

AUDIT REPORT

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

OCTOBER 31, 2019



KERSHAW CPA & ASSOCIATES, PC

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ATOKA COUNTY RURAL WATER, SEWER
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OCTOBER 31, 2019

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ATOKA COUNTY RURAL WATER, SEWER
AND SOLID WASTE MANAGEMENT, DISTRICT NO.4
OCTOBER 31, 2019

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>
JAMES BRIGGS	CHAIRMAN
GARY COOPER	VICE-CHAIRMAN
WESLEY MOORE	TREASURER
JIM HARDMAN	SECRETARY
WILLIE ELDRIDGE	ASST. SECRETARY
JOE DANIEL	MEMBER
ROBERT D. CALVERT	MEMBER
KEVIN FEUERHELM	MEMBER
ROGER PITTMAN	MEMBER

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Atoka County Rural Water, Sewer and
Solid Waste Management, District No.4
Atoka, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Atoka County Rural Water, Sewer and Solid Waste Management, District No. 4 as of and for the fiscal year ended October 31, 2019, 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,

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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 modified audit opinion.

Basis for Qualified Opinion

During the fiscal year ending October 31, 2019, accounting principles generally accepted in the United States of America, with the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, began requiring Net Pension Liability information to be included in the financial statements, note disclosures and Required Supplementary Information. The requirements of Statement No. 68 have not been implemented by the District. The amount by which this departure would affect the assets, net position, and expenses of the District has not been determined.

Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Atoka County Rural Water, Sewer and Solid Waste Management, District No. 4 as of October 31, 2019, 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.

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Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis and Net Pension Liability 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 consider it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operation, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary and Other Information

The introductory 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 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 March 27, 2020, on our consideration of the Atoka County Rural Water, Sewer and Solid Waste Management, District No. 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 Atoka County Rural Water, Sewer and Solid Waste Management, District No. 4's internal control over financial reporting or on compliance. That report is an

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integral part of an audit performed in accordance with *Government Auditing Standards* in considering Atoka County Rural Water, Sewer and Solid Waste Management, District No. 4's internal control over financial reporting and compliance.

Kershaw CPA & Associates, P.C.

Kershaw, CPA & Associates, PC
Muskogee, Oklahoma

March 27, 2020

ATOKA COUNTY RURAL WATER, SEWER
AND SOLID WASTE MANAGEMENT, DISTRICT NO. 4
STATEMENT OF NET POSITION
OCTOBER 31, 2019

<u>ASSETS</u>	2019	Memo Only 2018
<u>Current Assets:</u>		
Cash and Cash Equivalents	\$ 1,070,252	\$ 1,014,030
Investments	-	-
Accounts Receivable-Trade	199,674	170,488
Account Receivable - ODOT	12,539	31,664
ORWAAG Reserve Certificate	5,000	5,000
Total Current Assets	<u>1,287,465</u>	<u>1,221,182</u>
<u>Restricted Assets:</u>		
Rental Deposits	16,017	16,050
USDA RD Reserve	101,152	100,850
SLA Reserve	457,197	450,145
SLA - Certificate of Deposit	114,916	112,540
Construction	-	-
CDBG Reserve	8,506	8,421
Total Restricted Assets	<u>697,788</u>	<u>688,006</u>
<u>Capital Assets:</u>		
Water Distribution Facilities	13,735,949	13,573,629
Water Dist Facility Construction in Progress	-	-
Buildings	87,521	87,521
Office Furniture & Equipment	51,116	51,116
Land	38,601	38,601
Less: Accumulated Depreciation	(7,296,255)	(6,951,130)
Total Net Capital Assets	<u>6,616,932</u>	<u>6,799,737</u>
TOTAL ASSETS	<u>8,602,185</u>	<u>8,708,925</u>
<u>LIABILITIES</u>		
<u>Current Liabilities:</u>		
Accounts Payable - Trade	150,820	86,771
Payroll Taxes Payable	2,763	3,022
Accrued Interest Payable	9,235	9,486
Deferred Revenue - RD Grant	-	-
Rental Deposits	16,017	16,050
Current Maturities of Notes Payable	139,555	143,660
Total Current Liabilities	<u>318,390</u>	<u>258,989</u>
<u>Long-Term Liabilities:</u>		
Notes Payable - USDA Rural Development	4,085,192	4,230,281
Notes Payable - Oklahoma DOC (CDBG)	7,128	14,904
Notes Payable - Water Tech, Inc.	9,000	-
Less: Current Maturities	(139,555)	(143,660)
Total Long-Term Liabilities	<u>3,961,765</u>	<u>4,101,525</u>
TOTAL LIABILITIES	<u>4,280,155</u>	<u>4,360,514</u>
<u>NET POSITION</u>		
Net investment in capital assets	2,524,612	2,554,552
Restricted for debt service	681,771	671,956
Unrestricted	1,115,647	1,095,522
TOTAL NET POSITION	<u>\$ 4,322,030</u>	<u>\$ 4,348,411</u>

