

ADAIR COUNTY RURAL WATER DISTRICT # 4

Stilwell, Oklahoma

**Financial Statements
&
Audit Report**

December 31, 2014



**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

Board of Directors
Adair County Rural Water District #4
Stilwell, Oklahoma

I have audited the accompanying financial statements of the Adair County Rural Water District #4 (the District), as of and for the year ended December 31, 2014, 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, 2014, 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

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 a report dated October 9, 2015 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 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.



Michael Green
Certified Public Accountant

October 9, 2015

**Adair County Rural Water District #4
Statement of Net Position
Proprietary Fund
December 31, 2014**

ASSETS

Cash In Bank	\$	79,088
Investments		115,009
Accounts Receivable		15,027
Inventory		950
Prepaid Insurance		1,384

TOTAL CURRENT ASSETS 211,458

FIXED ASSETS

Water System		1,399,234
Equipment		61,585
Accumulated Depreciation		(731,853)

TOTAL FIXED ASSETS 728,966

RESTRICTED ASSETS

Cash in Bank-Including Time Deposits		25,569
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TOTAL ASSETS \$ 965,993

LIABILITIES

CURRENT LIABILITIES

Accounts Payable & Accrued Liabilities	\$	8,330
Accrued Interest Payable		655
Security Deposits Payable		2,001
Current Portion of Long-Term Debt		11,580

TOTAL CURRENT LIABILITIES 22,566

NONCURRENT LIABILITIES

Note Payable - Less Current Portion		232,546
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TOTAL NONCURRENT LIABILITIES 232,546

TOTAL LIABILITIES 255,112

NET POSITION:

Restricted for Security Deposits		2,001
Restricted for Debt Reserve		23,568
Invested in Capital Assets Net of Related Debt		484,840
Unrestricted		200,472

TOTAL NET POSITION \$ 710,881

The notes are an integral component of the financial statements.

Adair County Rural Water District #4
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Fund
For the Year Ended December 31, 2014

OPERATING REVENUE:

Charges for Services:

Water Sales	\$ 176,631
Membership Tap Fees	5,000
Late Fees	6,350
Reconnect Fees	2,240
Other Income	603
Total Charges for Services	<u>190,824</u>
TOTAL OPERATING REVENUE	<u>190,824</u>

OPERATING EXPENSES:

Water Purchased	52,631
Bank Charges	40
Contract Labor	35,979
Depreciation	33,935
Repairs & Maintenance	18,454
Insurance	2,855
Supplies	15,163
Legal & Professional	17,800
Telephone	1,590
Utilities	7,122
Dues & Subscriptions	446
Advertising	249
Miscellaneous	784
Water Testing	3,710
Office Exp.	3,786
TOTAL OPERATING EXPENSES	<u>194,544</u>

NET INCOME FROM OPERATIONS (3,720)

NONOPERATING REVENUE (EXPENSE):

Interest Income	636
Interest Expense	(12,459)
TOTAL NONOPERATING REVENUE & EXPENSE	<u>(11,823)</u>

NET INCOME (15,543)

NET POSITION, BEGINNING OF YEAR 726,424

NET POSITION, END OF YEAR \$ 710,881

The notes are an integral component of the financial statements.

**Adair County Rural Water District #4
Statement of Cash Flows
Proprietary Fund
For the Year Ended December 31, 2014**

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$ 190,509
Payments to Suppliers	(161,280)

Net Cash Provided (used) by Operating Activities	<u>29,229</u>
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**CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES**

Net purchase of Capital Assets	(7,700)
Principal Paid on Capital Debt	(11,110)
Interest Paid on Capital Debt	(12,459)

Net Cash Provided (used) by Capital and Related Financing Activities	<u>(31,269)</u>
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CASH FLOWS FROM INVESTING ACTIVITIES

Interest Income	636
Increase in Investments	(582)

Net Cash Provided (used) by Investing Activities	<u>54</u>
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NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,986)
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BALANCES - BEGINNING OF THE YEAR	81,074
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BALANCES - END OF THE YEAR	<u>\$ 79,088</u>
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The notes are an integral component of the financial statements.

**Adair County Rural Water District #4
Statement of Cash Flows (Continued)
Proprietary Fund
For the Year Ended December 31, 2014**

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

Operating Income \$ (3,720)

**Adjustments to Reconcile Operating Income to Net Cash
Provided (used) by Operating Activities:**

Depreciation Expense 33,935

Change in Assets and Liabilities:

Accounts Receivable (487)

Accounts Payable & Accrued Liabilities (499)

NET CASH PROVIDED BY OPERATING ACTIVITIES \$ 29,229

The notes are an integral component of the financial statements.

Adair County Rural Water District No.4
Notes To The Financial Statements

The Adair County Rural Water District No.4 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 others 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 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 nonexchange 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 Rural Water District No. 4, (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.

C. Cash & Cash Equivalents

For the purpose of the statement of cash flows, the district considers all unrestricted highly liquid investments with an initial maturity of less than three months to be cash equivalents.

D. Income Taxes

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

E. Inventories

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

F. Additions & Deletions to Fixed Assets

During the course of the year there were no new assets purchased.

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>December 31, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2014</u>
Capital Assets, being Depreciated				
Water System	1,399,234	-	-	1,399,234
Equipment	53,885	7,700	-	61,585
Accumulated Depreciation	(697,918)	(33,935)		(731,853)
Total Capital Assets being Depreciated	<u>755,201</u>	<u>(26,235)</u>	<u>-</u>	<u>728,966</u>

D. Long-Term Debt

The Water District has two outstanding long-term notes payable with Rural Development.

The first note started 04/13/90 at \$ 1645 per month at 5% interest. The note payable had an original beginning principal debt of \$335,000.00 and has been paid down to \$204,893 as of 12/31/14.

The second note started 04/13/90 at \$ 319.00 per month at 5% interest. The note payable had an original beginning principal debt of \$64,800.00 and has been paid down to \$39,233 as of 12/31/14.

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

YEAR END	Principal	Interest
2015	11,580	11,988
2016	12,172	11,396
2017	12,795	10,773
2018	13,450	10,118
2019	14,257	9,430
2020-2024	82,309	35,531
2025-2029	97,563	12,245

H. Investments

At year end the only funds that were considered to be investments were Certificates of Deposits. At December 31, 2014, all investments were insured through FDIC.

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.

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. Restricted Net Assets

These assets consist of cash and short term investments restricted for:

Customers' Meter Deposits Checking	2,001
USDA Debt Reserve requirements per the loan agreement	<u>23,568</u>
Total Restricted Assets	25,569

M. Subsequent Events

Subsequent events have been evaluated through October 9 , 2015, 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

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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*

Board of Directors
Adair County Rural Water District #4
Stilwell, 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 Adair County Rural Water District #4 (the District), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued my report thereon dated October 9, 2015.

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. (14-1)

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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
October 9, 2015

SCHEDULE OF FINDINGS AND RESPONSES

14-1 SEGREGATION OF DUTIES

Due to the lack of a sufficient number of personnel there is not adequate segregation of duties. A much larger staff would be necessary to assure adequate internal control.

Management Response

The board and management are committed to be actively involved in the day to day activities of the water district. Also, the services of a local CPA firm will be utilized to assist in matters of internal control.