

**PAWNEE COUNTY RURAL WATER DISTRICT NO. 1
CLEVELAND, OKLAHOMA**

FINANCIAL STATEMENTS AND AUDITOR'S REPORT

YEAR ENDED DECEMBER 31, 2019

**PAWNEE COUNTY RURAL WATER DISTRICT NO. 1
BOARD OF DIRECTORS
DECEMBER 31, 2019**

BOARD OF DIRECTORS

President

David Smith

Vice-President

Rick Rogers

Secretary

Al Wheeler

Treasurer

Bob Boyd

Member

Bobby Brown

Member

James Cannon

Member

Todd Weldon

GENERAL MANAGER

Zack Rogers

BOOKKEEPER

Michelle Welch

PAWNEE COUNTY RURAL WATER DISTRICT NO. 1
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Pawnee County Rural Water District No. 1
Cleveland, Oklahoma 74020

Report on the Financial Statements

We have audited the accompanying financial statements of **Pawnee County Rural Water District No. 1**, Cleveland, Oklahoma, which comprise the statements of net position as of December 31, 2019 and 2018, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, 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 an opinion on these financial statements based on our audits. We conducted our audits 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Pawnee County Rural Water District No. 1** as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report Issued in Accordance with Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated May 25, 2020 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, 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 **Pawnee County Rural Water District No.1's** 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.

Russell Cunningham, CPA
May 25, 2020

PAWNEE COUNTY RURAL WATER DISTRICT NO. 1
MANAGEMENT DISCUSSION ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2019

For the **Pawnee County Rural Water District No. 1**, this is a presentation of Management's Discussion and Analysis (MD&A). This analysis serves as an introduction to the financial statements for users to facilitate whether our overall financial health has improved or deteriorated as a result of the past year's operations. A required component of MD&A is to briefly describe the reasons for changes in our asset, liability, revenue and expenditure balances to the previous (2018) year.

Business-type-Activities:

In this review, revenue accounts increased by \$ 33,655 or 5.5% from 2018. This growth is due primarily to adding new customers and billing a full year with the 2018 rate increases.

As of December 31, 2019, the District will report net income of \$ 56,295. This income includes a reported current depreciation expense amount of \$ 33,970.

For the year ended December 31, 2019, total assets exceeded liabilities by \$ 762,630. The District has one note payable at this time totaling \$ 28,518, and six (6) certificates of deposit totaling \$ 201,189.

Fixed Assets

At December 31, 2019, the District had \$ 443,014 invested in fixed assets, net of depreciation, including land, the water system, vehicles and equipment.

Future Activities

The District needs to make a concerted effort to replace some sections of line within the District.

Additionally, increases in the amount of chemical cost used in the water treatment process is continuing. Our EPA mandated water testing is ongoing and there appears to be no end in sight.

Overall Outlook

The future for the District remains bright. Our water quality remains excellent and we are working to improve the distribution system. The District is financially strong and we are able to improve the system and comply with EPA standards with a minimum of impact on our financial statements.

Russell Cunningham, CPA

Certified Public Accountant
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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***

Board of Directors

Pawnee County Rural Water District No. 1

Cleveland, Oklahoma 74020

We have audited the financial statements of **Pawnee County Rural Water District No. 1**, as of and for the years ended December 31, 2019 and 2018, and have issued our report thereon dated May 25, 2020. 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.

