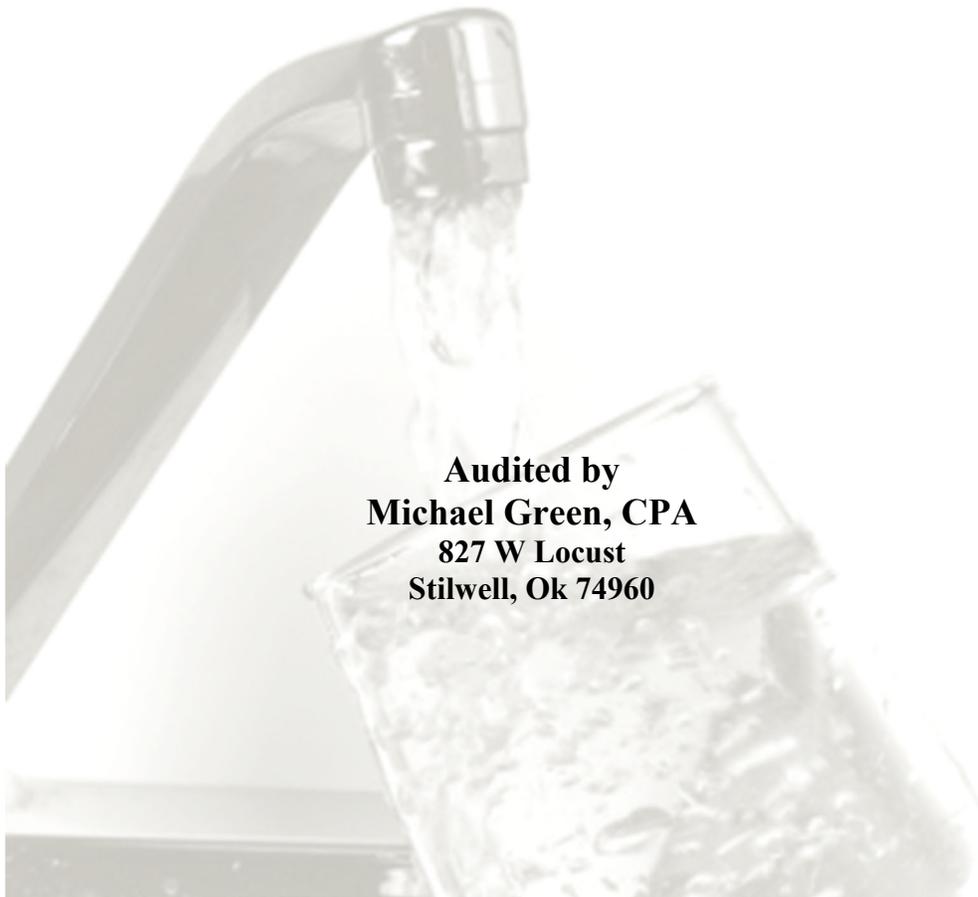


**RURAL WATER, SEWER AND SOLID  
WASTE MANAGEMENT DISTRICT No. 2**

**Stilwell, Oklahoma**

**Financial Statements  
&  
Audit Report**

**December 31, 2019**



**Audited by  
Michael Green, CPA  
827 W Locust  
Stilwell, Ok 74960**

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**MICHAEL W. GREEN**  
*Certified Public Accountant*  
827 W Locust Street  
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(918) 696-6298

**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Adair County Water, Sewer  
and Solid Waste Management Dist. No. 2  
Adair County, Oklahoma

**Report on the Financial Statements**

I have audited the accompanying financial statements of the business-type activities of Adair County Water, Sewer and Solid Waste Management Dist. No. 2 (the District) as of and for the year ended December 31, 2019, 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**

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

## **Opinions**

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Adair County Water, Sewer and Solid Waste Management Dist. No. 2 as of December 31, 2019, and the respective changes in financial position and, where applicable, 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 the management 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 operations, economic, or historical context. My 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*, I have also issued my report dated October 7, 2020, on my consideration of District's, internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to solely describe the scope of my 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 the District'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.



