

AUDIT REPORT

JOHNSTON COUNTY RURAL WATER, SEWER AND
SOLID WASTE MANAGEMENT DISTRICT NO. 4

DECEMBER 31, 2017

KERSHAW CPA & ASSOCIATES, PC

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JOHNSTON COUNTY RWS&SWMD #4
COLEMAN, OKLAHOMA
DECEMBER 31, 2017

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JOHNSTON COUNTY RWS&SWMD #4
COLEMAN, OKLAHOMA
DECEMBER 31, 2017

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>
Dennis Stephens	Chairman
Kevin Harner	Vice Chairman
Floyd White	Secretary/Treasurer
T.E. Owens	Member
Vacant Position	Member

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Johnston County RWS&SWMD #4
Coleman, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Johnston County RWS&SWMD #4, as of and for the fiscal year ended December 31, 2017, as listed in the table of contents and the related notes to the financial statements.

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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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, and in accordance with Oklahoma Statutes. 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 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

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in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Johnston County RWS&SWMD #4, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the Management's 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. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary and Other Information

The introductory information section listed in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the District. Such additional information has not been subjected to the auditing procedures applied in our audit of the basic financial statements, and

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accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 12, 2019, on our consideration of the Johnston County RWS&SWMD #4's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Johnston County RWS&SWMD #4's 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 Johnston County RWS&SWMD #4's internal control over financial reporting and compliance.

Kershaw CPA & Associates, P.C.
Kershaw, CPA & Associates, PC

April 12, 2019

JOHNSTON COUNTY RWS&SWMD #4
COLEMAN, OKLAHOMA
STATEMENT OF NET POSITION
DECEMBER 31, 2017

<u>ASSETS</u>	<u>2017</u>	<u>Memorandum Only 2016</u>
<u>Current Assets:</u>		
Cash in Bank:		
Checking - Operations	\$ 162,075	\$ 159,322
Savings	8,308	8,300
Petty Cash	100	100
Accounts Receivable - Water/Sewer	11,067	11,654
Prepaid Insurance	2,516	2,291
Total Current Assets	184,066	181,667
<u>Restricted Assets:</u>		
Customer Deposits Checking	1,087	1,373
Rural Development Sewer Reserve	6,840	6,840
Rural Development Sewer Reserve #2	1,116	1,116
Total Restricted Assets	9,043	9,329
<u>Capital Assets:</u>		
Water Distribution Facilities	610,634	610,634
Sewer Facilities	607,276	607,276
Building	22,454	22,454
Furniture & Fixtures	36,464	8,264
Land	28,000	28,000
Construction-in-progress	7,343	7,343
Less: Accumulated Depreciation	(524,994)	(490,993)
Total Capital Assets	787,178	792,979
TOTAL ASSETS	\$ 980,287	\$ 983,976
<u>LIABILITIES & NET POSITION</u>		
<u>LIABILITIES:</u>		
<u>Current Liabilities:</u>		
Accounts Payable - Trade	\$ 2,527	\$ 1,485
Security Deposits	1,198	1,584
Current Portion of Long-Term Debt	5,746	12,381
Accrued Interest Payable	72	74
Total Current Liabilities	9,543	15,524
<u>Long-Term Liabilities:</u>		
Notes Payable	105,070	117,406
Less: Current Portion of Long-Term Debt	(5,746)	(12,381)
Total Long-Term Liabilities	99,324	105,024
TOTAL LIABILITIES	108,867	120,549
<u>NET POSITION:</u>		
Net investment in capital assets	682,108	675,574
Restricted for debt service	9,043	9,329
Unrestricted	180,269	178,524
TOTAL NET POSITION	871,420	863,427
TOTAL LIABILITIES AND NET POSITION	\$ 980,287	\$ 983,976

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**JOHNSTON COUNTY RWS&SWMD #4
COLEMAN, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2017**

