

AUDIT REPORT  
RURAL WATER DISTRICT NO. 7  
OKMULGEE COUNTY, OKLAHOMA  
OKMULGEE, OKLAHOMA  
DECEMBER 31, 2016

RALPH OSBORN  
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## INDEPENDENT AUDITORS' REPORT

To The Honorable Members of the Board of Directors  
Rural Water District No. 7, Okmulgee County, Oklahoma  
Okmulgee, Oklahoma

I have audited the accompanying financial statements of the Rural Water District No. 7, Okmulgee County, Oklahoma as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise Rural Water District No. 7, Okmulgee County, Oklahoma's basic financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on our audit. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for our audit opinions.

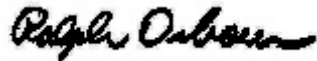
### Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Rural Water District No. 7, Okmulgee County, Oklahoma as of December 31, 2016, and the changes in financial position, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### Other Matters

Rural Water District No. 7, Okmulgee County, Oklahoma has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statement.

In accordance with *Government Auditing Standards*, I have also issued my report dated April 11, 2017, on my consideration of Rural Water District No. 7, Okmulgee County, Oklahoma's internal control over financial reporting and my 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.



Ralph Osborn  
Certified Public Accountant  
Bristow, Oklahoma  
April 11, 2017

RURAL WATER DISTRICT NO.7  
OKMULGEE COUNTY, OKLAHOMA  
OKMULGEE, OKLAHOMA  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2016

ASSETS

Current assets:

Cash and cash equivalents	\$ 368,688
Accounts receivable	14,823
Prepaid expense	8,592
Total current assets	<u>392,103</u>

Restricted for Debt Service

Debt service reserve	<u>8,224</u>
Total restricted assets	<u>8,224</u>

Non-current assets

Capital assets:

Land	18,554
Other capital assets, net of accumulated depreciation	<u>1,574,474</u>
Total non-current assets	<u>1,593,028</u>

Total assets	<u>1,993,355</u>
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LIABILITIES

Current liabilities:

Accounts payable	54,569
Accrued interest	528
Renter deposit	1,500
Notes payable, current	<u>12,347</u>
Total current liabilities	<u>68,944</u>

Non-current liabilities:

Notes payable, non-current	<u>919,396</u>
Total non-current liabilities	<u>919,396</u>

Total liabilities	<u>988,340</u>
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NET ASSETS

Invested in capital assets, net related debt	661,285
Restricted for debt service	8,224
Unrestricted	<u>335,506</u>
Net assets	<u>\$ 1,005,015</u>

See accompanying notes to financial statements.

RURAL WATER DISTRICT NO. 7  
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STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2016

OPERATING REVENUES

Charges for services:	
Water sales	\$ 579,630
Membership fees	24,000
Other Income	<u>300</u>
Total operating revenues	<u>603,930</u>

OPERATING EXPENSES

Water purchased	257,579
Salaries/wages and taxes	143,921
Retirement	3,601
Contract labor	425
Group health insurance	24,665
Insurance	16,213
Licences and permits	124
Mileage/meals/training	1,891
Office	13,239
Other expense	9,097
Professional services	6,125
Lab fees	3,941
Supplies	24,002
Repairs and maintenance	4,215
Telephone	4,726
Truck maintenance	7,883
Utilities	12,792
Depreciation	<u>137,140</u>
Total operating expenses	<u>671,579</u>
Operating income (loss)	<u>(67,649)</u>

NON-OPERATING REVENUE (EXPENSES)

Interest earnings	470
Grants	133,105
Interest on notes payable and fees	<u>(32,270)</u>
Total non-operating revenue (expenses)	<u>101,305</u>
Change in net assets	33,656
Total net assets, beginning	<u>971,359</u>
Total net assets, ending	<u>\$ 1,005,015</u>

See accompanying notes to financial statements.

RURAL WATER DISTRICT NO.7  
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STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2016

Cash flows from operating activities	
Cash received from customers	\$ 602,194
Cash payments for employees and benefits	(147,522)
Cash payments to suppliers for goods and services	<u>(354,388)</u>
Net cash provided (used) by operating activities	<u>100,284</u>
Cash flows from capital and related financing activities	
Acquisition of fixed assets	(96,828)
Grants	133,105
Loan proceeds	26,289
Interest paid on notes payable and fiscal fees	(32,270)
Principal paid on notes payable	<u>(12,527)</u>
Net cash used for capital and related financing activities	<u>17,769</u>
Cash flows from investing activities	
Transfer (to)/from reserve	(4,484)
Investment earnings	<u>470</u>
Net cash used by investing activities	<u>(4,014)</u>
Net increase in cash and cash equivalents	114,039
Cash and cash equivalents, beginning	<u>254,649</u>
Cash and cash equivalents, ending	<u><u>\$ 368,688</u></u>
Reconciliation of operating income (loss)	
to net cash provided by (used) by operating activities	
Operating income (loss)	\$ (67,649)
Adjustments to reconcile operating income to	
net cash used by operating activities:	
Depreciation	137,140
Changes in assets and liabilities:	
(Increase)/Decrease in accrued receivables	(1,736)
(Increase)/Decrease in prepaid expenses	1,499
Increase/(Decrease) in accounts payable	31,030
Increase/(Decrease) in accrued interest	<u>-</u>
Net cash provided by operating activities	<u><u>\$ 100,284</u></u>

See accompanying notes to financial statements.