Michael Green, CPA  
Stilwell, Oklahoma

October 7, 2020

**Adair County Rural Water District #2**  
**Statement of Net Position**  
**Proprietary Fund**  
**December 31, 2019**

**ASSETS**

Cash on Hand	\$	100
Cash In Bank		141,010
Investments		26,315
Accounts Receivable		48,258
Prepaid Expenses		3,198
<b>TOTAL CURRENT ASSETS</b>		<b>218,881</b>

**FIXED ASSETS**

Water System		2,980,358
Office Equipment		13,935
Equipment		31,137
Vehicles		48,155
Buildings		61,579
Land Easement		3,223
Accumulated Depreciation		(1,659,795)
<b>TOTAL FIXED ASSETS</b>		<b>1,478,592</b>

**RESTRICTED ASSETS**

Cash Restricted for Security Deposits		4,575
<b>TOTAL ASSETS</b>		<b>1,702,048</b>

**LIABILITIES**

**CURRENT LIABILITIES**

Accounts Payable & Accrued Liabilities		24,193
Payroll Taxes Payable		86
Security Deposits Payable		4,575
Current Portion of Long-Term Debt		19,105
<b>TOTAL CURRENT LIABILITIES</b>		<b>47,959</b>

**NONCURRENT LIABILITIES**

Note Payable - Less Current Portion		126,787
<b>TOTAL NONCURRENT LIABILITIES</b>		<b>126,787</b>

**TOTAL LIABILITIES**

**174,746**

**NET POSITION:**

Net Investment in Capital Assets		1,332,700
Unrestricted		194,602
<b>TOTAL NET POSITION</b>		<b>1,527,302</b>

The accompanying notes are an integral part of these financial statements

**Adair County Rural Water District #2**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Proprietary Fund**  
**For the Year Ended December 31, 2019**

**OPERATING REVENUE:**

Charges for Services:		
Water Sales	\$	421,441
Membership Tap Fees		12,069
Late Fees		8,207
Reconnect Fees		3,825
		<u>445,542</u>
Total Charges for Services		445,542
<b>TOTAL OPERATING REVENUE</b>		

**OPERATING EXPENSES:**

Water Purchased	202,396
Bank Charges	763
Payroll	43,921
Payroll Expenses	9,859
Contract Labor	
Depreciation	83,777
Repairs & Maintenance	2,124
Insurance	11,179
Supplies	35,807
Legal & Professional	4,000
Telephone	26,705
Utilities	4,082
Vehicle Expense	7,356
Property Tax	513
Postage	3,376
Dues, Fees & License	3,989
Miscellaneous	782
Water Testing	1,899
Bad Debt Expense	4,342
Office Exp.	3,228
	<u>450,098</u>
<b>TOTAL OPERATING EXPENSES</b>	450,098
<b>NET INCOME FROM OPERATIONS</b>	<u>(4,556)</u>

**NONOPERATING REVENUE (EXPENSE):**

Reimbursement from Cherokee Nation	34,405
Interest Income	2,127
Interest Expense	(2,496)
	<u>34,036</u>
<b>TOTAL NONOPERATING REVENUE &amp; EXPENSE</b>	34,036
<b>NET INCOME</b>	29,480

<b>NET POSITION AS STATED DECEMBER, 31 2018</b>	1,516,382
<b>PRIOR PERIOD ADJUSTMENT (NOTE N)</b>	(18,560)
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>1,497,822</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 1,527,302</u>

The accompanying notes are an integral part of these financial statements

**Adair County Rural Water District #2  
Statement of Cash Flows, Direct Method  
Proprietary Fund  
For the Year Ended December 31, 2019**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash from Customers	\$ 432,804
Cash to Suppliers	(310,178)
Wages to Employees	(56,638)
<b>Net Cash Provided (used) by Operating Activities</b>	<b>65,988</b>

**CASH FLOWS FROM CAPITAL AND RELATED  
FINANCING ACTIVITIES**

Net purchase of Capital Assets	(38,704)
Net Increase(Decrease) in Capital Debt	(18,601)
Income From Cherokee Nation	34,405
Interest Paid on Capital Debt	(2,496)
<b>Net Cash Provided (used) by Capital and Related Financing Activities</b>	<b>(25,396)</b>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest Income	2,127
<b>Net Cash Provided (used) by Investing Activities</b>	<b>2,127</b>

**NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** 42,719

BALANCES - BEGINNING OF THE YEAR 129,281

BALANCES - END OF THE YEAR \$ 172,000

The accompanying notes are an integral part of these financial statements

**Adair County Rural Water District #2**  
**Statement of Cash Flows (Continued)**  
**Proprietary Fund**  
**For the Year Ended December 31, 2019**

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH  
PROVIDED (USED) BY OPERATING ACTIVITIES**

Operating Income	\$ (4,556)
Adjustments to Reconcile Operating Income to Net Cash Provided (used) by Operating Activities:	
Depreciation Expense	83,777
Change in Assets and Liabilities:	
Accounts Receivable	(12,738)
Prepaid Expenses	424
Accounts Payable & Accrued Liabilities	<u>(919)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b><u>\$ 65,988</u></b>

The accompanying notes are an integral part of these financial statements

**Adair County Rural Water District No.2**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2019**

The Adair County Rural Water District No. 2 was organized under the Rural Water District Act of Oklahoma, for the purpose of acquiring water and water rights, and to build and acquire pipelines and other facilities and to operate the same for the purpose of furnishing water to serve the needs of owners and occupants of land located within the district.