	2017	Memorandum Only 2016
OPERATING REVENUES:		
Water Sales	\$ 103,983	\$ 103,514
Sewer Sales	14,715	14,364
Membership and Connection Fees	8,258	3,050
Late Fees	3,057	4,150
Grant Income	-	-
Total Operating Revenues	<u>130,012</u>	<u>125,079</u>
OPERATING EXPENSES:		
Water:		
Operator and Bookkeeping Fees	37,253	35,235
Payroll Tax Expense	2,899	2,601
Utilities	7,634	7,375
Repairs & Maintenance	6,302	6,625
Operating Supplies	3,748	5,271
Office Supplies & Postage	2,172	2,466
Insurance and Bonds	4,353	4,156
Professional Fees	3,600	-
Legal Fees	-	-
Dues and Fees	6,749	5,684
Mileage	4,894	5,073
Depreciation	18,795	16,066
Bank Charges	51	23
Uncollectible Accounts	(58)	(139)
Miscellaneous	4,071	3,674
Sewer:		
Utilities - Sewer	595	703
Repairs & Maintenance - Sewer	28	1,934
Depreciation - Sewer	15,206	15,241
Total Operating Expenses	<u>118,292</u>	<u>111,987</u>
Operating Income (Loss)	<u>11,721</u>	<u>13,092</u>
NON-OPERATING REVENUES (EXPENSES):		
Refunds and Miscellaneous	1,758	2,392
Interest Income	32	26
Interest Expense - Sewer	(4,978)	(5,690)
Net Non-Operating Revenues (Expenses)	<u>(3,187)</u>	<u>(3,272)</u>
Change in Net Position	8,533	9,820
TOTAL NET POSITION - Beginning of Year	863,427	853,607
TOTAL NET POSITION - Prior Year Adjustment	<u>(540)</u>	<u>-</u>
TOTAL NET POSITION - End of Year	<u>\$ 871,420</u>	<u>\$ 863,427</u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**JOHNSTON COUNTY RWS&SWMD #4
COLEMAN, OKLAHOMA
STATEMENT OF CASH FLOWS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2017**

	<u>2017</u>	<u>Memorandum Only 2016</u>
<u>Cash Flows from Operating Activities:</u>		
Cash Receipts from Customers	\$ 130,600	\$ 125,877
Cash Receipts from Others	-	-
Payments to Suppliers for Goods & Services	(84,014)	(80,673)
Customer Deposits Received, Less Refunded	(386)	(22)
Net Cash Provided (Used) by Operating Activities	<u>46,200</u>	<u>45,181</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>		
Additions to Capital Assets	(28,200)	(3,454)
Proceeds from sale of Capital Assets	-	-
Loan Proceeds	-	-
Principal Payments on Long-Term Debt	(12,336)	(11,906)
Interest Payments	(4,979)	(5,691)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(45,515)</u>	<u>(21,051)</u>
<u>Net Cash Flows from Investing Activities:</u>		
Refunds and Miscellaneous	1,758	2,392
Interest Income	32	26
Net Cash Provided (Used) by Investing Activities	<u>1,790</u>	<u>2,418</u>
Net Increase (Decrease) in Cash and Cash Equivalents	2,475	26,548
Cash & Cash Equivalents, Beginning of Year	177,051	150,503
Cash & Cash Equivalents, Prior Year Adjustment	-	-
Cash & Cash Equivalents, End of Year	<u>\$ 179,526</u>	<u>\$ 177,051</u>
<u>Reconciliation of operating income (loss) to net cash provided operating activities:</u>		
Net Operating Income (Loss)	\$ 11,721	\$ 13,092
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	34,001	31,307
(Increase)Decrease in Accounts Receivable	587	798
(Increase)Decrease in Prepaid Insurance	(225)	14
Increase(Decrease) in Accounts Payable	501	(8)
Increase(Decrease) in Security Deposits	(386)	(22)
Increase(Decrease) in Other Payables	-	-
Net Cash Provided (Used) by Operating Activities	<u>\$ 46,200</u>	<u>\$ 45,181</u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

JOHNSTON COUNTY RWS&SWMD #4
COLEMAN, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

A. The Reporting Entity

The Coleman Waterworks, Inc. is a non-profit corporation having been organized and established under the provisions of Title 18 of the Oklahoma Statutes, for the purpose of constructing and operating a water supply distribution system serving the members of the Corporation. The Corporation was organized in Coleman, Oklahoma on March 27, 1969.