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

**ATOKA COUNTY RURAL WATER, SEWER
AND SOLID WASTE MANAGEMENT, DISTRICT NO.4
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2019**

	2019	Memo Only 2018
<u>Operating Revenues:</u>		
Water Sales	\$ 1,755,067	\$ 1,767,136
Membership Dues and Connection Fees	65,840	40,150
Materials and Line Extensions	30,684	13,729
Miscellaneous Fees	1,850	1,700
Total Operating Revenues	1,853,441	1,822,715
<u>Operating Expenses:</u>		
Salaries	153,110	151,568
Contract Labor/Operator Fees	273,789	270,776
Employee Expense Allowance	35,522	34,599
Retirement Plan Expense	17,512	17,764
Water Purchases	366,306	314,844
Utilities	57,464	53,885
Repairs and Maintenance	276,867	306,402
Payroll Taxes	12,701	12,491
Office Supplies and Printing	23,406	19,052
Insurance	32,092	30,997
Accounting and Legal	7,755	5,955
Depreciation Expense	345,125	375,730
Permits and Fees	7,972	8,194
Administrative Expense	2,198	1,614
Supplies and Chemicals	62,256	58,660
Bad Debt	9,950	9,521
Miscellaneous	36,863	19,550
Total Operating Expenses	1,720,888	1,691,602
Operating Income (Loss)	132,553	131,113
<u>Non-Operating Revenues (Expenses):</u>		
Interest Income	17,579	5,710
Miscellaneous Income	1,987	9,476
Rental Income	-	-
Interest Expense	(178,852)	(183,804)
FEMA	353	-
Total Non-operating Revenues (Expenses)	(158,933)	(168,618)
Net Income (Loss) Before Contributions	(26,380)	(37,505)
Capital Contributions - Grant Income	-	-
Change in Net Position	(26,380)	(37,505)
Total Net Position - Beginning	4,348,410	4,385,915
Total Net Position - Prior Year Adjustment	-	-
Total Net Position - Ending	\$ 4,322,030	\$ 4,348,410

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

**ATOKA COUNTY RURAL WATER, SEWER
AND SOLID WASTE MANAGEMENT, DISTRICT NO.4
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2019**

	<u>2019</u>	<u>Memo Only 2018</u>
<u>Cash Flows from Operating Activities:</u>		
Cash Receipts from Customers	\$ 1,813,063	\$ 1,833,486
Payments to Suppliers for Goods & Services	(854,790)	(906,995)
Payments to Employees & Laborers	(426,899)	(422,343)
Net Cash Provided (Used) by Operating Activities	<u>531,374</u>	<u>504,148</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>		
FEMA	-	-
Transfers to restricted funds	(1,106)	(3,488)
Transfer from restricted funds	-	-
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>(1,106)</u>	<u>(3,488)</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>		
Capital Grant received for construction/purchase of capital assets	-	-
Capital Grant - Deferred Revenue	-	21,600
Additions to Capital Assets	(162,320)	(52,061)
Proceeds from sale of Capital Assets	-	-
Principal paid on Debt	(143,866)	(138,759)
Interest paid on Debt	(179,103)	(184,210)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(485,289)</u>	<u>(353,430)</u>
<u>Cash Flows from Investing Activities:</u>		
Interest Income	17,579	5,710
Change in Restricted Assets	(8,676)	-
Grants - Reimbursable Income	353	-
Miscellaneous Income	1,987	9,476
Net Cash Provided (Used) by Investing Activities	<u>11,243</u>	<u>15,186</u>
Net Increase (Decrease) in Cash and Cash Equivalents	56,222	162,416
Cash & Cash Equivalents, Beginning of Year	1,014,030	851,614
Cash & Cash Equivalents, Prior Year Adjustment	-	-
Cash & Cash Equivalents, End of Year	<u>\$ 1,070,252</u>	<u>\$ 1,014,030</u>
<u>Reconciliation of operating income (loss) to net cash provided operating activities:</u>		
Operating Income (Loss)	\$ 132,553	\$ 131,113
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	345,124	375,730
Allowance for Uncollectable Accounts	(2,679)	(460)
(Increase)Decrease in Accounts Receivable-Trade	(37,664)	6,317
(Increase)Decrease in Other Assets	19,124	(18,461)
Increase(Decrease) in Customer Deposits	(33)	550
Increase(Decrease) in Accounts Payable	75,207	9,421
Increase(Decrease) in Other Payable	(258)	(62)
Net Cash Provided (Used) by Operating Activities	<u>\$ 531,374</u>	<u>\$ 504,148</u>

