

**LOVE COUNTY RURAL WATER  
DISTRICT #2**

**FINANCIAL STATEMENTS AND  
AUDITORS' REPORT**

**JUNE 30, 2018**



**Jackson, Fox and Richardson PC  
A Professional Corporation  
Certified Public Accountants  
Ardmore, Oklahoma**

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# JACKSON, FOX and RICHARDSON

A Professional Corporation

Certified Public Accountants

PO Box 1171 \* 129 C Northwest  
Ardmore, Oklahoma 73402-1171  
Donald L. Jackson (1948-2015)  
Kathy A. Fox CPA  
Gabriel M. Richardson CPA

Voice (580) 223-1877 Fax (580) 223-1880  
www.cpa-ok.com

kathy@cpa-ok.com  
gabe@cpa-ok.com

## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
Love County Rural Water District #2  
Thackerville, Oklahoma

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Love County Rural Water District #2 (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Love County Rural Water District #2 as of June 30, 2018, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Management has omitted managements' discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2019, 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 control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in blue ink, appearing to read "Jackson, Fox & Richardson PC".

Ardmore, Oklahoma  
June 28, 2019

**Love County Rural Water District #2**  
**Statement of Net Position**  
**June 30, 2018**  
**ASSETS**

**CURRENT ASSETS**

Cash on hand and in banks	\$	773,704
Certificates of deposit		105,411
Accounts receivable		54,845
Inventory		<u>54,286</u>
Total current assets		988,246

**NONCURRENT ASSETS - AT COST - NOTE 3**

Water systems	\$	1,841,116
Office equipment		22,777
Land		31,450
Machinery & equipment		<u>350,496</u>
		2,245,840
Less accumulated depreciation		<u>1,108,132</u>
		<u>1,137,708</u>

Total assets \$ 2,125,953

**DEFERRED OUTFLOWS OF RESOURCES**

\$ -

**LIABILITIES AND NET POSITION**

**CURRENT LIABILITIES**

Accounts payable		24,628
Accrued liabilities		7,552
Water deposits		<u>5,821</u>
Total liabilities		38,001

**DEFERRED INFLOWS OF RESOURCES**

\$ -

**NET POSITION**

Net investment in capital assets		1,137,708
Unrestricted		950,244
Restricted		<u>-</u>
Total net position		2,087,952
		<u>\$ 2,125,953</u>

The accompanying notes are an integral part of this financial statement.

**Love County Rural Water District #2**  
**Statement of Revenues, Expenses and**  
**Changes in Net Position**  
**For the year ended June 30, 2018**

<b>OPERATING REVENUES</b>		
Water sales and related revenues	\$	572,253
Penalties / late charges		<u>4,213</u>
	Total operating revenues	576,466
<b>EXPENSES - OPERATING</b>		
Salaries and benefits	272,877	
Depreciation	65,033	
Bad debt expense	428	
Utilities and telephone	39,998	
Insurance	21,642	
Repairs and maintenance	17,380	
Office and printing	20,361	
Professional fees	25,002	
Supplies	25,432	
Gas, oil and mileage	6,677	
Machine hire and contract labor	2,263	
Water testing	7,751	
Cost of meters and supplies	7,470	
Bank fees	4,735	
Miscellaneous other expenses	<u>3,353</u>	
		<u>520,403</u>
	Operating income	56,063
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Rental income	3,000	
Interest income	<u>1,657</u>	
		<u>4,657</u>
 <b>CHANGE IN NET POSITION</b>		 60,720
 <b>NET POSITION JULY 1, 2017</b>		 <u>2,027,232</u>
 <b>NET POSITION JUNE 30, 2018</b>		 <u><u>\$ 2,087,952</u></u>

The accompanying notes are an integral part of this financial statement.

