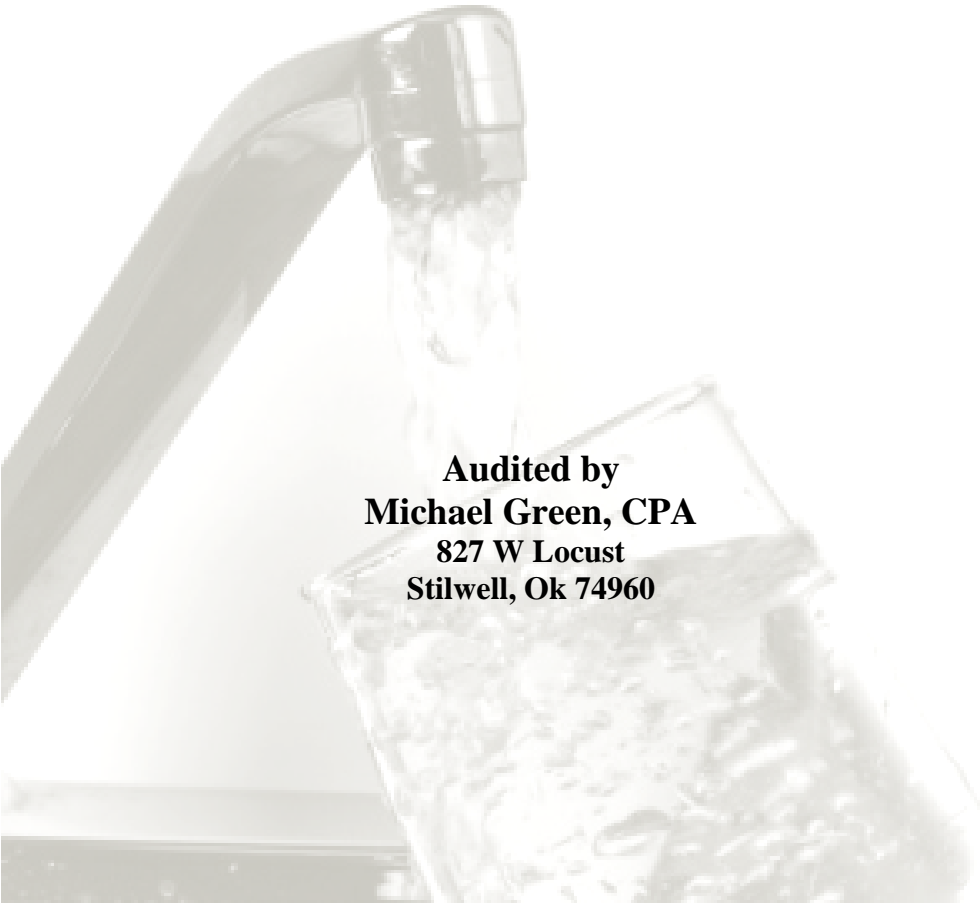


**RURAL WATER, SEWER AND SOLID
WASTE MANAGEMENT DISTRICT No. 2**

Stilwell, Oklahoma

**Financial Statements
&
Audit Report**

December 31, 2015



**Audited by
Michael Green, CPA
827 W Locust
Stilwell, Ok 74960**

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MICHAEL W. GREEN

Certified Public Accountant

827 W. Locust Street
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INDEPENDENT AUDITOR'S REPORT

Adair County Water, Sewer
and Solid Waste Management Dist. No. 2
Board of Directors

I have audited the accompanying financial statements of the Adair County Water, Sewer and Solid Waste Management Dist. No. 2 (the District), as of and for the year ended December 31, 2015, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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 on the effectiveness of the entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District, as of December 31, 2015, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operations, economic, or historical context. My opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, I have also issued a report dated September 1, 2016 on my consideration of the District's internal control over financial reporting and my 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 the District's internal control over financial reporting and compliance.



Michael Green
Certified Public Accountant

September 1, 2016

**Adair County Rural Water District #2
Statement of Net Position
Proprietary Fund
December 31, 2015**

ASSETS

Cash On Hand	100
Cash In Bank	\$ 98,107
Investments	25,646
Accounts Receivable	23,325
Prepaid Insurance	2,198
Utility Deposits	250
TOTAL CURRENT ASSETS	<u>149,626</u>

FIXED ASSETS

Water System	2,610,294
Equipment	26,287
Vehicles	15,730
Buildings	46,949
Land Easement	3,223
Accumulated Depreciation	(1,352,370)
TOTAL FIXED ASSETS	<u>1,350,113</u>