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

ATOKA COUNTY RURAL WATER, SEWER
AND SOLID WASTE MANAGEMENT, DISTRICT NO.4
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Atoka County Rural Water, Sewer and Solid Waste Management, District No.4 of Atoka County, Oklahoma was formed in 1979, pursuant to the Oklahoma Rural Water, Sewer, and Solid Waste Management District Act. The District operates as a nontaxable government entity to serve residents of a portion of rural Atoka County.

Accounting

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 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 July 1, 2003 as provided by GASB standards.

ATOKA COUNTY RURAL WATER, SEWER
AND SOLID WASTE MANAGEMENT, DISTRICT NO.4
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2019

Basis of Presentation

The accounts of the District are organized on the basis of proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net assets, revenues and expenses. Enterprise Funds account for activities (1) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (2) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (3) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Basis of Accounting

The proprietary fund type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. Fund equity consists of contributed capital and retained earnings. Proprietary fund type operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in net total assets. The accrual basis of accounting is utilized by the proprietary fund type. Under this basis of accounting revenues are recognized when earned and expenses are recognized when the related liability is incurred.

Cash and Cash Equivalents

GASB Statement No. 9, paragraph 9, defines cash equivalents as "short-term, highly liquid investments that are both readily convertible to known amounts of cash" and "so near their maturity that they present insignificant risk of changes in value because of changes in interest rates." Investments with a remaining maturity of three months or less at the date of purchase by the entity holding the investment meet this definition of a cash equivalent.

ATOKA COUNTY RURAL WATER, SEWER
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NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2019

Accounts Receivable

Accounts receivable consist of the utilities billed that had not been collected at October 31, 2019.

Inventory

Inventory of supplies is not reported on the financial statements of the District. The amount of inventory on hand is not material to the financial statements.

Property and Equipment

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.

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

Capitalization Policy:

Purchases of capital items in excess of \$1,000.00 that increase the capacity or operation efficiency or extend the useful life of any asset are capitalized. Repairs and maintenance are expensed as incurred

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

ATOKA COUNTY RURAL WATER, SEWER
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NOTES TO FINANCIAL STATEMENTS
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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 amounts 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.

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.

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.

ATOKA COUNTY RURAL WATER, SEWER
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NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2019

Finance-related Legal & Contractual Provisions

The loan agreement with the United States Department of Agriculture Rural Development (USDA) requires the District to set aside into a Reserve Account an accumulated amount equal to the sum of the annual installment for all RD loans \$297,192.00 (\$38,748, \$27,540, \$94,812, \$9,900 & \$126,192), after which deposits may be suspended, except to replace withdrawals. The District cannot withdraw funds from the reserve account without USDA approval.

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.

NOTE 3 - AGED ACCOUNTS RECEIVABLE

Accounts receivable of the Atoka County Rural Water, Sewer and Solid Waste Management, District No.4, and the Treatment Water Plant are aged as follows at October 31, 2019:

	Water District	Water Plant	Total
CURRENT	\$ 124,054	\$ 32,524	\$ 156,578
01-30 DAYS	19,064	-	19,064
31-60 DAYS	12,657	-	12,657
61+ DAYS	52,113	-	52,113
Overpayments/Prepayments	(12,904)	-	(12,904)
Total Accounts Receivable	<u>194,983</u>	<u>32,524</u>	<u>227,507</u>
Less: Allowance for Doubtful Accounts	(27,834)	-	(27,834)
Total Accounts Receivable	<u>\$ 167,150</u>	<u>\$ 32,524</u>	<u>\$ 199,674</u>

NOTE 4 - ACCUMULATED UNPAID VACATION AND SICK LEAVE 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.

