

AUDIT REPORT

ATOKA COUNTY RURAL WATER DISTRICT #2
ATOKA, OKLAHOMA

JUNE 30, 2019



KERSHAW CPA & ASSOCIATES, PC

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ATOKA COUNTY RURAL WATER DISTRICT #2
ATOKA, OKLAHOMA
JUNE 30, 2019

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ATOKA COUNTY RURAL WATER DISTRICT #2
ATOKA, OKLAHOMA
JUNE 30, 2019

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>
MONTY BIRDSONG	CHAIRMAN
TOMMY BACA	VICE-CHAIRMAN
ROGER MCININCH	SECRETARY
MERRITT TAYLOR	MEMBER
DUANE CRAWFORD	MEMBER
KELLY KENNEDY	MEMBER
JUSTIN RYAN	MEMBER

MANAGER

JIM COATES

Unaudited

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Atoka County Rural Water District #2
Atoka, Oklahoma

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of the Atoka County Rural Water District #2, as of and for the fiscal year ended June 30, 2019, and the related notes to the 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 principals 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 conducting the audit in accordance with auditing standards generally accepted in the United States of America, and *Government Auditing Standards*. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

For the Fiscal Year Ended June 30, 2019, the District did not maintain a general ledger accounting system for classifying different categories of income. In addition, the security deposit ledger was not maintained for the full year. As a result, we were unable to determine the amount, and materiality, of any adjustments to the

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amounts reported, which may have been required for the fair presentation of the financial statements.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

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 such information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2019, on our consideration of the Atoka County Rural Water District #2'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

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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 District #2's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in compliance with *Government Auditing Standards* in considering Atoka County Rural Water District #2's internal control over financial reporting and compliance.

Kershaw CPA & Associates, P.C.

Kershaw CPA & Associates, PC
Muskogee, Oklahoma

October 23, 2019

ATOKA COUNTY RURAL WATER DISTRICT #2
ATOKA, OKLAHOMA
STATEMENT OF NET POSITION
JUNE 30, 2019

	Total 2019	Total (Memo Only) 2018
<u>ASSETS</u>		
<u>Current Assets:</u>		
Cash and Cash Equivalents (Note 4)	\$ 147,003	\$ 179,373
Accounts Receivable - Trade	29,720	65,334
Prepaid Insurance	6,798	5,648
Total Current Assets	183,521	250,355
<u>Restricted Assets:</u>		
Reserve Account	26,211	26,185
Water Security Deposit Account	31,162	28,242
Total Restricted Assets	57,373	54,427
<u>Capital Assets:</u>		
Land	7,620	7,620
Equipment	46,178	14,572
Water Distribution Facilities	718,096	657,077
Sewer Lagoon	118,011	118,011
System Improvements	1,168,867	1,168,867
Less: Accumulated Depreciation	(742,770)	(696,155)
Total Capital Assets	1,316,002	1,269,992
TOTAL ASSETS	\$ 1,556,897	\$ 1,574,774
<u>LIABILITIES</u>		
<u>Current Liabilities:</u>		
Accounts Payable	\$ 8,170	\$ 5,539
Interest Payable	816	903
Security Deposits	30,606	27,950
Current Portion of Long-Term Debt	21,852	21,159
Total Current Liabilities	61,445	55,552
<u>Long-Term Liabilities:</u>		
Notes Payable	690,906	711,788
Less: Current Portion	(21,852)	(21,159)
TOTAL LIABILITIES	730,499	746,181
<u>NET POSITION</u>		
Net investment in capital assets	625,097	558,204
Restricted for debt service	26,211	26,185
Unrestricted	175,090	244,204
TOTAL NET POSITION	826,398	828,593
TOTAL LIABILITIES & NET POSITION	\$ 1,556,897	\$ 1,574,774

