


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

Stilwell, Oklahoma

**Financial Statements
&
Audit Report**

December 31, 2018



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

Table of Contents

Independent Auditor's Report	1
Statement of Net Position	3
Statement of Revenues, Expenses and Changes in Net Position	4
Statement of Cash Flows	5
Statement of Cash Flows, Reconciliation	6
Notes to Financial Statements	7
Report on Compliance and on Internal Control	12
Schedule of Findings and Responses	14

MICHAEL W. GREEN

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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 business-type activities, each major fund, and the aggregate remaining fund information of the Adair County Water, Sewer and Solid Waste Management Dist. No. 2 (the District), as of and for the year ended December 31, 2018, 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, 2018, 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 20, 2019 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.

Regards,

A handwritten signature in black ink, appearing to read "Michael Green", written in a cursive style.

Michael Green, CPA

September 20, 2019

Adair County Rural Water District #2
Statement of Net Position
Proprietary Fund
December 31, 2018

ASSETS

CURRENT ASSETS

Cash on Hand	\$ 100
Cash In Bank	99,569
Investments	26,043
Accounts Receivable	54,081
Prepaid Expenses	3,197
Utility Deposits, Receivable	425
TOTAL CURRENT ASSETS	<u>183,415</u>

FIXED ASSETS

Water System	2,950,034
Office Equipment	13,935
Equipment	31,137
Vehicles	48,155
Buildings	53,199
Land Easement	3,223
Accumulated Depreciation	(1,576,018)
TOTAL FIXED ASSETS	<u>1,523,664</u>

RESTRICTED ASSETS

Cash Restricted for Security Deposits	3,569
TOTAL ASSETS	<u><u>1,710,649</u></u>

LIABILITIES

CURRENT LIABILITIES

Accounts Payable & Accrued Liabilities	23,260
Payroll & Payroll Taxes Payable	2,944
Security Deposits Payable	3,569
Current Portion of Long-Term Debt	18,802
TOTAL CURRENT LIABILITIES	<u>48,575</u>

NONCURRENT LIABILITIES

Note Payable - Less Current Portion	145,691
TOTAL NONCURRENT LIABILITIES	<u>145,691</u>

TOTAL LIABILITIES

194,266

NET POSITION:

Net Investment in Capital Assets	1,359,171
Unrestricted	157,211
TOTAL NET POSITION	<u><u>1,516,382</u></u>

See accompanying notes and independent auditors report.

Adair County Rural Water District #2
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund
For the Year Ended December 31, 2018

OPERATING REVENUE:

Charges for Services:	
Water Sales	\$ 393,592
Membership Tap Fees	8,750
Late Fees	8,538
Reconnect Fees	5,625
	<hr/>
Total Charges for Services	416,505
TOTAL OPERATING REVENUE	

OPERATING EXPENSES:

Water Purchased	204,000
Bank Charges	1,174
Payroll	62,287
Payroll Expenses	5,003
Contract Labor	17,535
Depreciation	75,578
Repairs & Maintenance	7,113
Insurance	13,127
Supplies	23,167
Legal & Professional	3,100
Telephone	3,731
Utilities	6,254
Vehicle Expense	7,843
Property Tax	499
Postage	3,588
Dues, Fees & License	941
Advertising & Printing	794
Miscellaneous	1,330
Water Testing	1,778
Bad Debt Expense	3,986
Office Exp.	2,761
	<hr/>
TOTAL OPERATING EXPENSES	445,587
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NET INCOME FROM OPERATIONS	(29,082)

NONOPERATING REVENUE (EXPENSE):

Reimbursement from ODOT	302,416
Interest Income	1,006
Interest Expense	(2,791)
	<hr/>
TOTAL NONOPERATING REVENUE & EXPENSE	300,631
	<hr/>
CHANGE IN NET POSITION	271,549

NET POSITION, BEGINNING OF YEAR	<hr/> 1,244,833
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NET POSITION, END OF YEAR	<hr/> <hr/> \$ 1,516,382
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See accompanying notes and independent auditors report.

Adair County Rural Water District #2
Statement of Cash Flows, Direct Method
Proprietary Fund
For the Year Ended December 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Cash from Customers	\$ 416,791
Cash paid to Suppliers	(297,110)
Wages to Employees	<u>(68,681)</u>
Net Cash Provided (used) by Operating Activities	<u>51,000</u>

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

Net purchase of Capital Assets	(309,073)
Net Increase(Decrease) in Capital Debt	(18,305)
Income From ODOT	302,416
Interest Paid on Capital Debt	<u>(2,791)</u>
Net Cash Provided (used) by Capital and Related Financing Activities	<u>(27,753)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Increase, Other Investing Activities	1,000
Interest Income	<u>1,006</u>
Net Cash Provided (used) by Investing Activities	<u>2,006</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	25,253
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BALANCES - BEGINNING OF THE YEAR	104,028
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BALANCES - END OF THE YEAR	<u><u>\$ 129,281</u></u>
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See accompanying notes are and independent auditors report.

Adair County Rural Water District #2
Statement of Cash Flows (Continued)
Proprietary Fund
For the Year Ended December 31, 2018

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

Operating Income	\$ (29,082)
Adjustments to Reconcile Operating Income to Net Cash Provided (used) by Operating Activities:	
Depreciation Expense	75,578
Change in Assets and Liabilities:	
Accounts Receivable	286
Prepaid Expenses	(392)
Accounts Payable & Accrued Liabilities	<u>4,610</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 51,000</u></u>

The accompanying notes are an integral part of these financial statements

Adair County Rural Water District No.2
Notes to the Financial Statements
For the Year Ended December 31, 2018

The Adair County Rural Water District No. 2 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 other 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 Accounting and Measurement Focus

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

Basis of Accounting:

Basis of Accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of Accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The financial statements of Adair County Rural Water 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.

