

Financial Statements

of

**Rural Water District No. 7
Wagoner County, Oklahoma**

December 31, 2017 and 2016



Clothier & Company CPA's P.C.

P.O. Box 1495 * Muskogee, Ok 74402

(918) 687-0189 FAX (918) 687-3594

cccpa@yahoo.com

Rural Water District No. 7
Wagoner County, Oklahoma
Table of Contents
December 31, 2017 and 2016

<u>Description</u>	<u>Pg. No.</u>
Independent Auditors' Report	2-3
Management's Discussion and Analysis	I-IV
Assets, Liabilities and Fund Balances-Modified Cash Basis	4
Revenues, Expenses and Changes in Fund Balances-Modified Cash Basis	5
Statement of Cash Flows-Modified Cash Basis	6
Notes to the Financial Statements	7-9
Supplemental Information	
Budget to Actual Comparison	11
Report on Internal Control Over Financial Reporting and on Compliance and other Matters Based on an Audit of Financial Statement Performed in Accordance with <i>Government Auditing Standards</i>	12-13



Clothier & Company CPA's P.C.
cccpa@yahoo.com

P.O. Box 1495
Muskogee, Oklahoma 74402
918-687-0189 FAX 918-687-3594

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Rural Water District No. 7
Wagoner County, Oklahoma

We have audited the accompanying statements of assets, liabilities and fund balances-modified cash basis as described in Note 1, of Rural Water District No. 7, Wagoner County, Oklahoma (District), as of and for the years ended December 31, 2017 and 2016, and the revenues, expenses, and changes in fund balance-modified cash basis for the years then ended and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 of 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and fund balances-modified cash basis of the District, as of December 31, 2017 and 2016, and the revenues, expenses, and changes in fund balance-modified cash basis and cash flows for the years then ended, on the basis of accounting described in Note 1.

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 I through IV and 11 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 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rural Water District No. 7's internal control over financial reporting and compliance.



Clothier & Company, CPA's, P.C.

February 14, 2018

Rural Water District No. 7
Wagoner County, Oklahoma
Management Discussion and Analysis Report

Rural Water District No. 7 is a political subdivision of the State of Oklahoma organized in February, 1967, with its offices located in Wagoner County, Oklahoma. The District was formed to furnish water service to the residents of the district by constructing and maintaining a water system.

As the Board of Directors of the District, we offer readers of the District's financial statement this narrative overview and analysis of the financial and operational activities of the District for the calendar year ending December 31, 2017. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished.

For additional information, the reader is invited to study the Independent Auditor's Report prepared by Clothier and Co. CPA's.

FINANCIAL HIGHLIGHTS

The Total Assets of the District exceeded its Total Current Liabilities and Total Long Term Liabilities at the close of this calendar year (2017) by \$1,426,950.

The District's Total Assets decreased by \$2,834 as compared to last year (2016).

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are composed of the Statement of Assets, Liabilities and Fund Balance, the Statement of Revenues, Expenses, and Changes in Fund Balances. These statements are designed to provide readers with a broad view of the District's finances, in a manner similar to a private sector business.

The actual statements will be found in the Independent Auditor's Report prepared by Clothier and Co. CPA's. This report consists of a condensed version of the information in the Independent Auditor's Report.

Assets, Liabilities, and Fund Balances Report

The Asset, Liabilities, and Fund Balances Report presents information on all of the District's assets, including current assets (cash, CD's, and employee advances), fixed assets (facilities, such as the water plant, office furniture, and trucks), and other assets (cash in reserve). This report also presents information on all of the District's liabilities, things that the District is liable for,

including current liabilities (taxes to be paid), long term liabilities (notes payable), and fund balances (undistributed earnings and current income or loss).

At the end of 2017, Total Assets were \$2,534,781 as compared to \$2,623,612 at the end of 2016, a decrease of 3.39%.

Total Current Liabilities at the end of 2017 were \$93,289 as compared with \$89,720 at the end of 2016, an increase of 3.98%. Total Long-Term Liabilities at the end of 2017 were \$1,014,542 as compared with \$1,104,108 at the end of 2016, a decrease of 8.11%.

Total Fund Balance was \$1,426,950 at the end of 2017 as compared with \$1,429,784 at the end of 2016, a decrease of 0.2%.

