

**RURAL WATER AND/OR SEWER AND/OR
GAS AND/OR SOLID WASTE MANAGEMENT
DISTRICT #7, SEQUOYAH COUNTY, OKLAHOMA**

AUDITED FINANCIAL STATEMENTS

SEPTEMBER 30, 2016 AND 2015



**RURAL WATER AND/OR SEWER AND/OR
 GAS AND/OR SOLID WASTE MANAGEMENT DISTRICT #7,
 SEQUOYAH COUNTY, OKLAHOMA**

SEPTEMBER 30, 2016 AND 2015

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Independent Auditors' Report

To the Board of Directors
Rural Water and/or Sewer and/or Gas and/or
Solid Waste Management District Number 7,
Sequoyah County, Oklahoma
Muldrow, Oklahoma

We have audited the accompanying financial statements of the Rural Water and/or Sewer and/or Gas and/or Solid Waste Management District Number 7, Sequoyah County, Oklahoma (the District), as of and for the years ended September 30, 2016 and 2015, 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 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 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 respective financial position of the Rural Water and/or Sewer and/or Gas and/or Solid Waste Management District Number 7, Sequoyah County, Oklahoma, as of September 30, 2016 and 2015, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 7 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 supplementary 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 basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the required supplemental information for cost-sharing employer plans that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the 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 statement in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Other Information

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the supplemental schedule on page 26 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2016, on our consideration of the District's internal control over financial reporting and 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 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* in considering the Rural Water and/or Sewer and/or Gas and/or Solid Waste Management District Number 7's internal control over financial reporting and compliance



Przybysz & Associates, CPAs, P.C.
Fort Smith, Arkansas
December 30, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

**RURAL WATER AND/OR SEWER AND/OR GAS AND/OR SOLD WASTE
MANAGEMENT DISTRICT #7
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

This section of the Rural Water and/or Sewer and/or Gas and/or Solid Waste Management District #7, Sequoyah County, Oklahoma annual financial report presents the analysis of the District's financial performance during the fiscal year ended September 30, 2016. This information is presented in conjunction with the audited basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District ended the year September 30, 2016 with a net position balance of \$3,625,512.
- The change in net position or net income of the District was an increase of \$412,341.
- The District expended \$2,983,505 in capital assets during the year.
- The statement of cash flows identifies sources and uses of cash activity for the fiscal year. For fiscal year 2016, cash and cash equivalents increased by \$42,374. Cash provided from the day to day operations totaled \$413,453. Cash used by capital and related financing activities totaled \$121,284. Of this amount, the District received loan proceeds of \$3,159,726, \$3,074,610 was used to purchase capital assets and \$206,400 was used to service debt. Cash used by investing activities totaled \$249,795. This was the result of net interest earnings of \$1,340 and funding restricted cash accounts of \$251,135.

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of the following parts: Management's Discussion and Analysis and Basic Financial Statements. The financial statements include notes which explain in detail some of the information included in the basic financial statements.

REQUIRED FINANCIAL STATEMENTS

The Financial Statements of the District report information utilizing the full accrual basis of accounting. The Financial Statements conform to accounting principles which are generally accepted in the United States of America. The Statement of Net Position includes information on the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). The Statement of Revenue, Expenses and Changes in Net Position identifies the District's revenues and expenses for the fiscal year ended September 30, 2016. This statement provides information on the District's operations over the past fiscal year and can be used to determine whether the District has recovered all of its actual and projected costs through user fees and other charges. The third financial statement is the Statement of Cash Flows. This statement provides information on the District's cash receipts, cash payments and changes in cash resulting from operations, investments, and financing activities. The net result of these activities added to the beginning of the year cash balance total to the cash equivalent balance at the end of the current fiscal year.

**RURAL WATER AND/OR SEWER AND/OR GAS AND/OR SOLD WASTE
MANAGEMENT DISTRICT #7
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

CONDENSED FINANCIAL INFORMATION

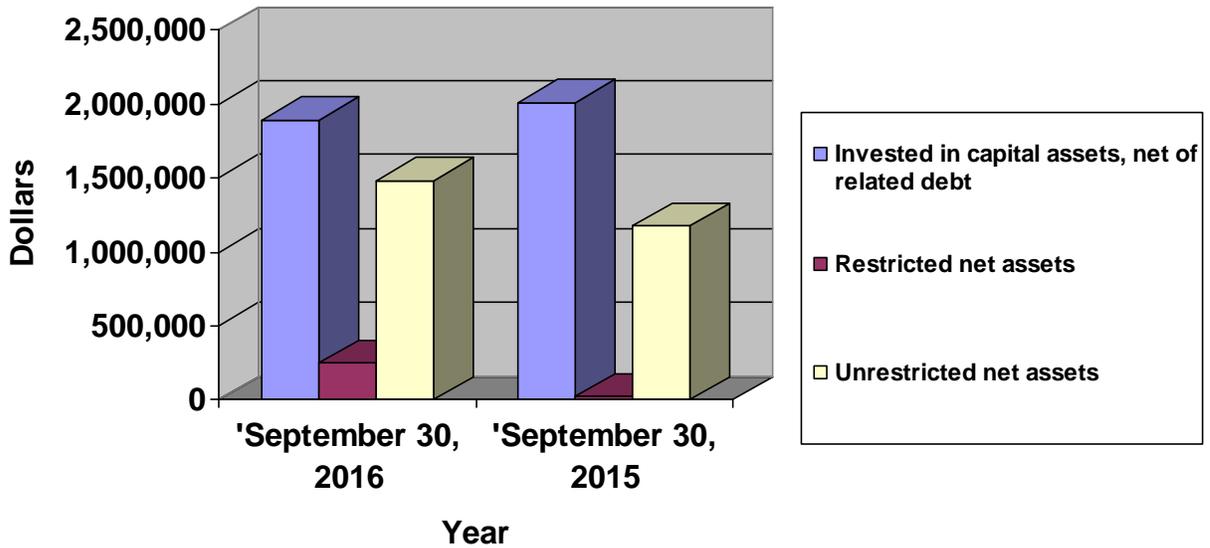
Condensed financial information from the statement of net assets as of September 30, 2016 and 2015 and the statement of revenues, expenses and changes in net assets for the years then ended are as follows:

