

ADAIR COUNTY RURAL WATER DISTRICT # 4

Stilwell, Oklahoma

**Financial Statements
&
Audit Report**

December 31, 2016



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

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MICHAEL W. GREEN

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Adair County Rural Water District #4
Stilwell, Oklahoma

I have audited the accompanying financial statements of the business-type activities for Adair County Rural Water District #4, (the District), as of and for the year ended December 31, 2016, 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 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 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 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, 2016, 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 operational, 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 28, 2017, 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 28, 2017

Adair County Rural Water District # 4
Statement of Net Position
Proprietary Fund
December 31, 2016

ASSETS

Cash In Bank	\$	118,600
Investments		121,898
Accounts Receivable		17,826
Inventory		950
Prepaid Insurance		1,617

TOTAL CURRENT ASSETS		<u>260,891</u>
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FIXED ASSETS

Water System		1,406,774
Equipment		61,585
Accumulated Depreciation		<u>(795,715)</u>

TOTAL FIXED ASSETS		<u>672,644</u>
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RESTRICTED ASSETS

Cash in Bank-Including Time Deposits- Debt Reserve		19,740
Cash in Bank for Security Deposits		<u>2,427</u>

TOTAL RESTRICTED ASSETS		<u>22,167</u>
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TOTAL ASSETS	\$	<u><u>955,701</u></u>
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LIABILITIES

CURRENT LIABILITIES

Accounts Payable & Accrued Liabilities	\$	14,853
Accrued Interest Payable		655
Security Deposits Payable		2,425
Current Portion of Long-Term Debt		<u>10,731</u>

TOTAL CURRENT LIABILITIES		<u>28,664</u>
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NONCURRENT LIABILITIES

Note Payable - Less Current Portion		<u>174,142</u>
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TOTAL NONCURRENT LIABILITIES		<u>174,142</u>
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TOTAL LIABILITIES		<u>202,806</u>
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NET POSITION:

<i>Invested in Capital Assets Net of Related Debt</i>		487,771
<i>Restricted:</i>		
Debt Reserve		19,740
<i>Unrestricted</i>		<u>245,384</u>

TOTAL NET POSITION	\$	<u><u>752,895</u></u>
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The accompanying notes and auditor's report are an integral part of these financial statements.

Adair County Rural Water District #4
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Fund
For the Year Ended December 31, 2016

OPERATING REVENUE:	
Charges for Services:	
Water Sales	\$ 205,522
Membership Tap Fees	8,590
Late Fees	5,939
Reconnect Fees	1,890
Other Income	4,870
Total Charges for Services	<u>226,811</u>
TOTAL OPERATING REVENUE	<u>226,811</u>
OPERATING EXPENSES:	
Water Purchased	68,328
Bank Charges	70
Contract Labor	36,785
Depreciation	29,550
Repairs & Maintenance	459
Insurance	2,676
Supplies	10,798
Legal & Professional	18,100
Telephone	1,810
Utilities	7,520
Dues & Subscriptions	433
Advertising	89
Miscellaneous	903
Water Testing	3,515
Office Exp.	4,215
TOTAL OPERATING EXPENSES	<u>185,253</u>
NET INCOME FROM OPERATIONS	<u>41,559</u>
NONOPERATING REVENUE (EXPENSE):	
Interest Income	665
Interest Expense	(10,575)
TOTAL NONOPERATING REVENUE & EXPENSE	<u>(9,910)</u>
NET INCOME	31,649
NET POSITION, BEGINNING OF YEAR	721,246
NET POSITION, END OF YEAR	<u>\$ 752,895</u>

The accompanying notes and auditor's report are an integral part of these financial statements.

Adair County Rural Water District #4
Statement of Cash Flows
Proprietary Fund
For the Year Ended December 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$ 225,216
Payments to Suppliers	(153,387)

Net Cash Provided (used) by Operating Activities	71,829
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Principal Paid on Capital Debt	(47,580)
Interest Paid on Capital Debt	(10,575)

Net Cash Provided (used) by Capital and Related Financing Activities	(58,154)
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CASH FLOWS FROM INVESTING ACTIVITIES

Interest Income	665
Change in Investments	(502)

Net Cash Provided (used) by Investing Activities	163
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NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	13,838
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BALANCES - BEGINNING OF THE YEAR	107,189
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BALANCES - END OF THE YEAR	\$ 121,027
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The accompanying notes and auditor's report are an integral part of these financial statements.