On December 9, 2004, the corporation was dissolved and the District was reorganized under the provisions of the Rural Water, Sewer and Solid Waste Management Districts Act of Oklahoma (82 O.S. 1991 Sec. 1324-01-1324.26) as amended and supplemented. The new name of the District shall be "Rural Water, Sewer and Solid Waste Management District No. 4, Johnston County, Oklahoma."

B. Basis of Presentation

The District is accounted for within the framework of enterprise fund accounting. Enterprise funds are used to account for operations that are operated in a manner similar to private business enterprises wherein the intent of the District's Board of Directors is to recover the cost of providing goods and services through user charges

C. Basis of Accounting

The financial statements of the District are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

D. Budgetary Data

In accordance with the By-laws of the District, an annual budget is prepared for internal bookkeeping purposes. The District prepares USDA Form RD 442-2A Statement of Budget, Income and Equity as its budget for the year.

JOHNSTON COUNTY RWS&SWMD #4
COLEMAN, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

E. Assets, Liabilities & Equity

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all cash on hand, demand deposits and highly liquid investments (including restricted assets), with a maturity of three months or less when purchased, to be cash and cash equivalents.

Allowance for Doubtful Accounts

The District does not have an allowance for doubtful accounts because it believes the ultimate amount received will be materially similar to the amount accrued.

Capital Assets

Water distribution facilities, office furniture and equipment purchased, or constructed by the District are stated at cost. Depreciation is computed on the straight-line method based on the estimated useful lives of the assets ranging from five to forty years. The capitalization threshold has been set at \$100.00.

Construction in progress is recorded at cost. No depreciation is recognized until construction contracts are complete and the applicable facilities become operational.

Long-Term Debt

Long-term liabilities are recorded at the amount payable as of the report date.

Equity Classification

Equity is classified as net position and displayed in three components:

1. Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition,

JOHNSTON COUNTY RWS&SWMD #4
COLEMAN, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

construction, or improvements of those assets and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.

2. Restricted – Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted - Net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

It is the District's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

F. Revenues, expenditures & expenses

Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

G. Governmental Accounting Standards Board Statement No. 34

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Certain of the significant changes in the Statement include the following:

1. For the first time the financial statement should include:
 - a. A Management Discussion and Analysis (MD&A) section providing analysis of the District's overall financial position and results of operations. However, the District

JOHNSTON COUNTY RWS&SWMD #4
COLEMAN, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

has chosen not to present the required MD&A for the current year.

b. Financial statements prepared using full accrual accounting for all of the District's activities, except for including the General capital assets or infrastructure (lines, pump stations, etc.).

2. A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The District has elected to implement the general provisions of the Statement and report infrastructure acquired after December 31, 2003 as provided by GASB standards.

H. Memorandum Totals

The "memorandum only" captions above the total columns mean that totals are presented for overview information purposes only.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

As a local government unit, the District is subject to various federal, state, and local laws and contractual regulations. In accordance with Government Auditing Standards, the auditor has issued a report on his consideration of the District's internal control over financial reporting and tested its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be read in conjunction with this report in considering the results of the audit.

Finance-related Legal & Contractual Provisions

As described in Note 4, the District was in compliance with the reserve requirement of the Rural Development loan agreement.

Deficit Fund Balance or Retained Earnings

As indicated in the financial statements, there are no fund balance or retained earnings deficits for the District for this fiscal year.

JOHNSTON COUNTY RWS&SWMD #4
COLEMAN, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 3 - CASH AND INVESTMENTS

Custodial Credit Risk

At December 31, 2017, the District held deposits of approximately \$179,526 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name.

