

Rogers County Rural Water District #8

Annual Financial Statements
And
Independent Auditor's Report

December 31, 2016

Rural Water District #8

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Rogers County Rural Water District No. 8

We have audited the accompanying financial statements of the Rogers County Rural Water District No. 8 as of December 31, 2016, and the related notes to the financial statements, as listed in the table of contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note I; this includes determining the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we 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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Rogers County Rural Water District No. 8, County of Rogers, State of Oklahoma as of December 31, 2016, and the respective changes in financial position and cash flows for the year then ended in accordance with the modified cash basis of accounting.

Other Matters

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 13, 2017, on our consideration of the Rogers County Rural Water District No. 8's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Rogers County Rural Water District No. 8's internal control over financial reporting and compliance.



CLAREMORE, OKLAHOMA

March 13, 2017

Rural Water District #8
Management's Discussion and Analysis
For the Year Ended December 31, 2016

Our discussion and Analysis of the District'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.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at December 31, 2016 by \$1,172,346, representing a decrease in net position of \$7,222 from the prior fiscal year.
- Total operating revenues are \$836,938 this fiscal year while operating expenses and other net expenses are \$844,160, resulting in the decrease in net position of \$7,222.

DISTRICT HIGHLIGHTS

Throughout 2016 we have still been introducing customers to our website, which allows customers to pay bills online over the internet, allowing them greater flexibility, such as paying with debit and credit cards which has resulted in a reduced the number of disconnects due to none payments.

We implemented our website and online payment methods in 2014, and it has been a growing preferred method of payments for a lot of people. In 2016, we received 2,436 payments through PSN, made by 343 customers. This number is up considerably from 2015 which were 1,779 payments by 281 customers. In years past, we have experienced a lot of employee turn overs, which is never good for any business, but this year we have managed to hold on to our most important ones. Last year we switched auditors, and also brought in CPA Johnny Ragsdale which in my opinion is a great asset to the district in assuring we are doing everything correctly on the bookkeeping side of things. In May, we had the tornado that took out the North Pump Station, and damaged the office. The North pump station has all been completed, and the Office building is being reroofed now.

In September, we were burglarized and our truck was stolen, but was recovered and repaired. Since then we installed security cameras to not only help protect our assets, but also our employees. Throughout 2016 we have experienced substantial growth. We have sold 23 new service connections during 2016, which is up from 12 sold in 2015. This shows a very positive growth rate for our district.

We have not had any major projects this year as far as line expansions go, but we have maintained our policy of removing old lines that either leak often, or are cross country lines, and relocating customers to road frontage lines for easier access and so we will have more eyes on our pipelines on any given day. We ended the year with water loss of 18.03%, which is a little higher than we like to see it. We believe as we continue to implement our new AMR meter system this number will continue to fall.

We have also continued to maintain our preventive maintenance program throughout the district to help insure our system will work as hard for us, as we work for it. We have repaired several hydrants this year that were becoming hard to open, which will help by not having to put strain on them and possibly causing leaks as well as making it easier and faster to the fire department to collect water in cases of fire. We have also added a couple of new hydrants in places where there was over a mile between two.

We have also kept our dead end lines flushed every 90 days to insure quality water supply to our customers, as required by the Department of Environmental Quality. By maintaining this program which consists of insuring maps are kept up to date to improve operator efficiency, and keeping our hydrants and valves exercised and maintained to provide adequate fire protection, as well as less service outages and shorter outage times. We always strive to insure the happiness of our customer

Rural Water District #8

Management's Discussion and Analysis

For the Year Ended December 31, 2016

USING THIS ANNUAL REPORT

This annual report consists of two parts; Management's Discussion and Analysis and the Financial Statements. The Financial Statements also include notes that explain in more detail some of the Information In the financial statements.

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 Balance Sheet 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 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 period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, Investing, and capital and noncapital 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 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 year's activities?" The Statement of Net Position and Statement of Activities report about the District's activities in a way that will help answer this question. These two statements report the net position of the District and changes in them. You can think of the District's net position—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 position 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.

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

Table 1

	Dec. 31, 2016	Dec. 31, 2015
Current Assets	\$ 348,826	\$ 334,774
Restricted Assets	171,113	171,428
Fixed Assets	2,690,903	2,771,884
Total Assets	<u>3,210,842</u>	<u>3,278,086</u>
Liabilities	<u>2,038,496</u>	<u>2,098,517</u>
Net Investment in Capital Assets	655,903	676,884
Net Position, Restricted	171,113	171,428
Net Position, Unrestricted	345,330	331,257
Total Net Position	<u>\$ 1,172,346</u>	<u>\$ 1,179,569</u>

The District's net position reflects its investment in capital assets (e.g., water system, buildings, machinery and equipment) less any related debt used to acquire those assets still outstanding. The District uses these capital assets to provide services to citizens and consumers; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Changes in the District's net position can be determined by reviewing the following condensed Statement of Activities for the year.