| | September 30, | |
|--|-------------------------|-------------------------|
| | 2016 | 2015 |
| Current assets | \$ 1,912,235 | \$ 1,589,044 |
| Capital assets, net | 6,188,300 | 3,280,303 |
| Total assets | <u>8,100,535</u> | <u>4,869,347</u> |
| Deferred outflows of resources | <u>60,277</u> | <u>36,857</u> |
| Current liabilities | 133,008 | 301,816 |
| Noncurrent liabilities | 4,350,724 | 1,302,334 |
| Total liabilities | <u>4,483,732</u> | <u>1,604,150</u> |
| Deferred inflows of resources | <u>51,568</u> | <u>88,883</u> |
| Net position: | | |
| Invested in capital assets, net of related debt | 1,890,445 | 2,010,818 |
| Restricted | 251,235 | 25,804 |
| Unrestricted | 1,483,832 | 1,176,549 |
| Total net position | <u>\$ 3,625,512</u> | <u>\$ 3,213,171</u> |
| Operating revenues | <u>\$ 1,263,033</u> | <u>\$ 1,261,005</u> |
| Operating expenses, excluding depreciation | 782,112 | 708,243 |
| Depreciation | 75,508 | 78,915 |
| Total operating expenses, including depreciation | <u>857,620</u> | <u>787,158</u> |
| Operating Income | 405,413 | 473,847 |
| Nonoperating revenues/(expenses) | <u>6,928</u> | <u>355</u> |
| Change in net position | 412,341 | 474,202 |
| Beginning of year net position | <u>3,213,171</u> | <u>2,738,969</u> |
| End of year net position | <u>\$ 3,625,512</u> | <u>\$ 3,213,171</u> |

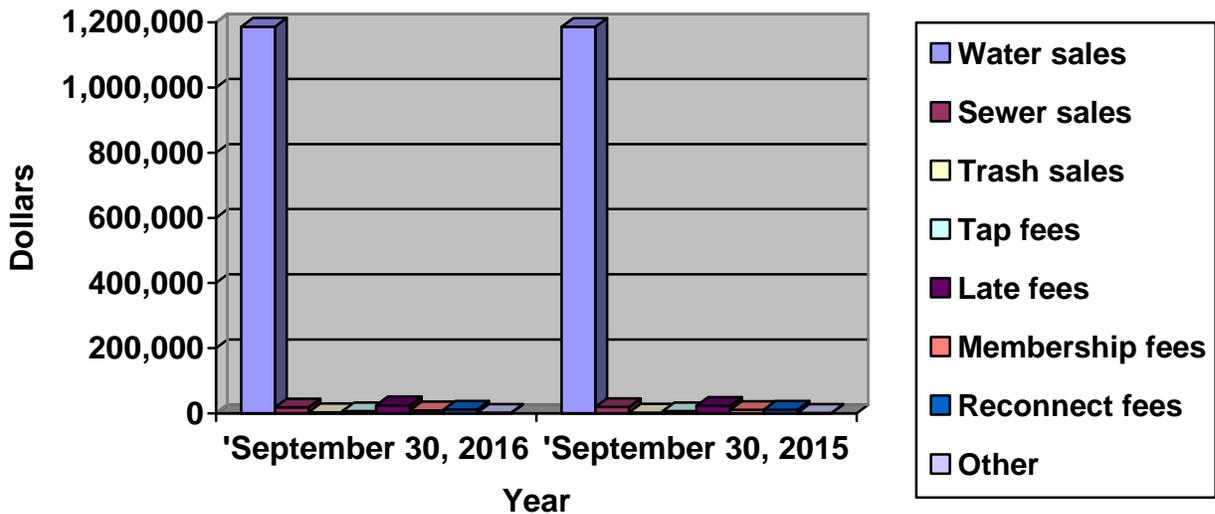
**RURAL WATER AND/OR SEWER AND/OR GAS AND/OR SOLD WASTE
MANAGEMENT DISTRICT #7
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

CONDENSED FINANCIAL INFORMATION (CONTINUED)

Classifications of net assets presented in a graph format



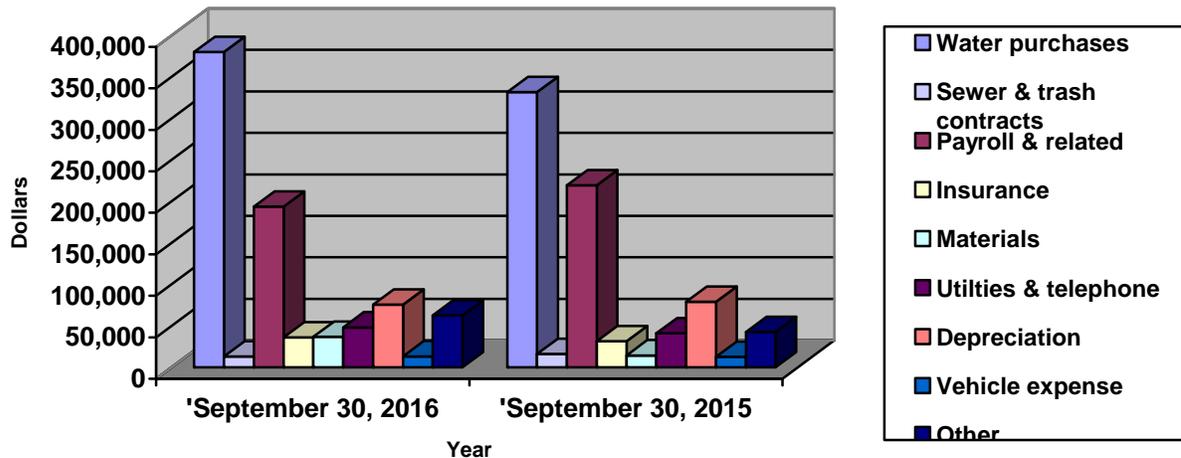
Operating revenues presented in a graph format



**RURAL WATER AND/OR SEWER AND/OR GAS AND/OR SOLD WASTE
MANAGEMENT DISTRICT #7
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

CONDENSED FINANCIAL INFORMATION (CONTINUED)

Operating expenses presented in a graph format



CAPITAL ASSETS

The District's capital assets, as of September 30, 2016 and 2015 amounted to \$8,734,053 and \$5,750,548 respectively. Current year additions consisted of \$2,983,505 and were entirely spent toward the Carson Ridge project.

