

**SEMINOLE COUNTY
RURAL WATER DISTRICT NO. 7
SEMINOLE, OKLAHOMA**

FINANCIAL STATEMENTS AND AUDITOR'S REPORT

YEAR ENDED JUNE 30, 2016

Audited by

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

BROKEN ARROW, OK

SEMINOLE COUNTY RURAL WATER DISTRICT NO. 7
BOARD OF DIRECTORS
JUNE 30, 2016

BOARD OF DIRECTORS

Chairman

Kenny Warden

**Vice-Chairman/
Secretary**

David Bass

Treasurer

Gene Hoyt

Members

Terry Barrett

vacant

vacant

vacant

SEMINOLE COUNTY RURAL WATER DISTRICT NO. 7
JUNE 30, 2016

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SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Seminole County Rural Water District No. 7
Seminole, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Seminole County Rural Water District No. 7 (the District), Seminole, Oklahoma, as of and for the year ended June 30, 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

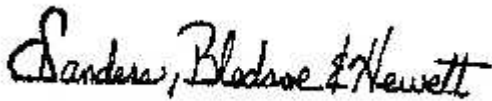
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of June 30, 2016, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

The District has not presented the Management's Discussion and Analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2017 on our consideration of the Authority'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

March 28, 2017



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
Seminole County Rural Water District No. 7
Seminole, 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 Seminole County Rural Water District No. 7 (the District), Seminole, Oklahoma, as of and for the year ended June 30, 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 March 28, 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, not to 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

March 28, 2017

SEMINOLE COUNTY RURAL WATER DISTRICT NO. 7
DISPOSITION OF PRIOR YEAR SIGNIFICANT DEFICIENCIES
JUNE 30, 2016

The ongoing exception of a lack of segregation of accounting functions continued in the current fiscal year, and will continue to be an exception.

SEMINOLE COUNTY RURAL WATER DISTRICT NO. 7
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2016

- 16-1 *Criteria* – The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the District’s assets and ensure accurate financial reporting.

Condition - Presently the same individual performs all accounting functions; receives utility service related payments and is responsible for service billing and adjustment, also makes bank deposits, writes checks and reconciles the monthly bank statements and prepares monthly financial reports.

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

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

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

Management Response – Management agrees with this finding, and will provide adequate staffing once annual collections increase enough to justify the extra expense.

SEMINOLE COUNTY RURAL WATER DISTRICT NO. 7
Statement of Net Position
June 30, 2016

ASSETS

Current assets:	
Cash in bank	\$ 8,882
Accounts receivable	6,364
Total current assets	<u>15,246</u>
Capital Assets:	
Water system and improvements - net of depreciation	2,265,074
Other:	
Debt Issue Costs - net of amortization	<u>29,048</u>
Total Assets	<u>2,309,368</u>

LIABILITIES

Current Liabilities:	
Accrued interest	133,720
Current maturities of long-term debt	17,080
Total current liabilities	<u>150,800</u>
Non-current Liabilities:	
Notes payable	<u>1,284,401</u>
Total Liabilities	<u>1,435,201</u>

NET POSITION

Invested in capital assets, net of related debt	963,593
Unrestricted	<u>(89,426)</u>
Total Net Position	<u>\$ 874,167</u>

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

SEMINOLE COUNTY RURAL WATER DISTRICT NO. 7
Statement of Revenues, Expenses and Changes in Net Position
For The Year Ended June 30, 2016

Operating Revenues:

Total revenues from operations	84,120
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Operating Expenses:

Water purchased	4,800
Insurance	2,677
Postage/ PO box rental	49
Dues and fees	611
Professional fees	2,842
Contract management	20,100
Supplies and materials	4,015
Maintenance and repairs	38,276
Testing and chemicals	3,648
Utilities	5,524
Total expenses from operations	82,542

Operating Income (Loss)	1,578
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Non-Operating Revenues (Expenses):

Interest income	3
Depreciation expense	(62,919)
Amortization expense	(2,546)
Accrued interest on unpaid loans	(46,617)
Total non-operating revenues (expenses)	(112,079)

Change in Net Position	(110,501)
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Total Net Position, beginning of period	984,668
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Total Net Position, end of period	\$ 874,167
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The accompanying notes to the financial statements are an integral part of this statement

SEMINOLE COUNTY RURAL WATER DISTRICT NO. 7
Statement of Cash Flows
For Years Ended June 30, 2016

Cash Flows from Operating Activities:

Operating revenue	\$ 83,506
Payments to vendors	(82,542)
Total Cash Fows from Operating Activities	<u>964</u>

Cash Flows from Capital and Related Financing Activities:

Total Cash Flows from Capital and Related Financing Activities	<u>0</u>
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Cash Flows from Investing Activities:

Interest revenue	<u>3</u>
Net increase (decrease) in cash	967
Cash and cash equivalents, beginning of period	<u>7,915</u>
Cash and cash equivalents, end of period	<u><u>\$ 8,882</u></u>

Reconciliation of operating income (loss) to net cash provided by operating activities:

Operating Income (loss)	\$ 1,578
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Accounts receivable	<u>(614)</u>
Net Cash Provided by (Used in) Operating Activities	<u><u>964</u></u>

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

SEMINOLE COUNTY RURAL WATER DISTRICT NO. 7
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2016

Note 1 – Significant Accounting Policies

Business Activity

Seminole County Rural Water District No. 7 (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 Seminole County Rural Water District No. 7. The District's primary income is from the sale of water to its members.

Basis of Accounting

The accrual basis of accounting is followed for all accounts. Revenues are recorded when earned and expenses are recognized when incurred. This policy is in accordance with generally accepted accounting principles.

Cash

The District's accounts at June 30, 2016, and are comprised as follows:

First United Bank, Seminole, OK- Operating account	\$ 8,882
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The District's cash deposits at June 30, 2016, are categorized to give an indication of the level of risk assumed by the district at year-end.

All funds were adequately insured by F.D.I.C. as of June 30, 2016, as the total balances of all cash and investments did not exceed \$250,000.

Investments

The District had no outstanding investments at June 30, 2016.

Statement of Cash Flows

For purposes of the statement of cash flows, the District considers all highly liquid investments, such as certificates of deposit, as cash equivalents.

SEMINOLE COUNTY RURAL WATER DISTRICT NO. 7
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2016

Note 1 – Significant Accounting Policies

Federal Income Tax

The District is exempt from all federal and state income taxes.

Contributed Capital

The District has received grant proceeds to assist in the construction of the water system from the Oklahoma Water Resources Board in the amount of \$150,000 in the 2010-11 fiscal year. The District also received \$180,000 from the Chickasaw Nation Health System to assist in the construction of the water system, and \$8,000 to purchase benefit units for tribal members in the District (which will become part of contributed capital upon completion of the water system project). In 2011-12, the District received \$836,046 from Rural Development for the water system project. In 2012-13 year, the District received an additional \$98,633 from Rural Development, along with \$20,000 from the Chickasaw Nation Health System for continued assistance in the water system project. In 2013-14, the District received an additional \$15,717 for water system project costs. In 2014-15, the District received \$107,164 of grant proceeds from Rural Development, which was used to pay the settlement costs with Comanche Dozer.

Note 2 – Reserve for Contributed Capital

According to the District by-laws, the consideration paid for benefit units is classified as a donation to the District, and will be refunded to the member only if the project is abandoned prior to the beginning of construction. As the construction process continues, and the project is assured of existence and continuance, these funds will be transferred to the member equity section of the balance sheet, and classified as contributed capital. This transfer was made in the 2013-14 fiscal year, the first full year of continued operation.

SEMINOLE COUNTY RURAL WATER DISTRICT NO. 7
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2016

Note 3 – Capital Assets

Capital (fixed) assets are valued at cost, and depreciation is computed by use of the straight-line method. The estimated useful life of these assets range from five to 40 years.

Capital (fixed) asset information for the 2015-16 fiscal year is as follows:

	Balance at July 1, 2015	Additions	Deductions	Balance at June 30, 2016
Capital Assets (at cost):				
Water distribution system	\$ 2,516,749	-	-	2,516,749
Construction in progress	-	-	-	-
Buildings and equipment	-	-	-	-
Total depreciated capital assets	<u>2,516,749</u>	<u>-</u>	<u>-</u>	<u>2,516,749</u>
Less accumulated depreciation for:				
Water distribution system	(188,756)	(62,919)	-	(251,675)
Buildings and equipment	-	-	-	-
Total accumulated depreciation	<u>(188,756)</u>	<u>(62,919)</u>	<u>-</u>	<u>(251,675)</u>
Capital assets, net	<u>\$ 2,705,505</u>	<u>(62,919)</u>	<u>-</u>	<u>2,265,074</u>

Note 4 – Long-Term Debt

Notes payable consist of two notes to the Office of Rural Economic & Community Development. The notes payable at June 30th, are detailed as follows:

	<u>2016</u>	<u>2015</u>
Note No. 91-01, Rural Economic & Community Development, issued for \$1,019,000, dated 8-21-06, at 3.75% interest due in monthly installments of \$4,199, until paid;	\$ 1,009,668	1,009,668
Note No. 91-03, Rural Economic & Community Development, issued for \$295,000, dated 7-29-10, at 3.00% interest due in monthly installments of \$1,086, until paid;	291,813	291,813
Less: Current Maturities	<u>(17,080)</u>	<u>(17,080)</u>
Total	<u>\$ 1,284,401</u>	<u>1,284,401</u>

SEMINOLE COUNTY RURAL WATER DISTRICT NO. 7
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2016

Note 4 – Long-Term Debt – cont’d

The District made no payments on these notes in 2015-16.