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

**ATOKA COUNTY RURAL WATER DISTRICT #2
ATOKA, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

	Total June 30, 2019	Total (Memo Only) June 30, 2018
<u>Operating Revenues:</u>		
Water Sales	\$ 187,076	\$ 191,753
Sewer Sales	41,864	36,606
Penalties	6,432	5,043
Benefit Units and Hook-Up Fees	1,540	7,130
Miscellaneous Income	4,659	1,623
Total Operating Revenues	241,571	242,155
<u>Operating Expenses:</u>		
Salaries	44,926	44,025
Payroll Taxes	3,280	3,688
Retirement Expense	5,476	5,268
Water Purchases & City Sewer Fees	65,578	58,262
Repairs/Maintenance and Operating Supplies	28,145	20,726
Utilities	4,602	5,674
Legal & Accounting	2,040	2,065
Office Supplies & Postage	7,910	6,914
Bank Charges	-	-
Dues & Fees	-	-
Professional Services	-	-
Insurance and Bonds	8,127	6,980
Travel	2,826	2,699
Licenses & Permits	1,682	3,922
Office Rental	4,000	4,800
Contract Labor	6,640	600
Bad Debt	35,614	-
Miscellaneous	8,795	272
Depreciation	46,614	42,306
Total Operating Expenses	276,255	208,200
Operating Income (Loss)	(34,684)	33,955
<u>Non-Operating Revenues (Expenses):</u>		
Interest Income	1,388	511
Interest Expense	(16,891)	(16,780)
Total Non-operating Revenues (Expenses)	(15,503)	(16,270)
Net Income (Loss) Before Contributions	(50,187)	17,685
Capital Contributions	49,700	-
Change in Net Position	(487)	17,685
Total Net Position - Beginning	828,593	810,908
Total Net Position - Prior Year Adjustment	(1,708)	-
Total Net Position - Ending	\$ 826,398	\$ 828,593

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

**ATOKA COUNTY RURAL WATER DISTRICT #2
ATOKA, OKLAHOMA
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

	<u>6/30/19</u>	<u>Memorandum Only 6/30/18</u>
<u>Net Cash Flows from Operating Activities:</u>		
Cash Receipts from Customers	\$ 277,185	\$ 228,592
Payments to Suppliers for Goods & Services	(183,234)	(123,014)
Payments to Employees & Laborers	(44,926)	(44,025)
Receipts of Customer Utility Deposits, Net of Refunds	2,656	4,575
Net Cash Provided (Used) by Operating Activities	51,682	66,129
<u>Net Cash Flows from Capital & Related Financing Activities:</u>		
Additions to Capital Assets	(92,625)	-
Capital Contributions - Grants	49,700	-
Loan Proceeds	-	76,434
Proceeds from sale of Capital Assets	-	-
Principal paid on Debt	(20,882)	(98,089)
Interest paid on Debt	(16,978)	(16,827)
Net Cash Provided (Used) by Capital & Related Financing Activities	(80,785)	(38,483)
<u>Net Cash Flows from Investing Activities:</u>		
Non-Operating Income	-	-
Interest Income	1,388	511
Net Cash Provided (Used) by Investing Activities	1,388	511
Net Increase (Decrease) in Cash and Cash Equivalents	(27,715)	28,156
Cash & Cash Equivalents, Beginning of Year	233,799	205,643
Cash & Cash Equivalents, Prior Year Adjustment	(1,708)	-
Cash & Cash Equivalents, End of Year	\$ 204,377	\$ 233,799
<u>Reconciliation of operating income (loss) to net cash provided operating activities:</u>		
Operating Income (Loss)	\$ (34,684)	\$ 33,955
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	46,614	42,306
(Increase)Decrease in Accounts Receivable-Trade	35,614	(13,564)
(Increase)Decrease in Prepaid Insurance	(1,149)	7
Increase(Decrease) in Accounts Payable	2,631	(1,151)
Increase(Decrease) in Security Deposits	2,656	4,575
Net Cash Provided (Used) by Operating Activities	\$ 51,682	\$ 66,129

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

ATOKA COUNTY RURAL WATER DISTRICT #2
ATOKA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Rural Water District No. 2, Atoka County, Oklahoma, was formed in 1966, 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 in Atoka, Oklahoma.

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.