RURAL WATER DISTRICT NO. 7  
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NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rural Water District Number 7 (the "District") was created by the Okmulgee County, Oklahoma Board of County Commissioners under the provisions of Title 82 Oklahoma statutes 1961, Sections 1301 to 1321. The District is managed by a seven member Board of Directors elected by the members of the District. Terms of the Directors are staggered to expire in different years. Directors are elected at the annual meeting of the membership of the District. Membership in the District is acquired by paying a membership fee and receiving services from the District. The District is exempt from federal and state taxation.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the District are prepared in accordance with generally accepted accounting principles (GAAP). The District's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The District's reporting entity does not apply FASB pronouncements or ABP opinions issued after November 30, 1989.

The financial statements report using the economic resources measurement focus and the accrual basis of accounting. Reimbursements are reported as reductions to expenses. Revenues are recorded when earned and expenses recorded when a liability is incurred, regardless of the timing of related cash flows.

Operating income reported in financial statements include revenues and expenses related to the primary, continuing operations of the District. Principal operating revenues are charges to customers for sales or services. Principal operating expenses are the cost of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Investments

The District follows Governmental Accounting Standards Board (GASB) Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which requires marketable securities to be carried at fair value. The District considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The investments consist of Certificates of Deposits.

Inventories and Prepaids

Inventories consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost which is recorded as an expenditure at the time individual inventory items are used.

Prepaids record payments to vendors that benefit future reporting periods and are also reported on the consumption basis.

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NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

Capital Assets, Depreciation, and Amortization

The District's property, plant, and equipment, with useful lives of more than one year are stated at historical cost and comprehensively reported in the financial statements. Donated assets are stated at fair value on the date donated. The cost of normal maintenance and repairs that do not add to the assets value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are moved from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follow:

Buildings	5-60
Improvements, other than buildings	2-50
Mobile equipment	3-40
Furniture , machinery, and equipment	3-30
Utility system	5-50

Reserves and Designations

Reserves represent those portions of net assets not available for expenditure or legally segregated for a specific future use. Designated net assets represent tentative plans for future use of financial resources.

Use of Estimates

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

NOTE B - CASH AND INVESTMENTS

Custodial Credit Risk

Custodial credit risk is the risk that in the event of failure of counterparty, the District will not be able to recover the value of its deposits or investments. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Investment securities are exposed to custodial credit risk if they are uninsured, are not registered in the name of the District, and are held by counterparty or the counterparty's trust department but not in the name of the District. The District's policy requires that all deposits and investments in excess of amounts covered by federal deposit insurance be fully collateralized by the entity holding the deposits or investments. As of December 31, 2016, all of the Districts deposits and investments were either covered by federal deposit insurance or were fully collateralized.



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DECEMBER 31, 2016

Deposits

The District had deposits at financial institutions with a carrying amount of approximately \$376,912 at December 31, 2016. The bank balance of the deposits at December 31, 2016 was approximately \$376,723.

Credit Risk

Fixed-income securities are subject to credit risk. However, the District did not have fixed income securities at December 31, 2016.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board of Directors monitor's the investment performance on an ongoing basis to limit the District's interest rate risk. As of December 31, 2016, the District's deposits consisted of demand deposits and certificates of deposit with a maturity of 12 months or less.

NOTE C - ACCOUNTS RECEIVABLE

The District records the total due on accounts owed for services unpaid at December 31, 2016. Any uncollectible amounts are written-off as they become uncollectible. Unpaid bills become a property lien.

NOTE D - CAPITAL ASSETS

The following table provides a summary of changes in capital assets:

	<u>CAPITAL ASSETS, DEPRECIATED</u>			
	<u>Buildings</u>	<u>Improvements Other Than Buildings</u>	<u>Furniture, Machinery, And Equipment</u>	<u>Totals</u>
Balance, Dec. 31, 2015	\$ 40,771	\$ 4,556,486	\$ 119,385	\$ 4,716,642
Increases	35,518	47,776	13,534	96,828
Decreases	-	-	-	-
Balance, Dec. 31, 2016	<u>76,289</u>	<u>4,604,262</u>	<u>132,919</u>	<u>4,813,470</u>
Accumulated Depreciation				
Balance, Dec. 31, 2015	22,035	2,982,654	97,167	3,101,856
Increase	614	130,256	6,270	137,140
Decreases	-	-	-	-
Balance, Dec.31, 2016	<u>22,649</u>	<u>3,112,910</u>	<u>103,437</u>	<u>3,238,996</u>
Capital Assets, Net	<u>\$ 53,640</u>	<u>\$ 1,491,352</u>	<u>\$ 29,482</u>	<u>\$ 1,574,474</u>
	<u>CAPITAL ASSETS, NOT DEPRECIATED</u>			
Land				
Balance Dec. 31, 2015	\$ 18,554			
Increase	-			
Decrease	-			
Balance Dec. 31, 2016	<u>\$ 18,554</u>			

