

Bryan County Rural Water & Sewer District #5

Independent Auditors Report

**As of and for the Years Ended
August 31, 2018 and 2017**

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Independent Auditors Report

To the Board of Directors
Bryan County Rural Water & Sewer District #5
Durant, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Bryan County Rural Water & Sewer District #5, as of and for the years ended August 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements 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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Bryan County Rural Water & Sewer District #5, as of August 31, 2018 and 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ending in accordance 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 and budgetary comparison information 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 1, 2019, on our consideration of the Bryan County Rural Water & Sewer District #5's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Bryan County Rural Water & Sewer District #5's internal control over financial reporting and compliance.

Russell + Williams CPAs, P.C.

Oklahoma City, Oklahoma
February 1, 2019

Bryan Co. Rural Water & Sewer Dist. #5

Statement of Net Position

August 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash in bank-unrestricted	\$ 2,033,495.16	\$ 1,810,247.18
Certificate of Deposits-unrestricted	234,970.85	234,296.93
Certificate of Deposits-restricted	121,011.04	120,648.44
Accounts receivable, net	211,530.30	148,572.77
Prepaid Insurance	<u>30,608.03</u>	<u>25,455.00</u>
Total current assets	2,631,615.38	2,339,220.32
Capital assets, net	<u>9,425,145.00</u>	<u>8,709,730.45</u>
TOTAL ASSETS	<u><u>\$ 12,056,760.38</u></u>	<u><u>\$ 11,048,950.77</u></u>
LIABILITIES AND NET ASSETS		
Accounts Payable	\$ 26,217.15	\$ 113,537.00
Payroll Taxes Payable	6,355.07	24,819.84
Accrued Compensated Absences	11,797.90	11,496.43
Refundable Meter Deposits	<u>68,950.00</u>	<u>69,200.00</u>
Total current liabilities	113,320.12	219,053.27
Notes Payable USDA	<u>7,226,073.14</u>	<u>6,317,472.80</u>
Total Liabilities	<u>7,339,393.26</u>	<u>6,536,526.07</u>
NET POSITION		
Net Investment in capital assets	2,199,071.86	2,392,257.65
Restricted for debt service and maintenance	331,242.49	330,581.44
Unrestricted	<u>2,187,052.77</u>	<u>1,789,585.61</u>
Total Net Position	<u>4,717,367.12</u>	<u>4,512,424.70</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 12,056,760.38</u></u>	<u><u>\$ 11,048,950.77</u></u>

The accompanying notes are an integral part of these financial statements.

Bryan Co. Rural Water & Sewer Dist. #5
Statement of Revenues Over Expenses and Changes in Net Position
For the Year Ended August 31, 2018 and 2017

	2018	2017
OPERATING REVENUES		
Water sales	\$ 1,947,748.64	\$ 1,558,849.22
Installation and Tap Fees	101,764.40	104,659.50
Sewer and Trash Collection Fees	17,554.59	15,503.56
TOTAL OPERATING REVENUES	2,067,067.63	1,679,012.28
OPERATING EXPENSES		
Advertising	-	797.48
Audit	7,600.00	-
Bank Fees	3,167.86	4,228.31
Computer Software and Maintenance	9,614.95	13,970.34
Depreciation	433,339.81	191,150.84
Dues and Fees	10,540.22	11,839.32
Employee Benefits - Health Insurance	61,087.21	58,459.13
Flowers and Gifts	315.29	59.69
Food and Meeting Expense	1,757.65	1,452.96
Insurance and Bonds	47,537.71	40,168.00
Interest	157,908.92	70,042.22
Legal and Professional	4,000.00	17,653.00
Medical and Safety Supplies	31.95	372.55
Mileage	434.94	601.23
Miscellaneous	640.50	6,458.72
Office Supplies and Expense	18,326.24	31,820.05
Payroll Taxes	26,529.80	23,342.66
Pension Plan Expense	15,478.75	15,987.83
Postage	24,128.47	20,793.27
Purchase of Water	767,295.22	674,136.97
Repairs and Maintenance	24,388.21	26,071.66
Salaries and Wages	327,621.38	287,579.89
Travel and Education	-	62.00
Truck and Tractor Expense	29,872.62	25,026.27
Uniforms and Laundry	1,786.21	1,955.90
Utilities and Telephone	47,393.60	36,941.24
Water Tests and Lab Fees	3,125.00	18,665.46
TOTAL OPERATING EXPENSES	2,023,922.51	1,579,636.99
OPERATING INCOME (LOSS)	43,145.12	99,375.29
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	1,803.36	1,219.93
Other Income	151,368.94	26,572.36
Memberships	8,625.00	7,525.00
TOTAL NON-OPERATING REVENUES (EXPENSES)	161,797.30	35,317.29
NET INCOME	204,942.42	134,692.58
Beginning Net Position	4,512,424.70	4,377,732.12
Ending Net Position	\$ 4,717,367.12	\$ 4,512,424.70