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

ATOKA COUNTY RURAL WATER DISTRICT #2
ATOKA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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.

Budgetary Data

The District is required by Article 8 of its By-laws to prepare an annual budget.

Financial Position

Cash and Cash Equivalents

Cash is comprised of deposits in demand accounts and certificate of deposit accounts. At June 30, 2019, all deposits were fully insured by FDIC.

Capital Assets

Water distribution facilities 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.

ATOKA COUNTY RURAL WATER DISTRICT #2
ATOKA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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

System improvements in excess of \$1,000.00 and equipment in excess of \$80.00 that increase the capacity or operation efficiency or extend the useful life of any asset are capitalized. Repairs and maintenance are expensed as incurred.

Long-Term Debt

Long-term debt is reported at face value, net of applicable discounts and deferred loss on refunding. Costs related to the issuance of debt are deferred and amortized over the lives of various debt issues.

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

It is the District's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is

ATOKA COUNTY RURAL WATER DISTRICT #2
ATOKA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect 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.

Memorandum Only

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

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

Finance-related Legal & Contractual Provisions

The District has complied with all of the covenants of the loan agreements.

ATOKA COUNTY RURAL WATER DISTRICT #2
ATOKA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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 - ACCUMULATED UNPAID VACATION BENEFITS

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

NOTE 4 - CASH AND INVESTMENTS

Custodial Credit Risk

At June 30, 2019, the District held deposits of approximately \$204,377 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.

ATOKA COUNTY RURAL WATER DISTRICT #2
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 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2019

- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

The District has collateral pledges with AmeriState Bank totaling \$100,000.00.

The following is a breakdown of the Cash & Cash Equivalents figure shown in the Statement of Net Position:

Cash & Cash Equivalents:	
Operating Fund	\$ 65,495.43
Savings Accounts	81,294.51
Certificate of Deposit	-
Petty Cash	213.32
Total	\$ 147,003.26

NOTE 5 - RESTRICTED ASSETS

Restrictions on restricted assets are as follows:

- Security Deposits -Use is Restricted to deposit and refund water meter security deposits
- Reserve Account -Restricted by USDA RD loan covenants
- Electronic Meter Acct -Restricted for Meter Project

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 installments (originally \$26,004 and \$7,548, now \$18,888 & \$6,972), after which deposits may be suspended, except to replace withdrawals. The District cannot withdraw funds from the reserve account without USDA approval. As of June 30, 2019, the account is fully funded with a balance of \$26,211.22, which complies with the covenants of the loan agreements.

ATOKA COUNTY RURAL WATER DISTRICT #2
 ATOKA, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2019

NOTE 6 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended June 30, 2019, was as follows:

	Balance at June 30, 2018	Additions	Deductions	Balance at June 30, 2019
Land	\$ 7,620	\$ -	\$ -	\$ 7,620
Equipment	14,572	31,606	-	46,178
Water Distribution Facilities	657,077	61,019	-	718,096
Sewer Lagoon	118,011	-	-	118,011
System Improvements	1,168,867	-	-	1,168,867
Subtotal	1,966,147	92,625	-	2,058,772
Less: Accum. Depr.	(696,155)	(46,614)	-	(742,770)
 Total Capital Assets (Net of Depreciation)	 <u>\$ 1,269,992</u>	 <u>\$ 46,011</u>	 <u>\$ -</u>	 <u>\$ 1,316,002</u>

There District built a building during the year, installed 200' of line and purchased computers & a John Deere tractor.

NOTE 7 - LONG-TERM DEBT

The District has a note payable with an original balance of \$481,500, to the United States Department of Agriculture Rural Development (USDA), payable in monthly installments of \$2,167 until maturity, including interest at 4.50%. The final payment was scheduled for July 10, 2049. The note is secured by the water and sewer system. On June 10, 2013, after an 18-month moratorium to postpone loan payments due to a tornado in the area, this loan was re-amortized. The new original loan balance, which includes the principal & accumulated interest from the previous loan, is \$507,439.18. This loan is payable in monthly installments of \$1,574 until maturity, including interest at 2.125%. The final payment is scheduled for June 10, 2053.

