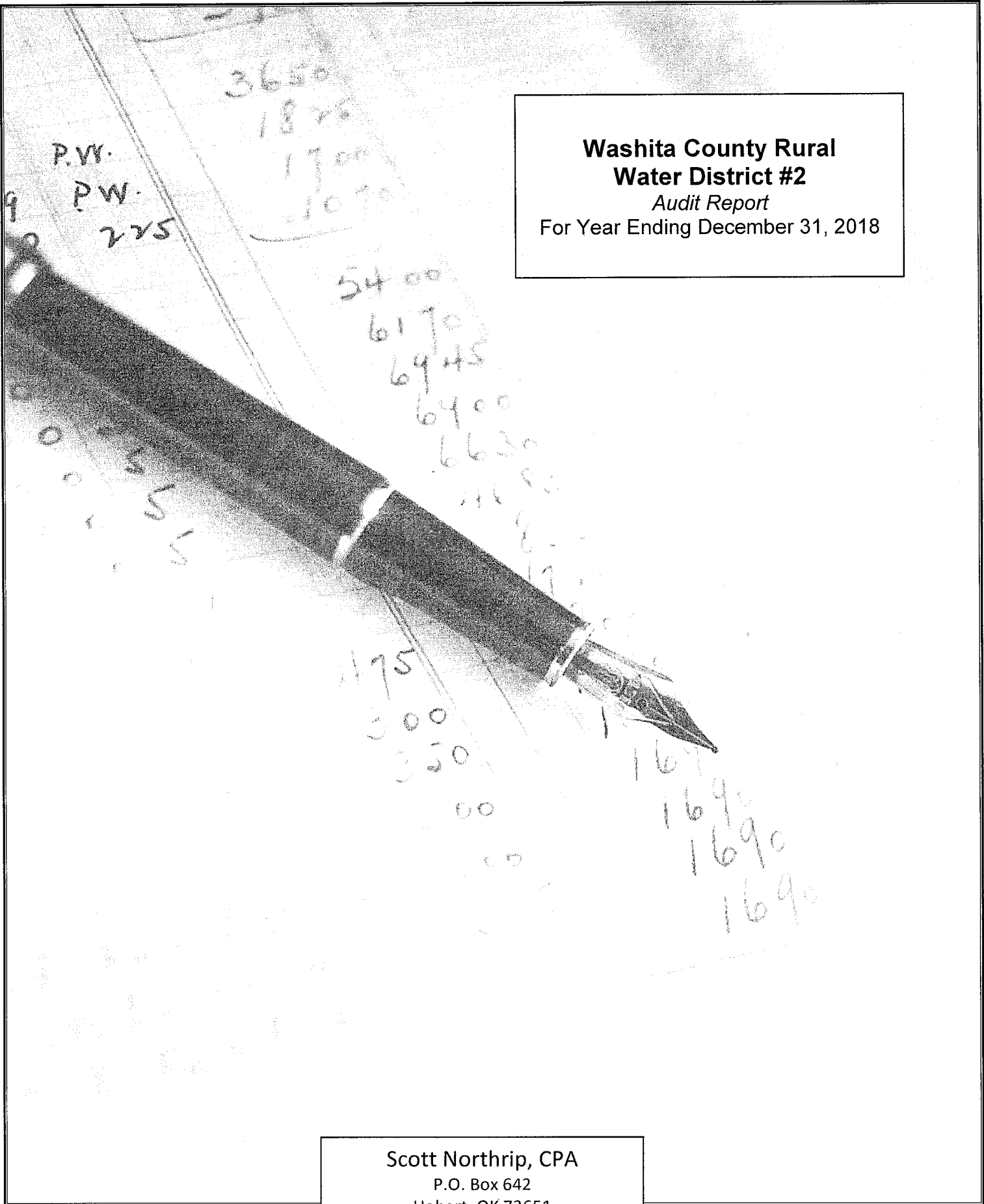


**Washita County Rural
Water District #2**
Audit Report
For Year Ending December 31, 2018



Scott Northrip, CPA
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SCOTT NORTHRIP, CPA

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Independent Auditor's Report

To The Board of Directors of
Rural Water, Sewer, & Solid Waste Management Dist. #2
Washita County, Oklahoma

I have audited the accompanying financial statements of Rural Water, Sewer, & Solid Waste Management District #2, Washita County, Oklahoma (District), as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair representation of these financial statements in accordance accounting principle 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 the 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence supporting 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.