ATOKA COUNTY RURAL WATER, SEWER
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NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2019

NOTE 5 - CUSTODIAL CREDIT RISK RELATED TO DEPOSITS

Custodial Credit Risk

At October 31, 2019, the District held deposits of approximately \$1,768,040 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.

ATOKA COUNTY RURAL WATER, SEWER
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NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2019

- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

NOTE 6 - RESTRICTED ASSETS

The District maintains a reserve account at First Bank, Atoka, Oklahoma that funds the reserve contributions as required by the USDA Rural Development Loan Resolution Security Agreements. During the fiscal year 1999, the District received a loan from the Stringtown Public Facilities Authority through the Oklahoma Department of Commerce which requires a reserve fund. The District designated a savings account to fully fund the required reserve.

Restrictions on restricted assets are as follows:

Reserve Funds	-Use is Restricted for Debt Service per USDA & DOC loan agreements
Security Deposits	-Use is Restricted to deposit and refund water meter security deposits
Construction	-Use is Restricted to unforeseen repairs
SLA Accounts	-Use is Restricted for replacement of Short Lived Assets

NOTE 7 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended October 31, 2019, was as follows:

	Balance at Oct. 31, 2018	Additions	Deductions	Balance at Oct. 31, 2019
Water Distribution Facilities	\$ 13,573,629	\$ 162,320	\$ -	\$ 13,735,949
Buildings	87,521	-	-	87,521
Office Furniture and Equipment	51,116	-	-	51,116
Construction in Progress	-	-	-	-
Land	38,601	-	-	38,601
Subtotal	13,750,867	162,320	-	13,913,187
Less: Accum. Depr.	(6,951,130)	(345,125)	-	(7,296,255)
Total Capital Assets (Net of Depreciation)	<u>\$ 6,799,737</u>	<u>\$ (182,805)</u>	<u>\$ -</u>	<u>\$ 6,616,932</u>

ATOKA COUNTY RURAL WATER, SEWER
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NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2019

The capital assets addition included major repairs on filter system.

NOTE 8 - LONG-TERM DEBT

USDA RURAL DEVELOPMENT (RD)

The District is indebted to USDA Rural Development under the terms of five forty-year installment note which are collateralized by the District's plant and distribution facilities. One note is payable in monthly installments of \$3,229.00 at an interest rate of 5.0% for forty years. The second is payable in monthly installments of \$2,295.00 at an interest rate of 4.5% for forty years. The third is payable in monthly installments of \$7,901.00 with an interest rate at 4.5% for forty years. The fourth note is payable in monthly installments of \$825.00 with an interest rate of 2.5% for forty years. The fifth note is payable in monthly installments of \$10,516.00 with an interest rate of 4.25% for forty years. The notes will mature in 2031, 2035, 2042, 2049 and 2049, respectively.

DEPARTMENT OF COMMERCE-CDBG/STRINGTOWN PUBLIC FACILITIES AUTHORITY

During fiscal year 1999 a Community Development Block Grant-Community Development (CDBG-CD) loan in the amount of \$155,527.00 was approved for water systems improvements. The Atoka County Board of Commissioners is the Applicant for the grant/loan with the Stringtown Public Facilities Authority as the designated Lender and Atoka County Rural Water, Sewer, and Solid Waste Management District No.4 designated as the Borrower. Payments on behalf of the Stringtown Public Facilities Authority are \$648.03 per month at an interest rate of 0% for twenty years.

WATER TECH INC. (SOUTHWEST CHEMICAL SERVICES)

During fiscal year 2017 the plant entered into a lease purchase agreement with Southwest Chemical Services now known as Water Tech Inc. for the lease purchase of a generator in the amount of \$54,000. The generator can be purchased by the Atoka County Rural Water, Sewer and Solid Waste Management, District No. 4 at the end of the lease for \$1.00. The payment amount of the lease purchase is \$1,500.00 per month at 0% for thirty-six months.