Note 1: Summary of Significant Accounting Policies

Basis of Accounting and Measurement Focus

- Basis of Accounting refers to "when" transactions are recorded regardless of the measurement focus applied.
- Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements.

Basis of Accounting:

Basis of Accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of Accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The financial statements of Adair County Rural Water District No. 2, (hereafter known as the Water District), have been prepared on the accrual basis of accounting. The accrual basis of accounting recognizes revenue when it is earned rather than received and recognizes expenditures when they are incurred rather than paid.

Proprietary Funds:

Enterprise Funds - Enterprise Funds are used to account for operations (a) 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 (b) 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 purposes. The water district believes that its fund is in this category since it relates to or provides for a business type activity.

Measurement Focus:

The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, (or cost recovery), and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported appropriately as such. Proprietary fund equity is classified as total net position

**Adair County Rural Water District No.2**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2019**

Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

**A. Cash & Cash Equivalents**

For the purpose of reporting cash and equivalents, the district considers all unrestricted checking and savings accounts and any highly liquid investments with an initial maturity of less than three months to be a cash equivalent. For the purpose of the cashflow statement, cash on hand, cash in bank, and certificates of deposits are included.

<u>Cash on Hand</u>	\$	100
Total Cash on hand	\$	100

All funds were covered by federal depository insurance or collateralized by securities pledged to the Authority by various depository banks. Cash in bank consist of the following accounts:

BOC, O & M Checking	\$	105,919
BOC, HI-FI		39,666
<u>Total Cash</u>	<u>\$</u>	<u>145,585</u>

**B. Investments**

Investments, as presented in the District's financial statements are certificates of deposit with a maturity of three months or more. The investments as shown in the following schedule include both the restricted and unrestricted portions as of December 31, 2018 are as follows:

<u>Boc, 12 Month CD</u>	\$	26,315
Total Investments	\$	26,315

**C. Accounts Receivable**

Accounts receivable consist of trade receivables.

	Days Receivable		
<u>Accounts Receivable</u>	30	60	90
Accounts Receivable Totals	\$ 42,776	\$ 1,151	\$ 4,331

**D. Allowance for Doubtful Accounts**

Management expects all accounts to be collectable as of the balance sheet date.

**Adair County Rural Water District No.2**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2019**

E. Income Taxes

The Water District is exempt from federal and state income taxes.

F. Inventories

The Water District has no material inventories that it owns, supplies are used or recognized when they are needed.

G. Plant, Property and Equipment

Use of Estimates

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

Capitalization Policy

The District has a capitalization policy which includes all items of a Property, plant and equipment nature in an amount of more than \$500.

Recording of Assets and Depreciation Methods

All fixed assets are stated at their historical cost and depreciation is recorded using the straight-line method over the useful life of the asset.

Additions & Deletions to Fixed Assets

Additions to the fixed asset accounts are as seen in the schedule below.

	12/31/18	Additions	Reductions	12/31/19
<b>Capital Assets, not being depreciated</b>				
Land Easements	\$ 3,223	\$ -	\$ -	\$ 3,223
<b>Capital Assets, being depreciated</b>				
Water System                      SL 40	2,950,034	30,324	-	2,980,358
Vehicles                              SL 5	48,155	-	-	48,155
Building                              SL 20	53,199	8,380	-	61,579
Office Equipment                  SL 5	13,935	-	-	13,935
Equipment                          SL 5	31,137	-	-	31,137
Accumulated Depreciation	(1,576,018)	(83,777)		(1,659,795)
Total Capital Assets being Depreciated	1,520,442	(45,073)	-	1,475,369
<b>Total Capital Assets</b>	<b>\$ 1,523,665</b>	<b>\$ 233,496</b>	<b>\$ -</b>	<b>\$ 1,478,592</b>

**Adair County Rural Water District No.2**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2019**

**H. Long Term Debt**

At December 31, 2019, the water district had one outstanding long-term note payable with the Bank of Commerce. The origination date of the note was April 05, 2017 and is expected to remain in effect until its estimated payoff date of April 05, 2027. The note bears an interest rate of 1.60% annually. The note payable had an original beginning principal debt of \$194,835.64. As of December 31, 2019, the amount of principal remaining was \$145,692 of which approximately, \$18,801 was paid in the current year.

