

*Financial Statements*

*of*

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

December 31, 2015 and 2014

? cCCPA@

***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, 2015 and 2014

<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	7-10
Supplemental Information	
Budget to Actual Comparison	12
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>	13-14



*Clothier & Company CPA's P.C.*  
[cccpa@yahoo.com](mailto: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, as of December 31, 2015 and 2014 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 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 Rural Water District No. 7, as of December 31, 2015 and 2014, 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

### *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 12 be presented to supplement the basic financial statements 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 general accepted in the United States of America, which consisted of inquiries of management regarding 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 10, 2016, on our consideration of Rural Water District No. 7's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreement 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 10, 2016

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, 2015. 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 (2015) by \$1,384,348.

The District's Total Assets increased by \$118,696 as compared to last year (2014).

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 2015, Total Assets were \$2,662,241 as compared to \$2,543,545 at the end of 2014, a decrease of 4.45%.

Total Current Liabilities at the end of 2015 were \$87,109 as compared with \$84,566 at the end of 2014, an increase of 2.92%. Total Long-Term Liabilities at the end of 2015 were \$1,190,784 as compared with \$1,274,551 at the end of 2014, a decrease of 6.57%.

Total Fund Balance was \$1,384,348 at the end of 2015 as compared with \$1,184,428 at the end of 2014, an increase of 14.44%.

#### 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, 2015 was \$1,274,551.

#### 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 2015 was \$199,921 as compared with \$82,634 at the end of 2014, an increase of 58.66%.

#### 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 2015 were \$365,479. The source of this revenue was primarily Water Sales (90.18%) The remainder was made up of Benefit Unit Sales (1.82%), Penalties, Pipe and Supplies (8%). Other revenue included \$2,359 interest income and \$157,547 other income.

Cost of Sales for 2015 was \$44,011. Cost of Sales is made up of Water Purchases (3.12%), Repairs Equipment Hire (26.8%), Plant Supplies (54.84%), Repair Supplies (5.18%) and Tower Maintenance (10.06%).

Operating Expenses for 2015 was \$258,076. Operating Expenses is made up of Salaries (28.42%), Taxes (3.53%), Insurance (7.4%), Utilities/Telephone (9.34%), Office Supplies and Postage (3.6%), Depreciation Expense (36.38%), Professional/ Loan Fees (3.95%), and other similar expenses (9.62%).

Other revenue and expenses came from Interest Income of \$2,359, Oklahoma Department of Transportation \$157,547 and Interest Expense of \$23,377 in 2015.

This resulted in a Net Income for 2015 of \$199,921.

### OPERATIONAL HIGHLIGHTS

1. In 2015, 4 new meters were added and 15 meters were pulled. This results in a loss of 11 meters for the year.
2. A mixing system was installed in water towers by the plant to help provide fresher water to our customers.
3. A new telecommunication and radio receiver from the booster pump station to the towers at the Corp of Engineers office was installed to replace the old telephone line.
4. The relocation of the water line on Hwy 16 widening project from 25<sup>th</sup> street to 100<sup>th</sup> street has been completed.
5. A truck was purchased to replace Ford Ranger no longer working.
6. On December 27, 2015, a landslide took out the plumbing and electrical to the lake pumps. Water was unable to be treated until the repair was made. Water was purchased from the Town of Okay for those days, until the repair was complete.



### 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

A handwritten signature in cursive script that reads "Gary R. Crow". The signature is written in dark ink and is positioned below the printed name.

Chairman of the Board

Rural Water District No. 7  
Wagoner County, Oklahoma  
**Assets, Liabilities and Fund Balances-Modified Cash Basis**  
December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 144,981	\$ 150,950
Total Current Assets	<u>144,981</u>	<u>150,950</u>
<b>Fixed Assets</b>		
Land	11,000	11,000
Loan Application Costs	60,896	60,896
Water District Facilities	2,896,749	2,736,152
Office Furniture/Fixtures	25,188	19,537
Autos/Trucks	53,226	29,496
Equipment	142,705	116,129
Building & Improvements	110,558	110,558
Less: Accumulated Depreciation	<u>(1,114,751)</u>	<u>(1,020,883)</u>
Total Fixed Assets	<u>2,185,571</u>	<u>2,062,885</u>
<b>Other Assets</b>		
Cash in Reserve	<u>331,689</u>	<u>329,710</u>
Total Other Assets	<u>331,689</u>	<u>329,710</u>
 Total Assets	 <u><u>2,662,241</u></u>	 <u><u>2,543,545</u></u>
<b>Current Liabilities</b>		
Accrued Payroll Taxes	3,342	3,387
Current Maturities	<u>83,767</u>	<u>81,179</u>
Total Current Liabilities	<u>87,109</u>	<u>84,566</u>
<b>Long Term Liabilities</b>		
Notes Payable - OWRB	1,274,551	1,355,730
Less: Current Maturities	<u>(83,767)</u>	<u>(81,179)</u>
Total Long Term Liabilities	<u>1,190,784</u>	<u>1,274,551</u>
<b>Fund Balance</b>		
Fund Balance	1,184,427	1,101,794
Current Income (Loss)	<u>199,921</u>	<u>82,634</u>
Total Fund Balance	<u>1,384,348</u>	<u>1,184,428</u>
 Total Liabilities and Fund Balance	 <u><u>\$ 2,662,241</u></u>	 <u><u>\$ 2,543,545</u></u>

