

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

Stilwell, Oklahoma

**Financial Statements
&
Audit Report**

December 31, 2012



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

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MICHAEL W. GREEN

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INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying financial statements of the Adair County Water, Sewer and Solid Waste Management Dist. No. 2 (the District), as of and for the year ended December 31, 2012, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting 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 an opinion 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. 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 opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District, as of December 31, 2012, and the 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

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 a report dated August 16, 2013 on my consideration of the District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. The purpose of that report is to 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 internal control over financial reporting and compliance.



Michael Green
Certified Public Accountant

August 16, 2013

Adair County Water, Sewer, and Solid Waste Management District No. 2
Statement of Net Assets
Proprietary Fund
December 31, 2012

ASSETS

CURRENT ASSETS:

| | | |
|--|----|--------|
| Cash On Hand | \$ | 100 |
| Cash In Bank | | 49,800 |
| Cash Restricted for Debt Reserve (Note C) | | 34,200 |
| Cash Restricted for Security Deposits (Note C) | | 3,955 |
| Certificates of Deposit-BOC | | 25,395 |
| Accounts Receivable | | 32,247 |
| Prepaid Insurance | | 3,918 |

| | | |
|-----------------------------|--|----------------|
| TOTAL CURRENT ASSETS | | <u>149,615</u> |
|-----------------------------|--|----------------|

NONCURRENT ASSETS:

| | | |
|--------------------------|--|--------------------|
| Land Easements | | 3,223 |
| Vehicles and Equipment | | 42,017 |
| Water System | | 2,602,496 |
| Accumulated Depreciation | | <u>(1,146,286)</u> |

| | | |
|--------------------------------|--|------------------|
| TOTAL NONCURRENT ASSETS | | <u>1,501,450</u> |
|--------------------------------|--|------------------|

| | | |
|---------------------|----|-------------------------|
| TOTAL ASSETS | \$ | <u><u>1,651,065</u></u> |
|---------------------|----|-------------------------|

LIABILITIES

CURRENT LIABILITIES

| | | |
|--|----|---------------|
| Accounts Payable & Accrued Liabilities | \$ | 18,527 |
| Payroll Taxes Payable | | 1,374 |
| Security Deposits Payable | | 3,955 |
| Current Portion of Long-Term Debt | | <u>15,276</u> |

| | | |
|----------------------------------|--|---------------|
| TOTAL CURRENT LIABILITIES | | <u>39,132</u> |
|----------------------------------|--|---------------|

NONCURRENT LIABILITIES

| | | |
|-------------------------------------|--|----------------|
| Note Payable - Less Current Portion | | <u>222,778</u> |
|-------------------------------------|--|----------------|

| | | |
|-------------------------------------|--|----------------|
| TOTAL NONCURRENT LIABILITIES | | <u>222,778</u> |
|-------------------------------------|--|----------------|

| | | |
|--------------------------|--|----------------|
| TOTAL LIABILITIES | | <u>261,910</u> |
|--------------------------|--|----------------|

NET ASSETS

| | | |
|--|--|---------------|
| Net Assets: Restricted for Security Deposits | | 3,955 |
| Restricted for Debt Reserve | | 34,200 |
| Invested in Capital Assets Net of Related Debt | | 1,263,396 |
| Net Assets: Unrestricted | | <u>87,604</u> |

| | | |
|-------------------------|----|-------------------------|
| TOTAL NET ASSETS | \$ | <u><u>1,389,155</u></u> |
|-------------------------|----|-------------------------|

The notes are an integral component of the financial statements.