The accompanying notes are an integral part of these financial statements.

Bryan Co. Rural Water & Sewer Dist. #5
Statement of Cash Flows
For the Year Ending August 31, 2018 and 2017

	2018	2017
Cash Flows From Operating Activities		
Receipts from customers	\$ 2,004,110.10	\$ 1,702,794.27
Payments to suppliers	(1,094,679.52)	(853,151.52)
Payments to employees	(448,880.44)	(371,140.45)
Interest Paid	(157,908.92)	(70,042.22)
Net Cash Provided by Operating Activities	302,641.22	408,460.08
Cash Flows From Investing Activities		
Interest Received	1,803.36	1,219.93
Capital Asset Purchases	(1,148,754.36)	(5,902,495.83)
Net Cash Provided by Investing Activities	(1,146,951.00)	(5,901,275.90)
Cash Flows From Capital and Related Financing Activities		
Recovery of Bad Debts	-	-
Other Income	151,368.94	26,572.36
Membership Income	8,625.00	7,525.00
New Loan Proceeds	1,489,704.42	6,196,960.65
Principal paid on long term debt	(581,104.08)	(235,921.78)
Net Cash Flows From Capital and Related Financing Activities	1,068,594.28	5,995,136.23
Net Increase (Decrease) in Cash	224,284.50	502,320.41
Cash, Beginning of the Year	2,165,192.55	1,662,872.14
Cash, End of the Year	\$ 2,389,477.05	\$ 2,165,192.55
Cash and Equivalents - Unrestricted	2,058,234.56	1,834,611.11
Cash and Equivalents - Restricted	331,242.49	330,581.44
Total Cash and Equivalents	\$ 2,389,477.05	\$ 2,165,192.55
<i>Reconciliation of change in net position</i>		
<i>to net cash provided by operations</i>		
Change in Net Position	43,145.12	99,375.29
Adjustments to reconcile change in net position to net cash provided (used) by operating activities:		
Depreciation	433,339.81	191,150.84
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	(66,271.08)	25,033.67
Increase (Decrease) in Doubtful Accounts	3,313.55	(1,251.68)
(Increase) Decrease in Prepaid Expenses	(5,153.03)	(374.67)
Increase (Decrease) in Accounts Payable	(87,319.85)	76,447.57
Increase (Decrease) in Payroll Taxes Payable	(18,464.77)	13,790.14
Increase (Decrease) in Accrued Compensated Absences	301.47	438.92
Increase (Decrease) in Refundable Meter Deposits	(250.00)	3,850.00
Net cash provided by operating activities	\$ 302,641.22	\$ 408,460.08

The accompanying notes are an integral part of these financial statements.