**Rural Water District #8
Management's Discussion and Analysis
For the Year Ended December 31, 2016**

Table 2

	Dec. 31, 2016	Dec. 31, 2015
Total Operating Revenues	\$ 836,938	\$ 777,472
Operating Expenses	(698,590)	(687,272)
Depreciation Expense	(106,551)	(107,130)
Capital Contributions	36,900	19,500
Other Non Operating Revenues (Expenses)	(75,919)	(77,869)
Increase (Decrease) in Net Assets	(7,222)	(75,299)
Net Assets, Beginning of Year	1,179,568	1,254,867
Net Assets, End of Year	<u>\$ 1,172,346</u>	<u>\$ 1,179,568</u>

The District's primary source of revenue is the sale of water which comprises most of the operating revenues. Operating revenues increased by \$59,466 from the prior year.

Total operating expenses increased by \$11,318 over the past year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2016, the District had \$2,690,903 (net of accumulated depreciation) invested in capital assets, including the water storage and distribution system, improvements, machinery and equipment. This amount represents a net decrease (including additions, deletions and depreciation) of \$80,981.

Debt

The District had one note payable outstanding as of December 31, 2016, in the amount of \$2,035,000. The note decreased by \$60,000 during the fiscal year, as a result of the normal repayment of principal on outstanding debt. The balance of the note with the OWRB was \$2,035,000 after the principal payment.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

A product of an ongoing examination of how the District does business, our budget emphasizes outcomes or results for the community and allows for longer-term financial planning decisions.

In considering the District's budget for the fiscal year 2017, the Board estimates that revenues and expenses in the coming year will approximate actual revenues and expenses for the past fiscal year. Therefore, net assets are expected to increase slightly as long term debt is reduced by regularly scheduled principal payments.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers 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 Rural Water District #8, 22094 S. 4160 Rd., Claremore, OK 74017.

Rural Water District #8
Statement of Net Position-Modified Cash Basis
December 31, 2016

Assets

Current Assets:

Cash and cash equivalents	\$ 193,494
Receivable from IRS	80,267
Inventory	<u>75,065</u>
Total Current Assets	348,826

Non-Current Assets:

Temporarily restricted:	
Cash and cash equivalents–Restricted	<u>171,113</u>

Capital Assets:

Property and Equipment, net of accumulated depreciation	<u>2,690,903</u>
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Total Assets	<u>3,210,842</u>
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Liabilities and Net Position

Current Liabilities:

Payroll taxes payable	3,496
Current portion of notes payable	<u>60,000</u>
Total Current Liabilities	63,496

Long-Term Liabilities:

Notes payable, net of current portion	<u>1,975,000</u>
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Total Liabilities	<u>2,038,496</u>
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Net Position:

Net Investment in Capital Assets	655,903
Restricted	171,113
Unrestricted	<u>345,330</u>
Total Net Position	<u>\$ 1,172,346</u>

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

Rural Water District #8
Statement of Activities-Modified Cash Basis
For the Year Ended December 31, 2016

<u>Operating Revenues:</u>	
Water sales	\$ 777,189
Other revenues	<u>59,749</u>
Total operating revenues	<u>836,938</u>
<u>Operating Expenses:</u>	
Bad debts	528
Bank fees	1,757
Billing	9,873
Depreciation	106,551
Dues & subscriptions	3,727
Employee benefits	28,228
Engineering	2,433
Insurance & bond	18,237
Licenses	3,289
Miscellaneous	3,566
Office	4,273
Payroll taxes	11,869
Professional fees	11,900
Repairs and maintenance	112,566
Salaries	145,112
Telephone	5,787
Tools and small equipment	2,919
Travel	3,759
Vehicle	22,217
Utilities	7,691
Water purchases	295,035
Water testing	<u>3,824</u>
Total Operating Expenses	<u>805,141</u>
Operating Income (Loss)	<u>31,797</u>
Non-Operating Revenues (Expenses)	
Interest Income	805
Interest expense	<u>(76,724)</u>
Total Non-Operating Revenues (Expenses)	<u>(75,919)</u>
Change in Net Position before capital contribution	(44,122)
Capital Contributions	
Membership (Tap) Sales	36,900
Increase (Decrease) in Net Position	(7,222)
Net Position at beginning of the year	<u>1,179,568</u>
Net Position at end of the year	<u>\$ 1,172,346</u>

The accompanying notes are an Integral part of the financial statement.