**Love County Rural Water District #2**  
**Statement of Cash Flows**  
**For the year ended June 30, 2018**

<b>Cash flow from operating activities:</b>	
Cash received from customers	\$ 570,866
Cash payments to supplies for goods and services	(151,160)
Cash payments to employees and contractors	(285,717)
Net cash provided (used) by operating activities	<u>133,989</u>
 <b>Cash flows from non-capital financing activities</b>	
Rents received	3,000
Investment in certificates of deposit	-
Net cash provided (used) by noncapital financing activities	<u>3,000</u>
 <b>Cash flows from capital and related financing activities:</b>	
Cash received from sale of equipment	-
Cash used to purchase assets	-
	<u>-</u>
 <b>Cash flows from investing activities:</b>	
Interest income on unrestricted accounts	1,353
Net cash provided (used) by investing activities	<u>1,353</u>
 Net Increase (Decrease) in Cash	 138,342
 Cash and certificate equivalents July 1, 2017	 635,362
 Cash and certificate equivalents June 30, 2018	 <u>\$ 773,704</u>
 <b>Reconciliation of operating income to cash flows from operating activities</b>	
Operating income (loss)	\$ 56,063
Adjustment to reconcile net revenues to net cash provided by operating activities	
Depreciation and amortization	65,033
(Increase) Decrease accounts receivable	(5,600)
(Increase) Decrease other current assets	-
(Increase) Decrease in inventory	(551)
Increase (Decrease) accounts payable	16,166
Increase (Decrease) accrued liabilities	2,878
Total adjustments	<u>77,926</u>
 Net cash provided (used) by operating activities	 <u>\$ 133,989</u>

The accompanying notes are an integral part of this financial statement.

**Love County Rural Water District #2**  
**Notes to the Financial Statements**  
**June 30, 2018**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Organization and nature of operations*

Love County Rural Water District No. 2 (the "District") is a body corporate and politic, without taxing power, established in the State of Oklahoma pursuant to Title 82, Oklahoma Statutes 1991, and an Order of the Board of County Commissioners of Love County, Oklahoma dated as of July 26, 1993. All assets and liabilities of Thackerville Water and Sewerage Company were transferred to the District. Its purpose is the construction, maintenance and operation of a water works within its district.

The basic financial statements of the Love County Rural Water District #2 have been prepared in conformity with generally accepted accounting principles as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The District is governed by a Board of Directors consisting of five members elected by the members of the District. The Board elects a Chairman.

*Basis of Presentation*

The District's resources are allocated to and accounted for in these basic financial statements as an enterprise fund type of the proprietary fund group. The enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other policies. Net assets for the enterprise fund represent the amount available for future operations.

*Basis of accounting*

The District's policy is to prepare its financial statements using the economic resources measurement focus and the accrual method. Under this method, revenues are recognized when earned, rather than when collected, and expenditures are recognized when the liability is incurred, rather than when paid.

The District's net assets are reported in three components:

1. Investment in capital assets – consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of notes that are attributable to the acquisition of those assets.
2. Restricted - consists of net assets with constraints placed on the use either by external groups, such as grantors or laws and regulations of other governments, or law through constitutional provisions or enabling legislation.
3. Unrestricted – All other assets that do not meet the definition of restricted or investment in capital assets.

*Accounts receivable*

The District uses the allowance method to account for uncollectible accounts receivable. Accounts receivable are presented net of an allowance for doubtful accounts of \$1,000.



**Love County Rural Water District #2**  
**Notes to the Financial Statements**  
**June 30, 2018**

*Cash and Cash Equivalents*

For the purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with an initial maturity of three months or less to be cash equivalents, including restricted assets.

*Income Taxes*

No provision is made for income taxes. The District is a public trust and therefore not subject to income taxes under the Internal Revenue Code.

*Fair Value of Financial Instruments Approximates Carrying Amount*

The District's financial instruments are cash and cash equivalents, accounts receivable and accounts payable. The recorded values of cash and cash equivalents, accounts receivable, and payable approximate their fair values based on their short-term nature.