RURAL WATER AND SEWER DISTRICT NO. 5
Notes to Basic Financial Statements
August 31, 2018 and 2017

Note 1: Summary of Significant Accounting Policies

Financial Reporting Entity

Rural Water and Sewer District No. 5, Bryan County, Oklahoma (the District) was organized for the purpose of providing water to the rural residents and businesses located in a the southern portion of Bryan County, Oklahoma. The water district uses the accrual basis of accounting; consequently, all revenue is included when earned, and all expenses are recognized when the obligation is incurred.

Basis of Presentation, Measurement Focus, and Basis of Accounting

The District is financed and operated in a manner similar to a private business enterprise, where the intent of the governing body is that the costs of providing water to the general public on a continuing basis be financed or recovered primarily through user charges, or 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 District uses one fund which is a proprietary fund of a business-type activity as described above. This fund is reported on the accrual basis of accounting; consequently, all revenue is included when earned, and all expenses are recognized when the obligation is incurred.

Proprietary fund equity is reported as restricted net assets (funds that are restricted to a particular use), unrestricted net assets, and investments in capital assets net of related debt.

Operating revenues and expenses for proprietary funds are those that result from providing water, sewer, and solid waste collection services.

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts in various funds. Actual results could differ from those estimates.

Note 2: Stewardship, Compliance and Accountability

Budget

The District prepares an annual estimated budget of cash receipts and disbursements for the purpose of adjusting water rates if necessary and as a forecast of cash receipts and disbursements required by the USDA Rural Development. This does not meet the definition of a legally required and adopted budget and accordingly is not presented.

Risk Management

The District's business activity is with customers located within a portion of Bryan County, Oklahoma. As of August 31, 2018 and 2017, the District's receivables were \$222,663 and \$156,392, respectively. An overall decline in the economic condition of the area could affect the collection of those receivables.

RURAL WATER AND SEWER DISTRICT NO. 5
Notes to Basic Financial Statements
August 31, 2018 and 2017

The District is exposed to various risks of loss related to theft of and damage to assets, errors and omissions, injuries to employees, and natural disasters. The District purchases commercial insurance to cover these possible liabilities.

Commitments and Contingencies

The District participates in state and federally assisted loan and grant programs. These programs are subject to program compliance audits by grantors or their representatives. Accordingly, the District's compliance with applicable loan and grant requirements will be established at some future date. The amount, if any, of expenses which may be disallowed by the granting agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

Note 3: Detail Notes On Transaction Classes and Accounts

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/expenses.

Cash and Equivalents

For the purpose of the Statement of Net Assets, "cash" includes all demand, savings accounts, and certificates of deposits of the District. For the purpose of the proprietary fund Statement of Cash Flows, "cash and equivalents" includes all demand and savings accounts, and certificates of deposit with an original maturity of three months or less.

Deposits are classified into the following three categories: (1) Insurance or collateralized with securities held by the entity or by its agent or in the entity's name (Category 1); (2) Collateralized with securities held by the pledging financial institutions trust department or agent In the entity's name (Category 2); and (3) Uncollateralized, including any bank balance that is collateralized with securities held by the pledging institution, or by its trust department or agent but not in the entity's name (Category 3).

All of the District's cash accounts are considered Category 1. The accounts are covered by FDIC insurance up to \$250,000. The accounts are further collateralized by \$2,500,000 in letters of credit from the Federal Home Loan Bank of Topeka, KS. At August 31, 2018 all accounts were covered by either the federal depository insurance or other collateral.

Accounts Receivable

Accounts receivables consist of all revenues earned at year-end and not yet received. Allowances for doubtful accounts are based on 5% of the accounts receivable balance at the end of the accounting year.

RURAL WATER AND SEWER DISTRICT NO. 5
Notes to Basic Financial Statements
August 31, 2018 and 2017

Capital Assets

Capital assets used in the District's operations are stated at cost less accumulated depreciation. Depreciation is provided on the straight-line method at various rates based on the estimated useful lives of the assets. Generally, estimated useful lives of five years for trucks and tractors, ten years for furniture, fixtures and equipment, and thirty years for the building and water system are used. Maintenance and repairs as well as renewals and betterments of small amounts are charged against Income as incurred whereas major renewals or betterments which extend the life or increase the value of property are capitalized.