Rural Water District #8
Statement of Cash Flows-Modified Cash Basis
For the Year Ended December 31, 2016

Cash Flows from Operating Activities

Cash Inflows:

Payments received from customers	\$ 836,938
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Cash outflows:

Payments for salaries and benefits	185,209
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Payments to supplies for goods and services	<u>501,848</u>
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Total cash used	<u>687,057</u>
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Net Cash Provided (Used) by Operating Activities	<u>149,881</u>
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Cash Flows from Capital and Related Financing Activities

Capital Contributions (Water Taps)	36,900
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Purchase of fixed assets	(25,570)
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Paid off long-term debt	(60,000)
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Interest expense	<u>(76,724)</u>
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Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(125,394)</u>
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Cash Flows from Investing Activities

Interest Income received	<u>805</u>
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Increase (decrease) in cash & cash equivalents	13,759
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Cash and cash equivalents, beginning of year	<u>422,896</u>
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Cash and cash equivalents, end of year	<u><u>\$ 436,655</u></u>
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Reconciliation of Operating Income (Loss) to Net Cash

Provided by Operating Activities:

Operating Income (Loss)	\$ 31,797
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Depreciation/amortization	106,551
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(Increase) decrease in:

Inventory	8,240
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Increase (decrease) in:

Accrued expenses	<u>3,293</u>
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Net cash provided (used) by operating activities	<u><u>\$ 149,881</u></u>
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The accompanying notes are an Integral part of the financial statements.

Rural Water District #8
Notes to Financial Statements
For the Year Ended December 31, 2016

The following notes to the financial statements are an Integral part of Rural Water District #8's financial statements.

I. Summary of Significant Accounting Policies

Rural Water District #8, (the "District") was created under the provisions of Title 82, O.S. 1981, Sections 1324.1-1324.26 Inclusive, for the purpose of providing water to the members of the District it serves. Membership in the water District consists of water users who have paid the required membership and connection fees. The District is exempt from federal and state income taxes under Section 501 (c) 12 of the Internal Revenue Code.

A. Financial Reporting Entity

Rural Water District #8 is an independent, self-contained reporting entity with no associated component units. It is operated in a manner similar to a private business enterprise where the cost (expenses, including depreciation) of providing water services is financed through user charges. The District purchases most of its water from Rogers County Rural Water District #7.

B. Measurement Focus, Basis of Accounting and Basis of Presentation

The accompanying financial statements have been prepared on a modified cash basis of accounting. Under the modified cash basis of accounting nearly all elements of the statement of activities are recorded using the cash basis except for current depreciation. With certain exceptions, the statement of net position does not include accounts receivable or accounts payable.

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 concurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

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 on capital assets. All revenues and expenses not meeting this definition are reported as non operating revenues and expenses.

Rural Water District #8
Notes to Financial Statements
For the Year Ended December 31, 2016

I. Summary of Significant Accounting Policies (continued)

C. Assets, Liabilities and Net Assets

1. Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all cash on hand, demand deposits, and highly liquid investments, with an original maturity of three months or less when purchased, to be cash and cash equivalents.

2. Fair Value of Financial Instruments

The District's financial statements include cash and investments. The District's estimates of the 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. Due from the Internal Revenue Service

The District's former accounting firm incorrectly classified operating revenues as unrelated business income in the District's 2014 IRS Form 990 creating an erroneous tax liability. Although the District was working to resolve the issue, the IRS levied \$80,267 from the District's bank account. The issue is currently being resolved and the District expects the funds to be returned in early 2017.

4. Inventory of Supplies and Materials

The District has an inventory of pipe and other miscellaneous repair parts on hand at any one time; a physical inventory is taken and is recorded in the financial statements at cost on a first in first out basis (FIFO).

5. Capital Assets

The water storage and delivery system and equipment are recorded at cost. Donated capital assets are reported at estimated fair market value at the date of donation. The district's capitalization threshold is \$1,000.

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

6. Restricted Cash

Restricted assets include cash and investments of the proprietary fund that is legally restricted as to their use. The two restricted cash accounts are the debt reserve fund and the debt service fund. The debt reserve fund balance at December 31, 2016 is \$137,269 and is required to be reserved should the district ever be unable to make its debt payment. The debt service fund is required to transfer the monthly debt amount into, and then the biannual interest and principal payments are drafted out of this account. The debt service fund balance at December 31, 2016 is \$33,844.

Rural Water District #8
Notes to Financial Statements
For the Year Ended December 31, 2016

I. Summary of Significant Accounting Policies (continued)

C. Assets, Liabilities and Net Assets (continued)

7. Equity Classifications

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

- a. Net Investment in capital assets --- Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- b. Restricted --- 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 other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted --- All other net assets that do not meet the definition of “restricted” or “net investment in capital assets.”

8. Retirement Plan

The District offers its employees the opportunity to participate in a SIMPLE IRA plan. To be eligible to participate, an employee must have completed one year of service at the semi-annual enrollment date. At that time the employee may contribute up to three percent (3%) of his/her salary, with the District matching the employee’s contribution. The Districts expense for matching was \$2,129.27 for the fiscal year 2016.