Internal Control Over Financial Reporting

In planning and performing the audit of the financial statements, we considered **Pawnee County Rural Water District No. 1's** internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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 the limitations, during the audit the auditor did not identify any deficiencies in internal control that are considered to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Pawnee County Rural Water District No. 1's**, financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Russell Cunningham, CPA
May 25, 2020

PAWNEE COUNTY RURAL WATER DISTRICT NO. 1
STATEMENT OF NET POSITION
DECEMBER 31, 2019 AND 2018

ASSETS	<u>2019</u>	<u>2018</u>
Current Assets		
Cash on hand	\$ 676	\$ 749
Cash in bank	11,517	56,030
Investments	379,755	282,757
Accounts Receivable	50,993	43,534
Prepaid Insurance	6,944	5,780
Total Current Assets	<u>449,885</u>	<u>388,850</u>
Capital Assets		
Water distribution system	1,145,344	1,145,344
Buildings	137,704	137,704
Office Equipment	26,138	25,633
Vehicles	83,475	83,475
Equipment	115,753	115,753
Water treatment system	20,420	20,420
Total Capital Assets	1,528,834	1,528,329
Less: Accumulated Depreciation	<u>(1,085,820)</u>	<u>(1,051,850)</u>
Total Capital Assets (net of depreciation)	<u>443,014</u>	<u>476,479</u>
Total Assets	<u>\$ 892,899</u>	<u>\$ 865,329</u>
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts Payable	\$ 17,426	\$ 16,755
Customer Deposits	84,325	79,500
Notes Payable	28,518	34,222
Total Current Liabilities	<u>130,269</u>	<u>130,477</u>
Long Term Liabilities		
Notes Payable	<u>0</u>	<u>28,517</u>
Total Long Term Liabilities	<u>0</u>	<u>28,517</u>
Total Liabilities	<u>130,269</u>	<u>158,994</u>
Net Position		
Memberships	102,600	102,600
Contributed Capital	20,097	20,097
Unrestricted Net Assets	639,933	583,638
Total Net Position	<u>762,630</u>	<u>706,335</u>
Total Liabilities and Net Position	<u>\$ 892,899</u>	<u>\$ 865,329</u>

See Accompanying Independent Auditor's Report and Notes to Financial Statements

PAWNEE COUNTY RURAL WATER DISTRICT NO. 1
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Operating Revenues		
Water revenue	\$ 594,623	\$ 569,306
Late charges	8,664	9,991
Transfer fees	2,950	2,500
Miscellaneous Income	12,786	11,596
New taps	17,350	6,100
Collection fees	<u>6,880</u>	<u>10,105</u>
Total revenue from operations	<u>643,253</u>	<u>609,598</u>
Operating Expenses		
Accounting Fees	6,400	6,350
Auto & Truck	11,386	8,690
Bank Charges	6,180	5,881
Depreciation	33,970	30,717
Dues & Publications	1,813	705
Donations	100	75
Education	2,035	915
Employee Benefits	41,963	35,091
Insurance	21,103	23,934
Laundry	3,050	3,066
Legal Expense	3,342	252
License & Permits	1,679	3,743
Meals and Entertainment	2,001	1,589
Office Expense	9,132	9,587
Outside Services	3,860	2,262
Postage	4,627	4,841
Repairs and Maintenance	38,934	3,828
Supplies	7,196	9,956
Taxes – Payroll	18,264	15,962
Telephone	2,501	2,549
Tools	126	1,807
Travel	3,054	3,246
Utilities	22,127	24,958
Wages	238,739	208,650
Water lease	51,854	50,339
Water Treatment	<u>54,037</u>	<u>57,707</u>
Total Operating Expenses	<u>589,473</u>	<u>516,700</u>
Operating Income (Loss)	<u>53,780</u>	<u>92,898</u>
Non-Operating Revenues (Expenses)		
Interest Income	<u>2,515</u>	<u>1,322</u>
Total Non-Operating Revenues (Expenses)	<u>2,515</u>	<u>1,322</u>
Net Income (Loss)	56,295	94,220
Net Position, Beginning of year	<u>583,638</u>	<u>489,418</u>
Net Position, End of year	<u>\$ 639,933</u>	<u>\$ 583,638</u>