ATOKA COUNTY RURAL WATER, SEWER
AND SOLID WASTE MANAGEMENT, DISTRICT NO.4
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2019

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended October 31, 2019:

	Balance at October 31, 2018	Additions	Deductions	Balance at October 31, 2019
Note Payable - USDA RD 91-11	\$ 369,138.74	\$ -	\$ (20,762.85)	\$ 348,375.89
Note Payable - USDA RD 91-13	\$ 321,075.44	\$ -	\$ (13,365.19)	\$ 307,710.25
Note Payable - USDA RD 91-15	\$ 1,201,320.60	\$ -	\$ (41,604.23)	\$ 1,159,716.37
Note Payable - USDA RD 91-18	\$ 213,203.34	\$ -	\$ (4,622.65)	\$ 208,580.69
Note Payable - USDA RD 91-20	\$ 2,098,543.08	\$ -	\$ (37,733.99)	\$ 2,060,809.09
Note Payable - DOC (CDBG)	\$ 14,904.49	\$ -	\$ (7,776.36)	\$ 7,128.13
Note Payable - Water Tech	\$ 27,000.00	\$ -	\$ (18,000.00)	\$ 9,000.00
Total Long-Term Debt	<u>\$ 4,245,185.69</u>	<u>\$ -</u>	<u>\$ (143,865.27)</u>	<u>\$ 4,101,320.42</u>

A summary of future maturities of principal and interest are as follows:

Year Ending October 31,	Notes Payable - RD #91-11		
	Principal	Interest	Total
2020	\$ 21,825	\$ 16,923	\$ 38,748
2021	22,941	15,807	38,748
2022	24,115	14,633	38,748
2023	25,349	13,399	38,748
2024	26,646	12,102	38,748
2025-2029	155,128	38,612	193,740
2030-2031	72,372	3,758	76,130
Total	<u>\$ 348,376</u>	<u>\$ 115,234</u>	<u>\$ 463,610</u>

Year Ending October 31,	Notes Payable - RD #91-13		
	Principal	Interest	Total
2020	\$ 13,979	\$ 13,561	\$ 27,540
2021	14,621	12,919	27,540
2022	15,293	12,247	27,540
2023	15,995	11,545	27,540
2024	16,730	10,810	27,540
2025-2029	95,911	41,789	137,700
2030-2034	120,061	17,639	137,700
2035	15,119	214	15,333
Total	<u>\$ 307,710</u>	<u>\$ 120,722</u>	<u>\$ 428,433</u>

ATOKA COUNTY RURAL WATER, SEWER
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NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2019

Year Ending October 31,	Notes Payable - RD #91-15		
	Principal	Interest	Total
2020	\$ 43,501	\$ 51,311	\$ 94,812
2021	45,499	49,313	94,812
2022	47,589	47,223	94,812
2023	49,776	45,036	94,812
2024	52,079	42,733	94,812
2025-2029	298,560	175,500	474,060
2030-2034	373,736	100,324	474,060
2035-2037	248,915	16,458	265,373
Total	<u>\$ 1,159,655</u>	<u>\$ 527,897</u>	<u>\$ 1,687,553</u>

Year Ending October 31,	Notes Payable - RD #91-18		
	Principal	Interest	Total
2020	\$ 4,740	\$ 5,160	\$ 9,900
2021	4,860	5,040	9,900
2022	4,982	4,918	9,900
2023	5,108	4,792	9,900
2024	5,237	4,663	9,900
2025-2029	28,242	21,258	49,500
2030-2034	31,999	17,501	49,500
2035-2039	36,254	13,246	49,500
2040-2044	41,076	8,424	49,500
2045-2049	46,082	2,960	49,042
Total	<u>\$ 208,581</u>	<u>\$ 87,961</u>	<u>\$ 296,542</u>

Year Ending October 31,	Notes Payable - RD #91-20		
	Principal	Interest	Total
2020	\$ 39,373	\$ 86,819	\$ 126,192
2021	41,080	85,112	126,192
2022	42,860	83,332	126,192
2023	44,717	81,475	126,192
2024	46,650	79,542	126,192
2025-2029	265,385	365,575	630,960
2030-2034	328,096	302,864	630,960
2035-2039	405,625	225,335	630,960
2040-2044	501,475	129,485	630,960
2045-2047	345,569	22,433	368,001
Total	<u>\$ 2,060,829</u>	<u>\$ 1,461,973</u>	<u>\$ 3,522,801</u>

