

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

AUDITED FINANCIAL STATEMENTS

SEPTEMBER 30, 2015 AND 2014



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

SEPTEMBER 30, 2015 AND 2014

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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, 2015 and 2014, 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, 2015 and 2014, 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

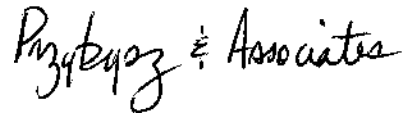
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial 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.

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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the supplemental schedule on page 18 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 November 18, 2015, 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 4, 2015

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, 2015**

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, 2015. 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, 2015 with a net position balance of \$3,298,046
- The change in net position or net income of the District was an increase of \$474,202
- The District expended \$1,555,214 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 2015, cash and cash equivalents decreased by \$47,673. Cash provided from the day to day operations totaled \$485,548. Cash used by capital and related financing activities totaled \$534,793. Of this amount, the District received loan proceeds of \$1,319,787, \$1,552,490 was used to purchase capital assets and \$302,090 was used to service debt. Cash provided by investing activities netted \$1,572.

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, 2015. 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, 2015**

CONDENSED FINANCIAL INFORMATION

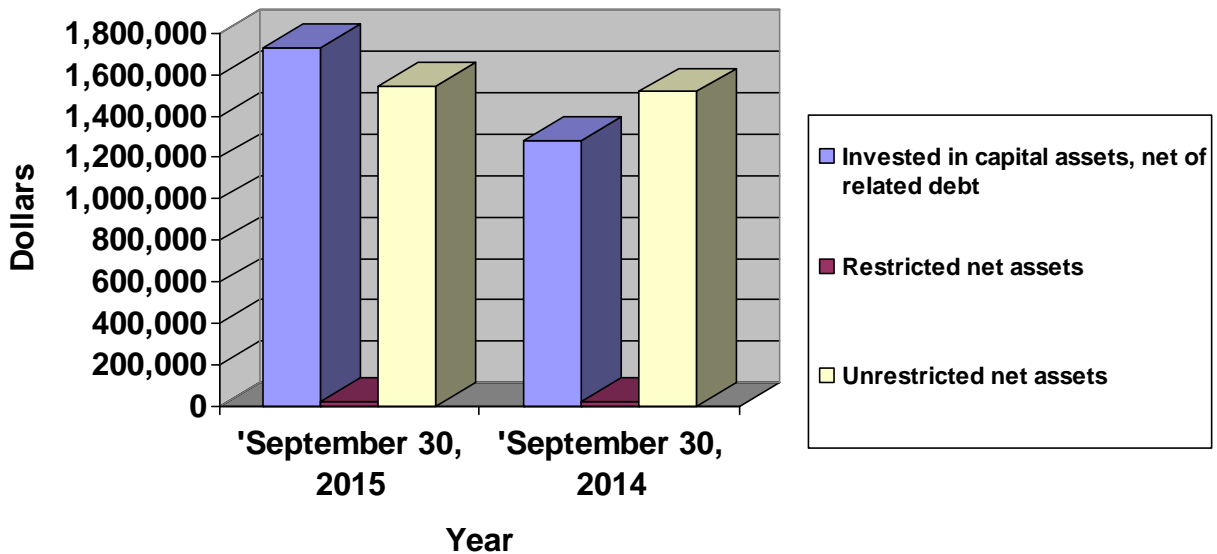
Condensed financial information from the statement of net assets as of September 30, 2015 and 2014 and the statement of revenues, expenses and changes in net assets for the years then ended are as follows:

	September 30,	
	2015	2014
Current assets	\$ 1,589,044	\$ 1,605,270
Capital assets, net	2,998,825	1,522,527
Total assets	<u>4,587,869</u>	<u>3,127,797</u>
Current liabilities	20,338	69,338
Construction loan	1,269,485	-
Long-term debt	-	234,615
Total liabilities	<u>1,289,823</u>	<u>303,953</u>
Net position:		
Invested in capital assets, net of related debt	1,729,340	1,280,478
Restricted	25,804	25,624
Unrestricted	1,542,902	1,517,742
Total net position	<u>\$ 3,298,046</u>	<u>\$ 2,823,844</u>
Operating revenues	<u>\$ 1,261,005</u>	<u>\$ 1,252,911</u>
Operating expenses, excluding depreciation	708,243	827,457
Depreciation	78,915	88,686
Total operating expenses, including depreciation	<u>787,158</u>	<u>916,143</u>
Operating Income	473,847	336,768
Nonoperating revenues/(expenses)	<u>355</u>	<u>(3,036)</u>
Change in net position	474,202	333,732
Beginning of year net position	<u>2,823,844</u>	<u>2,490,112</u>
End of year net position	<u>\$ 3,298,046</u>	<u>\$ 2,823,844</u>