Capital asset activity for the year ended August 31, 2018 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Water System	12,548,008	406,023	-	12,954,031
Land	36,575	-	-	36,575
Trucks & Tractors	462,692	53,833	-	516,525
Office Building	50,288	614,143	-	664,431
Office Furniture & Equipment	72,938	18,382	-	91,320
Total	13,170,501	1,092,381	-	14,262,882
Less: Accumulated Depreciation	(4,460,771)	(433,340)	56,374	(4,837,737)
Net Capital Assets	<u>\$ 8,709,730</u>			<u>\$ 9,425,145</u>

Capital asset activity for the year ended August 31, 2017 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Water System	6,645,512	5,902,496	-	12,548,008
Land	36,575	-	-	36,575
Trucks & Tractors	462,692	-	-	462,692
Office Building	50,288	-	-	50,288
Office Furniture & Equipment	72,938	-	-	72,938
Total	7,268,005	5,902,496	-	13,170,501
Less: Accumulated Depreciation	(4,269,620)	(191,151)	-	(4,460,771)
Net Capital Assets	<u>\$ 2,998,385</u>			<u>\$ 8,709,730</u>

Debt

During the year ending August 31, 2018, the District entered into a new loan agreement with Rural Development. The total amount of the new loan with Rural Development was \$8,043,100. This loan carries an interest rate of 2.25% and requires monthly payments of \$25,497. The balance of this loan as of yearend was \$7,226,073.14. Principal paid during the year was \$145,336. Principal and Interest until maturity is as follows:

RURAL WATER AND SEWER DISTRICT NO. 5
Notes to Basic Financial Statements
August 31, 2018 and 2017

Year	Principal	Interest		
2019	156,877.32	149,086.68	Balance, Beginning of Year	6,317,472.80
2020	148,431.57	157,532.43	Loan Advances during Year	1,053,936.34
2021	151,805.96	154,158.04	Principal Paid	(145,336.00)
2022	155,257.03	150,706.97	Balance, End of Year	<u>\$ 7,226,073.14</u>
2023	158,786.59	147,177.41		
2023-2028	849,748.87	680,071.13		
2028-2033	950,830.23	578,989.77		
2033-2038	1,063,935.65	465,884.35		
2038-2043	1,190,495.47	339,324.53		
2043-2048	1,332,110.14	197,709.86		
2048-2052	1,067,794.31	45,272.38		
	<u>\$ 7,226,073.14</u>	<u>\$ 3,065,913.55</u>		

Retirement Plan

On January 10, 1997 the water district adopted the National Association of Counties Deferred Compensation Program for its full time employees through a joint contributory defined contribution plan. The water district's total payroll for the year was \$327,621 and the covered payroll was \$183,518. The water district's contributions for the year were \$7,431 and the employee's contributions were \$9,481. There were no related party transactions in the plan during the year. Employer contributions to the plan vest at the time contributions are made. The employee may elect the time at which distributions under the Plan are to commence by designating the month and year during which the first distribution is to be made. The earliest distribution commencement date that may be elected by the employee shall be the earlier of (a) the date on which the employee separates from services: or (b) the date on which the employee attains age 70 1/2 or terminates deferrals under this plan, whichever is later.

Restricted Assets

The USDA Rural Development required an amount equal to the note payments for one year be set aside and controlled by them. The District has continued to hold these accounts as restricted until the new loan is fully funded and the new loan requirements have been met.

Subsequent Events

Subsequent events have been evaluated through February 1, 2019 which is the date the financial statements were issued.