ATOKA COUNTY RURAL WATER, SEWER
AND SOLID WASTE MANAGEMENT, DISTRICT NO.4
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2019

Year Ending October 31,	Notes Payable - DOC (CDBG)		
	Principal	Interest	Total
2020	\$ 7,128	\$ -	\$ 7,128
2021	-	-	-
2022	-	-	-
2023	-	-	-
2024	-	-	-
Total	<u>\$ 7,128</u>	<u>\$ -</u>	<u>\$ 7,128</u>

Year Ending October 31,	Notes Payable - Water Tech Inc.		
	Principal	Interest	Total
2020	\$ 9,000	\$ -	\$ 9,000
2021	-	-	-
2022	-	-	-
2023	-	-	-
2024	-	-	-
Total	<u>\$ 9,000</u>	<u>\$ -</u>	<u>\$ 9,000</u>

NOTE 9 - 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

NOTE 10 - RELATED PARTY TRANSACTIONS

The construction of a treatment water plant was completed and became operational by the District in fiscal year 1993. The Board of Directors for the District is the governing body for the treatment plant. The treatment plant buys water from the McGee Creek Authority and in turn sells water to Rural Water, Sewer, and Solid Waste Management, District No 4 at a rate of \$3.66 per 1,000 gallons of water. The sales to Atoka County Rural Water, Sewer and Solid Waste Management, District No.4 have been eliminated by interfund blending. The treatment plant sells water to other water districts at a negotiated rate of \$3.66 to \$3.73 per 1,000 gallons of water.

ATOKA COUNTY RURAL WATER, SEWER
AND SOLID WASTE MANAGEMENT, DISTRICT NO.4
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2019

NOTE 11 - INTERFUND ACTIVITY

In the process of aggregating the financial information for the Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows, some amounts reported as related activity and balances in the combining financial statements have been eliminated or reclassified.

Interfund activity between Atoka County Rural Water, Sewer and Solid Waste Management, District No.4 and the water treatment plant have been eliminated in the basic financial statements. The interfund activities consist of sales or purchases of water between the funds and are reported as revenues and expenditures and/or accounts receivable and accounts payable in the supplemental schedules.

NOTE 12 - ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that could affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 13 - RISK MANAGEMENT

The District's risk management of loss consists of commercial insurance for property and liability losses, an employee's bond for employee dishonesty, and worker's compensation. There have been no significant reductions in insurance coverage during the year ended October 31, 2019.

NOTE 14 - CONTINGENCIES

Litigation

The management of the Atoka County Rural Water, Sewer and Solid Waste Management, District No. 4 is not aware of any contingent liabilities at October 31, 2019 which would materially affect the District's 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

ATOKA COUNTY RURAL WATER, SEWER
AND SOLID WASTE MANAGEMENT, DISTRICT NO.4
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2019

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 15 - RETIREMENT PLAN

During the fiscal year, the District participated in the Oklahoma Public Employees Retirement System. The minimum contribution is 18% with the District contributing 11.5% of the minimum. Four out of five employees are in the Step-Up Program.

The total contributions for the fiscal year ending October 31, 2019, for employer and employee were \$17,297.65 and \$16,645.56, respectively, on total wages of \$150,414.11.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* took effect for governments in fiscal years beginning after June 30, 2014 (that is, for years ended June 30, 2015 or later). Management has determined that it would not be cost effective to compile the required information for implementing Statement No. 68 and the amounts are not expected to be material to the financial statements and therefore, the required information has not been included in the financial statements.

NOTE 16 - SUBSEQUENT EVENTS

The District did not have any subsequent events through March 27, 2020, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending October 31, 2019.