Investment Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The District has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

JOHNSTON COUNTY RWS&SWMD #4
COLEMAN, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 4 - RESTRICTED ASSETS

For the loan number 92-02, the loan agreement with the United States Department of Agriculture Rural Development (USDA) requires the District to set aside into a Reserve Account the sum of 10% of the monthly installment or \$57.00 each month until there is accumulated in that account the sum of the annual installment (\$6,840.00), after which deposits may be suspended, except to replace withdrawals. The District cannot withdraw funds from the reserve account without USDA approval. As of December 31, 2017, the District was required to have at least \$6,840.00 set aside in the reserve account; as of that date the account balance for the reserve account was \$6,840.00, which complies with the covenants of the loan agreement.

For the loan number 92-03, the loan agreement with the United States Department of Agriculture Rural Development (USDA) requires the District to set aside into a Reserve Account the sum of 10% of the monthly installment or \$9.30 each month until there is accumulated in that account the sum of the annual installment (\$1,116.00), after which deposits may be suspended, except to replace withdrawals. The District cannot withdraw funds from the reserve account without USDA approval. As of December 31, 2017, the District was required to have at least \$1,116.00 set aside in the reserve account; as of that date the account balance for the reserve account was \$1,116.00, which complies with the covenants of the loan agreement.

JOHNSTON COUNTY RWS&SWMD #4
 COLEMAN, OKLAHOMA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017

NOTE 5 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended December 31, 2017, was as follows:

	Balance at Dec. 31, 2016	Additions	Deductions	Balance at Dec. 31, 2017
Buildings	\$ 22,454	\$ -	\$ -	\$ 22,454
Furniture & Fixtures	8,264	28,200	-	36,464
Water Distribution Facilities	610,634	-	-	610,634
Sewer Distribution Facilities	607,276	-	-	607,276
Land	28,000	-	-	28,000
Construction-in-progress	7,343	-	-	7,343
Subtotal	1,280,519	28,200	-	1,312,172
Less: Accum. Depr.	(490,993)	(34,001)	-	(524,994)
Total Capital Assets (Net of Depreciation)	\$ 820,833	\$ (5,801)	\$ -	\$ 787,178

During the year, the District purchased a lawn mower and a tractor/backhoe/loader.

NOTE 6 - ACCUMULATED UNPAID VACATION BENEFITS

Accumulated unpaid vacation benefits have not been shown as a liability in the financial statements. The District's position is that any accrued benefits are not significant and would not materially affect the financial statements.

NOTE 7 - LONG-TERM DEBT

The District has two notes payable to the United States Department of Agriculture Rural Development (USDA), payable in monthly installments of \$570.00 and \$93.00 until maturity, including interest at 4.50% and 4.375%, respectively. The final payment is scheduled for 2037 and 2046. The notes are secured by the distribution facilities and a pledge of revenues of the District.

On March 8, 2012, the District borrowed \$50,210 from Landmark Bank for a water line project. The loan is payable in 72 payments of \$781.30 with first payment due April 10, 2012 and all subsequent payments due on the same day of each month after that. The final payment will be due March 10, 2018 and will be for all principal and accrued interest not yet paid. The loan carries a variable interest rate with an initial interest rate of 3.75%.

JOHNSTON COUNTY RWS&SWMD #4
 COLEMAN, OKLAHOMA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended December 31, 2017:

	Balance at December 31, 2016	Additions	Deductions	Balance at December 31, 2017
Note Payable - USDA RD 92-02	\$ 87,652	\$ -	\$ (2,956)	\$ 84,696
Note Payable - USDA RD 92-03	18,372	-	(319)	18,053
Note Payable - Landmark Bank	11,382	-	(9,061)	2,322
Total Long-Term Debt	<u>\$ 129,312</u>	<u>\$ -</u>	<u>\$ (12,336)</u>	<u>\$ 105,070</u>

Debt Services Requirements to Maturity

The annual debt service requirements to maturity, including principal and interest, for long-term debt, as of December 31, 2017, are as follows:

Note Payable - USDA RD 92-02:

Year Ended December 31,	Principal	Interest	Annual Payment
2018	\$ 3,092	\$ 3,748	\$ 6,840
2019	3,234	3,606	6,840
2020	3,383	3,457	6,840
2021	3,538	3,302	6,840
2022	3,700	3,140	6,840
2023-2027	21,214	12,986	34,200
2028-2032	26,555	7,645	34,200
2033-2036	19,980	1,440	21,420
Total	<u>\$ 84,696</u>	<u>\$ 39,325</u>	<u>\$ 124,020</u>