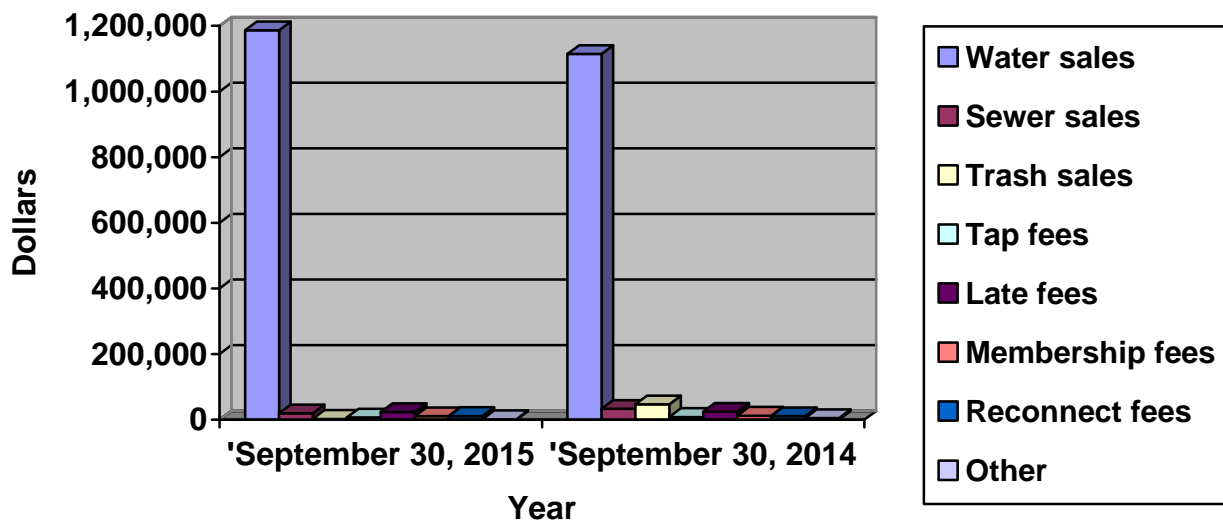
**RURAL WATER AND/OR SEWER AND/OR GAS AND/OR SOLD WASTE
MANAGEMENT DISTRICT #7
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

CONDENSED FINANCIAL INFORMATION (CONTINUED)

Classifications of net assets presented in a graph format



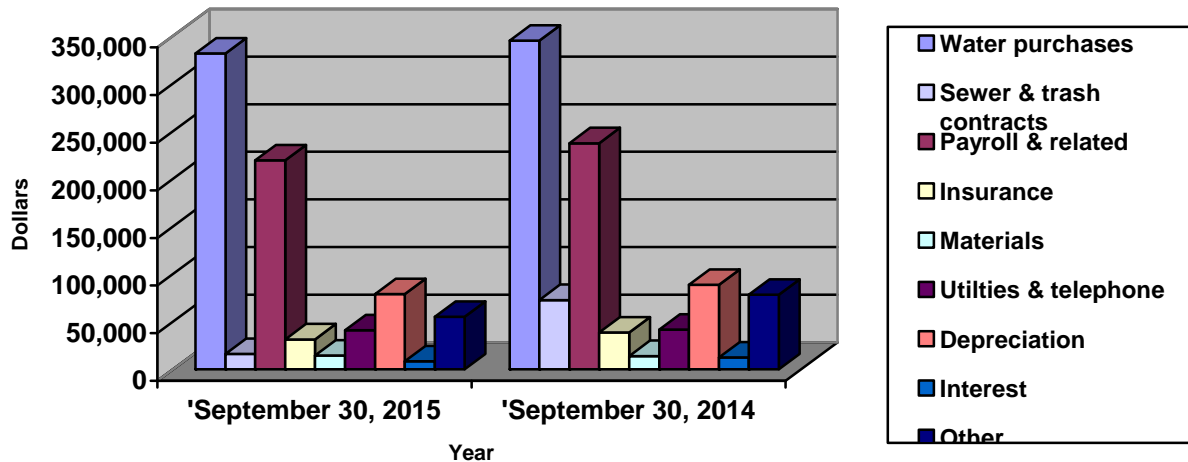
Operating revenues presented in a graph format