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NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

NOTE E - NOTES PAYABLE

The District has incurred indebtedness for the expansion of system facilities. The following is a summary of note payable transactions for the year ended December 31, 2016.

	<u>Payable at Jan. 1, 2016</u>	<u>Addition/ Retirements</u>	<u>Balance at Dec. 31, 2016</u>
USDA, Rural Development	\$ 917,981	\$ 13,762	\$ 931,743
Total	<u>\$ 917,981</u>	<u>\$ 13,762</u>	<u>\$ 931,743</u>

A brief description of the outstanding notes payable at December 31, 2016 is set forth below:

<u>Outstanding</u>	<u>Amount</u>
USDA, Rural Development loan dated March 25, 2015, in the original loan amount of \$935,711 interest rate of 3.5% term of 40 years, monthly installment of \$3,733.	\$ 931,743
Total	<u>\$ 931,743</u>

Anticipated annual debt services requirements are as follow:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 12,347	\$ 32,449	\$ 44,796
2017	12,786	32,010	44,796
2018	13,240	31,556	44,796
2019	13,711	31,085	44,796
2020	14,199	30,597	44,796
2021-2025	78,939	145,041	223,980
2026-2030	94,013	129,967	223,980
2031-2035	111,963	112,017	223,980
2036-2040	133,342	90,638	223,980
2041-2045	158,802	65,178	223,980
2046-2050	189,125	34,855	223,980
2051-2054	<u>99,276</u>	<u>5,248</u>	<u>104,524</u>
Total	<u>\$ 931,743</u>	<u>\$ 740,641</u>	<u>\$ 1,672,384</u>

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NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

NOTE F - RESTRICTED ASSETS

The Loan Resolution Security Agreements with the USDA Rural Development requires a reserve fund to be funded at 10% of the monthly installment until the balance is equal to the annual installment amount (\$3,733 X 12 = \$44,796). At June 30, 2016, the total balance in the debt service reserve account was \$8,224.

Debt Service Reserve Account	\$ 8,224
Required Reserve	<u>(44,796)</u>
Excess/(Short) Reserve	<u>\$ (36,572)</u>

The Rural Development loan agreements require the District to maintain a loan reserve equal to the total annual payment on the loans or \$44,796. At December 31, 2016, the reserve is not fully funded, however, the District is making monthly deposits into the reserve. Therefore, the District is in compliance.

NOTE G - PENSION

The District participates in a Simplified Employee Pension (SEP) IRA pension plan through Edward Jones for full time employees. Employees are not required to contribute to the plan. The District contributes 3% and is not liable for any amounts above this amount. The District's contributions to the plan for the years ended December 31, 2016 and 2015 were \$3,601 and \$3,287, respectively, equal to the required contributions for each year

NOTE H - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance, including workers compensation, for risk of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE I - COMPENSATED ABSENCES

The District allows full-time employees one week vacation after one year of employment and two weeks vacation for two or more years. Vacation must be used in the year after it is earned.

Full-time employees are allowed four hours per month personal time not to exceed forty-eight hours per year. Unused personal time may not accumulate from year to year.

The value of accumulated vacation and personal time at December 31, 2016 is not known, however, it is not believed to be material.

NOTE J - SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 11, 2017, the date on which the financial statements were available to be issued. The District does not believe there are any events requiring disclosure.

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

To the Board of Directors

Rural Water District No. 7, Okmulgee County, Oklahoma  
Okmulgee, Oklahoma

I 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 Rural Water District No. 7, Okmulgee County, Oklahoma, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise Rural Water District No. 7, Okmulgee County, Oklahoma's basic financial statements and have issued my report thereon dated April 11, 2017 which did not include Management's Discussion and Analysis.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Rural Water District No. 7, Okmulgee County, Oklahoma's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rural Water District No. 7, Okmulgee County, Oklahoma's internal control. Accordingly, I do not express an opinion of the effectiveness of Rural Water District No. 7, Okmulgee County, Oklahoma'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.

My 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. Given these limitations, during our audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

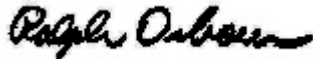
### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water District No. 7, Okmulgee County, Oklahoma's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### Purpose of the 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 *Governmental Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sincerely,



Ralph Osborn  
Certified Public Accountant  
Bristow, Oklahoma  
April 11, 2017