

**Muskogee County Rural Water District No. 1
Oktaha, Oklahoma**

Financial Statements and Auditors Reports

Year Ended December 31, 2016

Audited by

**SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP**

BROKEN ARROW, OK

Muskogee County Rural Water District No. 1
Oktaha, Oklahoma
Board of Directors
December 31, 2016

BOARD OF DIRECTORS

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Jimmy Roper

Vice-Chairman

John Standridge

Secretary/Treasurer

Keith Weant

Member

Bryan Fuller

Member

Mark Ridley

MANAGER

Mike Hogner

BOOKKEEPER

Sheila Whittle

Muskogee County Rural Water District No. 1
Oktaha, Oklahoma
December 31, 2016

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SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Muskogee County Rural Water District No. 1
Oktaha, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Muskogee County Rural Water District No. 1 (the District), Oktaha, Oklahoma, as of and for the year ended December 31, 2016, 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. 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 opinions 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 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 opinions.

Opinions

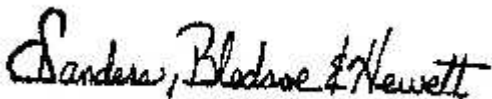
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of December 31, 2016, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-8 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the 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 also issued our report dated February 14, 2017 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 or on 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 Authority's internal control over financial reporting and compliance.



Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

February 14, 2017

RURAL WATER DISTRICT NO. 1, MUSKOGEE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2016

Our discussion and analysis of the Rural Water District No. 1, Muskogee County's financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2016. Please read it in conjunction with the District's financial statements that begin on page 13.

FINANCIAL HIGHLIGHTS

- The District's total operating revenues exceeded total operating expenses by \$19,684. Overall, the District's cash and cash equivalents increased by \$4,324 in the current fiscal year.
- The District's repairs & maintenance expense increased by \$53,953 in the 2016 year mainly due to the bridge project. However, ODOT reimbursed the district \$59,223 for the project expenses in the same year.
- The District is indebted by a note to Oklahoma Water Resources Board and a note to Armstrong Bank.
- The District memberships stayed fairly consistent in 2016, increasing from 917 to 928.

Using This Report

This report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the District's basis of accounting.

Basis of Accounting

The District has elected to present its financial statements in the accrual basis of accounting. According to the accrual basis, revenues are recorded when earned and expenses are recognized when incurred. This policy is in accordance with generally accepted accounting principles.

The Financial Statements

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 year's activities?" The Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows report information about the District and about its activities in a way that helps answer this question.

These three statements report the District's net assets and the changes in them. You can think of the District's net position – the difference between assets and liabilities – as one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in water rates paid or charged and the condition of the District's water system, to assess the overall health of the District.

The District has only one type of fund or activity, which is defined as *Business-type activities*. This is considered a proprietary fund. This means the District charges a fee to customers to help it cover all or most of the cost of certain services it provides.

Net Position, and Changes in Net Position

The District's Net Position was higher in 2016, increasing from \$883,146 to \$896,329. Looking at the Net Position and Net Expenses of business-type activities separately, however, two different stories can emerge. Our analysis below focuses on the Net Position (Table 1) and Changes in Net Position (Table 2) of the District's business-type activities.

Table 1 – Net Position:

	2016	2015	Variances
Current and other assets	\$ 540,291	111,502	428,789
Capital assets, net	768,537	4,298,377	(3,529,840)
Total Assets	<u>\$ 1,308,828</u>	<u>4,409,879</u>	<u>(3,101,051)</u>
Current liabilities	\$ 72,677	71,733	(944)
Long-term liabilities	339,822	1,141,485	801,663
Total Liabilities	<u>\$ 412,499</u>	<u>1,213,218</u>	<u>800,719</u>
Invest. In capital assets, net of related debt	\$ 334,672	330,641	4,031
Restricted	49,616	52,195	(2,579)
Unrestricted	512,041	500,310	11,731
Total Net Position	<u>\$ 896,329</u>	<u>883,146</u>	<u>13,183</u>

Net Position of the District increased by 1.49 percent (\$896,329 compared to \$883,146). Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – increased from \$500,310 to \$512,041.