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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
Atoka County Rural Water, Sewer and
Solid Waste Management, District No. 4
Atoka, 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 Atoka County Rural Water, Sewer and Solid Waste Management, District No. 4, as of and for the year ended October 31, 2019, and the related notes to the financial statements, and have issued our report thereon dated March 27, 2020, which was qualified because the District has not implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions. Management has omitted the MD&A and Net Pension Liability Information required by accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Atoka County Rural Water, Sewer and Solid Waste Management, District No. 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 Atoka County Rural Water, Sewer and Solid Waste Management, District No. 4's internal control. Accordingly, we do not express an opinion on the effectiveness of Atoka County Rural Water, Sewer and Solid Waste Management, District No. 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

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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 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 19-01.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Atoka County Rural Water, Sewer and Solid Waste Management, District No. 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*.

Atoka County Rural Water, Sewer and Solid Waste Management, District No. 4's Response to Findings

Atoka County Rural Water, Sewer and Solid Waste Management, District No. 4's response to the findings identified in our audit is described in the accompanying Schedule of Findings. Atoka County Rural Water, Sewer and Solid Waste Management, District No. 4's response was not

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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
Muskogee, Oklahoma

March 27, 2020

ATOKA COUNTY RURAL WATER, SEWER
AND SOLID WASTE MANAGEMENT, DISTRICT NO.4
SCHEDULE OF FINDINGS
OCTOBER 31, 2019

INTERNAL CONTROL FINDINGS:

Item 19-01: 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: Some compensating controls have been implemented by requiring the Boards approval and signature for all expenditures. 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 District.

ATOKA COUNTY RURAL WATER, SEWER
AND SOLID WASTE MANAGEMENT, DISTRICT NO. 4
COMBINING STATEMENT OF NET POSITION
OCTOBER 31, 2019

	Enterprise Funds			
	Water District	Water Plant	Consolidation	Total
<u>ASSETS</u>				
<u>Current Assets:</u>				
Cash in Bank: Operating	\$ 942,713	\$ 127,539	\$ -	\$ 1,070,252
Accounts Receivable - Choctaw Nation	-	-	-	-
Accounts Receivable-Trade	167,150	90,440	(57,916)	199,674
Accounts Receivable-Plant	46,829	-	(46,829)	-
ODOT Receivable	12,539	-	-	12,539
ORWAAG Reserve Certificate	5,000	-	-	5,000
Total Current Assets	<u>1,174,231</u>	<u>217,979</u>	<u>(104,745)</u>	<u>1,287,465</u>
<u>Restricted Assets:</u>				
Rental Deposits	16,017	-	-	16,017
USDA RD Reserve	101,152	-	-	101,152
SLA Reserve	457,197	-	-	457,197
SLA - Certificate of Deposit	114,916	-	-	114,916
Construction	-	-	-	-
CDBG Reserve	8,506	-	-	8,506
Total Restricted Assets	<u>697,788</u>	<u>-</u>	<u>-</u>	<u>697,788</u>
<u>Capital Assets:</u>				
Water Distribution Facilities	7,290,469	6,445,480	-	13,735,949
Water Dist Facility Construction in Progress	-	-	-	-
Buildings	87,521	-	-	87,521
Office Furniture & Equipment	51,116	-	-	51,116
Land	38,601	-	-	38,601
Less: Accumulated Depreciation	<u>(4,900,942)</u>	<u>(2,395,313)</u>	<u>-</u>	<u>(7,296,255)</u>
Total Net Capital Assets	<u>2,566,765</u>	<u>4,050,167</u>	<u>-</u>	<u>6,616,932</u>
TOTAL ASSETS	<u>4,438,784</u>	<u>4,268,146</u>	<u>(104,745)</u>	<u>8,602,185</u>
<u>LIABILITIES</u>				
<u>Current Liabilities:</u>				
Accounts Payable - Trade	119,539	89,197	(57,916)	150,820
Accounts Payable - District	-	46,829	(46,829)	-
Payroll Taxes Payable	2,096	667	-	2,763
Accrued Interest Payable	3,271	5,964	-	9,235
Deferred Revenue - RD Grant	-	-	-	-
Current Maturities of Notes Payable	<u>64,693</u>	<u>74,862</u>	<u>-</u>	<u>139,555</u>
Total Current Liabilities	<u>189,599</u>	<u>217,519</u>	<u>(104,745)</u>	<u>302,373</u>
<u>Other Liabilities:</u>				
Rental Deposits	<u>16,017</u>	<u>-</u>	<u>-</u>	<u>16,017</u>
<u>Long-Term Liabilities:</u>				
Notes Payable - USDA Rural Development	1,583,684	2,501,508	-	4,085,192
Notes Payable - Oklahoma DOC (CDBG)	7,128	-	-	7,128
Notes Payable - Water Tech, Inc.	-	9,000	-	9,000
Less: Current Maturities	<u>(64,693)</u>	<u>(74,862)</u>	<u>-</u>	<u>(139,555)</u>
Total Long-Term Liabilities	<u>1,526,119</u>	<u>2,435,646</u>	<u>-</u>	<u>3,961,765</u>
TOTAL LIABILITIES	<u>1,731,735</u>	<u>2,653,165</u>	<u>(104,745)</u>	<u>4,280,155</u>
<u>NET POSITION</u>				
Net investment in capital assets	975,953	1,548,659	-	2,524,612
Restricted for debt service	681,771	-	-	681,771
Unrestricted	<u>1,049,325</u>	<u>66,322</u>	<u>-</u>	<u>1,115,647</u>
TOTAL NET POSITION	<u>\$ 2,707,049</u>	<u>\$ 1,614,981</u>	<u>\$ -</u>	<u>\$ 4,322,030</u>

