

Choctaw County Rural Water & Sewer District #6

Independent Auditors Report

**As of and for the Years Ended
December 31, 2019 and 2018**

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Independent Auditors Report

To the Board of Directors
Choctaw County Rural Water & Sewer District #6
Boswell, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Choctaw County Rural Water & Sewer District #6, as of and for the years ended December 31, 2019 and 2018, 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 Choctaw County Rural Water & Sewer District #6, as of December 31, 2019 and 2018, 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 Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated May 9, 2020, on our consideration of the Choctaw County Rural Water & Sewer District #6'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 Choctaw County Rural Water & Sewer District #6's internal control over financial reporting and compliance.

Russell + Williams CPAs, P.C.

Oklahoma City, Oklahoma
May 9, 2020

Choctaw County Rural Water District #6
Statement of Net Position
December 31, 2019 and 2018

ASSETS	2019	2018
Cash in Bank - Unrestricted	\$ 22,387.39	\$ 29,961.39
Cash in Bank - Restricted	66,500.34	46,514.45
Certificates of Deposits	143,655.53	143,466.07
Accounts Receivable, Net	39,400.71	37,942.48
Prepaid Expenses	1,755.62	1,711.35
Total Current Assets	273,699.59	259,595.74
 Capital Assets, Net	 2,772,557.13	 2,886,035.04
TOTAL ASSETS	\$ 3,046,256.72	\$ 3,145,630.78
LIABILITIES AND NET POSITION		
Accounts Payable	\$ 15,208.80	\$ 17,910.02
Accrued Payroll Liabilities	1,352.62	1,375.51
Accrued Interest Payable	3,662.28	3,741.34
Current portion LTD	22,355.29	21,373.40
Total Current Liabilities	42,578.99	44,400.27
 Notes Payable	 967,816.28	 990,173.60
Total Liabilities	1,010,395.27	1,034,573.87
NET POSITION		
Net Investment in Capital Assets	1,782,385.56	1,874,488.04
Restricted for Debt Service and Maintenance	66,500.34	46,514.45
Unrestricted	186,975.55	190,054.42
Total Net Position	2,035,861.45	2,111,056.91
TOTAL LIABILITIES AND NET POSITION	\$ 3,046,256.72	\$ 3,145,630.78

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

Choctaw County Rural Water District #6
Statement of Revenues Over Expenses and
Changes in Net Position
For the Year Ended December 31, 2019 and 2018

	2019	2018
OPERATING REVENUES		
Water sales	\$ 387,756.98	\$ 411,713.95
Membership and Other Revenues	<u>3,600.00</u>	<u>4,250.00</u>
TOTAL OPERATING REVENUES	<u>391,356.98</u>	<u>415,963.95</u>
OPERATING EXPENSES		
Accounting Services	12,000.00	9,960.00
Bad Debt Expense	(1,458.23)	24,433.66
Bank Fees	15.00	40.00
Contract labor	7,145.00	6,575.00
Depreciation	117,777.91	116,327.20
Dues & Fees	404.60	414.00
Insurance	4,111.07	4,161.21
Licenses & Permits	447.97	562.75
Materials & Supplies	3,523.24	900.69
Mileage Expense	7,800.00	9,684.01
Miscellaneous Expenses	58.85	-
Operating Supplies	22,750.73	13,616.92
Postage & Shipping	1,803.10	1,979.48
Professional Fees	5,981.58	11,200.00
Repairs & Maintenance	25,413.38	999.50
Salaries & Benefits	23,910.00	28,305.00
Payroll Taxes	2,148.38	2,424.58
Utilities	8,109.86	7,496.51
Water Purchased	175,526.98	189,483.22
Water Testing Fees	<u>4,275.00</u>	<u>3,250.00</u>
TOTAL OPERATING EXPENSES	<u>421,744.42</u>	<u>431,813.73</u>
OPERATING INCOME (LOSS)	<u>(30,387.44)</u>	<u>(15,849.78)</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest revenue	272.55	183.30
Interest expense	<u>(45,080.57)</u>	<u>(46,019.42)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(44,808.02)</u>	<u>(45,836.12)</u>
NET CHANGE IN NET POSITION	(75,195.46)	(61,685.90)
Beginning net position	<u>2,111,056.91</u>	<u>2,172,742.81</u>
Ending net position	<u>\$ 2,035,861.45</u>	<u>\$ 2,111,056.91</u>

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

Choctaw County Rural Water District #6
Statement of Cash Flows
For the Year Ending December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Receipts from customers	\$ 389,898.75	\$ 418,846.11
Payments to suppliers	(280,732.68)	(290,060.34)
Payments to employees	<u>(26,081.27)</u>	<u>(33,110.07)</u>
Net cash provided by operating activities	83,084.80	95,675.70
 Cash flows from capital and related financing activities		
Purchase of Fixed Assets	(4,300.00)	(19,930.00)
Interest Paid on Mortgage Payable	(45,080.57)	(46,019.42)
Principal Paid on Mortgage Payable	<u>(21,375.43)</u>	<u>(20,391.58)</u>
Net cash flows from capital and related financing activities	(70,756.00)	(86,341.00)
 Cash flows from investing activities		
Interest Received on Cash	<u>272.55</u>	<u>183.30</u>
Net cash flows from capital and related financing activities	272.55	183.30
 Net Increase (Decrease) in Cash	12,601.35	9,518.00
 Cash, Beginning of the Year	<u>219,941.91</u>	<u>210,423.91</u>
Cash, End of the Year	<u><u>\$ 232,543.26</u></u>	<u><u>\$ 219,941.91</u></u>
 <i>Reconcilement of change in net assets to net cash provided by operations:</i>		
Income (Loss) from Operations	(30,387.44)	(15,849.78)
Adjustments to reconcile change in net position to net cash provided by operating activities:		
Depreciation	117,777.91	116,327.20
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	(3,562.23)	22,003.76
Increase (Decrease) in Allowance for Bad Debts	2,104.00	(19,121.60)
(Increase) Decrease in Prepaid Expenses	(44.27)	(17.79)
Increase (Decrease) in Accounts Payable	(2,780.28)	(5,285.60)
Increase (Decrease) in Accrued Payroll Liabilities	<u>(22.89)</u>	<u>(2,380.49)</u>
Net cash provided by operating activities	<u><u>\$ 83,084.80</u></u>	<u><u>\$ 95,675.70</u></u>