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

Auditor's Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Rural Water, Sewer, & Solid Waste Management District #2, Washita County, Oklahoma, as of December 31, 2018 and 2017, and the respective changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Requirements by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated January 30, 2019, on my consideration of the District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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.

Scott Northrip, CPA

Certified Public Accountant

January 30, 2019

**Rural Water, Sewer, & Solid Waste Management
District #2, Washita County, Oklahoma**

Comparative Statement of Net Position
As of December 31, 2018 and 2017

ASSETS:	2018	2017
Current Assets:		
Cash & Cash Equivalents	\$ 291,943	\$ 436,569
Investments	635,022	332,883
Accounts Receivable (Note 2)	44,919	69,750
Other Receivable	-	-
Interest Receivable	8,076	2,145
Prepaid Insurance	10,329	10,813
Inventory	61,817	56,454
Total Current Assets	\$ 1,052,106	\$ 908,614
Noncurrent Assets:		
Construction in Progress	\$ 45,069	\$ 37,559
Capital Assets: (Note 5)		
Land	191,690	191,690
Other Capital Assets, net of depreciation	773,465	862,760
Total Noncurrent Assets	\$ 1,010,224	\$ 1,092,009
TOTAL ASSETS	\$ 2,062,330	\$ 2,000,623
LIABILITIES AND NET POSITION:		
Current Liabilities:		
Accounts Payable	\$ -	\$ -
Interest Payable	440	488
Customer Deposits	2,850	2,450
Current Portion of Long-term Liabilities	39,972	38,047
Total Current Liabilities	\$ 43,262	\$ 40,985
Long-Term Liabilities:		
Notes Payable - net of current	\$ 338,616	\$ 378,467
Net Position:		
Restricted Fund Balance	\$ 57,888	\$ 57,888
Unrestricted Fund Balance	240,116	157,335
Total Fund Balance	\$ 298,004	\$ 215,223
Member Investments	382,600	366,100
Donated Assets	702,249	702,249
Grants	297,599	297,599
TOTAL NET POSITION	\$ 1,680,452	\$ 1,581,171
TOTAL LIABILITIES AND NET POSITION	\$ 2,062,330	\$ 2,000,623

See accompanying notes to the financial statements.

**Rural Water, Sewer, & Solid Waste Management
District #2, Washita County, Oklahoma**

Comparative Statement of Activities
For the Years Ended December 31, 2018 and 2017

	2018	2017
OPERATING REVENUES:		
Water Sales	\$ 497,242	\$ 482,127
Late Fees	17,872	30,006
Sale of Supplies	150	-
Miscellaneous Revenues	5,100	5,200
Total Operating Revenues	\$ 520,364	\$ 517,333
OPERATING EXPENSES:		
Salaries	\$ 128,218	\$ 126,007
Depreciation Expense	122,435	119,673
Interest Expense	19,914	21,762
Utilities	32,236	30,167
Water Purchases	12,157	11,803
Repairs & Maintenance	10,505	39,748
Insurance	41,516	38,411
Legal & Professional Fees	9,617	9,163
Transportation Expense	10,599	8,303
Director's Fees	6,500	6,600
Payroll Tax Expense	10,446	10,325
Operating Supplies & Chemicals	17,650	28,170
Office Supplies & Postage	5,104	5,768
Retirement Benefits	4,048	3,780
Dues & Licenses	1,610	1,043
Rent Expense	822	818
Bad Debts Expense	11,894	3,090
FEMA Repairs	-	-
Miscellaneous Expense	2,489	2,447
Total Operating Expenses	\$ 447,760	\$ 467,078
OPERATING INCOME (LOSS)	\$ 72,604	\$ 50,255
OTHER REVENUES (EXPENSES):		
Investment Revenues	\$ 10,177	\$ 3,634
Gain on Sale of Assets	-	-
Total Other Revenues(Expenses)	\$ 10,177	\$ 3,634
NET INCOME	\$ 82,781	\$ 53,889

See accompanying notes to the financial statements.

