

Adair County
Rural Water District No. 5
Adair County, Oklahoma

ANNUAL FINANCIAL STATEMENTS
AND ACCOMPANYING
INDEPENDENT AUDITOR'S REPORTS

FOR THE YEAR ENDED
December 31, 2020

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Adair County, Oklahoma
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Adair County Rural Water District No. 5
Adair County, Oklahoma

Opinion

We have audited the accompanying modified cash basis financial statements of the business-type activities of Adair County Rural Water District No. 5, "the District", as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the business-type activities of the District, as of December 31, 2020, and the respective changes in financial position cash flows thereof for the year then ended in accordance with the modified cash basis of accounting.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter—Basis of Accounting

We draw attention to Note I of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash basis of accounting and for determining that the modified cash basis of accounting is an acceptable basis of accounting under the circumstances. Management is also responsible for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 15, 2025, on our consideration of the District'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 controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



David Clam CPA PLLC

April 15, 2025

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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
Adair County Rural Water District No. 5

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 modified cash basis financial statements of the business-type activities of Adair County Rural Water District No. 5, "the District", as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated April 15, 2025.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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 financial statements. 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.

 CPA PLLC

April 15, 2025

Adair County Rural Water District No. 5
Adair County, Oklahoma
Statement of Net Position – Modified Cash Basis
December 31, 2020

ASSETS

Current Assets

Cash and Cash Equivalents, Unrestricted	\$ 140,410.49
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Non-current Assets

Restricted Assets:

Cash and Cash Equivalents, Restricted	465,946.37
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Capital Assets:

Property, Plant and Equipment, Net of Accumulated Depreciation	2,140,279.07
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Land	6,429.00
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Total Non-Current Assets	2,612,654.44
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TOTAL ASSETS	2,753,064.93
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LIABILITIES

Current Liabilities

Deposits Payable	15,450.00
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Current Portion of Bonds Payable	45,000.00
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Total Current Liabilities	60,450.00
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Long Term Liabilities

Bonds Payable	2,175,000.00
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TOTAL LIABILITIES	2,235,450.00
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NET POSITION

Net Investment in Capital Assets	(88,741.93)
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Restricted	465,946.37
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Unrestricted	140,410.49
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Total Net Position	\$ 517,614.93
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The accompanying Notes to the Financial Statements are an integral part of this statement.

Adair County Rural Water District No. 5
Adair County, Oklahoma
Statement of Revenues, Expenses and Changes in Net Position –
Modified Cash Basis
For the Year Ended December 31, 2020

Operating Revenues

Water Revenues	\$ 519,386.51
Penalties and Fees	6,788.99
Other Operating Revenues	1,338.28
Total Operating Revenues	<u>527,513.78</u>

Operating Expenses

Annual Dues / Fees	12,405.28
Bank Service Charges	8,525.05
Contract Services	59,854.50
Deposits Refunded	50.00
Depreciation	112,404.72
Insurance	11,271.00
Office Expense	8,897.92
Operating Materials & Supplies	34,505.45
Operator / Manager	106,096.80
Professional Fees	3,000.00
Repairs & Maintenance	38,320.45
Telephone & Utilities	63,160.49
Water Testing	3,046.00
Water Treatment	11,224.38
Total Operating Expenses	<u>472,762.04</u>

Operating Income (Loss)	<u>54,751.74</u>
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Non-Operating Revenues (Expenses)

Interest Income	1,106.97
Bond Fees	(1,000.00)
Interest Expense	(123,022.50)
Total Non-Operating Revenues (Expenses)	<u>(122,915.53)</u>

Capital Contributions

Membership Fees	<u>9,225.00</u>
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Net Income (Loss)	(58,938.79)
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Net Position, Beginning of Year	576,553.72
Net Position, End of Year	<u><u>\$ 517,614.93</u></u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Adair County Rural Water District No. 5
Adair County, Oklahoma
Statement of Cash Flows – Modified Cash Basis
For the Year Ended December 31, 2020