Bryan Co. Rural Water & Sewer Dist. #5
Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2018

<u>Federal Grantor/Pass-through Grantor/ Program or Cluster Title</u>	<u>CFDA No.</u>	<u>Pass Through Identifying No</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture Water and Waste Disposal Systems for Rural	10.760		<u>7,226,073</u>
Total Expenditures of Federal Awards			<u>\$ 7,226,073</u>

*Principal unpaid balance at August 31, 2018

See accompanying notes to schedule of expenditures of federal awards.

Bryan Co. Rural Water & Sewer Dist. #5
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2018

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Bryan Co. Rural Water & Sewer Dist. #5 under programs of the federal government for the year ended August 31, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Bryan Co. Rural Water & Sewer Dist. #5, it is intended to and does not present the financial position, changes in net assets, or cash flows of Bryan Co. Rural Water & Sewer Dist. #5

Note B - Summary of Significant Accounting Policies

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(2) Bryan Co. Rural Water & Sewer Dist. #5 has elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

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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
Bryan County Rural Water & Sewer District #5
Durant, 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, the accompanying financial statements of the business-type activities of the Bryan County Rural Water & Sewer District #5, as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise the Bryan County Rural Water & Sewer District #5's basic financial statements, and have issued our report thereon dated February 1, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Bryan County Rural Water & Sewer District #5'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Bryan County Rural Water & Sewer District #5's internal control. Accordingly, we do not express an opinion on the effectiveness of the Bryan County Rural Water & Sewer District #5'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 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. 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. 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 Bryan County Rural Water & Sewer District #5's financial statements are free from 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.

Russell + Williams CPAs, P.C.

Oklahoma City, Oklahoma
February 1, 2019

Russell & Williams CPA's, P.C.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of
Bryan County Rural Water & Sewer District #5

Report on Compliance for Each Major Federal Program

We have audited the Bryan County Rural Water & Sewer District #5's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Bryan County Rural Water & Sewer District #5's major federal programs for the year ended August 31, 2018. Bryan County Rural Water & Sewer District #5's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Bryan County Rural Water & Sewer District #5's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Bryan County Rural Water & Sewer District #5's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Bryan County Rural Water & Sewer District #5's compliance.

Opinion on Each Major Federal Program

In our opinion, the Bryan County Rural Water & Sewer District #5, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2018.

Report on Internal Control over Compliance

Management of the Bryan County Rural Water & Sewer District #5, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Bryan County Rural Water & Sewer District #5's internal control over compliance with the types of requirements that could have a direct and

material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Bryan County Rural Water & Sewer District #5's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Russell + Williams CPAs, P.C.

Oklahoma City, Oklahoma
February 1, 2019

Bryan County Rural Water & Sewer District #5
Schedule of Findings and Questioned Costs
Year Ended August 31, 2018

SECTION I – Summary of Auditors’ Results

1. The auditor’s report expresses an unmodified opinion on whether the financial statements of Bryan County Rural Water & Sewer District #5 were prepared in accordance with GAAP.
2. No material weaknesses were identified during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of Bryan County Rural Water & Sewer District #5 were disclosed during the audit.
4. No material weaknesses were identified during the audit of the major federal award programs.
5. The auditor’s report on compliance for the major federal award programs for Bryan County Rural Water & Sewer District #5 expresses an unmodified opinion.
6. Audit findings that are required to be reported in accordance with 2 CFR section 200.516(a) are reported in this Schedule.
7. The programs tested as major programs were:

CFDA No. 10.760 – Water & Waste Disposal Systems for Rural Communities

8. The threshold for distinguishing Types A and B programs was \$750,000.
9. Bryan County Rural Water & Sewer District #5 was determined to be a low-risk auditee.

SECTION II – Findings Required to be Reported in Accordance with *Government Auditing Standards*:

No matters are reportable.

SECTION III - Findings Required to be Reported in Accordance with the Uniform Guidance:

No matters are reportable.

Bryan County Rural Water & Sewer District #5
Schedule of Prior Year Findings
Year Ended August 31, 2018

None