**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, 2015**

CONDENSED FINANCIAL INFORMATION (CONTINUED)

Operating expenses presented in a graph format



CAPITAL ASSETS

The District's capital assets, net of depreciation, as of September 30, 2015 and 2014 amounted to \$2,998,825 and \$1,522,527 (net of accumulated depreciation) respectively. Current year additions consisted of \$1,555,902 spent toward the Carson Ridge project and \$5,312 spent on minor equipment and improvements. This investment in capital assets includes land, water system, the office building, machinery and equipment, office furniture and fixtures, and transportation equipment.

LONG-TERM DEBT

The District paid off the loan from Rural Development with proceeds from a capital project loan from Rural Development. This loan is funding the Carson Ridge project and will have a borrowing capacity of \$5,000,000. Proceeds from this loan totaled \$1,319,787 and \$50,302 was paid on this loan as of September 30, 2015. The balance of this loan was \$1,269,485 as of September 30, 2015.

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,	2015	2014
Assets		
Current Assets		
Cash and cash equivalents	\$ 479,173	\$ 526,846
Restricted cash	100	-
Certificates of deposit	946,720	939,741
Restricted certificate of deposit	25,704	25,624
Accounts receivable, net of allowance for doubtful accounts	120,609	97,093
Prepaid insurance	16,738	15,966
Total Current Assets	1,589,044	1,605,270
Noncurrent Assets		
Capital Assets		
Land	49,005	49,005
Buildings and improvements	221,390	219,690
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	69,749
Construction in process	2,040,640	490,737
Total Capital Assets	5,469,070	3,913,856
Less: accumulated depreciation	2,470,245	2,391,329
Net Capital Assets	2,998,825	1,522,527
Total Assets	4,587,869	3,127,797
Liabilities		
Current Liabilities		
Accounts payable	9,963	55,429
Salaries and wages payable	5,182	3,349
Payroll taxes and other withholdings payable	3,767	3,060
Accrued interest	1,426	66
Current maturity of long-term debt	-	7,434
Total Current Liabilities	20,338	69,338
Construction loan	1,269,485	-
Long-Term Debt	-	234,615
Total Liabilities	1,289,823	303,953
Net Position		
Net investment in capital assets	1,729,340	1,280,478
Restricted	25,804	25,624
Unrestricted	1,542,902	1,517,742
Total Net Position	\$ 3,298,046	\$ 2,823,844

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,	2015	2014
Operating Revenue		
Metered water sales, net of bad debts	\$ 1,186,605	\$ 1,114,220
Sewer sales	19,187	33,072
Trash sales	2,371	46,589
Membership fees	10,465	11,830
Tap fees	6,710	8,146
Late fees	23,251	23,933
Reconnect fees	11,122	10,519
Other	1,294	4,602
Total Operating Revenue	1,261,005	1,252,911
Operating Expenses		
Water purchases	331,547	344,980
Sewer and trash contracts	16,007	72,701
Salaries and wages	176,572	190,763
Insurance	31,315	38,698
Pension expense	28,099	31,121
Payroll taxes	14,565	15,443
Materials	14,296	13,871
Utilities	33,108	31,915
Telephone	7,806	9,782
Computer supplies	625	195
Office supplies	7,495	8,776
Postage	6,560	7,068
Professional fees	3,324	6,921
Fees and dues	3,799	3,672
Repairs and maintenance	5,632	17,167
Vehicle expense	12,548	15,403
Supplies	1,481	3,020
Bank charges	5,074	5,020
Testing fees	3,281	7,371
Miscellaneous	5,109	3,570
Depreciation	78,915	88,686
Total Operating Expenses	787,158	916,143
Operating Income	473,847	336,768
Nonoperating Revenue (Expenses)		
Interest income	8,729	9,256
Interest expense	(8,374)	(12,292)
Total Net Nonoperating Revenue (Expenses)	355	(3,036)
Change in Net Position	474,202	333,732
Beginning of the Year Net Position	2,823,844	2,490,112
End of the Year Net Position	\$ 3,298,046	\$ 2,823,844