**Adair County Rural Water District #4
Statement of Cash Flows (Continued)
Proprietary Fund
For the Year Ended December 31, 2016**

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

Operating Income	\$	41,559
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**Adjustments to Reconcile Operating Income to Net Cash
Provided (used) by Operating Activities:**

Depreciation Expense		29,550
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Change in Assets and Liabilities:

Accounts Receivable and prepaids		(1,365)
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Accounts Payable & Accrued Liabilities		2,086
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NET CASH PROVIDED BY OPERATING ACTIVITIES	\$	<u>71,829</u>
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The accompanying notes and auditor's report are an integral part of these financial statements.

Adair County Rural Water District No.4
Notes to the Financial Statements

The Adair County Rural Water District No.4 was organized under the Rural Water District Act of Oklahoma, for the purpose of acquiring water and water rights, and to build and acquire pipelines and others facilities and to operate the same for the purpose of furnishing water to serve the needs of owners and occupants of land located within the district.

Note 1: Summary of Significant Accounting Policies

Basis of Presentation

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:

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.

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 Rural Water District No. 4, (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.

C. Cash & Cash Equivalents

For the purpose of the statement of cash flows, the district considers all unrestricted highly liquid investments with an initial maturity of less than three months to be cash equivalents.

D. Income Taxes

The Water District is exempt from federal and state income taxes.

E. Inventories

The Water District has no material inventories that it owns, supplies are used or recognized when they are needed.

F. Additions & Deletions to Fixed Assets

During the course of the year there were no new assets purchased.

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.

	<u>December 31, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2016</u>
Capital Assets, being Depreciated				
Water System	1,406,774	-	-	1,406,774
Equipment	61,585	-	-	61,585
<u>Accumulated Depreciation</u>	<u>(766,165)</u>	<u>(29,550)</u>		<u>(795,715)</u>
Total Capital Assets being Depreciated	702,194	(29,550)	-	672,644

D. Long-Term Debt

At December 31, 2016, the water district had one outstanding long-term note payable with the U.S. Dept. of Rural Development.

The note started 04/13/90 at \$ 1645 per month at 5% interest. The note payable had an original beginning principal debt of \$335,000.00. As of December 31, 2016, the amount of principal remaining was \$184,873 of which, \$10,731 will be due in the current year.

During 2016, the district paid off one note with the U.S. Dept. of Rural Development. The total principal and interest paid by the district totaled \$37,414.32.

The maturity of principal and interest for the next five years under the indebtedness mentioned above, is as follows:

Year End	Principal	Interest
2017	10,731	9,010
2018	11,279	8,461
2019	11,857	7,883
2020	12,463	7,277
2021	13,101	6,639
2022-2026	76,271	22,429
2027-2031	49,171	3,480
Total	184,873	65,179

H. Investments

At year end the only funds that were considered to be investments were Certificates of Deposits. At December 31, 2016, all investments were insured through FDIC.

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 Judgements

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. Restricted component of Net Position

The restricted component of Net Position consists of cash and short-term investments restricted for:

USDA Debt Reserve requirements per the loan agreement	\$ 19,740
Customer Meter Deposits, Checking	<u>2,425</u>
Total Restricted Assets	\$22,165

M. Subsequent Events

Subsequent events have been evaluated through the date of the issuance of the auditor's report.

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*

Board of Directors
Adair County Rural Water District #4
Stilwell, Oklahoma

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 Rural Water District #4 (the District), as of and for the year ended December 31, 2016, 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 28, 2017

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. (16-1)

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 28, 2017

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

2016-1

Criteria: The segregation of duties and responsibilities between different individuals for custody of assets, record keeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

Condition: Presently a limited number of individuals has responsibility for all functions of the financial statement reporting. These individuals have oversight responsibilities for billing and adjustments; posting of payments payment to subsidiary accounts receivable ledgers and reconciles the monthly bank statements. In addition, only limited oversight is provided over this individual in the conduct of their daily functions. This condition was also reported in 2015.

Cause: The entity's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

Effect or Potential Effect: Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to the membership and other billing and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: Management and the board should consider a formal evaluation of their risks associated with this lack of duties segregation over assets. In response to the Identified risks, consideration should be given to identifying and implementing compensating duties to act as controls that could help mitigate the risks associated with lack of segregation of duties, such as management performing review procedures for the reconciliation of accounts.

Responsible Official's Response: The organization concurs with the recommendation, and will strive to implement procedures and compensating duties to help mitigate the risks associated with the lack of segregation of duties.