LONG-TERM DEBT

The District continued to receive loan proceeds from Rural Development to fund the Carson Ridge project in the amount of \$3,159,726. The balance of this loan as of September 30, 2016 was \$4,315,050. The District is currently making monthly payments of \$17,200 per month.

ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide the District's customers, investors and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or need additional financial information, please contact the Sequoyah County Rural Water and/or Sewer and/or Gas and/or Solid Waste Management District #7, Sequoyah County, Oklahoma, 2000 E. Shawntel Smith Blvd., Muldrow, Oklahoma 74948.

FINANCIAL STATEMENTS

**RURAL WATER AND/OR SEWER AND/OR
GAS AND/OR SOLID WASTE MANAGEMENT DISTRICT #7,
SEQUOYAH COUNTY, OKLAHOMA**

Statements of Net Position

| AS OF SEPTEMBER 30, | 2016 | 2015 |
|---|------------------|------------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 521,547 | \$ 479,173 |
| Restricted cash | 251,235 | 100 |
| Certificates of deposit | 978,012 | 946,720 |
| Restricted certificate of deposit | - | 25,704 |
| Accounts receivable, net of allowance for doubtful accounts | 108,575 | 120,609 |
| Other receivables | 36,060 | - |
| Prepaid insurance | 16,806 | 16,738 |
| Total Current Assets | 1,912,235 | 1,589,044 |
| Noncurrent Assets | | |
| Capital Assets | | |
| Land | 49,005 | 49,005 |
| Buildings and improvements | 221,390 | 221,390 |
| Water distribution system and improvements | 2,793,305 | 2,793,305 |
| Machinery and equipment | 132,427 | 132,427 |
| Vehicles | 158,943 | 158,943 |
| Office equipment | 73,360 | 73,360 |
| Construction in process | 5,305,623 | 2,322,118 |
| Total Capital Assets | 8,734,053 | 5,750,548 |
| Less: accumulated depreciation | 2,545,753 | 2,470,245 |
| Net Capital Assets | 6,188,300 | 3,280,303 |
| Total Assets | 8,100,535 | 4,869,347 |
| Deferred Outflows of Resources | | |
| Deferred outflows of resources related to pension | 60,277 | 36,857 |
| Total Deferred Outflows of Resources | 60,277 | 36,857 |

See accompanying notes.

**RURAL WATER AND/OR SEWER AND/OR
GAS AND/OR SOLID WASTE MANAGEMENT DISTRICT #7,
SEQUOYAH COUNTY, OKLAHOMA**

Statements of Net Position

| AS OF SEPTEMBER 30, | 2016 | 2015 |
|--|---------------------|---------------------|
| Liabilities | | |
| Current Liabilities | | |
| Accounts payable | 9,172 | 9,963 |
| Construction accounts payable | 110,949 | 281,478 |
| Salaries and wages payable | 3,464 | 5,182 |
| Payroll taxes and other withholdings payable | 3,617 | 3,767 |
| Accrued interest | 5,806 | 1,426 |
| Total Current Liabilities | 133,008 | 301,816 |
| Noncurrent liabilities: | | |
| Construction loan | 4,315,050 | 1,269,485 |
| Net pension liability | 35,674 | 32,849 |
| Total Noncurrent Liabilities | 4,350,724 | 1,302,334 |
| Total Liabilities | 4,483,732 | 1,604,150 |
| Deferred Inflows | | |
| Deferred inflows of resources related to pension | 51,568 | 88,883 |
| Total Deferred Inflows | 51,568 | 88,883 |
| Net Position | | |
| Net investment in capital assets | 1,890,445 | 2,010,818 |
| Restricted | 251,235 | 25,804 |
| Unrestricted | 1,483,832 | 1,176,549 |
| Total Net Position | \$ 3,625,512 | \$ 3,213,171 |

See accompanying notes.

**RURAL WATER AND/OR SEWER AND/OR
GAS AND/OR SOLID WASTE MANAGEMENT DISTRICT #7,
SEQUOYAH COUNTY, OKLAHOMA**

Statements of Revenue, Expenses and Changes in Net Position

| FOR THE YEARS ENDED SEPTEMBER 30, | 2016 | 2015 |
|--|------------------|------------------|
| Operating Revenue | | |
| Metered water sales, net of bad debts | \$ 1,187,221 | \$ 1,186,605 |
| Sewer sales | 18,285 | 19,187 |
| Trash sales | 3,419 | 2,371 |
| Membership fees | 9,100 | 10,465 |
| Tap fees | 6,870 | 6,710 |
| Late fees | 24,746 | 23,251 |
| Reconnect fees | 11,562 | 11,122 |
| Other | 1,830 | 1,294 |
| Total Operating Revenue | 1,263,033 | 1,261,005 |
| Operating Expenses | | |
| Water purchases | 379,761 | 331,547 |
| Sewer and trash contracts | 13,046 | 16,007 |
| Salaries and wages | 203,231 | 176,572 |
| Insurance | 35,889 | 31,315 |
| Pension (benefit) expense | (25,218) | 28,099 |
| Payroll taxes | 15,501 | 14,565 |
| Materials | 36,569 | 14,296 |
| Utilities | 38,275 | 33,108 |
| Telephone | 9,714 | 7,806 |
| Computer supplies | 199 | 625 |
| Office supplies | 10,041 | 7,495 |
| Postage | 6,965 | 6,560 |
| Professional fees | 9,152 | 3,324 |
| Fees and dues | 3,922 | 3,799 |
| Repairs and maintenance | 13,529 | 5,632 |
| Vehicle expense | 13,053 | 12,548 |
| Supplies | 2,864 | 1,481 |
| Bank charges | 6,605 | 5,074 |
| Testing fees | 2,497 | 3,281 |
| Miscellaneous | 6,517 | 5,109 |
| Depreciation | 75,508 | 78,915 |
| Total Operating Expenses | 857,620 | 787,158 |
| Operating Income | 405,413 | 473,847 |

See accompanying notes.