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

**ATOKA COUNTY RURAL WATER, SEWER
AND SOLID WASTE MANAGEMENT, DISTRICT NO.4
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2019**

	Enterprise Funds			
	Water District	Water Plant	Consolidation	Total
<u>Operating Revenues:</u>				
Water Sales	\$ 1,402,881	\$ 939,436	\$ (587,250)	\$ 1,755,067
Membership Dues and Connection Fees	65,840	-	-	65,840
Materials and Line Extensions	30,684	-	-	30,684
Miscellaneous Fees	1,850	-	-	1,850
Total Operating Revenues	1,501,255	939,436	(587,250)	1,853,441
<u>Operating Expenses:</u>				
Salaries	114,692	38,418	-	153,110
Contract Labor/Operator Fees	185,637	88,152	-	273,789
Employee Expense Allowance	35,522	-	-	35,522
Retirement Plan Expense	13,057	4,455	-	17,512
Water Purchases	587,250	366,306	(587,250)	366,306
Utilities	13,111	44,353	-	57,464
Repairs and Maintenance	241,988	34,879	-	276,867
Payroll Taxes	9,540	3,161	-	12,701
Office Supplies and Printing	23,406	-	-	23,406
Insurance	23,961	8,131	-	32,092
Accounting and Legal	7,755	-	-	7,755
Depreciation Expense	166,339	178,786	-	345,125
Permits and Fees	-	7,972	-	7,972
Mileage	762	-	-	762
Administrative Expense	-	2,198	-	2,198
Chemicals	-	58,467	-	58,467
Lab Supplies	-	2,109	-	2,109
Janitorial Supplies	1,680	-	-	1,680
Testing Fees	402	-	-	402
Returned Checks	1,050	8,900	-	9,950
Credit Card Charges	11,614	-	-	11,614
Legal Fees	4,200	-	-	4,200
Dues and Memberships	3,588	-	-	3,588
Advertising	94	-	-	94
Small Tools	-	-	-	-
Materials	-	-	-	-
Line Extension Expense	16,203	-	-	16,203
Disaster Expense	-	-	-	-
Total Operating Expenses	1,461,851	846,287	(587,250)	1,720,888
Operating Income (Loss)	39,404	93,149	-	132,553
<u>Non-Operating Revenues (Expenses):</u>				
Interest Income	16,088	1,491	-	17,579
Miscellaneous Income	1,987	-	-	1,987
Interest Expense	(72,096)	(106,756)	-	(178,852)
Grants	353	-	-	353
Total Non-operating Revenues (Expenses)	(53,668)	(105,265)	-	(158,933)
Net Income (Loss) Before Contributions	(14,264)	(12,116)	-	(26,380)
Capital Contributions - Grant Income	-	-	-	-
Change in Net Position	(14,264)	(12,116)	-	(26,380)
Total Net Position - Beginning	2,721,313	1,627,097	-	4,348,410
Total Net Position - Prior Year Adjustment	-	-	-	-
Total Net Position - Ending	\$ 2,707,049	\$ 1,614,981	\$ -	\$ 4,322,030

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