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:

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 position, (or cost recovery), and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported appropriately as such. Proprietary fund equity is classified as total net position

Adair County Rural Water District No.2
Notes to the Financial Statements
For the Year Ended December 31, 2018

Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

A. Cash & Cash Equivalents

For the purpose of reporting cash and equivalents, the district considers all unrestricted checking and savings accounts and any highly liquid investments with an initial maturity of less than three months to be a cash equivalent. For the purpose of the cashflow statement, cash on hand, cash in bank, and certificates of deposits are included.

Cash on Hand	100
Total Cash on hand	100

All funds were covered by federal depository insurance or collateralized by securities pledged to the Authority by various depository banks. Cash in bank consist of the following accounts:

BOC, O & M Checking	\$ 69,745
BOC, HI-FI	\$ 31,305
BOC, Security Deposits	\$ 2,087
Total Cash	\$ 103,138

B. Investments

Investments, as presented in the District's financial statements are certificates of deposit with a maturity of three months or more. The investments as shown in the following schedule include both the restricted and unrestricted portions as of December 31, 2018 are as follows:

Boc, 12 Month CD	\$ 26,043
Total Investments	\$ 26,043

C. Accounts Receivable

Accounts receivable consist of trade receivables.

	Days Receivable		
Accounts Receivable	30	60	90
Accounts Receivable Totals	\$ 51,861	\$ 582	\$ 1,638

D. Allowance for Doubtful Accounts

Management expects all accounts to be collectable as of the balance sheet date.

Adair County Rural Water District No.2
Notes to the Financial Statements
For the Year Ended December 31, 2018

E. Income Taxes

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

F. Inventories

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

G. Plant, Property and Equipment

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Capitalization Policy

The District has a capitalization policy which includes all items of a Property, plant and equipment nature in an amount of more than \$500.

Recording of Assets and Depreciation Methods

All fixed assets are stated at their historical cost and depreciation is recorded using the straight-line method over the useful life of the asset.

Additions & Deletions to Fixed Assets

Additions to the fixed asset accounts are as seen in the schedule below.

		<u>12/31/2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/2018</u>
Capital Assets, not being depreciated					
Land Easements		3,223	-	-	3,223
Capital Assets, being depreciated					-
Water System	SL 40	2,645,861	304,173	-	2,950,034
Vehicles	SL 5	43,255	4,900	-	48,155
Building	SL 20	53,199	-	-	53,199
Office Equipment	SL 5	13,935	-	-	13,935
Equipment	SL 5	31,137	-	-	31,137
Accumulated Depreciation		(1,500,441)	(75,577)		(1,576,018)
Total Capital Assets being Depreciated		1,286,946	233,496	-	1,520,442
Total Capital Assets		1,290,169	233,496	-	1,523,664

Adair County Rural Water District No.2
Notes to the Financial Statements
For the Year Ended December 31, 2018

H. Long Term Debt

At December 31, 2018, the water district had one outstanding long-term note payable with the Bank of Commerce. The origination date of the note was April 05, 2017 and is expected to remain in effect until its estimated payoff date of April 05, 2027. The note bears an interest rate of 1.60% annually. The note payable had an original beginning principal debt of \$194,835.64. As of December 31, 2018, the amount of principal remaining was \$164,493.16 of which approximately, \$18,306 was paid in the current year.

The following table indicates the balances of debt throughout the year:

	Balance 12/31/2017	Additions	Deductions	Balance 12/31/2018
Bank of Commerce	182799	-	(18,306)	164,493
	<u>\$ 182,799</u>	<u>\$ -</u>	<u>\$ (18,306)</u>	<u>\$ 164,493</u>

The maturity of principal and interest for the next five years is displayed below. The remaining term of the loan is displayed in five-year increments through maturity.

Year End	Principal	Interest
2019	\$ 18,802	2,494
2020	19,105	2,191
2021	19,413	1,883
2022	19,726	1,571
2023	20,044	1,253
2024-2028	67,402	1,813
Totals	<u>\$ 164,493</u>	<u>11,205</u>

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. At December 31, 2018 the District did not participate in or offer any pension plans.

J. Compensated absences

The Water district has no material compensated absence amounts.

Adair County Rural Water District No.2
Notes to the Financial Statements
For the Year Ended December 31, 2018

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. Commitments and Contingencies

The district has considered the possibility of any commitments or contingencies that could have a material effect on the financial statements. After careful consideration, no provision has been made at this time.

M. Restricted component of Net Position

The district is not currently required to maintain a restricted cash account.

N. Subsequent Events

Management has evaluated subsequent events through the date of the auditor's report which is the date the financial statements were available to be issued.

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, 2018, 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 20, 2019.

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. (2018-1)

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.

Regards,

A handwritten signature in black ink, appearing to read 'Mike Green', with a stylized flourish at the end.

Michael Green, CPA
September 20, 2019

SCHEDULE OF FINDINGS AND RESPONSES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS 2018-1

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 2017.

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. In addition, the board has in its employ, a contractor who assists with the reconciliation and presentation of its financial data.