Adair County Water, Sewer, and Solid Waste Management District No. 2
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended December 31, 2012

OPERATING REVENUE:

Charges for Services:

| | |
|----------------------------|----------------|
| Water Sales | \$ 300,842 |
| Membership Tap Fees | 9,500 |
| Late Fees | 8,468 |
| Reconnect Fees | 5,325 |
| Other Income | <u>(9,008)</u> |
| Total Charges for Services | <u>315,127</u> |

TOTAL OPERATING REVENUE 315,127

OPERATING EXPENSES:

| | |
|-------------------------|--------------|
| Water Purchased | 121,837 |
| Employee Expense | 43,644 |
| Contract Labor | 12,120 |
| Depreciation | 71,267 |
| Repairs & Maintenance | 4,321 |
| Insurance | 6,636 |
| Supplies | 23,495 |
| Legal & Professional | 25,800 |
| Telephone | 1,397 |
| Utilities | 2,550 |
| Dues & Subscriptions | 3,760 |
| Advertising | 278 |
| Rent | 1,035 |
| Postage | 2,870 |
| Meals and Entertainment | 370 |
| Bank Charges | 1,577 |
| Water Testing | 372 |
| Office Exp. | <u>1,312</u> |

TOTAL OPERATING EXPENSES 324,641

NET INCOME FROM OPERATIONS (9,514)

NONOPERATING REVENUE (EXPENSE):

| | |
|----------------------------|-----------------|
| Interest Income | 369 |
| Interest Expense | (12,298) |
| Loss From Misappropriation | <u>(18,810)</u> |

TOTAL NONOPERATING REVENUE & EXPENSE (30,739)

NET INCOME (40,253)

NET ASSETS, BEGINNING OF YEAR 1,429,408

NET ASSETS, END OF YEAR \$ 1,389,155

The notes are an integral component of the financial statements.

Adair County Water, Sewer, and Solid Waste Management District No. 2
Statement of Cash Flows
Proprietary Fund
For the Year Ended December 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|---|----------------------|
| Receipts from Customers | \$ 312,078 |
| Receipts from Grants | - |
| Payments to Suppliers | (223,318) |
| Payments to Employees | <u>(43,644)</u> |
| Net Cash Provided (used) by Operating Activities | <u><u>45,116</u></u> |

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

| | |
|---|------------------------|
| Net purchase of Capital Assets | - |
| Principal Paid on Capital Debt | (14,534) |
| Change in Customer Deposits | 2,080 |
| Interest Paid on Capital Debt | (12,298) |
| Net Cash Provided (used) by Capital and Related Financing Activities | <u><u>(24,752)</u></u> |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|---|-------------------|
| Interest Income | <u>369</u> |
| Net Cash Provided (used) by Investing Activities | <u><u>369</u></u> |

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS 20,733

BALANCES - BEGINNING OF THE YEAR 92,717

BALANCES - END OF THE YEAR \$ 113,450

CASH AVAILABLE FOR OPERATIONS 75,295

RESTRICTED CASH 38,155

TOTAL CASH AND CASH EQUIVALENTS, END OF YEAR \$ 113,450

The notes are an integral component of the financial statements.

Adair County Water, Sewer, and Solid Waste Management District No. 2
Statement of Cash Flows (Continued)
Proprietary Fund
For the Year Ended December 31, 2012

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

| | |
|--|-------------------------|
| Operating Income | \$ (9,514) |
| Grant Income | - |
| Adjustments to Reconcile Operating Income to Net Cash | |
| Provided (used) by Operating Activities: | |
| Depreciation Expense | 71,267 |
| Loss From Apparent Misappropriation | (18,810) |
| Change in Assets and Liabilities: | |
| Accounts Receivable | (3,355) |
| Accounts Payable & Accrued Liabilities | 5,528 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | \$ <u>45,116</u> |

The notes are an integral component of the financial statements.

**ADAIR COUNTY WATER, SEWER, AND SOLID WASTE MANAGEMENT
DISTRICT NO.2
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012**

The Adair County Water, Sewer, And Solid Waste Management District No.2 was incorporated as a non-profit corporation under Oklahoma statutes with the purpose of acquiring in distributing potable water to rural customers within its geographic boundaries.

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Since the water district is engaged only in business type activities it is not required to present government-wide statements.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the water district or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the water district are described below:

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

Measurement Focus and Basis of Accounting

Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities would be presented using the economic resources measurement focus as defined in item b. below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. 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 assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

A. Basis Of Accounting

The financial statements of Adair County Water, Sewer, And Solid Waste Management 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.

