schedule of accounts receivable as of March 31, 2016:

Current	1-30 Days	31-60 Days	Over 60 Days	Prepayments	Total
59,892	9,838	4,132	7,530	(8,978)	72,414

G. Changes in Capital Assets

Capital asset activity for the year was as follows:

	Beginning of Year	Additions	Deletions	End of Year
Capital Assets				
Distribution System	8,745,644	2,567	-	8,748,211
Construction in Progress	-	32,793	-	32,793
Land	4,175	-	-	4,175
Fences	4,000	-	-	4,000
Highway 82 Water District	145,000	-	-	145,000
Office Equipment	17,757	-	-	17,757
Equipment & Tools	219,096	19,053	-	238,149
Trucks	107,095	-	-	107,095
Trailer	1,000	-	-	1,000
Total Capital Assets	9,243,767	54,413	-	9,298,180
Less: Accumulated Depreciation	(2,427,448)	(210,311)	-	(2,637,759)
Net Book Value	6,816,319	(155,898)	-	6,660,421

H: Long-term Debt

The following is a summary of Mayes County Rural Water District No. 9's long-term debt at March 31, 2016:

The District has elected to refinance their long-term debt as 04/02/2010 with the Oklahoma Water Resources Board in order to get a fixed as opposed to a variable interest rate. The new note will bear interest at an average rate not to exceed 3.867% per annum and will mature on September 1, 2021. All District assets and income are collateralized on the note.

Due Fiscal Years Ending March 31,

	Principal	Interest	Total
Current	85,000	19,275	104,275
2018	85,000	16,389	101,389
2019	90,000	13,264	103,264
2020	90,000	9,916	99,916
2021	95,000	6,239	101,239
2022	100,000	2,135	102,135
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Total	545,000	67,218	612,218

RD #91-05

On August 9, 2011 the District entered into an agreement with USDA Rural Development to borrow \$1,637,000 for the purpose of constructing new water lines and plant upgrades. The note will be amortized over a forty year period and will bear interest at the rate of 4.25 percent per annum. Included in the agreement was a second agreement that the District will also receive grant funds in the amount of \$535,900 for the same purpose. Substantially all fixed assets, accounts receivable and assignment of revenues were pledged as security for the note. A debt service account as part of the loan agreement will be utilized to accumulate funds in sufficient amounts to pay the next installment due on the note. From the remaining funds in the general account, there shall be set aside into an account designated as the Reserve Account the sum of ten percent of the monthly installment each month until the sum of the annual installments is reached. With the prior written approval of the Government, funds may be withdrawn and used for such things as loan installments, emergency maintenance, extensions to facilities and replacement of short-lived assets, subject to conditions established by the Government.

Due Fiscal Years Ending March 31,

	Principal	Interest	Total
Current Portion	19,502	66,550	86,052
2018	20,348	65,704	86,052
2019	21,230	64,822	86,052
2020	22,151	63,901	86,052
2021	23,112	62,940	86,052
2022	24,115	61,937	86,052
2023-2027	137,203	293,057	430,260
2028-2032	169,658	260,602	430,260
2033-2037	209,790	220,470	430,260
2038-2042	259,416	170,844	430,260
2043-2047	320,780	109,480	430,260
2048-2052	345,982	34,136	380,118
Total	1,573,287	1,474,443	3,047,730

RD #91-07

On August 9, 2011 the District entered into an agreement with USDA Rural Development to borrow \$1,495,000 for the purpose of constructing new water lines and plant upgrades. The note will be amortized over a forty year period and will bear interest at the rate of 3.375 percent per annum. Included in the agreement was a second agreement that the District will also receive grant funds in the amount of \$497,500 for the same purpose. Substantially all fixed assets, accounts receivable and assignment of revenues were pledged as security for the note. A debt service account as part of the loan agreement will be utilized to accumulate funds in sufficient amounts to pay the next installment due on the note. From the remaining funds in the general account, there shall be set aside into an account designated as the Reserve Account the sum of ten percent of the monthly installment each month until the sum of the annual installments is reached. With the prior written approval of the Government, funds may be withdrawn and used for such things as loan installments, emergency maintenance, extensions to facilities and replacement of short-lived assets, subject to conditions established by the Government.