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, 2015 and 2014

	2015	2014
<b>Revenue</b>		
Water Sales	\$ 331,702	\$ 375,491
Benefit Unit Sales	6,700	4,252
Penalties, Pipe & Supplies	27,077	28,402
Total Revenue	<u>365,479</u>	<u>408,145</u>
<b>Cost of Sales</b>		
Water Purchases	1,370	2,407
Repair Supplies	2,276	3,601
Repairs Equipment Hired	11,791	4,652
Plant Supplies	24,134	42,652
Tower Maintenance	4,440	0
Total Cost of Sales	<u>44,011</u>	<u>53,312</u>
Gross Profit	<u>321,468</u>	<u>354,833</u>
<b>Operating Expenses</b>		
Salaries	73,335	72,438
Payroll Taxes/Benefits	9,109	7,519
Insurance Expense	19,091	17,606
Truck Expense	4,937	7,587
Licenses, Permits, Dues	7,985	597
Utilities	18,028	19,683
Telephone	6,078	6,110
Accounting/Auditing	3,500	3,385
Postage	2,512	5,496
Office Supplies	6,780	7,614
Depreciation	93,869	86,379
Loan Fees	6,676	7,074
Miscellaneous	764	1,219
Donations	667	25
Lab Tests	4,745	4,015
P/R Tax Penalties	0	2,256
Total Operating Expenses	<u>258,076</u>	<u>249,003</u>
Operating Income	<u>63,392</u>	<u>105,830</u>
<b>Other Revenue (Expenses)</b>		
Interest Income	2,359	2,395
Other Income	157,547	0
Interest Expense	(23,377)	(25,591)
Total Other Revenue (Expense)	<u>136,529</u>	<u>(23,196)</u>
Net Chang in Fund Balance	<u>\$ 199,921</u>	<u>\$ 82,634</u>

See accompanying notes and independent auditors' report.

Rural Water District No. 7  
Wagoner County, Oklahoma  
**Statement of Cash Flows-Modified Cash Basis**  
December 31, 2015 and 2014

	2015	2014
<b>Cash Flows From Operating Activities:</b>		
Cash received from customers	\$ 365,479	\$ 408,145
Cash received from other sources	157,547	0
Cash paid to employees	(80,373)	(72,438)
Cash paid to suppliers	(44,011)	(53,312)
Other operating payments	(83,881)	(90,527)
Net Cash Flows from Operating Activities	<u>314,761</u>	<u>191,868</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>		
Proceeds from issuance of debt	0	0
Payment of debt	(81,179)	(78,561)
Acquisition and construction of capital assets	(216,554)	(82,573)
Payment of Interest	(23,377)	(25,591)
Net Cash (Used) By Capital and Related Financing Activities	<u>(321,110)</u>	<u>(186,725)</u>
<b>Cash Flows From Investing Activities:</b>		
Decrease (Increase) in certificates of deposit	(1,979)	(2,016)
Receipt of interest and dividends	2,359	2,395
Net Cash Provided (Used) By Investing Activities	<u>380</u>	<u>379</u>
Net Increase (Decrease) In Cash	(5,969)	5,522
Cash Beginning of Year	150,950	145,428
Cash End of Year	<u>\$ 144,981</u>	<u>\$ 150,950</u>
<b>Reconciliation of Operating Income to Net Cash Flows from Operating Activities:</b>		
Operating income (loss)	\$ 199,921	\$ 82,634
Add depreciation expense	93,869	86,379
Add interest expense	23,377	25,591
Less interest income	(2,359)	(2,395)
(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	(47)	(341)
Customer deposits	0	0
Net Cash Flows from Operating Activities	<u>\$ 314,761</u>	<u>\$ 191,868</u>

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, 2015 and 2014

**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.

Rural Water District No. 7  
Wagoner County, Oklahoma

### **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 at a rate has been reduced to 1.72% per annum plus an administrative fee at the rate of .5% per annum on the out standing 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, 2015 was \$1,274,551.