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

CHOCTAW COUNTY RURAL WATER AND SEWER DISTRICT NO. 6
Notes to Basic Financial Statements
December 31, 2019 and 2018

Note 1: Summary of Significant Accounting Policies

Financial Reporting Entity

Rural Water and Sewer District No. 6, Choctaw County, Oklahoma (the District) was organized for the purpose of providing water to the rural residents and businesses located in the southern portion of Choctaw 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 Choctaw County, Oklahoma. As of December 31, 2019, and 2018, the District's receivables were \$39,401 and \$37,942, respectively. An overall decline in the economic condition of the area could affect the collection of those receivables.

CHOCTAW COUNTY RURAL WATER AND SEWER DISTRICT NO. 6
Notes to Basic Financial Statements
December 31, 2019 and 2018

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. At December 31, 2019 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 accounts that are over 90 days old at the end of the accounting year.

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

CHOCTAW COUNTY RURAL WATER AND SEWER DISTRICT NO. 6
Notes to Basic Financial Statements
December 31, 2019 and 2018

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 December 31, 2019 is as follows:

	Beginning			Ending
	Balance	Additions	Reductions	Balance
Water System	4,033,386	-	-	4,033,386
Land	1,500	-	-	1,500
Standpipe & Water Tower	264,976	-	-	264,976
Office Building	55,224	4,300	-	59,524
Office Furniture & Equipment	11,918	-	-	11,918
Total	4,367,004	4,300	-	4,371,304
Less: Accumulated Depreciation	(1,480,969)	(117,778)	-	(1,598,747)
Net Capital Assets	<u>\$ 2,886,035</u>			<u>\$ 2,772,557</u>

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

	Beginning			Ending
	Balance	Additions	Reductions	Balance
Water System	4,013,456	19,930	-	4,033,386
Land	1,500	-	-	1,500
Standpipe & Water Tower	264,976	-	-	264,976
Office Building	55,224	-	-	55,224
Office Furniture & Equipment	11,918	-	-	11,918
Total	4,347,074	19,930	-	4,367,004
Less: Accumulated Depreciation	(1,364,642)	(116,327)	-	(1,480,969)
Net Capital Assets	<u>\$ 2,982,432</u>			<u>\$ 2,886,035</u>

Mortgage Payable

On December 2, 2002, the District financed their water distribution system by borrowing \$1,206,500 from the Rural Utilities Service agency of the United States Department of Agriculture. The promissory note calls for monthly payments of \$5,538. The promissory note was executed on November 1, 2004 and matures in forty (40) years. The promissory note carries a fixed rate of interest of 4.5%. The note is secured by a pledge and assignment of revenues and receipts derived by the District from its water system and other revenue producing utility systems. It is also secured by a mortgage and security agreement on the system. Changes in the District's long-term debt are as follows:

CHOCTAW COUNTY RURAL WATER AND SEWER DISTRICT NO. 6
Notes to Basic Financial Statements
December 31, 2019 and 2018

	12/31/2019	12/31/2018
Beginning Balance	\$ 1,011,547	\$ 1,031,939
Principal Reductions	(21,375)	(20,392)
Totals	\$ 990,172	\$ 1,011,547

Requirements to amortize the mortgage payable at December 31, 2019 are as follows:

Year Ended	Principal	Interest	Totals
2020	22,355	44,101	66,456
2021	23,382	43,074	66,456
2022	24,456	42,000	66,456
2023	25,580	40,876	66,456
2024	26,755	39,701	66,456
2025-2029	153,382	178,898	178,898
2029-2034	192,002	140,278	140,278
2034-2039	240,348	91,932	91,932
2039-2044	281,912	31,489	31,489
	\$ 990,172	\$ 652,348	\$ 1,642,521

Restricted Assets

The USDA Rural Development required an amount equal to the note payments for one year be set aside and controlled by them. That amount has been invested in a reserve account and is included in restricted assets. One year's note payments at \$5,538 per month totals \$66,456, and this amount is reported as restricted cash on the financial statements. The cash is held in a separate demand deposit account.

Subsequent Events

Subsequent events have been evaluated through May 9, 2020 which is the date the financial statements were issued.

Russell & Williams CPA's, P.C.

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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
Choctaw County Rural Water & Sewer District #6
Boswell, 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 Choctaw County Rural Water & Sewer District #6, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Choctaw County Rural Water & Sewer District #6's basic financial statements, and have issued our report thereon dated May 9, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Choctaw County Rural Water & Sewer District #6'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 Choctaw County Rural Water & Sewer District #6's internal control. Accordingly, we do not express an opinion on the effectiveness of the Choctaw County Rural Water & Sewer District #6'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 Choctaw County Rural Water & Sewer District #6'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
May 9, 2020