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,	2015	2014
Cash Flows From Operating Activities		
Cash receipts from customers	\$ 1,237,489	\$ 1,254,597
Cash payments to suppliers for goods and services	(575,369)	(654,266)
Cash payments to employees for services	(176,572)	(190,956)
Net Cash Provided By Operating Activities	485,548	409,375
Cash Flows from Capital and Related Financing Activities		
Cash receipt of construction loan	1,319,787	-
Acquisition of capital assets	(1,552,490)	(131,361)
Principal paid on debt	(292,351)	(7,074)
Interest paid on debt	(9,739)	(12,294)
Net Cash Used in Capital and Related Financing Activities	(534,793)	(150,729)
Cash Flows From Investing Activities		
Net restricted cash activity	(100)	-
Reinvestment of certificate of deposit earnings	(7,057)	(8,082)
Interest Income	8,729	9,256
Net Cash Provided By Investing Activities	1,572	1,174
Net Increase in Cash and Cash Equivalents	(47,673)	259,820
Cash and Cash Equivalents at Beginning of Year	526,846	267,026
Cash and Cash Equivalents at End of Year	\$ 479,173	\$ 526,846
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 473,847	\$ 336,768
Adjustments:		
Depreciation	78,915	88,686
Net change in assets and liabilities		
Accounts receivable	(23,516)	1,686
Prepaid insurance	(772)	4,622
Accounts payable	(45,466)	5,610
Salaries and wages payable	1,833	(192)
Payroll taxes and other withholdings payable	707	(27,805)
Net Cash Provided by Operating Activities	\$ 485,548	\$ 409,375

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, 2015 AND 2014

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:

	Life
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, 2015 AND 2014

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 \$14,044 and \$12,405 as of September 30, 2015 and 2014, 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.

2. Cash Deposits

The District has deposits at three financial institutions. At times, the balances may exceed the Federal Deposit Insurance Corporation (FDIC) coverage limit. Some of these balances are collateralized. Management does not believe the District is exposed to any significant credit risk related to cash.

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

Notes to Financial Statements

SEPTEMBER 30, 2015 AND 2014

3. Long-Term Debt

Long-term debt of the District consists of:

Rural Development - monthly payments are made in the amount of \$1,614 and include interest of 5.00%.

The note is secured by revenues of the District and is scheduled to mature in the year 2034.

	2015	2014
	\$ -	\$ 242,049
Total debt	-	242,049
Less current maturity	-	7,434
Long-term debt	\$ -	\$ 234,615

The District paid off the loan from Rural Development noted above with proceeds from a 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. Proceeds from this loan totaled \$1,319,787 and \$50,302 was paid on this loan as of September 30, 2015. The balance of this loan as of September 30, 2015 was \$1,269,485 and is shown as "Construction Loan" on the statement of net position.

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

	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	\$ -	\$ 292,351	\$ 1,269,485

	October 1, 2013	Debt Additions	Debt Retirements	September 30, 2014
Rural Development	\$ 249,123	\$ -	\$ 7,074	\$ 242,049
Total	\$ 249,123	\$ -	\$ 7,074	\$ 242,049

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

Notes to Financial Statements

SEPTEMBER 30, 2015 AND 2014

4. Restricted Funds and Required Accounts

Debt reserve account established per the loan agreement with Rural Development. Monthly deposits in the amount of \$161.40, or 10% of the monthly loan payment, are required to be made until a balance of \$19,368 is achieved, after which deposits may be suspended, except to replace withdrawals. The balance of this account at September 30, 2015 and 2014, was \$25,704 and \$25,624 respectively.

Project construction account. The balance of this account as of September 30, 2015 was \$100.

5. Capital Assets

Activity of capital assets consists of the following:

	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	3,612	-	73,361
Construction in process	490,737	1,549,902	-	2,040,639
Total	\$ 3,913,856	\$ 1,555,214	\$ -	\$ 5,469,070

	October 1, 2013	Additions	Deletions/ Transfers	September 30, 2014
Land	\$ 49,005	\$ -	\$ -	\$ 49,005
Buildings and improvements	216,990	2,700	-	219,690
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	-	-	69,749
Construction in process	362,076	128,661	-	490,737
Total	\$ 3,782,495	\$ 131,361	\$ -	\$ 3,913,856

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

Notes to Financial Statements

SEPTEMBER 30, 2015 AND 2014

6. 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, 2015, total interest incurred was \$11,098 of which \$2,724 was capitalized and \$8,374 was charged to operations. For the year ended September 30, 2014, total interest incurred was \$12,292, all of which was charged to operations.