*Operating and Nonoperating Revenues*

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the cost of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

*Fixed Assets and Depreciation*

Fixed assets are stated at original cost. The costs of additions and replacements are capitalized. Replacements of minor items of property are charged to expense as incurred. Costs of property retired are eliminated from accounts, likewise such costs plus removal expense less salvage are charged to accumulated depreciation.

*Inventory*

Inventory consisting of meters, pumps, valves and other merchandise, held for replacement purposes, is stated at cost.

*Accounting estimates*

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

*Restricted and Unrestricted resources*

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

*Tenant Security Deposits*

Tenant security deposits are held in a segregated demand account in the name of the District.

*Subsequent Events*

The District evaluates events or transactions that occur subsequent to year end for potential recognition or disclosure in the financial statement through the date on which the financial statements are available to be issued. The financial statements were approved by management and available to be issued on June 28, 2019.

**Love County Rural Water District #2**  
**Notes to the Financial Statements**  
**June 30, 2018**

**NOTE 2 – CASH AND INVESTMENTS**

The District's bank deposits are categorized below per GASB Statement 3 to give an indication of the level of risk assumed at year-end. Deposits of the District are carried at cost. The carrying amount of deposits is stated in the balance sheet as "cash and cash equivalents". The District invests only in cash accounts and certificates of deposit.

Deposits	Risk Category			Bank Balance	Financial Statement
	1	2	3		Carrying Amount
Demand Deposits	\$ 250,000	\$ 523,504	\$ -	\$ 773,504	\$ 773,504
Certificates of Deposit	-	105,411	-	105,411	105,411
<b>Totals</b>	<b>\$ 250,000</b>	<b>\$ 628,915</b>	<b>\$ -</b>	<b>\$ 878,915</b>	<b>\$ 878,915</b>

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. GASB directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance and the deposits are as follow:

1. Insured by Federal Deposit Insurance,
2. Collateralized by securities held by pledging financial institution, or
3. Collateralized by securities held by the pledging financial institution's trust department or agent but not in the district's name.

None of the District's aggregate bank balances, not covered by depository insurance, were exposed to custodial credit risk as described above at year end.

**NOTE 3 – PROPERTY AND EQUIPMENT**

Fixed assets are depreciated on a straight-line basis over their estimated useful life. As of June 30, fixed assets consisted of the following:

	Beginning			Ending
	Asset	Additions	Deletions	Balance
Water systems	\$ 1,841,116	\$ -	\$ -	\$ 1,841,116
Office equipment	22,777	-	-	22,777
Machinery and equipment	350,496	-	-	350,496
Land	31,451	-	-	31,451
	<b>\$ 2,245,840</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,245,840</b>
Accumulated Depreciation	(1,043,099)	(65,033)	-	\$(1,108,132)
	<b>\$ 1,202,741</b>	<b>\$ (65,033)</b>	<b>\$ -</b>	<b>\$ 1,137,708</b>

**Love County Rural Water District #2**  
**Notes to the Financial Statements**  
**June 30, 2018**

Depreciation expense for the year ended June 30, 2018 was \$65,033.

**NOTE 4 – RISK MANAGEMENT**

The District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

*Health Care Coverage*

During the year ended June 30, 2018, employees of the District were covered by health insurance under a plan sponsored by the State of Oklahoma.

*Workers' Compensation Coverage*

Workers' compensation insurance is purchased through Oklahoma Rural Water Association.

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kathy@cpa-ok.com  
gabe@cpa-ok.com

## INDEPENDENT AUDITORS' 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

Board of Trustees  
Love County Rural Water District #2  
Thackerville, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Love County Rural Water District #2 (the District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Love County Rural Water District #2's basic financial statements, and have issued our report thereon dated June 28, 2019.

### 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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 may exist that have not been identified.

### 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

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



Ardmore, Oklahoma  
June 28, 2019