Table 2 – Changes in Net Position:

Charges for services	\$ 424,181	421,565	2,616
ODOT Reimbursement	59,223	-	59,223
Interest	1,123	2,249	(1,126)
Total Revenues	<u>484,527</u>	<u>423,814</u>	<u>60,713</u>
Expenses:			
Salaries, taxes and benefits	112,870	108,061	(4,809)
Maintenance and repairs	69,664	15,711	(53,953)
Other expenses	242,995	235,751	(7,244)
Depreciation	38,191	40,889	2,698
Interest on debt	7,624	9,582	1,958
Total Expenses	<u>471,344</u>	<u>409,994</u>	<u>(61,350)</u>
Changes in Net Position	13,183	13,820	(637)
Net Position, Beginning	<u>883,146</u>	<u>869,326</u>	<u>13,820</u>
Net Position, Ending	<u>\$ 896,329</u>	<u>883,146</u>	<u>13,183</u>

The District's total revenues increased by 14.3 percent (\$60,713). The total cost of all services increased by 14.9 percent (\$61,350).

Fixed Assets

At December 31, 2016, the District had \$718,921 invested in fixed assets, net of depreciation, including land, the water system, vehicles and equipment. No major purchases were made during the 2016 year.

Long-Term Debt

The District is indebted to Oklahoma Water Resources Board on one note obtained for previously extensive extensions and payment of other debts. The outstanding principal balance owed on the note decreased from \$229,200 to \$209,400 during the 2016 fiscal year. The District borrowed an additional \$240,000 from Armstrong Bank to purchase the radio read meters. This note had an outstanding balance of \$174,849 at December 31, 2016.

Economic Factors and Next Year's Budget and Rates

The District has absorbed some of the City of Muskogee's rate increases, but may be forced to increase customer rates if additional increases are made by the City of Muskogee.

The District's budget for fiscal year 2017 will remain much like previous years budgets. Your Board of Directors does anticipate small budget changes made primarily to better allow for office and field personnel operations, without the necessity of hiring additional part-time or permanent employees.

Contacting the District's Management

This report is designed to provide our customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the District Office at P.O. Box 156, Oktaha, OK 74450 or call (918) 682-7903.



SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

**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
Muskogee County Rural Water District No. 1
Oktaha, Oklahoma

We have audited, 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, the accompanying financial statements of the Muskogee County Rural Water District No. 1 (the District), Oktaha, Oklahoma, as of and for the year ended December 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 February 14, 2017.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting in order to determine our auditing procedures that are appropriate 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 over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in the internal controls that we considered to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 16-1, to not be a material weakness.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

District's Response to Findings

The District's response to the finding 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.

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

February 14, 2017

MUSKOGEE COUNTY RURAL DISTRICT NO. 1
Disposition of Prior Year's Significant Deficiencies
December 31, 2016

Lack of Segregation of Functional Responsibilities

The exception that there were inherent limitations resulting from a small number of employees performing functions that would normally be divided among employees were a larger number available which prevented a proper segregation of accounting functions which is necessary to assure adequate internal accounting controls continued in the current fiscal year.

MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 1
Schedule of Audit Results
December 31, 2016

Section 1 – Summary of Auditor’s Results:

1. An unmodified opinion report was issued on the financial statements.
2. The audit disclosed no significant deficiencies in the internal controls, which was not considered a material weakness.
3. The audit disclosed no instances of noncompliance.

Section 2 – Findings relating to the financial statements required to be reported in accordance with GAGAS:

16-1 – Lack of Segregation of Duties

Condition-

The inherent limitations resulting from a small number of employees performing functions that would normally be divided among employees were a larger number available prevent a proper segregation of accounting functions, which is necessary in order to assure adequate internal accounting controls.

Criteria-

An organization should ensure that there is a proper segregation of duties regarding cash collections and the payment of expenses.

Cause-

The District is not large enough to justify the hiring of additional personnel.

Effect-

There is always the possibility that not all collections are actually receipted or deposited, and the possibility that funds expended are not used for actual District obligations.

Recommendation-

The current procedures should not be changed. However, there should be additional personnel instilled into the collection, receipt, deposit, reconciliation and payment procedures when this becomes economically possible.

Response-

Additional personnel will be hired when the actual funds are available.

MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 1
Statement of Net Position
December 31, 2016

ASSETS:

Current Assets:

Cash and cash equivalents	\$ 250,623
Investments	246,058
Current portion of receivables	38,133
Prepaid assets	5,477
Total current assets	<u>540,291</u>

Noncurrent Assets:

Restricted cash-	
ORWB project trust funds - Debt service	11,047
ORWB project trust funds - Debt service reserve	38,569
Capital Assets-	
Land	20,635
Building, plant and water systems, net	686,142
Other capital assets, net	12,144
Total noncurrent assets	<u>768,537</u>

Total Assets	<u>1,308,828</u>
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LIABILITIES:

Current Liabilities:

Accounts payable	21,669
Accrued liabilities	6,581
Current portion of long-term debt	44,427
Total current liabilities	<u>72,677</u>

Noncurrent Liabilities:

Long-term debt	<u>339,822</u>
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Total Liabilities	<u>412,499</u>
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NET POSITION:

Invested in capital assets, net of related debt	334,672
Restricted for debt service	49,616
Unrestricted assets	512,041
Total Net Position	<u>\$ 896,329</u>

The accompanying notes to the financial statements are an integral part of this statement

MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 1
Statement of Revenues, Expenses and Changes in Net Position
For The Year Ended December 31, 2016

Operating Revenues:

Water sales	\$ 411,786
Fees and fines	364
Benefit units	9,500
Meters	1,531
ODOT Reimbursement	59,223
Other sources	1,000
Total revenue from operations	<u>483,404</u>

Operating Expenses:

Salaries and benefits	112,870
Water purchases	153,422
Repairs and maintenance	69,664
Supplies and materials	16,832
Vehicle expense	1,928
Utilities and telephone	7,964
Insurance	35,003
Office expense and postage	10,207
Depreciation	38,191
Professional fees	4,899
Dues and fees	3,558
Miscellaneous	9,182
Total expenses from operations	<u>463,720</u>

Operating Income (Loss)	19,684
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Non-Operating Revenues (Expenses):

Interest income	1,123
Interest paid on long-term debt	<u>(7,624)</u>
Total Non-Operating Revenues (Expenses)	<u>(6,501)</u>

Change in Net Assets	13,183
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Total Net Assets, beginning of period	<u>883,146</u>
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Total Net Assets, end of period	<u><u>\$ 896,329</u></u>
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The accompanying notes to the financial statements are an integral part of this statement

MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 1
Statement of Cash Flows
For the Year Ended December 31, 2016

Cash Flows from Operating Activities:

Receipts from customers	\$ 479,283
Payments to employees	(112,838)
Payments to vendors	(312,432)
	<hr/>
Net Cash Provided by Operating Activities	54,013
	<hr/>

Cash Flows from Investing Activities:

Interest earned on investments	1,123
	<hr/>
Net Cash Provided by (used in) Investing Activities	1,123
	<hr/>

Cash Flows from Financing Activities:

Principal paid on long-term debt	(42,222)
Interest paid on long-term debt	(8,590)
	<hr/>
Net Cash Provided by (used in) Financing Activities	(50,812)
	<hr/>

Net Increase (Decrease) in Cash	4,324
Cash and cash equivalents, beginning of period	541,973
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Cash and cash equivalents, end of period	\$ 546,297
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Reconciliation of operating income (loss) to net cash provided by operating activities:

Operating Income	\$ 19,684
Adjustments to reconcile net income to net cash provided (used) by operating activities:	
Depreciation Expense	38,191
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	(4,121)
(Increase) decrease in prepaid insurance	8
Increase (decrease) in accounts payable	251
	<hr/>
Net cash provided by operating activities	\$ 54,013
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The accompanying notes to the financial statements are an integral part of this statement

MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 1

Oktaha, Oklahoma

Notes to the Financial Statements

December 31, 2016

Note A – Significant Accounting Policies

Business Activity

Muskogee County Rural Water District No. 1 (the District) was formed under the provisions of Title 82, O.S. 1981, Sections 1324.1-1324.26 inclusive. The District operates as a nontaxable government agency to service residents of the Muskogee County Rural Water District No. 1. The District's primary income is from the sale of water to its members in an area around Oktaha, Oklahoma.

Basis of Accounting

The financial statements are prepared on an accrual basis of accounting, which is in compliance with accounting principles generally accepted in the United States of America (GAAP), and which recognizes revenues when earned and expenses as incurred. Interest earnings on certificates of deposit are recorded when such interest is actually received by the District. Generally accepted accounting principles include all relevant Government Accounting Standards Board (GASB) pronouncements.