District Long-term Debt

Rural Water District No. 7 secured a 20 year loan from the Oklahoma Water Resource Board for a new water plant in August 2007. The original loan amount is \$1,850,000. The security for the note includes a pledge and assignment of revenues derived by Rural Water District No. 7. The note bears interest at a rate of 1.72% per annum plus an administrative fee at the rate of .5% per annum on the outstanding balance of disbursed loan proceeds. Payments are made twice a year in March and September. The interest payments began in March 2008. The principal payments began September 19, 2009. The outstanding balance as of December 31, 2017 was \$1,104,107.

Revenues, Expenses, and Changes in Fund Balances

The Receipts, Disbursements, and Changes in Fund Balances Report present information on the District's financial health. This statement is very similar to a business's profit and loss statement. It reports the income received from water sales and benefit unit sales, and the cost of providing potable water to the District's customers. Also reported are the operating expenses of the District, such as salaries, taxes, and other operating expenses. The result of this report is the net income or loss for the District. Net Income at the end of 2017 was <\$2,834> as compared with \$45,436 at the end of 2016, a decrease of 106%.

Statement of Cash Flows

The Statement of Cash Flows presents information on the flow of cash from operating activities (cash received from customers and cash paid to employees and suppliers), cash flows from capital and related financing activities (payment of debt, purchases of property and equipment, depreciation expense, and increases in CD's).

Revenues, Cost of Sales, and Operating Expenses

Revenues of RWD #7 for 2017 were \$352,207. The source of this revenue was primarily Water Sales (89.15%) The remainder was made up of Benefit Unit Sales (3.22%), Penalties, Pipe and Supplies (7.63%). Other revenue included \$3,434 interest income and \$0 other income.

Cost of Sales for 2017 was \$70,066. Cost of Sales is made up of Water Purchases (2.18%), Repairs Equipment Hire (30.12%), Plant Supplies (51.49%), Repair Supplies (0.59%) and Tower Maintenance (15.62%).

Operating Expenses for 2017 was \$268,422. Operating Expenses is made up of Salaries (28.97%), Taxes (2.67%), Insurance (6.18%), Utilities/Telephone (8.37%), Office Supplies and Postage (4.01%), Depreciation Expense (38.28%), Professional/ Loan Fees (2.18%), and other similar expenses (9.35%).

Other revenue and expenses came from Interest Income of \$3,434 and Interest Expense of \$19,987 in 2017.

This resulted in a Net Loss for 2017 of \$2,834.

OPERATIONAL HIGHLIGHTS

1. In 2017, 11 new meters were added and 14 meters were pulled. This results in a net loss of 3 meters for the year.
2. Numerous leaks were located and repaired throughout the district.
3. A plan of action has been submitted to the Department of Environmental Quality (DEQ) for the exceeding of THMs and HAA5s. We are trying a product called Clearitas to help resolve the issue.
4. We are currently in the process of installing in-line meters throughout the district. This should help with locating leaks within the district, which will keep our water loss down.

Contacting the District's Management

This report is designed to provide our customers and creditors with a general overview of the District's finances and operations, and to show the District's accountability for the money it receives. If you have questions about this report, contact the District's Office Manager at P.O. Box 67, Okay, Oklahoma 74446, or by telephone at 918-683-4737.

Gary R. Crow
Chairman of the Board

Rural Water District No. 7
Wagoner County, Oklahoma
Assets, Liabilities and Fund Balances-Modified Cash Basis
December 31, 2017 and 2016

	2017	2016
Current Assets		
Cash and Cash Equivalents	\$ 121,247	\$ 194,468
Total Current Assets	121,247	194,468
Fixed Assets		
Land	11,000	11,000
Loan Application Costs	60,896	60,896
Water District Facilities	2,916,847	2,904,730
Office Furniture/Fixtures	26,164	26,164
Autos/Trucks	53,226	53,226
Equipment	163,374	145,294
Building & Improvements	110,558	110,558
Less: Accumulated Depreciation	(1,315,066)	(1,216,325)
Total Fixed Assets	2,026,999	2,095,543
Other Assets		
Cash in Reserve	386,535	333,601
Total Other Assets	386,535	333,601
Total Assets	2,534,781	2,623,612
Current Liabilities		
Accrued Payroll Taxes	3,724	3,044
Current Maturities	89,565	86,676
Total Current Liabilities	93,289	89,720
Long Term Liabilities		
Notes Payable - OWRB	1,104,107	1,190,784
Less: Current Maturities	(89,565)	(86,676)
Total Long Term Liabilities	1,014,542	1,104,108
Fund Balance		
Fund Balance	1,429,784	1,384,348
Current Income (Loss)	(2,834)	45,436
Total Fund Balance	1,426,950	1,429,784
Total Liabilities and Fund Balance	\$ 2,534,781	\$ 2,623,612