Cash Flows from Operating Activities

Cash Inflows:

Payments Received from Customers	\$ 527,113.78
Deposits Received from Customers	400.00
Total Cash Provided by Operating Activities	<u>527,513.78</u>

Cash Outflows:

Payments to Suppliers for Goods and Services	(253,860.52)
Payments for Contract Services	(106,096.80)
Deposits Refunded to Customers	(50.00)
Total Cash Used by Operating Activities	<u>(360,007.32)</u>

Net Cash Provided (Used) by Operating Activities	<u>167,506.46</u>
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Cash Flows from Capital and Related Financing Activities

Fees Paid Related to Bond	(1,000.00)
Interest Paid on Bond	(123,022.50)
Principal Paid on Bond	(35,000.00)
Membership Fees Received	9,225.00
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(149,797.50)</u>

Cash Flows from Investing Activities

Interest Received	<u>1,106.97</u>
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Net Cash Inflow (Outflow) from All Activities	18,815.93
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Cash and Cash Equivalents at Beginning of Year	<u>587,540.93</u>
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Cash and Cash Equivalents at End of Year	<u><u>\$ 606,356.86</u></u>
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Unrestricted	\$ 140,410.49
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Restricted	<u>465,946.37</u>
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Cash and Cash Equivalents at End of Year	<u><u>\$ 606,356.86</u></u>
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**Reconciliation of Operating Income (Loss) to Net Cash
Provided by Operating Activities:**

Operating Income (Loss)	\$ 54,751.74
Depreciation	112,404.72
Increase (Decrease) in:	
Customer Deposits	<u>350.00</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 167,506.46</u></u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Adair County Rural Water District No. 5
Adair County, Oklahoma
Notes to the Financial Statements
For the Year Ended December 31, 2020

The following notes to the financial statements are an integral part of Adair County Rural Water District No. 5's financial statements.

I. Summary of Significant Accounting Policies

Adair County Rural Water District No. 5, Adair County, Oklahoma (the "District") was created under the provisions of Title 82, O.S. 1981, Sections 1324.1-1324.26 inclusive, for the purpose of providing water to the members of the District it serves. Membership in the water district consists of water users who have paid the required membership and connection fees. The District is exempt from federal and state income taxes.

The Board of Directors consists of 5 members serving three-year staggered terms. The vacant Board seats are elected at the annual meeting, and following, the Board of Directors meet and elect a chairman, vice-chairman, secretary, treasurer, and director. All Board members serve without pay.

A. Financial Reporting Entity

Adair County Rural Water District No. 5 is an independent, self-contained reporting entity with no associated component units. It is operated in a manner similar to a private business enterprise where the cost (expenses, including depreciation) of providing water services is financed through user charges.

B. Basis of Presentation

The District's fund is an enterprise fund. Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

C. Measurement Focus and Basis of Accounting

The Trust's proprietary fund financial statements are prepared on a modified basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). This basis of presentation differs from GAAP in that certain revenues are recognized when received rather than earned and certain expenses are recognized when paid rather than when the obligation is incurred. Specifically, the variances from GAAP include omission of receivables and accruals. Such variances are presumed to be material.

Adair County Rural Water District No. 5
Adair County, Oklahoma
Notes to the Financial Statements
For the Year Ended December 31, 2020

I. Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting (continued)

Similar to financial statements prepared in accordance with GAAP, these financial statements reflect the capitalized cost of property and equipment and related depreciation, along with amounts attributed to long term debt. The accompanying financial statements are not intended to present the financial position and results of operations in conformity with accounting principles generally accepted in the United States of America.

D. Assets, Liabilities and Net Position

1. Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all cash on hand, demand deposits, and highly liquid investments, with an original maturity of three months or less when purchased, to be cash and cash equivalents.