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

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest/Admin</u>	
		<u>Fees</u>	<u>Total</u>
2016	\$83,767	\$27,358	\$111,125
2017	86,676	24,422	111,098
2018	89,565	21,484	111,049
2019	94,878	16,123	111,001
2020	106,449	4,465	110,914
2021-2025	539,051	14,291	553,342
2026-2028	274,165	15,695	289,860
Thereafter	0	0	0
Totals	<u>\$1,274,551</u>	<u>\$123,838</u>	<u>\$1,398,389</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 \$476,574, 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 \$300,000. All deposits were insured or collateralized at December 31, 2015.

### 4. PROPERTY, PLANT AND EQUIPMENT

	Cost	Additions	Accumulated Depreciation	Book Value
Land	\$11,000	\$0	\$0	\$11,000
Water District Facilities	2,736,152	160,597	(927,364)	1,969,385
Office Furniture/Fixture	20,588	4,600	(17,189)	7,999
Autos/ Trucks	29,496	23,730	(31,869)	21,357
Maintenance Equipment	116,129	26,576	(56,971)	85,734
Loan Application Costs	60,896	0	(29,096)	31,800
New Water Plant	110,558	0	(52,262)	58,296
	<u>\$3,084,819</u>	<u>\$215,503</u>	<u>(\$1,114,751)</u>	<u>\$2,185,571</u>

During 2015 the Oklahoma Department of Transportation contributed \$157,547 for the relocation of the old water line along Highway 16. The lines were relocated, and in some cases upgraded, to allow for widening of the highway. The District has capitalized the project and included the contribution in other income.

### 5. WATER RATES

The District raised its rates June 1, 2015. The new rates are as follows:

0-1,000 Gallons (minimum)	\$25.00
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

Rural Water District No. 7  
Wagoner County, Oklahoma

## **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, 2015

	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Variance</b>
Water Sales	380,000	380,000	331,702	(48,298)
Penalties/Meter Reading/Other	34,200	34,200	27,077	(7,123)
Benefit Units	5,000	5,000	6,700	1,700
Other Income	0	0	157,547	157,547
Interest Income	3,000	3,000	2,359	(641)
<b>Total Income</b>	<b>422,200</b>	<b>422,200</b>	<b>525,385</b>	<b>103,185</b>
Water Purchased	2,500	2,500	1,370	(1,130)
Repairs Supplies	3,800	3,800	2,276	(1,524)
Repairs Equipment Hires	4,900	4,900	11,791	6,891
Tower Maintenance	10,000	10,000	4,440	(5,560)
Plant Supplies	45,000	45,000	24,134	(20,866)
Salaries	76,000	76,000	73,335	(2,665)
Payroll Taxes	9,800	9,800	6,991	(2,809)
Employee Benefits	0	0	2,118	2,118
Insurance Expense	18,500	18,500	19,091	591
Truck Expense	8,000	8,000	4,937	(3,063)
Licenses, Permits, Dues & Sub.	0	0	7,985	7,985
Utilities	21,000	21,000	18,028	(2,972)
Telephone	5,000	5,000	6,078	1,078
Accounting & Auditing	3,600	3,600	3,500	(100)
Postage	5,800	5,800	2,512	(3,288)
Office Supplies & Expenses	8,000	8,000	6,780	(1,220)
Depreciation	50,000	50,000	93,869	43,869
Miscellaneous	2,000	2,000	1,480	(520)
Lab Tests	4,500	4,500	4,745	245
Professional Fees	500	500	0	(500)
Capital Outlay	0	0	57,956	57,956
<b>Total Operating Expenses</b>	<b>278,900</b>	<b>278,900</b>	<b>353,416</b>	<b>74,516</b>
OWRB Debt Service	111,184	111,184	111,183	(1)
<b>Total Expenses</b>	<b>390,084</b>	<b>390,084</b>	<b>464,599</b>	<b>74,515</b>
Net Income (Loss)	<u>32,116</u>	<u>32,116</u>	60,786	<u>28,670</u>
Add back capital outlay			57,956	
Add back principal payment on LTD			81,179	
<b>Change in Fund Balance</b>			<u>199,921</u>	

See accompanying footnotes and independent auditors' report.



*Clothier & Company CPA's P.C.*  
[cccpa@yahoo.com](mailto: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, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which comprise District's basic financial statements, and have issued our report thereon dated February 10, 2016.

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.

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.

A handwritten signature in cursive script that reads "Clothier & Company CPA's".

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

February 10, 2016