See accompanying notes and independent auditors' report.

Rural Water District No. 7
Wagoner County, Oklahoma
Revenues, Expenses and Changes in Fund Balances-Modified Cash Basis
December 31, 2017 and 2016

	2017	2016
Revenue		
Water Sales	\$ 313,982	\$ 326,480
Benefit Unit Sales	11,350	9,994
Penalties, Pipe & Supplies	26,875	27,660
Total Revenue	352,207	364,134
Cost of Sales		
Water Purchases	1,530	1,491
Repair Supplies	410	2,150
Repairs Equipment Hired	21,105	6,754
Plant Supplies	36,075	23,216
Tower Maintenance	10,946	0
Total Cost of Sales	70,066	33,611
Gross Profit	282,141	330,523
Operating Expenses		
Salaries	77,765	70,965
Payroll Taxes/Benefits	7,169	9,676
Insurance Expense	16,591	19,115
Truck Expense	5,444	3,314
Licenses, Permits, Dues	7,886	7,859
Utilities	17,544	17,683
Telephone	4,916	4,877
Accounting/Auditing	3,450	3,444
Postage	3,779	5,637
Office Supplies	6,984	7,300
Depreciation	102,741	101,574
Loan Fees	5,846	6,269
Miscellaneous	533	772
Donations	1,999	2,377
Lab Tests	5,775	5,613
Total Operating Expenses	268,422	266,475
Operating Income	13,719	64,048
Other Revenue (Expenses)		
Interest Income	3,434	2,476
Other Income	0	0
Interest Expense	(19,987)	(21,088)
Total Other Revenue (Expense)	(16,553)	(18,612)
Net Change in Fund Balance	\$ (2,834)	\$ 45,436

See accompanying notes and independent auditors' report.

Rural Water District No. 7
Wagoner County, Oklahoma
Statement of Cash Flows-Modified Cash Basis
December 31, 2017 and 2016

	2017	2016
Cash Flows From Operating Activities:		
Cash received from customers	\$ 360,747	\$ 364,134
Cash received from other sources	0	0
Cash paid to employees	(77,765)	(80,938)
Cash paid to suppliers	(70,066)	(33,611)
Other operating payments	(96,456)	(83,960)
Net Cash Flows from Operating Activities	116,460	165,625
Cash Flows From Capital and Related Financing Activities:		
Proceeds from issuance of debt	0	0
Payment of debt	(86,676)	(83,768)
Acquisition and construction of capital assets	(30,197)	(11,546)
Payment of Interest	(19,987)	(21,388)
Net Cash (Used) By Capital and Related Financing Activities	(136,860)	(116,702)
Cash Flows From Investing Activities:		
Decrease (Increase) in certificates of deposit	(52,934)	(1,912)
Receipt of interest and dividends	3,434	2,476
Net Cash Provided (Used) By Investing Activities	(49,500)	564
Net Increase (Decrease) In Cash	(69,900)	49,487
Cash Beginning of Year	249,924	200,437
Cash End of Year	\$ 180,024	\$ 249,924
Reconciliation of Operating Income to Net Cash Flows from Operating Activities:		
Operating income (loss)	\$ (2,834)	\$ 45,436
Add depreciation expense	102,741	101,574
Add interest expense	19,987	21,388
Less interest income	(3,434)	(2,476)
(Increase)/Decrease in Current Assets:		
Accounts receivables, net	0	0
Employee advance	0	0
Increase/(Decrease) in Current Liabilities:		
Accounts payable	0	0
Accrued expenses	0	(297)
Customer deposits	0	0
Net Cash Flows from Operating Activities	\$ 116,460	\$ 165,625

See accompanying notes and independent auditors' report.