7. Pension Plan

The District has an agreement with the State of Oklahoma to administer an "Oklahoma Public Employees Retirement" plan, effective January 1, 2001. This is a model plan qualifying as an exempt pension plan under the Internal Revenue Code.

Among other provisions, the District contributes 16.5% of each participant's annual compensation, while the participant contributes 3.5% of annual compensation to the plan each year. Contributions to the plan for the years ended September 30, 2015 and 2014, totaled \$28,099 and \$31,121 respectively.

8. 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 year ended September 30, 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 year ended September 30, 2015 the District purchased 1.5% of its water from the Muldrow Utility Authority.

9. 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.

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

Notes to Financial Statements

SEPTEMBER 30, 2015 AND 2014

10. 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.

11. Subsequent Events

The District has evaluated events and transactions for subsequent events that would impact the financial statements for the year ended September 30, 2015 through December 4, 2015, 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, 2015

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	\$ 1,693,998
Total U.S. Department of Agriculture		1,693,998
Total Federal Awards		\$ 1,693,998

Notes to Schedule:

1. This schedule of expenditures of federal awards includes the federal program activity of the Rural Water and/or Sewer and/or Gas and/or Solid Waste Management District #7, Sequoyah County, Oklahoma and is presented on the accrual basis of accounting.

See independent auditor's report.

**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, 2015

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	\$ 1,319,787
Total U.S. Department of Agriculture		1,319,787
Total Federal Awards		\$ 1,319,787

Notes to Schedule:

1. This schedule of expenditures of federal awards includes the federal program activity of the Rural Water and/or Sewer and/or Gas and/or Solid Waste Management District #7, Sequoyah County, Oklahoma and is presented on the accrual basis of accounting.

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, 2015

Water Rate Schedule

2015 Rate Schedule

Residential	Minimum Charge and Gallons	Charge After Minimum Gallons
1 Unit Residential	\$20 for the first 500 Gal.	\$0.80/100 gallons
2 Unit Residential	\$40 for the first 1,000 Gal.	\$0.80/100 gallons
6 Unit Residential	\$120 for the first 3,000 Gal.	\$0.80/100 gallons
14 Unit Residential	\$280 for the first 7,000 Gal.	\$0.80/100 gallons
Commercial	Minimum Charge and Gallons	Charge After Minimum Gallons
1 Unit Commercial	\$20 for the first 500 Gal.	\$0.80/100 gallons
2 Unit Commercial	\$40 for the first 1,000 Gal.	\$0.80/100 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, 2015, and the related notes to the financial statements, which collectively comprise District's basic financial statements, and have issued our report thereon dated December 4, 2015.

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

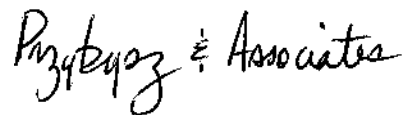
not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

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 4, 2015



**Independent Auditor's Report On Compliance For Each Major Federal Program
And On Internal Control Over Compliance Required by OMB Circular A-133**

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 Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Department's major federal programs for the year ended September 30, 2015. 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Department'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 Department'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, 2015.

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 OMB Circular A-133, 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 Department'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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Przybysz & Associates, CPAs, P.C.
Fort Smith, Arkansas
December 4, 2015

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

Schedule of Findings and Questioned Costs

FOR THE YEAR ENDED SEPTEMBER 30, 2015

Section I - Summary of Auditor's Results

Financial Statements

Types of auditor's report issued:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

☒ yes ☐ no

Significant deficiency(ies) identified?

☐ yes ☒ none reported

Noncompliance material to financial statements noted?

☐ yes ☒ no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified?

☐ yes ☒ no

Significant deficiency(ies) identified?

☐ yes ☒ none reported

Type of auditor's report issued on Unmodified

Any audit findings disclosed that are required to be reported in
accordance with Section 510(a) of OMB Circular A-133?

☐ yes ☒ no

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
10.760	Water & Waste Disposal Systems for Rural Communities

Dollar threshold used to distinguish between Type A and Type B
programs:

\$300,000

Auditee qualified as a low-risk auditee?

☐ yes ☒ no

Section II - Financial Statement Findings - Current Year

No matters were reported.

Section III - Federal Award Findings and Questioned Costs

No matters were reported.

**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, 2015

No prior year single audit.