9. Resource Use Policy

When the District receives revenues for both restricted and unrestricted purposes, the District considers restricted amounts to be spent first before any unrestricted amounts are used.

II. Detailed Notes Concerning the Funds

A. Deposits and Investments

State statutes govern the District’s investment policy. Permissible investments include direct obligations of the United States Government and Agencies; certificates of deposit of savings and loan associations, and bank and trust companies; and savings accounts or savings certificates of savings and loan associations and trust companies. Collateral is required for demand deposits and certificates of deposit for all amounts not covered by federal deposit Insurance. Investments are stated at cost. The District has no policy that limits its investment choices other than the limitation of state law.

The District’s cash deposits, including interest-bearing certificates of deposit are maintained in financial institutions. The cash deposits are entirely covered by the Federal Depository Insurance (FDIC) or direct obligation of the US Government insured or collateralized with securities held by the District or by its agent in the District’s name.

Rural Water District #8
Notes to Financial Statements
For the Year Ended December 31, 2016

II. Detailed Notes Concerning the Funds (continued)

B. Changes In Capital Assets

Capital asset activity for the year was as follows:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Capital Assets				
Water System	\$ 4,686,908	\$ 23,620	-	\$ 4,710,528
Furniture/Fixtures	20,587	1,950	-	22,537
Machinery/Equipment	42,164	-	-	42,164
Building	110,514	-	-	110,514
Vehicles	42,471	-	-	42,471
Land	3,958	-	-	3,958
Total Capital Assets	<u>4,906,602</u>	<u>\$ 25,570</u>	<u>\$ -</u>	<u>4,932,172</u>
Less: Accumulated Depreciation	<u>\$ (2,134,718)</u>	<u>\$ (106,551)</u>	<u>\$ -</u>	<u>\$ (2,241,269)</u>
Net Book Value	<u>\$ 2,771,884</u>			<u>\$ 2,690,903</u>

C. Long-Term Debt

A 25 year Promissory Note is owed to OWRB with an original principal amount of \$2,140,000. The principal balance at December 31, 2016 is \$2,035,000. The current interest rate on the note is 2.4%. Interest payments are made biannually on March 15th and September 15th. Principal reductions are made annually on September 15th. UMB is the trustee for debt-related funds.

Rural Water District #8
Notes to Financial Statements
For the Year Ended December 31, 2016

II. Detailed Notes Concerning the Funds (continued)

The note reductions and interest payments are as follows:

Year Ending December 31,	Total	Principal	Interest
2017	134,564	60,000	74,564
2018	133,124	60,000	73,124
2019	131,384	60,000	71,384
2020	134,259	65,000	69,259
2021	131,724	65,000	66,724
2022-2026	667,405	375,000	292,405
2027-2031	666,934	445,000	221,934
2032-2036	660,798	530,000	130,798
2037-2039	398,759	375,000	23,759
Totals	3,058,950	2,035,000	1,023,950

E. Changes In General Long-Term Debt

Long-term debt consists of notes payable. The following is a summary of the changes in general long-term debt of the District for the fiscal year.

	Balance Dec. 31, 2015	Advances	Payments	Balance Dec. 31, 2016
Note Payable	\$ 2,095,000	\$ -	\$ 60,000	\$ 2,035,000

III. Other Information

A. 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 purchases commercial insurance to cover these risks, including general and auto liability, property damage, and public officials liability. There are no significant reductions in insurance coverage from the prior year. Settled claims resulting from these risks have not exceeded commercial Insurance coverage in any of the past three fiscal years.

B. Rates and Fees

Minimum charge for water service is \$23.50 per month. For usage over 1,000 gallons the rates are as follows:

1,000-3,000 Gallons	\$4.20 per thousand gallons
4,000-5,000 Gallons	\$4.27 per thousand gallons
6,000-10,000 Gallons	\$4.57 per thousand gallons
11,000-20,000 Gallons	\$4.87 per thousand gallons
21,000 Gallons and over	\$5.17 per thousand gallons

Rural Water District #8
Notes to Financial Statements
For the Year Ended December 31, 2016

C. Subsequent Evens

Management has evaluated subsequent events through the date of the auditor's report, 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.

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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

We have audited the accompanying financial statements of the Rogers County Rural Water District No. 8 as of and for the year ended December 31, 2016, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 13, 2017. 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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered Rogers County Rural Water District No. 8, County of Rogers, State of 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 our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rogers County Rural Water District No. 8, County of Rogers, State of Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of Rogers County Rural Water District No. 8, County of Rogers, State of 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Rogers County Rural Water District No. 8, County of Rogers, State of Oklahoma'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*.

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.



CLAREMORE, OKLAHOMA

March 13, 2017