**RURAL WATER AND/OR SEWER AND/OR
GAS AND/OR SOLID WASTE MANAGEMENT DISTRICT #7,
SEQUOYAH COUNTY, OKLAHOMA**

Statements of Revenue, Expenses and Changes in Net Position

| FOR THE YEARS ENDED SEPTEMBER 30, | 2016 | 2015 |
|---|---------------------|---------------------|
| Nonoperating Revenue (Expenses) | | |
| Interest income | 6,928 | 8,729 |
| Interest expense | - | (8,374) |
| Total Net Nonoperating Revenue (Expenses) | 6,928 | 355 |
| Change in Net Position | 412,341 | 474,202 |
| Net Position at Beginning of Year, as previously stated | 3,213,171 | 2,823,844 |
| GASB 68 Implementation adjustment | - | (84,875) |
| Net Position at Beginning of Year, restated | 3,213,171 | 2,738,969 |
| End of the Year Net Position | \$ 3,625,512 | \$ 3,213,171 |

See accompanying notes.

**RURAL WATER AND/OR SEWER AND/OR
GAS AND/OR SOLID WASTE MANAGEMENT DISTRICT #7,
SEQUOYAH COUNTY, OKLAHOMA**

Statement of Cash Flows

| FOR THE YEARS ENDED SEPTEMBER 30, | 2016 | 2015 |
|--|---------------------|---------------------|
| Cash Flows From Operating Activities | | |
| Cash receipts from customers | \$ 1,275,067 | \$ 1,237,489 |
| Cash payments to suppliers for goods and services | (656,665) | (577,202) |
| Cash payments to employees for services | (204,949) | (174,739) |
| Net Cash Provided By Operating Activities | 413,453 | 485,548 |
| Cash Flows from Capital and Related Financing Activities | | |
| Cash receipt of construction loan | 3,159,726 | 1,319,787 |
| Acquisition of capital assets | (3,074,610) | (1,552,490) |
| Principal paid on debt | (131,356) | (292,351) |
| Interest paid on debt | (75,044) | (9,739) |
| Net Cash Provided/(Used) in Capital and Related Financing Activities | (121,284) | (534,793) |
| Cash Flows From Investing Activities | | |
| Net restricted cash activity | (251,135) | (100) |
| Reinvestment of certificate of deposit earnings | (5,588) | (7,057) |
| Interest Income | 6,928 | 8,729 |
| Net Cash Provided By Investing Activities | (249,795) | 1,572 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 42,374 | (47,673) |
| Cash and Cash Equivalents at Beginning of Year | 479,173 | 526,846 |
| Cash and Cash Equivalents at End of Year | \$ 521,547 | \$ 479,173 |
| Supplemental Schedule of Noncash Capital and Related Financing Activities | | |
| Total cost of fixed assets acquired | \$ 2,983,505 | \$ 1,836,692 |
| Less: current year construction payables | (110,949) | (281,478) |
| Plus: prior year construction payables | 281,478 | - |
| Less: capitalized interest | (79,424) | (2,724) |
| Net cash used to acquire capital assets | \$ 3,074,610 | \$ 1,552,490 |

See accompanying notes.

**RURAL WATER AND/OR SEWER AND/OR
GAS AND/OR SOLID WASTE MANAGEMENT DISTRICT #7,
SEQUOYAH COUNTY, OKLAHOMA**

Statement of Cash Flows

| FOR THE YEARS ENDED SEPTEMBER 30, | 2016 | 2015 |
|--|-------------------|-------------------|
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities | | |
| Net income from operations | \$ 405,413 | \$ 473,847 |
| Adjustments to reconcile net income to net cash from operating activities: | | |
| Depreciation | 75,508 | 78,915 |
| Pension related adjustments | (57,910) | - |
| Net change in assets and liabilities | | |
| Accounts receivable | 12,034 | (23,516) |
| Other receivables | (18,865) | - |
| Prepaid insurance | (68) | (772) |
| Accounts payable | (791) | (45,466) |
| Salaries and wages payable | (1,718) | 1,833 |
| Payroll taxes and other withholdings payable | (150) | 707 |
| Net Cash Provided by Operating Activities | \$ 413,453 | \$ 485,548 |

See accompanying notes.

RURAL WATER AND/OR SEWER AND/OR GAS AND/OR SOLID WASTE MANAGEMENT DISTRICT #7, SEQUOYAH COUNTY, OKLAHOMA

Notes to Financial Statements

SEPTEMBER 30, 2016 AND 2015

Nature of Business

Rural Water and/or Sewer and/or Gas and/or Solid Waste Management District Number 7, Sequoyah County Oklahoma (the District) was formed in 1991 for the purpose of supplying water and sewer services to the residents of eastern Sequoyah County, Oklahoma.

1. Summary of Significant Accounting Policies

a. Financial Reporting

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting and reflect transactions on behalf of the District. The District accounts for its operations as an enterprise fund.