The amounts of principal and interest to be paid in future fiscal years are as follows:

Year Ended			
June 30,	Loan 91-01	Loan 91-03	Total
2017	\$ 12,743	4,337	17,080
2018	13,229	4,469	17,698
2019	13,734	4,605	18,339
2020	14,258	4,745	19,003
2021	14,802	4,889	19,691
2021-26	82,923	26,769	109,692
2026-31	99,994	31,095	131,089
2031-36	120,581	36,121	156,702
2036-41	145,406	41,959	187,365
2040-46	175,342	48,740	224,082
2046+	327,656	84,084	411,740
	<u>\$ 1,020,668</u>	<u>291,813</u>	<u>1,312,481</u>

Note 5 – Subsequent Events

Management has evaluated subsequent events through March 28, 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.

Note 6 – Sale of District

The District held a member election, and it was approved by 100% of all voters, in 2014-15, to sell all assets of the District, including the wells, standpipe, distribution lines and all equipment to Tri-County Rural Water District No. 2, Earlsboro, OK. The sale also included rights of service to all potential subscribers within the incorporated boundaries of the District.

SEMINOLE COUNTY RURAL WATER DISTRICT NO. 7
BALANCE SHEET
JUNE 30, 2016

	JUNE 30	
	2016	(Memo only) 2015
<u>ASSETS</u>		
Current Assets:		
Cash - Operating acct.	\$ 8,882	7,915
Accounts receivable	6,364	5,750
Total current assets	<u>15,246</u>	<u>13,665</u>
Fixed Assets:		
Water system and improvements	2,516,749	2,516,749
Less: Accumulated depreciation	(251,675)	(188,756)
Total Fixed Assets - net	<u>2,265,074</u>	<u>2,327,993</u>
Debt Issue Costs - less amortization	<u>29,048</u>	<u>31,594</u>
Total Assets	<u>\$ 2,309,368</u>	<u>2,373,252</u>
<u>LIABILITIES AND MEMBER EQUITY</u>		
Current Liabilities:		
Accrued interest	\$ 133,720	87,103
Current maturities of long-term debt	17,080	17,080
Total current liabilities	<u>150,800</u>	<u>104,183</u>
Long-Term Liabilities:		
Notes Payable	<u>1,284,401</u>	<u>1,284,401</u>
Total Liabilities	<u>1,435,201</u>	<u>1,388,584</u>
Member Equity:		
Contributed capital	1,407,560	1,407,560
Retained earnings	(533,393)	(422,892)
Total member equity	<u>874,167</u>	<u>984,668</u>
Total Liabilities and Member Equity	<u>\$ 2,309,368</u>	<u>2,373,252</u>

SEMINOLE COUNTY RURAL WATER DISTRICT NO. 7
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2016

	2015-16	(Memo only) 2014-15
Revenue from Operations	<u>\$ 84,120</u>	<u>89,273</u>
Expenses from Operations:		
Water purchased	4,800	5,200
Insurance	2,677	836
Postage/ PO box rental	49	193
Dues and fees	611	1,377
Professional fees	2,842	3,200
Contract management	20,100	20,100
Repairs and maintenance	38,276	42,035
Supplies and materials	4,015	0
Testing and chemicals	3,648	7,002
Utilities	5,524	9,147
Office supplies and expenses	0	0
Total expenses from operations	<u>82,542</u>	<u>89,090</u>
Net Income (Loss) from Operations	1,578	183
Other Income (expenses)-		
Interest earnings	3	3
Comanche Dozer settlement	0	(113,500)
Depreciation expense	(62,919)	(62,918)
Amortization expense	(2,546)	(2,546)
Accrued interest on unpaid loans	(46,617)	(87,103)
Interest paid on long-term debt	0	0
Total other income (expenses)	<u>(112,079)</u>	<u>(266,064)</u>
Net Income (Loss)	(110,501)	(265,881)
Retained Earnings, Beginning of Period	<u>(422,892)</u>	<u>(157,011)</u>
Retained Earnings, End of Period	<u><u>\$ (533,393)</u></u>	<u><u>(422,892)</u></u>