JOHNSTON COUNTY RWS&SWMD #4
 COLEMAN, OKLAHOMA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017

Note Payable - USDA RD 92-03:

Year Ended December 31,	Principal	Interest	Annual Payment
2018	\$ 333	\$ 783	\$ 1,116
2019	348	768	1,116
2020	363	753	1,116
2021	379	737	1,116
2022	396	720	1,116
2023-2027	2,263	3,317	5,580
2028-2032	2,816	2,764	5,580
2033-2037	3,712	1,868	5,580
2038-2042	4,631	949	5,580
2043-2045	2,812	141	2,953
Total	<u>\$ 18,053</u>	<u>\$ 12,800</u>	<u>\$ 30,853</u>

Note Payable - Landmark Bank

Year Ended December 31,	Principal	Interest	Annual Payment
2018	\$ 2,322	\$ 13	\$ 2,335
2019	-	-	-
2020	-	-	-
2021	-	-	-
2022	-	-	-
Total	<u>\$ 2,322</u>	<u>\$ 13</u>	<u>\$ 2,335</u>

NOTE 8 - FUND EQUITY

As described in Note 1 above, equity is classified as net position and displayed in three components:

1. Net investment in capital assets
2. Restricted
3. Unrestricted

The Restricted amounts are described in Note 4 above.

JOHNSTON COUNTY RWS&SWMD #4
COLEMAN, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 9 - CONTINGENCIES

Litigation

According to management there were no known contingent liabilities at December 31, 2017, which would have a material effect on the financial statements.

Federally Assisted Programs

In the normal course of operations, the District participates in various federal or state/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

NOTE 10 - RETIREMENT PLAN

The District has no retirement or pension plans.

NOTE 11 - SUBSEQUENT EVENTS

The District did not have any subsequent events through the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending December 31, 2017.

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

To the Board of Directors
Johnston County RWS&SWMD #4
Coleman, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes, the financial statements of the Johnston County RWS&SWMD #4, as of and for the year ended December 31, 2017, and the related notes to the financial statements, and have issued our report thereon dated April 12, 2019. The Johnston County RWS&SWMD #4 has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, except that the District did not present the required MD&A.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Johnston County RWS&SWMD #4'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 Johnston County RWS&SWMD #4's internal control. Accordingly, we do not express an opinion on the effectiveness of Johnston County RWS&SWMD #4'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 that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that

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we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings that we consider to be significant deficiencies. Those deficiencies are listed as Item 16-01.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Johnston County RWS&SWMD #4's financial statements are free of material misstatement, we performed tests of 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*.

Johnston County RWS&SWMD #4's Response to Findings

Johnston County RWS&SWMD #4's response to the findings identified in our audit is described in the accompanying Schedule of Findings. Johnston County RWS&SWMD #4's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Kershaw CPA & Associates, P.C.
Kershaw, CPA & Associates, PC

April 12, 2019

JOHNSTON COUNTY RWS&SWMD #4
COLEMAN, OKLAHOMA
SCHEDULE OF FINDINGS
DECEMBER 31, 2017

INTERNAL CONTROL FINDINGS:

Item 17-01: Segregation of Duties

Criteria: A good system of internal control requires a proper segregation of duties to prevent one person from being in a position to authorize, execute, and record the same transaction.

Condition: Due to the size of the District's major areas of internal control, that would be prevalent in a larger District, such segregation of duties is not available for this size operation. Duties are concentrated in the hands of a few individuals, who are responsible for all phases of the accounting functions. Because of this lack of division of responsibility, internal control is determined to be weak, and in some instances, non-existent.

Cause/Effect: Due to the limited number of personnel, a breach of internal controls could occur and not be detected in the normal course of operations.

Recommendation: The Board should continue to be actively involved in the operations of the organization.

Response: The Board continues to be actively involved in the operations of the organization.

COMPLIANCE FINDINGS:

None