The financial statements of the Department have been prepared in accordance with generally accepted accounting principals (GAAP) in the United States. GAAP statements include all relevant Governmental Accounting Standards Board (GASB) pronouncements. The Department implemented GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in *Pre-November 30, 1989, FASB and AICPA Pronouncements*. This pronouncement incorporates the FASB, APB, and ARB pronouncements issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements. The implementation of this pronouncement had no significant effect on the financial statements.

b. Capital Outlays and Depreciation

Capital outlays of the District are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance, repairs and renewals of relatively minor items are charged to expense as incurred. The estimated useful lives of the assets are as follows:

| | <u>Life</u> |
|--|-------------|
| Buildings and improvements | 5-40 years |
| Water distribution system and improvements | 10-40 years |
| Machinery and equipment | 5-7 years |
| Vehicles | 5 years |
| Office equipment | 5-7 years |

It is the District's policy to capitalize assets purchased for \$1,000 or more and to expense assets purchased for less than \$1,000.

RURAL WATER AND/OR SEWER AND/OR GAS AND/OR SOLID WASTE MANAGEMENT DISTRICT #7, SEQUOYAH COUNTY, OKLAHOMA

Notes to Financial Statements

SEPTEMBER 30, 2016 AND 2015

1. Summary of Significant Accounting Policies (Continued)

c. Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents excluding restricted cash.

d. Income Taxes

The District is exempt from income taxes as a governmental agency.

e. Accounts Receivable

Management establishes an allowance for uncollectible accounts receivable based on historical collection experience and management's evaluation of the collectability of outstanding accounts receivable. The allowance for doubtful accounts was \$17,172 and \$14,044 as of September 30, 2016 and 2015, respectively.

f. Estimates

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

g. Compensated Absences

Employees of the District can accrue up to 40 hours of vacation that can be carried over to the next year. The District has not made an accrual for these amounts at year end.

h. Reclassifications and Prior Year Restatement

Certain 2015 amounts have been reclassified in order to conform with the 2016 financial statement presentation. In addition, the 2015 financial statements have been restated to reflect recording construction accounts payable. The effect of this adjustment was to increase both construction in process and construction accounts payable by \$281,478. An additional adjustment was made to account for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27*. See Pension footnote #8 for the full effect of this entry on the 2015 financial statements.

RURAL WATER AND/OR SEWER AND/OR GAS AND/OR SOLID WASTE MANAGEMENT DISTRICT #7, SEQUOYAH COUNTY, OKLAHOMA

Notes to Financial Statements

SEPTEMBER 30, 2016 AND 2015

2. Cash Deposits

The District maintains its operating bank accounts in several local financial institutions. The Federal Deposit Insurance Corporation ("FDIC") insures accounts at these institutions. In addition, some deposits are collateralized by the bank through the pledging of securities. The District's cash balances may, at times, exceed these insured limits. The District has not experienced any losses in such accounts.

3. Other receivables

Other receivables on the statement of net position are for project costs incurred as of September 30, 2016 that will be reimbursed from the following:

| | | |
|---|-----------|---------------|
| Loan proceeds from Rural Development | \$ | 17,195 |
| Oklahoma Highway Department of Transportation | | 18,865 |
| Total | \$ | 36,060 |

4. Construction Loan

The District paid off a previous Rural Development loan using proceeds from a new capital project loan from Rural Development. This loan is funding the Carson Ridge project and will have a borrowing capacity of up to \$5,000,000. Total borrowings from this loan totaled \$4,479,513 plus \$17,195 to be received in the following month. \$181,658 has been paid on this loan as of September 30, 2016. The balance of this loan as of September 30, 2016 was \$4,315,050 and is shown as "Construction Loan" on the statement of net position.

Repayment terms will be finalized upon completion of the loan borrowings. Until then, the District makes monthly payments of \$17,200 including interest at 2.75%. The loan term is forty years.

Activity of the long-term debt consists of the following:

| | October 1, 2015 | Debt Additions | Debt Retirements | September 30, 2016 |
|-------------------|---------------------|---------------------|---------------------|-----------------------|
| Rural Development | \$ 1,269,485 | \$ 3,176,921 | \$ 131,356 | \$ 4,315,050 |
| Total | \$ 1,269,485 | \$ 3,176,921 | \$ 131,356 | \$ 4,315,050 |

| | October 1, 2014 | Debt Additions | Debt Retirements | September 30, 2015 |
|-------------------|--------------------|---------------------|---------------------|-----------------------|
| Rural Development | \$ 242,049 | \$ 1,319,787 | \$ 292,351 | \$ 1,269,485 |
| Total | \$ 242,049 | \$ 1,319,787 | \$ 292,351 | \$ 1,269,485 |

RURAL WATER AND/OR SEWER AND/OR GAS AND/OR SOLID WASTE MANAGEMENT DISTRICT #7, SEQUOYAH COUNTY, OKLAHOMA

Notes to Financial Statements

SEPTEMBER 30, 2016 AND 2015

5. Restricted Funds and Required Accounts

Debt reserve account established per the construction loan agreement with Rural Development. Monthly deposits in the amount of \$1,720, or 10% of the monthly loan payment, are required to be made until a balance of one years debt service is achieved, after which deposits may be suspended, except to replace withdrawals. The balance of this account at September 30, 2016 was \$157,380.

Unspent borrowings from construction project loan. The balance of this account as of September 30, 2016 was \$93,855.

6. Capital Assets

Activity of capital assets consists of the following:

| | October 1, 2015 | Additions | Deletions/ Transfers | September 30, 2016 |
|----------------------------|---------------------|---------------------|-------------------------|-----------------------|
| Land | \$ 49,005 | \$ - | \$ - | \$ 49,005 |
| Buildings and improvements | 221,390 | - | - | 221,390 |
| Water distribution system | 2,793,305 | - | - | 2,793,305 |
| Machinery and equipment | 132,427 | - | - | 132,427 |
| Vehicles | 158,943 | - | - | 158,943 |
| Office equipment | 73,360 | - | - | 73,360 |
| Construction in process | 2,322,118 | 2,983,505 | - | 5,305,623 |
| Total | \$ 5,750,548 | \$ 2,983,505 | \$ - | \$ 8,734,053 |

| | October 1, 2014 | Additions | Deletions/ Transfers | September 30, 2015 |
|----------------------------|---------------------|---------------------|-------------------------|-----------------------|
| Land | \$ 49,005 | \$ - | \$ - | \$ 49,005 |
| Buildings and improvements | 219,690 | 1,700 | - | 221,390 |
| Water distribution system | 2,793,305 | - | - | 2,793,305 |
| Machinery and equipment | 132,427 | - | - | 132,427 |
| Vehicles | 158,943 | - | - | 158,943 |
| Office equipment | 69,749 | 3,611 | - | 73,360 |
| Construction in process | 490,737 | 1,831,381 | - | 2,322,118 |
| Total | \$ 3,913,856 | \$ 1,836,692 | \$ - | \$ 5,750,548 |