2. Fair Value of Financial Instruments

The District's financial statements include cash and cash equivalents. The District's estimates of the fair value of all financial instruments do not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying Statement of Net Position. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

3. Restricted Assets

Restricted assets include cash and cash equivalents for debt service, construction proceeds, and meter deposits. According to the bond indenture, the Bond Fund Reserve account shall be funded in an amount equal to \$150,000. The Bond Fund Reserve account shall be used to receive the reserve requirement upon the issuance of the bonds, to transfer the excess investment monies to the principal account, interest account, or any other account, to receive reserve requirements of any additional bonds, to pay the last maturing bonds, and to transfer monies in excess to the project fund until the completion of the project and thereafter to the principal and/or interest accounts. Restricted assets for construction proceeds are also held in accounts designated for construction funds. Restricted assets for meter deposits are held in a separate bank account.

Adair County Rural Water District No. 5
Adair County, Oklahoma
Notes to the Financial Statements
For the Year Ended December 31, 2020

I. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Position (continued)

4. Inventory of Supplies and Materials

The District does not maintain inventory records of supplies or materials, but charges these purchases to maintenance or supplies as they are received.

5. Capital Assets

Capital assets are carried at historical cost. Donated capital assets are reported at fair market value as of the date donated. The District determines which assets to capitalize on a case by case basis.

Additions and improvements that significantly extend the useful life of an asset are capitalized. The cost of normal maintenance and repairs are expensed as incurred.

All reported capital assets are depreciated on the straight-line basis over the estimated useful lives ranging from five to forty years as listed below:

Equipment	5 years
Water System	40 years
Water System Additions	20 years

6. Liabilities

The District's deposits payable balance of \$15,450.00 at year end consists of amounts to be refunded to customers. The District has \$15,846.86 on deposit to cover this liability. The result is that the District's meter deposits payable balance is overfunded by \$396.86 at December 31, 2020.

7. Long-Term Obligations

On February 1, 2007, the District issued revenue bond series 2007. The bonds are special obligations of the District payable and secured by a lien on the gross revenues of the District's water facilities. The District has covenanted to indenture to fix and maintain rates for water services which shall provide gross revenues in an amount adequate to:

- (i) maintain the facilities in good repair and condition,
- (ii) pay all operation and maintenance expenses related to the facilities,
- (iii) pay all amounts required to be paid by the District under the terms of the Indenture,
- (iv) generate on an annual basis an amount equal to 110% of the annual debt service on the bonds for that year after payment of the amounts required in (i) and (ii), and
- (v) provide for any other amounts which may be required under the terms of the Indenture.

Long-term debt is reported as a liability in the District's balance sheet. Bond premiums and discounts, as well as issuance costs, are recognized as non-operating income or expense items in the Statement of Revenues, Expenses, and Changes in Net Position.

Adair County Rural Water District No. 5
Adair County, Oklahoma
Notes to the Financial Statements
For the Year Ended December 31, 2020

I. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Position (continued)

8. Budget

The district's management prepares an annual budget as directed by Title 82, O.S. 1994, §1324.18.

9. Equity Classifications

Equity is classified as Net Position and displayed in three components:

- a. *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 mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- b. *Restricted Net Position* -- Consists of Net Position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. *Unrestricted Net Position* -- All other Net Positions that do not meet the definition of "restricted" or "net investment in capital assets."

II. Detailed Notes Concerning the Funds

A. Deposits and Investments

Custodial Credit Risk – Deposits: Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's cash deposits, including interest-bearing certificates of deposit, are maintained in financial institutions. The District does not have a deposit policy for custodial credit risk. As of December 31, 2020, none of the District's investments were exposed to custodial credit risk because they were uninsured or uncollateralized.

Interest rate risk: This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. 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.

Repurchase agreements: A portion of the District's reserve funds held by the Bank of Oklahoma are invested in Cavanal Hill U.S. Treasury Funds. According to the U.S Treasury Fund Quarterly Fact Sheet, 39.0% of the investments are subject to repurchase agreements. The District's investments are collateralized by Treasury securities; however, current and future earnings are subject to risk.