B. Accounts Receivable

Accounts receivable consist of trade receivables. An allowance for bad debts has not been established, however, bad debts that appear to be uncollectible are written off at the end of the year. The direct write-off method is used for this purpose.

C. Cash & Cash Equivalents

The Water District has a policy of recognizing investments in CDs or savings that mature within 90 days of the financial statement date as cash or cash equivalents. For the purposes of the cash flows statements, reserve cash, is considered to be a cash equivalent.

Cash restricted for debt reserve is maintained in accordance with the FHA loan agreement requirements.

Cash restricted for security deposits is for balances currently held for customer meter deposits.

D. Income Taxes

The Water District is exempt from paying income taxes due to its non-profit status under the Internal Revenue Code 501 (c)(3).

E. Inventories

The Water District has no material inventories that it owns. Supplies are used or recognized when they are needed. Thus inventories are not shown in the financial statements.

F. Additions & Deletions to Fixed Assets

During the course of the year there were additions made to the water line in the amount of \$ 319,181.

G. Fixed Assets

Property, plant and equipment are stated at their historical cost. Depreciation is recorded using the straight-line method over the useful life of the asset.

| <u>Depreciation Life</u> | <u>Cost of Asset</u> |
|--------------------------|----------------------|
| 40 years | \$2,602,496 |
| 5 years | 42,017 |
| Unlimited | 3,223 |
| Total Cost | <u>\$ 2,647,736</u> |

H. Long-Term Debt

The Water District has one outstanding long-term note payable with Rural Development. The note started 06/11/85 with 480 scheduled payments due on the 11th of every month at 5% interest. The note payable had an original beginning principal debt of \$455,300.00 and has been paid down to \$238,054 as of 12/31/12.

Current maturity of principal and interest for the next five years under the indebtedness mentioned above is as follows:

| YEAR END | Principal | Interest |
|------------|-----------|----------|
| 2013 | 15,276 | 11,556 |
| 2014 | 16,058 | 10,774 |
| 2015 | 16,879 | 9,953 |
| 2016 | 17,743 | 9,089 |
| 2017 | 18,650 | 8,182 |
| thereafter | 153,448 | |

I. Members' Investments

Members' investment is the joining fee a new member incurs to be a member of the Water District. This fee is non-refundable. Currently, the fee is \$500.00 of which ½ is allocated to the members' investment account and ½ is allocated as the tap fee.

J. Pension Plans

The Water District does not provide retirement benefits to its employees other than the payroll payments to the social security retirement system.

K. Compensated absences

The Water district has no material compensated absence amounts.

L. Claims and Judgments

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.

M. Subsequent Events and Fraud

Subsequent events have been evaluated through August 16, 2013, which is the date the financial statements were available to be issued. Fraud occurred in the current year in the amount of \$18,810. This balance has been shown as a non-operating expense in the statement of net assets.

MICHAEL W. GREEN
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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*

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

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 Adair County Water, Sewer and Solid Waste Management Dist. No. 2 (the District), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued my report thereon dated August 16, 2013.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Water District's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and Responses, I identified certain deficiencies in internal control that I consider to be material weaknesses.

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. I consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness. (12-1)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item (12-2).

Response to Findings

The District's response to the findings identified in my audit is described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

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 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.



Michael Green, CPA
August 16, 2013

SCHEDULE OF FINDINGS AND RESPONSES

12-1 SEGREGATION OF DUTIES

Due to the lack of sufficient personnel there is not adequate segregation of duties.

Response: A much larger staff would be necessary in order to assure adequate segregation of duties. The board will need to be actively involved in the day to day activities of the water district.

12-2 FRAUD

Fraud occurred during the 2012 fiscal year.

Response: The district has turned over evidence to the District Attorney's office and the individual involved in the fraud has been prosecuted. Closer review of the transactions regarding cash deposits will be made in the future.