Rural Water District No. 7
Wagoner County, Oklahoma
Notes to the Financial Statements

For the Years Ended December 31, 2017 and 2016

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Rural Water District No. 7 is a political subdivision of the State of Oklahoma organized in February of 1967, with its offices located in Wagoner County, Oklahoma. The District was formed to furnish water service to the residents of the district by constructing and maintaining a water system.

Basis of Accounting

The financial statements of the District are prepared using the modified cash basis of accounting where revenues are recognized when received and expenses are recognized when paid. Other modifications to the cash basis of accounting include recording depreciation on property and equipment and accruing for payroll taxes. This is a comprehensive basis of accounting other than generally accepted accounting principles.

The District's financial statements are prepared using a method other than generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the District had the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, it has chosen not to do so.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include highly liquid instruments with maturities of three months or less at the date of their acquisition. Funds held in reserve are not considered to be part of cash.

Funds on Deposit

The District maintains the following accounts for funds deposited with a fully insured bank:

Operating Account - Gross revenues of the District are to be deposited to this account and then transferred to the Money Market/Savings account when funds exceed two months expenses (about \$30,000). The reasonable and necessary current expenses of operating and maintaining the District for each month are also paid from this account.

Money Market/Savings Account - Depository account for excess funds from the Operating Account. This account will maintain a balance that the board determines necessary. The excess funds will be transferred to the Cash in Reserve.

Cash in Reserve - This fund consists of certificates of deposit. The excess funds from the Money Market/Savings Account are transferred to the different certificates of deposits up to twice a year.

Property and Equipment

Property and equipment are recorded at cost, with depreciation provided on a straight-line method over the estimated useful lives of the assets.

Benefit Units

Residents wishing water services are required to purchase a benefit unit at \$1,500.00. In accordance with Article 6, Section 3 of the By Laws, consideration paid for benefit units is considered a donation.

Income Tax

As a political subdivision of the State of Oklahoma, the District is exempt from income taxes.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures as of the date of the financial statements. Accordingly, actual results could differ from those estimates.

2. LONG-TERM DEBT

Rural Water District No. 7 secured a 20 year loan from the Oklahoma Water Resource Board for a new water plant in August 2007. The original loan amount is \$1,850,000. The security for the note includes a pledge and assignment of revenues derived by Rural Water District No. 7. The interest rate has been reduced to 1.72% per annum plus an administrative fee at the rate of .5% per annum on the outstanding balance of disbursed loan proceeds. In 2020 the interest rate will be 0%. Payments are made twice a year in March and September. The interest payments began in March 2008. The principal payments began September 19, 2009. The outstanding balance as of December 31, 2017 was \$1,104,107.

The following is a schedule of the future payments on the outstanding balance:

	<u>Current Maturities</u>	<u>Interest/Admin Fees</u>	<u>Debt Service</u>
2018	89,565	\$21,484	111,049
2019	94,878	16,123	111,001
2020	106,449	4,465	110,914
2021	106,891	3,933	110,824
2022	107,336	3,398	110,734
2023-2028	598,988	9,022	608,010
Totals	<u>\$1,104,107</u>	<u>\$58,425</u>	<u>\$1,162,532</u>

3. CONCENTRATION OF CREDIT RISK

Rural Water District No. 7 maintains its cash, savings, and certificates of deposits at First Bank and Trust Company in Wagoner, Oklahoma. The balance of accounts held by First Bank as of year-end is \$507,612 which is above the \$250,000 guaranteed by the Federal Deposit Insurance Corporation for each bank. Protection has been provided by First Bank and Trust Company for the balance above \$250,000 by purchasing bonds as collateralized deposits in the amount of \$600,000. All deposits were insured or collateralized at December 31, 2017.