RESTRICTED ASSETS

Cash Restricted for Debt Reserve	34,200
Cash Restricted for Security Deposits	3,771
TOTAL ASSETS	<u>\$ 1,537,710</u>

LIABILITIES

CURRENT LIABILITIES

Accounts Payable & Accrued Liabilities	\$ 14,352
Payroll Taxes Payable	1,874
Security Deposits Payable	3,600
Current Portion of Long-Term Debt	21,919
TOTAL CURRENT LIABILITIES	<u>41,745</u>

NONCURRENT LIABILITIES

Note Payable - Less Current Portion	195,569
TOTAL NONCURRENT LIABILITIES	<u>195,569</u>
TOTAL LIABILITIES	<u>237,314</u>

NET POSITION:

Restricted for Debt Reserve	34,200
Invested in Capital Assets Net of Related Debt	1,132,625
Unrestricted	133,571
TOTAL NET POSITION	<u>\$ 1,300,396</u>

The notes are an integral component of the financial statements.

Adair County Rural Water District #2
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Fund
For the Year Ended December 31, 2015

OPERATING REVENUE:

Charges for Services:

Water Sales	\$ 278,250
Membership Tap Fees	11,500
Late Fees	7,684
Reconnect Fees	3,975
Other Income	4,018
Total Charges for Services	<u>305,427</u>

TOTAL OPERATING REVENUE 305,427

OPERATING EXPENSES:

Water Purchased	118,218
Bank Charges	110
Payroll	51,231
Payroll Expenses	3,948
Contract Labor	300
Depreciation	70,140
Repairs & Maintenance	8,786
Insurance	5,441
Supplies	23,735
Legal & Professional	26,050
Telephone	1,283
Utilities	2,152
Rent	715
Dues & Subscriptions	1,902
Advertising	100
Miscellaneous	442
Water Testing	1,190
Office Exp.	5,176
TOTAL OPERATING EXPENSES	<u>320,917</u>

NET INCOME FROM OPERATIONS (15,490)

NONOPERATING REVENUE (EXPENSE):

Interest Income	303
Interest Expense	(10,561)

TOTAL NONOPERATING REVENUE & EXPENSE (10,258)

NET INCOME (25,748)

NET POSITION, BEGINNING OF YEAR 1,326,144

NET POSITION, END OF YEAR \$ 1,300,396

The notes are an integral component of the financial statements.

**Adair County Rural Water District #2
Statement of Cash Flows
Proprietary Fund
For the Year Ended December 31, 2015**

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$ 303,352
Payments to Suppliers	(194,533)
Payments to Employees	(55,179)
Net Cash Provided (used) by Operating Activities	<u>53,640</u>

**CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES**

Net purchase of Capital Assets	(54,747)
Proceeds from Long Term Debt	30,949
Principal Paid on Capital Debt	(20,181)
Interest Paid on Capital Debt	(10,561)
Net Cash Provided (used) by Capital and Related Financing Activities	<u>(54,541)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest Income	303
Net Cash Provided (used) by Investing Activities	<u>303</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (597)

BALANCES - BEGINNING OF THE YEAR 162,421

BALANCES - END OF THE YEAR \$ 161,824

The notes are an integral component of the financial statements.

**Adair County Rural Water District #2
Statement of Cash Flows (Continued)
Proprietary Fund
For the Year Ended December 31, 2015**

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH
PROVIDED (USED) BY OPERATING ACTIVITIES**

Operating Income \$ (15,490)

**Adjustments to Reconcile Operating Income to Net Cash
Provided (used) by Operating Activities:**

Depreciation Expense 70,140

Change in Assets and Liabilities:

Accounts Receivable (2,061)

Accounts Payable & Accrued Liabilities 1,052

NET CASH PROVIDED BY OPERATING ACTIVITIES \$ 53,640

The notes are an integral component of the financial statements.

**ADAIR COUNTY WATER, SEWER, AND SOLID WASTE MANAGEMENT
DISTRICT NO.2
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

The Adair County Water, Sewer, And Solid Waste Management District No.2 was incorporated as a non-profit corporation under Oklahoma statutes with the purpose of acquiring in distributing potable water to rural customers within its geographic boundaries.

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Since the water district is engaged only in business type activities it is not required to present government-wide statements.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the water district or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the water district are described below:

Proprietary Funds

Enterprise Funds - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or

recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is

appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The water district believes that its fund is in this category since it relates to or provides for a business type activity.