The following table indicates the balances of debt throughout the year:

<u>Type of Debt</u>	Balance 12/31/18	Additions	Reductions	Balance 12/31/19	Amount Due Within One Year
Business Type Activities:					
Bank of Commerce	\$ 164,493		\$ (18,801)	\$ 145,692	\$ 19,105
Total Business Type Activities:	<u>\$ 164,493</u>	<u>\$ -</u>	<u>\$ (18,801)</u>	<u>\$ 145,692</u>	<u>\$ 19,105</u>

The maturity of principal and interest for the next five years is displayed below. The remaining term of the loan is displayed in five-year increments through maturity.

Year Ended June 30	Principal	Interest	Total
2020	\$ 19,105	\$ 2,191	\$ 21,297
2021	19,413	1,883	21,297
2022	19,726	1,571	21,297
2023	20,044	1,253	21,297
2024	20,367	929	21,297
2025-2029	47,035	883	47,918
2030-2034			-
2035-2039			-
2040-2044			-
2045-2049			-
2050-2054			-
2055-2059			-
<u>Totals</u>	<u>\$ 145,692</u>	<u>\$ 8,710</u>	<u>\$ 154,402</u>

**I. Pension Plans**

The Water District does not provide retirement benefits to its employees other than the payroll payments to the social security retirement system. At December 31, 2019 the District did not participate in or offer any pension plans.

**Adair County Rural Water District No.2**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2019**

J. Compensated absences

The Water district has no material compensated absence amounts.

K. Claims and Judgements

From time to time the District participates in federal and state programs that may be fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to non-compliance with grant program regulations, the district may be required to reimburse the grantor government. No provision is made in the financial statements for these possible contingencies.

L. Commitments and Contingencies

The district has considered the possibility of any commitments or contingencies that could have a material effect on the financial statements. After careful consideration, no provision has been made at this time.

M. Restricted component of Net Position

The district is not currently required to maintain a restricted cash account.

N. Restatement of Net Position

The district has restated net position for 2018 due to accounts receivable being overstated by \$18,560.

O. Subsequent Events

Management has evaluated subsequent events through the date of the auditor's report which is the date the financial statements were available to be issued.

**MICHAEL W. GREEN**  
*Certified Public Accountant*  
827 W Locust Street  
Stilwell, Ok. 74960  
(918) 696-6298

**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  
Adair County Water, Sewer  
and Solid Waste Management Dist. No. 2  
Adair County, Oklahoma

I 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 Adair County Water, Sewer and Solid Waste Management Dist. No. 2 as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise Adair County Water, Sewer and Solid Waste Management Dist. No. 2's basic financial statements and have issued my report thereon dated October 7, 2020.

**Internal Control Over Financial Reporting**

In planning and performing my audit of the financial statements, I considered Adair County Water, Sewer and Solid Waste Management Dist. No. 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Adair County Water, Sewer and Solid Waste Management Dist. No. 2's internal control. Accordingly, I do not express an opinion on the effectiveness of Adair County Water, Sewer and Solid Waste Management Dist. No. 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.

My 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 my audit I identified a deficiency in internal control that I consider to be material weaknesses. I consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness. (2019-1)

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Adair County Water, Sewer and Solid Waste Management Dist. No. 2 's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my 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 my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "Michael Green". The signature is stylized and cursive.

Michael Green, CPA  
Stilwell, Oklahoma

October 7, 2020

## SCHEDULE OF FINDINGS AND RESPONSES

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS 2019-1

**Criteria:** The segregation of duties and responsibilities between different individuals for custody of assets, record keeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

**Condition:** Presently a limited number of individuals has responsibility for all functions of the financial statement reporting. These individuals have oversight responsibilities for billing and adjustments; posting of payments payment to subsidiary accounts receivable ledgers and reconciles the monthly bank statements. In addition, only limited oversight is provided over this individual in the conduct of their daily functions. This condition was also reported in 2018.

**Cause:** The entity's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

**Effect or Potential Effect:** Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to the membership and other billing and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

**Recommendation:** Management and the board should consider a formal evaluation of their risks associated with this lack of duties segregation over assets. In response to the Identified risks, consideration should be given to identifying and implementing compensating duties to act as controls that could help mitigate the risks associated with lack of segregation of duties, such as management performing review procedures for the reconciliation of accounts.

**Responsible Official's Response:** The organization concurs with the recommendation and will strive to implement procedures and compensating duties to help mitigate the risks associated with the lack of segregation of duties. In addition, the board has in its employ, a contractor who assists with the reconciliation and presentation of its financial data.