The District has a note payable with an original balance of \$186,400, to the United States Department of Agriculture Rural Development (USDA), payable in monthly installments of \$629 until maturity, including interest at 2.625%. The final payment was scheduled for July 10, 2049. The note is secured by the water and sewer system. The note is secured by the water and sewer system. On June 10, 2013, after an 18-month moratorium to postpone loan payments due to a tornado in the area, this loan was re-amortized. The new original loan balance, which includes the principal & accumulated interest from the previous loan, is \$187,175.12. This loan is payable in monthly installments of \$581 until maturity,

ATOKA COUNTY RURAL WATER DISTRICT #2
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 NOTES TO FINANCIAL STATEMENTS
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including interest at 2.125%. The final payment is scheduled for June 10, 2053.

The District has a note payable with an original balance of \$76,433.83, to the Ameristate Bank, payable in monthly installments of \$1,000.00 until maturity, including an interest rate of 4.957%. A final payment of \$50,781.19 is due May 20, 2021. The note is secured by the District's assets and was used to refinance the First Bank loan that was used to purchase electronic water meters.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2019:

	Balance 6/30/2018	Additions	Deductions	Balance 6/30/2019
USDA RD #93-04	464,725	-	(9,101)	455,624
USDA RD #93-05	171,393	-	(3,362)	168,031
Ameristate Bank	75,670	-	(8,419)	67,251
	<u>\$ 754,725</u>	<u>\$ -</u>	<u>\$ (20,882)</u>	<u>\$ 690,906</u>

Debt Services Requirements to Maturity

The annual debt service requirements to maturity, including principal and interest, for long-term debt, as of June 30, 2019, are as follows:

Note Payable - USDA RURAL DEVELOPMENT 93-04

Year Ending June 30,	Principal	Interest	Total
2020	\$ 9,448	\$ 9,440	\$ 18,888
2021	9,648	9,240	18,888
2022	9,852	9,036	18,888
2023	10,060	8,828	18,888
2024	10,273	8,615	18,888
2025-2029	54,721	39,719	94,440
2030-2034	60,761	33,679	94,440
2035-2039	67,468	26,972	94,440
2040-2044	74,916	19,524	94,440
2045-2049	83,185	11,255	94,440
2050-2053	65,291	1,575	66,866
Total	<u>\$ 455,624</u>	<u>\$ 177,882</u>	<u>\$ 633,506</u>

ATOKA COUNTY RURAL WATER DISTRICT #2
 ATOKA, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2019

Note Payable - USDA RURAL DEVELOPMENT 93-05

Year Ending June 30,	Principal	Interest	Total
2020	\$ 3,491	\$ 3,481	\$ 6,972
2021	3,564	3,408	6,972
2022	3,640	3,332	6,972
2023	3,717	3,255	6,972
2024	3,796	3,176	6,972
2025-2029	20,217	14,643	34,860
2030-2034	22,449	12,411	34,860
2035-2039	24,927	9,933	34,860
2040-2044	27,678	7,182	34,860
2045-2049	30,733	4,127	34,860
2050-2053	23,819	560	24,378
Total	<u>\$ 168,031</u>	<u>\$ 65,507</u>	<u>\$ 233,538</u>

Note Payable - Ameristate Bank

Year Ending June 30,	Principal	Interest	Total
2020	\$ 8,913	\$ 3,087	\$ 12,000
2021	58,337	2,514	60,851
2022	-	-	-
2023	-	-	-
2024	-	-	-
2025-2029	-	-	-
Total	<u>\$ 67,251</u>	<u>\$ 5,600</u>	<u>\$ 72,851</u>

NOTE 8 - FUND EQUITY

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

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

Restricted amounts are described in Note 5 above.

NOTE 9 - CONTINGENCIES

Litigation

The District currently has no pending litigation.

ATOKA COUNTY RURAL WATER DISTRICT #2
ATOKA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Federally Assisted Programs

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

NOTE 10 - ECONOMIC DEPENDENCY - WATER CONTRACT

The District has a contract to purchase all of its water from the City of Atoka.