See Accompanying Independent Auditor's Report and Notes to Financial Statements

PAWNEE COUNTY RURAL WATER DISTRICT NO. 1
STATEMENTS OF CASH FLOWS
DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities		
Operating Cash Receipts from Customers	\$ 640,619	\$ 607,749
Cash Payments to Vendors for Goods and Services	<u>(555,996)</u>	<u>(486,030)</u>
Net Cash Provided (Used) by Operating Activities	<u>84,623</u>	<u>121,719</u>
Cash Flows from Capital and Related Financing Activities		
Purchase of Capital Assets	(505)	(2,310)
Payment of Principle on Note	(34,221)	(24,227)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(34,726)</u>	<u>(26,537)</u>
Cash Flows from Investing Activities		
Interest Income	2,515	1,322
Net Cash from Investing Activities	<u>2,515</u>	<u>1,322</u>
Net Cash inflow (outflow) from all Activities	<u>52,412</u>	<u>96,504</u>
Cash & Cash Equivalents at Beginning of Year	<u>339,536</u>	<u>243,032</u>
Cash & Cash Equivalents at End of Year	<u><u>\$ 391,948</u></u>	<u><u>\$ 339,536</u></u>
Reconciliation of Operation Income (Loss) to Net Cash Provided by Operating Activities		
Operating Income (Loss)	\$ 53,780	\$ 92,898
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Depreciation	33,970	30,717
Changes in Certain Assets and Liabilities		
Prepaid Expenses	(1,164)	2,429
Accounts Receivable	(7,459)	(5,049)
Accounts Payable	671	(2,476)
Customer Deposits	4,825	3,200
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 84,623</u></u>	<u><u>\$ 121,719</u></u>

See Accompanying Independent Auditor's Report and Notes to Financial Statements

PAWNEE COUNTY RURAL WATER DISTRICT NO. 1
STATEMENTS OF CASH FLOWS
DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Supplemental Disclosures:		
Cash Consists of:		
Cash on hand	\$ 676	\$ 749
Cash in bank	190,083	190,054
Savings in bank	<u>201,189</u>	<u>148,733</u>
 Cash at End of Year	 \$ <u>391,948</u>	 \$ <u>339,536</u>
 Interest Paid During the Year	 \$ 0	 \$ 0
Income Tax Paid During the Year	0	0

See Accompanying Independent Auditor's Report and Notes to Financial Statements

PAWNEE COUNTY RURAL WATER DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

Note A – Nature of Operations and Summary of Significant Accounting Policies

Pawnee County Rural Water District No. 1 is a political subdivision of the State of Oklahoma with its office located in Cleveland, Oklahoma. The District was formed May 31, 1966 to furnish water service to the residents of the district by constructing and maintaining a water system.

Pawnee County Rural Water District No. 1's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB).

For financial purposes, a reporting entity's financial statements should include all component units over which another component unit (oversight unit) exercises financial accountability. Financial accountability includes such aspects as appointment of governing body members, designation of management, the ability to significantly influence operations and accountability for fiscal matters.

Based upon the above criteria, there are no component units to be included within the District as a reporting entity.

Basis of Accounting

The accrual basis of accounting is utilized in reporting financial information in accordance with U.S. generally accepted accounting principles. The accrual basis of accounting records revenues in the period in which earned rather than when received and records expenses in the period incurred rather than when paid.

Cash

The District's checking and savings accounts at December 31 are detailed as follows:

	<u>2019</u>	<u>2018</u>
Bank of Oklahoma, Sand Springs, Oklahoma		
Operating Account	\$ 18,530	\$ 68,317
Plus: Deposits in Transit	198	0
Less: Outstanding Checks	<u>(7,211)</u>	<u>(12,287)</u>
Total	<u>\$ 11,517</u>	<u>\$ 56,030</u>

Investments

The District's investments at December 31 are as follows:

	<u>2019</u>	<u>2018</u>
Savings Account:		
Bank of Oklahoma	\$ 178,566	\$ 134,024
Certificate of Deposits:		
Central Bank of Oklahoma (1)	\$ 16,610	\$ 16,296
Simmons Bank (5)	<u>184,579</u>	<u>132,437</u>
Total	\$ <u>379,755</u>	\$ <u>282,757</u>

Statement of Cash Flows

For the purposes of the statement of cash flows, the District considers all highly liquid investments, such as certificates of deposit and savings accounts, as cash equivalents.