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus and Basis of Accounting

Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities would be presented using the economic resources measurement focus as defined in item b. below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

A. Basis Of Accounting

The financial statements of Adair County Water, Sewer, And Solid Waste Management District No. 2, (hereafter known as the Water District), have been prepared on the accrual basis of accounting. The accrual basis of accounting recognizes revenue when it is earned rather than received, and recognizes expenditures when they are incurred rather than paid.

B. Accounts Receivable

Accounts receivable consist of trade receivables due at year end.

C. Cash & Cash Equivalents

The Water District has a policy of recognizing investments in CDs or savings that mature within 90 days of the financial statement date as cash or cash equivalents. For the purposes of the cash flows statements, reserve cash, is considered to be a cash equivalent.

Cash restricted for debt reserve is maintained in accordance with the FHA loan agreement requirements.

Cash restricted for security deposits is for balances currently held for customer meter deposits.

D. Income Taxes

The Water District is exempt from paying income taxes due to its non-profit status under the Internal Revenue Code 501 (c)(3).

E. Inventories

The Water District has no material inventories that it owns. Supplies are used or recognized when they are needed. Thus inventories are not shown in the financial statements.

F. Additions & Deletions to Fixed Assets

During the course of the year there were additions made to the water system in the amount of \$7,798. There was also a building purchased in the amount of \$46,949. See schedule below.

G. Fixed Assets

Property, plant and equipment are stated at their historical cost. Depreciation is recorded using the straight-line method over the useful life of the asset. The following is a summary by category of changes in property and equipment:

	December 31, 2014	Additions	Reductions	December 31, 2015
Capital Assets, not being depreciated				
Land Easements	3223	-	-	3,223
Capital Assets, being depreciated				
Water System	2,602,496	7,798	-	2,610,294
Vehicles	15,730	-	-	15,730
Building	-	46,949	-	46,949
Equipment	26,287	-	-	26,287
Accumulated Depreciation	(1,282,230)	(70,140)	-	(1,352,370)
Total Capital Assets being Depreciated	1,362,283	(15,393)	-	1,346,890
Total Capital Assets	1,365,506	(15,393)	-	1,350,113

D. Long-Term Debt

The Water District has two outstanding long-term notes payable, one with Rural Development and the other with Armstrong Bank.

The Rural Development note was issued on 06/11/85 with an interest rate of 5%. The note payable had an original beginning principal debt of \$455,300.00 and has a 12/31/15 principal balance of \$189,838.

The Armstrong Bank note was issued on 04/14/2015 with an interest rate of 3.07%. The note payable had an original beginning principal debt of \$30,948.92 and has a 12/31/15 principal balance of \$27,650.

The following is a summary of the District's future annual debt requirements of the loan balances at December 31:

<u>YEAR END</u>	<u>Principal</u>	<u>Interest</u>
2016	21,918	9,841
2017	22,916	8,843
2018	24,003	7,756
2019	25,143	6,616
2020	26,339	5,420
2021-2025	97,169	9,140

H. Members' Investments

Members' investment is the joining fee a new member incurs to be a member of the Water District. This fee is non-refundable. Currently, the fee is \$500.00 of which ½ is allocated to the members' investment account and ½ is allocated as the tap fee.

I. Pension Plans

The Water District does not provide retirement benefits to its employees other than the payroll payments to the social security retirement system.

J. Compensated absences

The Water district has no material compensated absence amounts.

K. Claims and Judgments

From time to time the District participates in federal and state programs that may be fully or partially funded by grants received from other governmental units. Expenditures

financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to non-compliance with grant program regulations, the District may be required to reimburse the grantor government. No provision is made in the financial statements for these possible contingencies.

L. Subsequent Events

Subsequent events have been evaluated through the audit reports date of issuance.

MICHAEL W. GREEN
Certified Public Accountant

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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*

Adair County Water, Sewer
and Solid Waste Management Dist. No. 2
Board of Directors

I 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 Adair County Water, Sewer and Solid Waste Management Dist. No. 2 (the District), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued my report thereon dated September 1, 2016.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Water District's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and Responses, I identified certain deficiencies in internal control that I consider to be material weaknesses.

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. I consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness. (15-1)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Response to Findings

The District's response to the findings identified in my audit is described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my 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 black ink, appearing to read "Michael Green". The signature is stylized and cursive.

Michael Green, CPA
September 1, 2016

SCHEDULE OF FINDINGS AND RESPONSES

15-1 SEGREGATION OF DUTIES

Due to the lack of a sufficient number of personnel there is not adequate segregation of duties. A much larger staff would be necessary to assure adequate internal control.

Management Response

The board and management are committed to be actively involved in the day to day activities of the water district. Also, the services of a local CPA firm will be utilized to assist in matters of internal control.