NOTE 11 - RETIREMENT PLAN

During the fiscal year 2003, the District joined the Oklahoma Public Employees Retirement (OPERS). The District follows the OPERS Code H percentages for retirement contributions as follows: employees contribute 6.5% of gross wages and the District contributes 7.0%.

The OPERS contributions are as follows:

<u>Fiscal Year</u>	<u>Employee Contributions</u>	<u>Employer Contributions</u>
2017	\$2,886	\$5,994
2018	\$2,652	\$5,268
2019	\$2,636	\$5,476

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 12 - SUBSEQUENT EVENTS

The District did not have any subsequent events through the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending June 30, 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 District #2
Atoka, Oklahoma

We were engaged to audit, 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 District #2, as of and for the year ended June 30, 2019, and the related notes to the financial statements, and have issued our report thereon dated October 23, 2019, which was a disclaimer of opinion because inadequate accounting records precluded us from performing sufficient audit procedures on the financial statements. Management has omitted the MD&A and Net Pensions 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 District #2'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 District #2's internal control. Accordingly, we do not express an opinion on the effectiveness of Atoka County Rural Water District #2's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations,

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during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings as Item 19-01, 19-02, 19-03 and 19-04 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Atoka County Rural Water District #2'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 District #2's Response to Findings

Atoka County Rural Water District #2's response to the findings identified in our audit is described in the accompanying Schedule of Findings. Atoka County Rural Water District #2's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kershaw CPA & Associates, P.C.

Kershaw, CPA & Associates, PC
Muskogee, Oklahoma

October 23, 2019

ATOKA COUNTY RURAL WATER DISTRICT #2
ATOKA, OKLAHOMA
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 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 the District Clerk, who is responsible for all phases of the accounting functions. Because of this lack of division of responsibility, internal control is determined to be weak, and in some instances, non-existent.

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

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

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

Item 19-02: General Ledger

Criteria: Internal control refers to the methods and procedures used to provide reasonable assurance regarding the achievement of objectives in the following categories: Safeguarding assets, Ensuring validity of financial records and reports, Promoting adherence to policies, procedures, regulations and laws, and Promoting effectiveness and efficiency of operations. Internal control also refers to how an entity processes, summarizes and records the financial transactions. In general terms, internal controls are simply good business practices.

Condition: The District did not maintain a complete, accurate double-entry general ledger system.

Cause/Effect: The District maintained general ledger spreadsheets for expenses but not income. Adjustments were made in order to get the funds in the general ledger to balance. The financial statements contained misstatements and omitted financial information.

ATOKA COUNTY RURAL WATER DISTRICT #2
ATOKA, OKLAHOMA
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019

Recommendation: The District needs to purchase the accounting module of Sequoyah Software and prepare financial statements with a complete general ledger system.

Response: The District has a new bookkeeper helping with the accounting process and hopes to improve the system in the next fiscal year.

Item 19-03: Bank Reconciliations

Criteria: It is the responsibility of the District to properly report and account for the financial information.

Condition: Reconciliations are not being completed in full each month.

Cause/Effect: The general ledger spreadsheet for expenses has items marked as cleared but a full reconciliation is not prepared each month. The balance shown on as the book balance is not accurate.

Recommendation: It is recommended that all bank accounts be reconciled each month.

Response: The District is aware of the problem.

Item 19-04: Meter Deposits

Criteria: It is the responsibility of the District to properly report and account for the financial information.

Condition: The Meter Deposit Ledger has not been accurately posted with all transactions during the year.

Cause/Effect: Customers could potentially not receive proper reimbursement on their deposit and the organization's balance sheet could be incorrect with respect to the deposit account.

Recommendation: All deposit refunds and final bills should be accurately posted to reconcile the account at yearend. A Meter Deposit Ledger should be maintained so that an accurate liability amount can be reported. The District should also maintain a reserved bank account to be used for refunding meter deposits.

Response: The District is aware of the situation which was created by switching accounting systems during the year.