Fixed Assets

Fixed assets are valued at cost, and depreciation is computed by use of the straight line method. The estimated useful lives of these assets are detailed as follows:

Water distribution system	50 years
Office building	39 years
Office equipment	7 years
Vehicles	5 years
Water treatment system	7-10 years

Notes Payable

Notes Payable – Cunningham Sandblasting, originated on October 30, 2018 for \$86,966. The interest rate is 0.0% and the loan is payable for 24 months at \$2,851.79 per month. It was originated to renovate, repair and paint two water towers owned by the District. The amount of principal due on the loan is as follows:

Year Ending: 12-31-2020 \$ 28,518

Principal Loan Total \$ 28,518

Income Tax

As a political subdivision of the State of Oklahoma, the District is exempt from income taxes.

Credit Risk

The District's receivables consist primarily of uncollateralized customer obligations for water consumed. If these customers were to leave the District prior to paying off their account, collectability could be difficult.

Use of estimates

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

Note B – Cash and Investments

The District's investment policies are governed by state statute. Permissible investments include direct obligations of the United States Government and agencies; certificates of deposit of savings and loan associations, banks and trust companies; savings accounts or savings certificates of savings and loan associations, banks and trust companies; and warrants, bonds or judgments of the district.

The District's cash deposits at December 31, 2019 are categorized to give an indication of the level of risk assumed by the District at year-end.

Deposit Categories of Credit Risk

(A) Insured by Federal Deposit Insurance.

(B) Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

(C) Uncollateralized.

	Category			Bank Balance	Carrying Amount
	(A)	(B)	(C)		
Cash	\$ 18,530			\$ 18,530	\$ 11,517
Investments	<u>379,755</u>			<u>379,755</u>	<u>379,755</u>
Total	<u>\$ 398,285</u>	<u>0</u>	<u>0</u>	<u>\$ 398,285</u>	<u>\$ 391,272</u>

Note C – Accounts Receivable

Accounts receivable consist of amounts billed to residents within the District's area of operation for water used, but not yet paid. No allowance for doubtful accounts was established because it does not have a material effect on the balance sheet.

Note D – Unclaimed Debenture Payments

Upon creation of the District, individual patrons contributed funds to assist in the start-up and operation of the water distribution system. These funds were subsequently invested to provide additional return for the District. Since inception, the District has attempted to refund this contribution to as many individuals as possible. Some contributors cannot be located, and there is no determination as to when these payments will be made in future years, if at all. As of December 31, 2019, all unclaimed debenture payments were written off due to inability to accurately identify the contributors and amount owed to each person.

Note E – Insurance

It appears the District has current insurance coverage for all major perils.

Note F – Contingent Liabilities

Per the District's legal counsel, there were no known contingent liabilities at December 31, 2019, which would have material effect on the financial statements.

Note G – Employee Theft

In April 2013, an office employee admitted to stealing money from **Pawnee County Rural Water District No. 1**. The amount of theft was estimated to be \$ 98,625. The court ordered restitution payback in the amount of \$46,000. The District received \$ 4,800 in 2019 in restitution payments from the ex-employee. The balance of the restitution at December 31, 2019 is \$30,710. It is probable that some or all of the remaining monies will be recovered through restitution in future years.

Note H – Current Liabilities

Accounts payable consists of amounts payable to vendors for supplies related to operations in the amount of \$ 17,426.

Note I – Fair Value

The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.

Note J – Subsequent Events

Subsequent events have been evaluated through the financial statement release date of May 25, 2020, with no items noted for reporting.