RURAL WATER AND/OR SEWER AND/OR GAS AND/OR SOLID WASTE MANAGEMENT DISTRICT #7, SEQUOYAH COUNTY, OKLAHOMA

Notes to Financial Statements

SEPTEMBER 30, 2016 AND 2015

7. Capitalized Interest

The District follows the policy of capitalizing interest as a component of the cost of property, plant, and equipment constructed for its own use. For the year ended September 30, 2016, total interest incurred was \$79,424 all of which was capitalized. For the year ended September 30, 2015, total interest incurred was \$11,098 of which \$2,724 was capitalized and \$8,374 was charged to operations.

8. Pension Plan

Implementation of GASB 68 - Restatement of Prior Year Ending Net Position

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27*, which became effective for fiscal years ending June 30, 2015. The Statement establishes standards for public pension plan obligations for participating employers. Under the new statement, a cost-sharing employer whose employees receive pensions through a trust will report in the government-wide statements a net pension asset/liability, deferred outflows or inflows of resources related to pensions, and pension expense based on its proportionate share of the collective net pension asset/liability of all employers in the plan. A net pension liability can be volatile due to changes in actuarial estimates and the actual investment return. The effect of the implementation was to add \$32,849 to net pension liability, add \$36,857 to deferred outflows, add \$88,883 to deferred inflows and a decrease in unrestricted net position of \$84,875 as of September 30, 2015.

Oklahoma Public Employees Retirement System

The District contributes to the Oklahoma Public Employees Retirement System (OPERS) for all eligible employees. The plan is a cost-sharing multiple-employer defined benefit pension plan administered by OPERS. Title 74 of the Oklahoma State Statutes grants the authority to establish and amend the benefit terms to the OPERS. OPERS issues a separate financial report that can be obtained at www.opers.ok.gov.

Summary of Significant Accounting Policies

For purposes of measuring the net pension asset/liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's plan and additions to/deductions from the District's fiduciary net position have been determined on the same basis as they are reported by OPERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value based on market prices. Detailed information about the OPERS plan's fiduciary net position is available in the separately issued OPERS financial report.

RURAL WATER AND/OR SEWER AND/OR GAS AND/OR SOLID WASTE MANAGEMENT DISTRICT #7, SEQUOYAH COUNTY, OKLAHOMA

Notes to Financial Statements

SEPTEMBER 30, 2016 AND 2015

8. Pension Plan (continued)

Measurement Date

The collective Net Pension Liability was measured as of June 30, 2015, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. Each employer's proportion of the Net Pension Liability was based on the employer's share of contributions to the pension plan relative to the total contributions of all participating employers.

Eligibility Factors and Benefit Provisions

OPERS provides retirement, disability, and death benefits to members of the plan.

Members qualify for full retirement benefits at their specified normal retirement age or, for any person who became a member prior to July 1, 1992, when the sum of the member's age and years of credited service equals or exceeds 80 (Rule of 80), and for any person who became a member after June 30, 1992, when the member's age and years of credited service equals or exceeds 90 (Rule of 90).

Normal retirement date is further qualified to require that all members employed on or after January 1, 1983 must have six or more years of full-time equivalent employment with a participating employer before being eligible to receive benefits. Credited service is the sum of participating and prior service. Prior service includes nonparticipating service before January 1, 1975, or the entry date of the employer and active wartime military service.

A member with a minimum of ten years of participating service may elect early retirement with reduced benefits beginning at age 55 if the participant became a member prior to November 1, 2011, or age 60 if the participant became a member on or after November 1, 2011.

Benefits are calculated for each member category as follows:

Employees

Benefits are determined at 2% of the average annual salary received during the highest thirty-six months of the last ten years of participating service, but not to exceed the applicable annual salary cap, multiplied by the number of years of credited service. Members who join OPERS on or after July 1, 2013, will have their salary averaged over the highest 60 months of the last ten years. Normal retirement age under the Plan is 62 or Rule of 80/90 if the participant became a member prior to November 1, 2011, or age 65 or Rule 90 if the participant became a member on or after November 1, 2011.

RURAL WATER AND/OR SEWER AND/OR GAS AND/OR SOLID WASTE MANAGEMENT DISTRICT #7, SEQUOYAH COUNTY, OKLAHOMA

Notes to Financial Statements

SEPTEMBER 30, 2016 AND 2015

8. Pension Plan (continued)

Eligibility Factors and Benefit Provisions (continued)

Members who elect to pay the additional contribution rate, which became available in January 2004, will receive benefits using a 2.5% computation factor for each full year the additional contributions are made. In 2004, legislation was enacted to provide an increased benefit to retiring members who were not eligible for Medicare. The Medicare Gap benefit option became available to members under 65 who retired on or after May 1, 2006. Members may elect to receive a temporary increased benefit to cover the cost of health insurance premiums until the member is eligible to receive Medicare. After the member becomes eligible for Medicare, the retirement benefit will be permanently reduced by an actuarially determined amount. The option is irrevocable, must be chosen prior to retirement, and is structured to have a neutral actuarial cost to the Plan.

Members become eligible to vest fully upon termination of employment after attaining eight years of credited service, or the members' contributions may be withdrawn upon termination of employment.

Disability retirement benefits are available for members having eight years of credited service whose disability status has been certified as being within one year of the last day on the job by the Social Security Administration. Disability retirement benefits are determined in the same manner as retirement benefits, but payable immediately without an actuarial reduction.