Due Fiscal Years Ending March 31,

	Principal	Interest	Total
Current Portion	21,196	47,876	69,072
2018	21,924	47,148	69,072
2019	22,678	46,394	69,072
2020	23,457	45,615	69,072
2021	24,264	44,808	69,072
2022	25,098	43,974	69,072
2023-2027	139,036	206,324	345,360
2028-2032	164,631	180,729	345,360
2033-2037	194,938	150,422	345,360
2038-2042	230,823	114,537	345,360
2043-2047	273,315	72,045	345,360
2048-2052	282,745	22,073	304,818
Total	1,424,105	1,021,945	2,446,050

I. Risk Management

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District purchases commercial insurance to cover these risks, including general and auto liability, property damage, and public officials liability. There were no significant reductions in insurance coverage from the prior year. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

J. Compensated Absences

The organization does not accrue a liability for compensated absences. This is not in accordance with generally accepted accounting principles. However, because of the limited number of people employed by the organization, any liability for compensated absences at March 31, 2016 would not be material to the financial statements taken as a whole.

K. EVALUATION OF SUBSEQUENT EVENTS

The Company has evaluated subsequent events through May 18, 2017 the date which the financial statements were available to be issued.

L: COMMITMENTS AND CONTINGENCIES

Mayes County Rural Water District currently participates in various grant programs. These grants are subject to audit by the grantor agency or their representatives. Such audits could lead to requests for reimbursement to the grantor agency for services disallowed under the terms of the contract. Presently Mayes County Rural Water District No. 9 is not aware of any pending requests, and in the opinion of management, any such amounts would not be considered material.

M: 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.

N: FINANCE- RELATED LEGAL AND CONTRACTUAL PROVISIONS

The terms of the loan agreements require Reserve Accounts as shown in Note H. All of the requirements have been met.

O: 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.

P: SIMPLE IRA PENSION PLAN

A simple IRA plan was adopted by the district on May 15, 2001, the plan call for the district to match up to 3% of an employee's salary. Employees must have worked for the district in the prior year and earned at least 5,000.00 in compensation in order to eligible to participate. During the current year the district made matching contributions of 1,383.00 to the plan.

SUPPLEMENTARY

INFORMATION

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL 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
Mayes County Rural Water District No. 9
Salina, OK

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 Mayes County Rural Water District No. 9 as of and for the year ended March 31, 2016, and the related notes to the financial statements, which collectively comprise Mayes County Rural Water District No. 9's basic financial statements and have issued our report thereon dated May 18, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mayes County Rural Water District No. 9'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mayes County Rural Water District No. 9's internal control. Accordingly, we do not express an opinion on the effectiveness of Mayes County Rural Water District No. 9'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 a 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 exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned cost that we consider to be significant deficiencies. 2016-1

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mayes County Rural Water District No. 9'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.

Mayes County Rural Water District No. 9's Response to Findings

Mayes County Rural Water District No. 9's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Mayes County Rural Water District No. 9'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.



Robert St. Pierre C.P.A., P.C.
Certified Public Accountant
May 18, 2017

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

2016-1

Criteria: 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.

Condition: Presently a limited number of individuals has responsibility for all functions of the financial statement reporting and safeguarding of the districts assets. These individuals have oversight responsibilities for billing and adjustments; posting of payments, payment to subsidiary accounts receivable ledgers and reconciles the monthly bank statements. In addition, only limited oversight is provided over this individual in the conduct of their daily functions. This condition was also reported in 2015.

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 membership and other billing and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: Management and the board should consider a formal evaluation of their risks associated with this lack of duties segregation over assets. In response to the Identified risks, consideration should be given to identifying and implementing compensating duties to act as controls that could help mitigate the risks associated with lack of segregation of duties, such as management performing review procedures for the reconciliation of accounts.

Responsible Official's Response: The organization concurs with the recommendation, and will strive to implement procedures and compensating duties to help mitigate the risks associated with the lack of segregation of duties.