4. PROPERTY, PLANT AND EQUIPMENT

	Cost	Additions	Accumulated Depreciation	Book Value
Land	\$11,000	\$0	\$0	\$11,000
Water District Facilities	2,904,730	12,117	(1,071,383)	1,845,464
Office Furniture/Fixture	26,164	0	(19,685)	6,479
Autos/ Trucks	53,226	0	(41,361)	11,865
Maintenance Equipment	145,294	22,080	(82,329)	85,045
Loan Application Costs	60,896	0	(37,216)	23,680
New Water Plant	110,558	0	(63,092)	47,466
	<u>\$3,311,868</u>	<u>\$34,196</u>	<u>(\$1,315,066)</u>	<u>\$2,030,998</u>

5. WATER RATES

The District rate structure as of June 2017 bills are as follows:

0 Gallons	\$26.00
Next 1,000 Gallons	\$4.25
Next 1,000 Gallons	\$4.75
Next 1,000 Gallons	\$5.25
Next 1,000 Gallons	\$5.75
Next 1,000 Gallons	\$6.25
Next 1,000 Gallons	\$6.75
Next 1,000 Gallons	\$7.25
Next 1,000 Gallons	\$7.75
Next 1,000 Gallons	\$8.25
Next 1,000 Gallons	\$8.75
Next 10,000 Gallons (per thousand)	\$9.25
All Over 20,000 Gallons (per thousand)	\$9.50

6. SUBSEQUENT EVENTS

Rural Water District No. 7 has evaluated subsequent events through the date which the financial statements were available to be issued with none found.

Supplemental Information

Rural Water District No. 7 Wagoner County

BUDGET TO ACTUAL COMPARISON

December 31, 2017

	Original	Final	Actual	Variance
Water Sales	360,000	360,000	313,982	(46,018)
Penalties/Meter Reading/Other	34,000	34,000	26,875	(7,125)
Benefit Units	11,000	11,000	11,350	350
Interest Income	3,000	3,000	3,434	434
Total Income	<u>408,000</u>	<u>408,000</u>	<u>355,641</u>	<u>(52,359)</u>
Water Purchased	2,000	2,000	1,530	(470)
Repairs Supplies	3,000	3,000	410	(2,590)
Repairs Equipment Hires	8,000	8,000	21,105	13,105
Tower Maintenance	6,000	6,000	10,946	4,946
Plant Supplies	35,000	35,000	36,075	1,075
Salaries	75,000	75,000	77,765	2,765
Payroll Taxes	7,000	7,000	4,310	(2,690)
Employee Benefits	4,000	4,000	2,859	(1,141)
Insurance Expense	19,500	19,500	16,591	(2,909)
Truck Expense	4,000	4,000	5,444	1,444
Licenses, Permits, Dues & Sub.	0	0	7,886	7,886
Utilities	19,000	19,000	17,544	(1,456)
Telephone	5,000	5,000	4,916	(84)
Accounting & Auditing	3,600	3,600	3,450	(150)
Postage	5,000	5,000	3,779	(1,221)
Office Supplies & Expenses	7,500	7,500	6,984	(516)
Depreciation	50,000	50,000	102,741	52,741
Miscellaneous	3,000	3,000	3,946	946
Lab Tests	6,000	6,000	5,775	(225)
Professional Fees	0	0	0	0
Capital Outlay	0	0	0	0
Total Operating Expenses	<u>262,600</u>	<u>262,600</u>	<u>334,056</u>	<u>71,456</u>
OWRB Debt Service	111,095	111,095	111,095	0
Total Expenses	<u>373,695</u>	<u>373,695</u>	<u>445,151</u>	<u>71,456</u>
Net Income (Loss)	<u>34,305</u>	<u>34,305</u>	(89,510)	<u>(123,815)</u>
Add back capital outlay			0	
Add back principal payment on LTD			<u>86,676</u>	
Change in Fund Balance			<u>(2,834)</u>	

See accompanying footnotes and independent auditors' report.



Clothier & Company CPA's P.C.
cccpa@yahoo.com

P.O. Box 1495
Muskogee, Oklahoma 74402
918-687-0189 FAX 918-687-3594

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

To the Board of Directors
Rural Water District No. 7
Wagoner County, Oklahoma

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements on the basis described in Note 1, of Rural Water District No. 7 Wagoner County, Oklahoma (District), as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which comprise District's basic financial statements, and have issued our report thereon dated February 14, 2018.

As described in Note 1, the District prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 over financial reporting 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 the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Clothier & Company, CPA's, P.C.

February 14, 2018