Adair County Rural Water District No. 5
Adair County, Oklahoma
Notes to the Financial Statements
For the Year Ended December 31, 2020

II. Detailed Notes Concerning the Funds (continued)

B. Changes in Capital Assets

Capital asset activity for the year was as follows:

	Balance December 31, 2019	Additions	Deletions	Balance December 31, 2020
Capital Assets				
Non-depreciable Assets:				
Land	\$ 6,429.00	\$ -	\$ -	\$ 6,429.00
Depreciable Assets:				
Water Distribution System	4,204,601.80	-	-	4,204,601.80
Office Furniture/Equipment	15,262.00	-	-	15,262.00
Total Depreciable Assets	4,219,863.80	-	-	4,219,863.80
Accumulated Depreciation	(1,967,180.01)	(112,404.72)	-	(2,079,584.73)
Net Depreciable Assets	2,252,683.79	(112,404.72)	-	2,140,279.07
Net Capital Assets	\$ 2,259,112.79	\$ (112,404.72)	\$ -	\$ 2,146,708.07

C. Long-Term Debt

Revenue Bonds Series 2007

On February 1, 2007, the District issued \$2,390,000 in refunding revenue bonds with interest rates ranging between 4.5% and 5.5%. The proceeds of the bonds were used to refund the outstanding indebtedness of the District, fund the debt service reserve, pay all costs of issuance, and fund a project fund.

Interest on the bonds is payable semi-annually on February 1 and August 1 at varying rates starting August 1, 2007. Principal payments are due annually on February 1 starting February 1, 2012.

Debt service requirements for the Series 2007 bonds are:

Year Ended December 31,	Rate	Principal	Interest	Total Requirements
2021	5.50%	\$ 45,000.00	\$ 120,822.50	\$ 165,822.50
2022	5.50%	45,000.00	118,347.50	163,347.50
2023	5.50%	45,000.00	115,872.50	160,872.50
2024	5.50%	50,000.00	113,260.00	163,260.00
2025	5.50%	55,000.00	110,372.50	165,372.50
2026-2030	Various	335,000.00	500,467.50	835,467.50
2031-2035	Various	450,000.00	394,982.50	844,982.50
2036-2040	Various	600,000.00	250,873.75	850,873.75
2041-2043	Various	595,000.00	58,968.75	653,968.75
		\$ 2,220,000.00	\$ 1,783,967.50	\$ 4,003,967.50

Adair County Rural Water District No. 5
Adair County, Oklahoma
Notes to the Financial Statements
For the Year Ended December 31, 2020

II. Detailed Notes Concerning the Funds (continued)

D. Changes in Long-Term Debt

Long-term debt consists of bonds payable. The following is a summary of the changes in long-term debt of the District for the fiscal year.

	Balance December 31, 2019	Proceeds	Payments	Balance December 31, 2020	Due Within One Year
Bonds Payable	\$ 2,255,000.00	\$ -	\$ 35,000.00	\$ 2,220,000.00	\$ 45,000.00

III. Other Information

A. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District purchases commercial insurance to cover these risks, including general and auto liability, property damage, and public officials' liability. There were no significant reductions in insurance coverage from the prior year. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

B. Contingent Liabilities

The governing board of the District is not aware of any pending or threatened legal actions against it. However, any such actions would probably be covered by insurance.

C. Related Party Transactions

Management has entered into an agreement with the Office Manager to lease a piece of land along with the associated building for use by the District in providing water services. The lease agreement is dated December 27th, 2016 and calls for either a monthly payment of \$200 for 12 months or a single payment of \$2,400. On January 1, 2020 the District paid the Office Manager the amount of \$2,400 for the 12-month lease in 2020. The lease agreement not renewed for the 2021 fiscal year.

D. Subsequent Events

Management has evaluated subsequent events through the date of this report, which is the date the financial statements were available to be issued and has determined that no additional information needs to be added to the financial statements.