Upon the death of an active member, the accumulated contributions of the member are paid to the members' named beneficiary/(ies) in a single lump sum payment. If a retired member elected joint annuitant survivor option or an active member was eligible to retire with either reduced or unreduced benefits or eligible to vest the retirement benefit at the time of death, benefits can be paid in monthly payments over the life of the spouse if the spouse so elects.

Upon the death of a retired member, the Plan will pay a \$5,000 death benefit to the member's beneficiary or estate of the member if there is no living beneficiary. The death benefit will be paid in addition to any excess employee contributions or survivor benefits due to the beneficiary.

Contributions

The contribution rates for each member category of the Plan are established by the Oklahoma Legislature after recommendation by the Board based on an actuarial calculation, which is performed to determine the adequacy of such contribution rates. For 2016 and 2015, participating state agency employers are required to contribute 16.5% of the employees' annual pay and employees are required to contribute 3.5% of their annual pay. Contributions to the pension plan from the District were \$31,779 and \$27,882 for the years ended September 30, 2016 and 2015, respectively.

RURAL WATER AND/OR SEWER AND/OR GAS AND/OR SOLID WASTE MANAGEMENT DISTRICT #7, SEQUOYAH COUNTY, OKLAHOMA

Notes to Financial Statements

SEPTEMBER 30, 2016 AND 2015

8. Pension Plan (continued)

Actuarial Assumptions

The total pension liability as of June 30, 2015 was determined based on an actuarial valuation prepared as of July 1, 2015, using the following actuarial assumptions:

| | |
|---|--|
| Investment return | 7.5% compounded annually net of investment expense and including any inflation |
| Salary increases | 4.5% to 8.4% per year including inflation |
| Mortality rates | Active participants and nondisabled pensioners: RP-2000 Mortality Table projected to 2010 by Scale AA (Disabled pensioners set forward 15 years) |
| Post-retirement benefit increases | None |
| Assumed inflation rate | 3% |
| Payroll growth | 4% per year |
| Actuarial cost method | Entry age |
| Select period for the termination of employment assumptions | 10 years |

The actuarial assumptions used in the July 1, 2015 valuation are based on the results of the most recent actuarial experience study, which cover the three-year period ending June 30, 2013. The experience study report is dated May 9, 2014.

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a log normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

**RURAL WATER AND/OR SEWER AND/OR
GAS AND/OR SOLID WASTE MANAGEMENT DISTRICT #7,
SEQUOYAH COUNTY, OKLAHOMA**

Notes to Financial Statements

SEPTEMBER 30, 2016 AND 2015

8. Pension Plan (continued)

Long-term Expected Rate of Return (continued)

The Target asset allocation and best estimates of geometric real rates of return for each major asset class as of June 30, 2015 are summarized in the following table:

| Asset Class | Target Allocation | Long-term Expected Real Rate of Return |
|-----------------------|-------------------|--|
| U.S. Large Cap Equity | 38.0% | 5.3% |
| U.S. Small Cap Equity | 6.0% | 5.6% |
| U.S. Fixed Income | 25.0% | 0.7% |
| International Stock | 18.0% | 5.6% |
| Emerging Stock Market | 6.0% | 6.4% |
| TIPS | 3.5% | 0.7% |
| Rate Anticipation | 3.5% | 1.5% |
| Total | 100.0% | |

Discount Rate

The discount rate used to measure the total pension liability was 7.5% for 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and the employers will be made at the current contribution rate as set out in state statute. Based on those assumptions, the pension plan's fiduciary net position was projected through 2114 to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determined does not use a municipal bond rate.

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension (asset) / liability of the District calculated using the discount rate of 7.50%, as well as what the District's net pension (asset) / liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

| | 1% Decrease 6.50% | Current Rate 7.50% | 1% Increase 8.50% |
|------------------------------------|----------------------|-----------------------|----------------------|
| Net Pension (Asset) / Liability \$ | \$ 132,929 | \$ 35,674 | \$ (47,009) |

**RURAL WATER AND/OR SEWER AND/OR
GAS AND/OR SOLID WASTE MANAGEMENT DISTRICT #7,
SEQUOYAH COUNTY, OKLAHOMA**

Notes to Financial Statements

SEPTEMBER 30, 2016 AND 2015

8. Pension Plan (continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2016, the District reported a liability of \$35,674 for its proportionate share of the net pension liability. At September 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following resources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Differences between expected and actual experience | \$ - | \$ (1,049) |
| Changes in assumptions | (260) | - |
| Net difference between projected and actual earnings on pension plan investments | 22,088 | 12,269 |
| Changes in proportion and differences between employer contributions and share of contributions | - | 40,348 |
| District contributions subsequent to the measurement date | 38,449 | - |
| Total | \$ <u>60,277</u> | \$ <u>51,568</u> |

\$38,449 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2016, any other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended September 30, | Differences in Experience | Changes in Assumptions | Differences in Earnings | Changes in Proportion | Net Increase in Pension Expense |
|-------------------------------------|--|-----------------------------------|--|--------------------------------------|--|
| 2017 | \$ (861) | \$ 107 | \$ (3,237) | \$ (21,693) | \$ (25,684) |
| 2018 | 1,910 | (367) | (3,237) | (18,655) | (20,349) |
| 2019 | - | - | 2,252 | - | 2,252 |
| 2020 | - | - | 14,041 | - | 14,041 |
| | \$ 1,049 | \$ (260) | \$ 9,819 | \$ (40,348) | \$ (29,740) |

RURAL WATER AND/OR SEWER AND/OR GAS AND/OR SOLID WASTE MANAGEMENT DISTRICT #7, SEQUOYAH COUNTY, OKLAHOMA

Notes to Financial Statements

SEPTEMBER 30, 2016 AND 2015

9. Contractual Agreements and Major Supplier

The District has a contractual agreement with the City of Fort Smith, Arkansas to obtain its water supply. Under the contract, it is understood that water being delivered to the District is considered to be that not presently needed by the water system of the City of Fort Smith. If, at any time, in the opinion of the governing body of the City of Fort Smith, the City does not have a sufficient supply of water to meet the needs of the retail customers of the water system of the City, the City shall have the right to terminate the agreement and discontinue the sale of water to the District upon thirty days written notice to the District. For the years ended September 30, 2016 and 2015 the District purchased 98% of its water from the City of Fort Smith.