Deposits and Investments

The District's cash accounts at December 31st, are detailed as follows:

	December 31,	
	2016	2015
Cash on hand	\$ 300	300
Armstrong Bank, Checotah, Ok-		
Revenue account	232,126	239,161
Operation & Maintenance account	20,212	14,301
Less: Outstanding checks	(2,015)	(6,000)
Bank of Oklahoma-		
ORWB Trust Accounts-		
Debt Service account	11,047	9,982
Debt Service Reserve account	38,569	38,569
Total	<u>\$ 300,239</u>	<u>296,313</u>

MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 1

Oktaha, Oklahoma

Notes to the Financial Statements

December 31, 2016

Note A – Significant Accounting Policies – cont'd

The District's investments are detailed as follows:

	<u>2016</u>	<u>2015</u>
Armstrong Bank, Checotah, Ok- Certificate of deposit no. 544353, dated 2-22-16, due 8-22-17	<u>\$ 246,058</u>	<u>245,660</u>

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 an investment is expressly prohibited by law.

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

Custodial Credit Risk - At December 30, 2016, the District held deposits of approximately \$548,312 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 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 limitations 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.

MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 1

Oktaha, Oklahoma

Notes to the Financial Statements

December 31, 2016

Note A – Significant Accounting Policies – cont'd

- 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-d).

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

	Wtd. Avg Maturity	Credit Rating	Market	Cost
Money market/checking	N/A	AAAm	\$ 250,623	250,623
Trust accounts	N/A	AAAm	49,616	49,616
Certificates of deposit	1.5 Yrs	N/A	246,058	246,058
Total Deposits			<u>\$ 546,297</u>	<u>546,297</u>

Concentration of Investment Credit Risk – The District places no limit on the amount it may invest in any one issuer. The District has the following of credit risk: 45% in Certificates of Deposit (\$246,058), 9% in Trust Accounts (\$49,616) and 46% in Money Market funds (\$250,623).

Fair Value of Financial Instruments – The District's financial instruments include cash and cash equivalents, accounts receivable, accounts payable and notes payable. The District's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of net position. The carrying amount of these financial instruments approximates fair values because of the short maturity of these instruments.

MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 1

Oktaha, Oklahoma

Notes to the Financial Statements

December 31, 2016

Note A – Significant Accounting Policies – cont'd

Accounts Receivable

Billings for accounts receivable at December 31, 2016 were \$38,133. No allowance for doubtful accounts was computed because the effect of bad debts on the financial statements is not considered material.

Accumulated Unpaid Vacation and Sick Pay

At December 31, 2016, no determination of the aggregate dollar value of vacation or sick pay had been made.

Fixed Assets

Any items purchased or constructed in excess of \$1,000 and a useful life of over two years is considered a fixed asset by the District, and will be depreciated over a specific time. Fixed assets are valued at cost, depreciation is computed by use of the straight-line method. The estimated useful lives of these assets are as follows:

Land	N/A
Office furniture & fixtures	5-10 years
Equipment & tools	5 years
Transportation equipment	5 years
Water & sewer system	50 years
Buildings	25 years
Computer equipment	3 years

MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 1

Oktaha, Oklahoma

Notes to the Financial Statements

December 31, 2016

Note A – Significant Accounting Policies – cont'd

The fixed asset information for the District is shown below:

	12/31/2015 Amount	Additions	Deletions	12/31/2016 Amount
Land	\$ 20,635	-	-	20,635
Building	62,919	-	-	62,919
Plant and water sys.	1,631,912	-	-	1,631,912
Vehicles and equip.	196,321	-	-	196,321
Total Fixed Assets	1,911,787	-	-	1,911,787
Less: Accumulated Depreciation	(1,154,675)	(38,191)	-	(1,192,866)
Total	<u>\$ 757,112</u>	<u>(38,191)</u>	<u>-</u>	<u>718,921</u>

Note B – Notes Payable

Notes payable consists of one note to the Oklahoma Water Resources Board, and one note to Armstrong Bank.

The District has a promissory note in the amount of \$430,000 with the Oklahoma Water Resources Board (OWRB), dated March 31, 1998, for a period of 25 years. The District makes monthly deposits into the trust account at the Bank of Oklahoma. The trust account then makes the quarterly payments of principal and interest to the OWRB. The current interest rate on this note is 1.45%. The water system and future water revenues are used as security for this note.

The District borrowed \$240,149 in 2013 from Armstrong Bank to purchase and install radio read meters. It is a 10 year note, with an interest rate of 2.70%. Payments of \$27,779 are due annually, beginning February 2014. The certificate of deposit with Armstrong Bank is security for this note.

MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 1

Oktaha, Oklahoma

Notes to the Financial Statements

December 31, 2016

Note B – Notes Payable – cont'd

	<u>2016</u>	<u>2015</u>
Oklahoma Water Resources Board note payable, issued for \$430,000, dated 3-31-98, at 1.45% interest, due in semi-annual installments, until paid;	\$ 209,400	229,200
Armstrong Bank note payable, issued for \$240,149, dated 2-25-13, at 2.70% interest, due in annual payments, until paid	174,849	197,271
Less: Current maturities of long-term debt	<u>(44,427)</u>	<u>(42,260)</u>
Total Long-Term Debt	<u>\$ 339,822</u>	<u>384,211</u>

The scheduled maturities for the next five (5) years, and in total thereafter, are detailed as follows:

	<u>OWRB</u>	<u>Armstrong</u>	<u>Total</u>
2017	\$ 21,400	23,027	44,427
2018	23,200	23,649	46,849
2019	25,100	24,287	49,387
2020	27,100	24,943	52,043
2021	29,400	25,617	55,017
2022-24	<u>83,200</u>	<u>53,326</u>	<u>136,526</u>
Total	<u>\$ 209,400</u>	<u>174,849</u>	<u>384,249</u>

Note C – Subsequent Events

Management has evaluated subsequent events through February 14, 2017, which is the date the financial statements were available to be issued and have determined that no additional information needs to be added to the financial statements.

MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 1

Balance Sheet
December 31, 2016

<u>ASSETS</u>	DECEMBER 31,	
	2016	(memo only) 2015
Current Assets:		
Cash and cash equivalents	\$ 250,623	247,762
Investments	246,058	245,660
Accounts receivable	38,133	34,012
Prepaid insurance	5,477	5,485
Total current assets	<u>540,291</u>	<u>532,919</u>
Restricted Assets:		
ORWB Project trust funds-		
Debt service account	11,047	9,982
Debt service reserve account	38,569	38,569
Total restricted assets	<u>49,616</u>	<u>48,551</u>
Fixed Assets:		
Land	20,635	20,635
Building	62,919	62,919
Plant and water systems	1,631,912	1,631,912
Vehicles and equipment	196,321	196,321
Total fixed assets	<u>1,911,787</u>	<u>1,911,787</u>
Less: accumulated depreciation	<u>(1,192,866)</u>	<u>(1,154,675)</u>
Total fixed assets (net)	<u>718,921</u>	<u>757,112</u>
Total Assets	<u>\$ 1,308,828</u>	<u>1,338,582</u>
 <u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 12,997	12,778
Payroll and taxes payable	8,672	8,640
Accrued interest	6,581	7,547
Current maturities of long-term debt	44,427	42,260
Total current liabilities	<u>72,677</u>	<u>71,225</u>
Long-Term Debt, less current maturities:		
Notes payable	<u>339,822</u>	<u>384,211</u>
Total Liabilities	<u>412,499</u>	<u>455,436</u>
Fund Equity:		
Retained earnings	<u>896,329</u>	<u>883,146</u>
Total Liabilities and Fund Equity	<u>\$ 1,308,828</u>	<u>1,338,582</u>

MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 1
Statement of Revenue, Expenses and Changes in Retained Earnings
For The Year Ended December 31, 2016

	2016	(memo only) 2015
Revenue from Operations:		
Water sales	\$ 411,786	408,685
Reconnects	364	861
Benefit unit sales	9,500	7,500
Meters	1,531	2,019
ODOT Reimbursement	59,223	0
Miscellaneous	1,000	2,500
Total revenue from operations	<u>483,404</u>	<u>421,565</u>
Expenses from Operations:		
Salaries and benefits	112,870	108,061
Water purchases	153,422	142,133
Repairs and maintenance	69,664	15,711
Supplies and materials	16,832	22,816
Vehicle expense	1,928	1,222
Utilities and telephone	7,964	8,718
Insurance	35,003	37,154
Office expense and postage	10,207	8,824
Depreciation	38,191	40,889
Professional fees	4,899	4,017
Dues and fees	3,558	4,695
Miscellaneous and NSF	9,182	6,172
Total expenses from operations	<u>463,720</u>	<u>400,412</u>
Net Income (Loss) from Operations	19,684	21,153
Non-operating revenues:		
Interest earnings	1,123	2,249
Total Non-operating revenue	<u>1,123</u>	<u>2,249</u>
Non-operating expenses:		
Interest on long-term debt	<u>(7,624)</u>	<u>(9,582)</u>
Net Income (Loss)	13,183	13,820
Retained earnings, beginning of period	<u>883,146</u>	<u>869,326</u>
Retained earnings, end of period	<u><u>\$ 896,329</u></u>	<u><u>883,146</u></u>