The District also has agreements with the Muldrow (Oklahoma) Utility Authority and the Sequoyah County (Oklahoma) Water Association to potentially purchase water from them in the future. For the years ended September 30, 2016 and 2015 the District purchased 1.6% and 1.5%, respectively, of its water from the Muldrow Utility Authority.

10. Concentrations of Credit Risk

Financial instruments that potentially subject the District to credit risk consist primarily of accounts receivable. The receivables are from individuals located within the same geographic region.

11. Risk Management

The District is exposed to various levels 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 blanket coverage and worker's compensation for risk of loss.

There has been no significant reduction in the District's insurance coverage from the previous year. In addition there have been no settlements in excess of the District's coverage in any of the prior three fiscal years.

12. Subsequent Events

The District has evaluated events and transactions for subsequent events that would impact the financial statements for the year ended September 30, 2016 through December 30, 2016, the date the financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in the financial statements.

SUPPLEMENTAL INFORMATION

**RURAL WATER AND/OR SEWER AND/OR
GAS AND/OR SOLID WASTE MANAGEMENT DISTRICT #7,
SEQUOYAH COUNTY, OKLAHOMA**

Schedule of Expenditures of Federal Awards

FOR THE YEAR ENDED SEPTEMBER 30, 2016

| Federal Grantor/Pass-through Grantor(s)/ Program or Cluster Title | CFDA Number | Federal Expenditures |
|--|----------------|-------------------------|
| U.S. Department of Agriculture | | |
| Water & Waste Disposal Systems for Rural Communities | 10.760 | \$ 3,176,921 |
| Total U.S. Department of Agriculture | | 3,176,921 |
| Total Federal Awards | | \$ 3,176,921 |

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Rural Water and/or Sewer and/or Gas and/or Solid Waste Management District #7, Sequoyah County, Oklahoma (the District) under programs of the federal government for the fiscal year ended September 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of *Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the District.

Note B - Summary of Significant Accounting Policies

1. This schedule of expenditures of federal awards includes the federal program activity of the District and is presented on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

2. The District does not charge indirect cost rates and charges 100% of their costs directly.

See independent auditor's report.

**RURAL WATER AND/OR SEWER AND/OR
GAS AND/OR SOLID WASTE MANAGEMENT DISTRICT #7,
SEQUOYAH COUNTY, OKLAHOMA**

Additional Comments Required by Rural Development

SEPTEMBER 30, 2016

Water Rate Schedule

2016 Rate Schedule

| Residential | Minimum Charge and Gallons | Charge After Minimum Gallons |
|---------------------|-----------------------------------|-------------------------------------|
| 1 Unit Residential | \$20 for the first 500 Gal. | \$0.83/100 gallons |
| 2 Unit Residential | \$40 for the first 1,000 Gal. | \$0.83/100 gallons |
| 6 Unit Residential | \$120 for the first 3,000 Gal. | \$0.83/100 gallons |
| 14 Unit Residential | \$280 for the first 7,000 Gal. | \$0.83/100 gallons |

| Commercial | Minimum Charge and Gallons | Charge After Minimum Gallons |
|-------------------|-----------------------------------|-------------------------------------|
| 1 Unit Commercial | \$20 for the first 500 Gal. | \$0.83/100 gallons |
| 2 Unit Commercial | \$40 for the first 1,000 Gal. | \$0.83/100 gallons |

Note: Charge after Minimum Gallon usage is per one hundred gallons

Board of Directors

| Name | Title |
|-----------------|---------------------|
| Joe Shamblin | Chairman/President |
| Stan Roedenbeck | Vice President |
| Robin Kelton | Secretary/Treasurer |
| Jeff Tomlin | Director |
| Michael Rogers | Director |

Accounting Records and Control Over Physical Assets

The District's accounting records, with the exception of normal adjusting entries, are in agreement with these financial statements. The accounting records of the District are adequate. The District's control over physical assets is adequate.

Material or Unusual Adjustments

The accounting records of the District incurred no unusual adjustments.

See independent auditor's report.

ADDITIONAL REQUIRED REPORTS



**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 and/or Sewer and/or Gas and/or
Solid Waste Management District Number 7,
Sequoyah County, Oklahoma
Muldrow, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Rural Water and/or Sewer and/or Gas and/or Solid Waste Management District Number 7, Sequoyah County, Oklahoma (the District), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise District's basic financial statements, and have issued our report thereon dated December 30, 2016 which was modified to reflect the omission of the information for cost-sharing employer plans.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered District'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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Przybysz & Associates, CPAs, P.C.
Fort Smith, Arkansas
December 30, 2016



**Independent Auditor's Report On Compliance For Each Major Federal Program
And On Internal Control Over Compliance Required by the Uniform Guidance**

To the Board of Directors
Rural Water and/or Sewer and/or Gas and/or
Solid Waste Management District Number 7,
Sequoyah County, Oklahoma
Muldrow, Oklahoma

Report on Compliance for Each Major Federal Program

We have audited the Rural Water and/or Sewer and/or Gas and/or Solid Waste Management District Number 7, Sequoyah County, Oklahoma's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended September 30, 2016. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements under Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2016.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Przybysz & Associates". The signature is written in a cursive, flowing style.

Przybysz & Associates, CPAs, P.C.
Fort Smith, Arkansas
December 30, 2016

**RURAL WATER AND/OR SEWER AND/OR
GAS AND/OR SOLID WASTE MANAGEMENT DISTRICT #7,
SEQUOYAH COUNTY, OKLAHOMA**

Federal Award Programs - Schedule of Prior Audit Findings

FOR THE YEAR ENDED SEPTEMBER 30, 2016

There were no prior audit findings for the year ended September 30, 2015.