Rural Water, Sewer, & Solid Waste Management
District #2, Washita County, Oklahoma
 Comparative Statement of Changes in Net Position
 For the Years Ended December 31, 2018 and 2017

	2018	2017
Balance, January 1	\$ 1,581,171	\$ 1,525,082
Net Income (Loss)	82,781	53,889
Member Investments	16,500	1,500
Donated Assets	-	700
Grants	-	-
Total Changes in Net Assets	\$ 99,281	\$ 56,089
Balance, December 31	\$ 1,680,452	\$ 1,581,171

See accompanying notes to the financial statements.

Rural Water, Sewer & Solid Waste Management District #2, Washita County, Oklahoma

Comparative Statement of Cash Flows
For the Years Ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 545,195	\$ 506,594
Payments to suppliers	(146,832)	(163,673)
Payments to employees & benefits	(163,059)	(157,243)
Net Cash Provided by Operating Activities	\$ 235,304	\$ 185,678
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of fixed assets	\$ (33,140)	\$ (3,531)
Donated Assets	-	700
Payments for Construction in Process	(7,510)	(14,340)
Proceeds from Grants	-	-
Principal payments on notes payable	(37,925)	(35,439)
Interest paid on notes payable	(19,963)	(22,449)
Proceeds from sale of assets	-	-
Net Cash Used In Capital & Related Financing Activities	\$ (98,538)	\$ (75,059)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment Receipts	\$ 4,247	\$ 2,969
Proceeds from memberships	16,500	1,500
Net Cash Provided from Investing Activities	\$ 20,747	\$ 4,469
INCREASE (DECREASE) IN CASH AND INVESTMENTS	\$ 157,513	\$ 115,088
Cash and Investment Balance - Beginning	769,452	654,364
CASH AND INVESTMENT BALANCE - ENDING	\$ 926,965	\$ 769,452
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ 72,604	\$ 48,254
Adjustments to reconcile operating income to net cash provided (used) by Operating Activities:		
Interest Expense	19,914	21,762
Depreciation expense	122,435	121,674
Change in assets and liabilities:		
Accounts Receivable	24,831	(10,739)
Other Receivable	-	-
Prepaid Insurance	483	1,021
Inventory	(5,363)	3,356
Accounts Payable	-	-
Customer Deposits	400	350
Net Cash Provided from Operating Activities	\$ 235,304	\$ 185,678

See accompanying notes to the financial statements.

Rural Water, Sewer & Solid Waste Management District #2, Washita County, Oklahoma

Notes to the Financial Statements
For the Years Ended December 31, 2018 and 2017

Note 1 - Significant Accounting Policies

Organization:

Rural Water, Sewer, and Solid Waste Management District #2, Washita County, Oklahoma (District) is an Oklahoma trust formed under the Oklahoma Rural Water Act to provide water, sewer, and solid waste management in a designated area in and around Washita County, Oklahoma to individuals and businesses that purchase a membership. The District served 786 meters and sold 68,438,000 gallons of water for the year ending December 31, 2018 which represented an increase of 10 meters from previous year.

Basis of Accounting:

The District is a proprietary fund type of entity and uses the accrual method of accounting which reports revenues when earned and expenses when incurred. The District is not legally required to adopt a budget or report on budget comparisons in this report.

Fixed Assets and Depreciation:

The District records its fixed assets at their historical cost or donated value. Depreciation is calculated on each individual asset using the straight-line method of depreciation at the asset's estimated useful life. The District estimates the useful lives of the assets based on the type of asset. The lives range from 5 to 40 years.

Income Tax:

The District is exempt from federal and state income taxes under IRS Code Section 115 (a) as an agency of the State of Oklahoma.

Note 2 - Accounts Receivable

The accounts receivable represents the water usage and service revenues for December plus any unpaid balances from the previous months. The District uses the reserve method to account for bad debts. No provision was made during the years 2017 or 2016 even though it was less than the accounts receivable balances over 90 days old. The accounts receivable balances at December 31, 2018 and 2017 amounted to \$47,992 and \$72,823, respectively with the allowance in the amount of \$3,073 and \$3,073, respectively.

Note 3 - Use of Estimates

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

Note 4 - Contingencies

The District didn't have any contingencies as of the date of the audit.

Rural Water, Sewer & Solid Waste Management District #2, Washita County, Oklahoma

Notes to the Financial Statements
For the Years Ended December 31, 2018 and 2017

Note 5 - Changes in Fixed Assets

	Balance 1/1/2018	Additions	Disposed	Balance 12/31/2018
Water System Plant Assets	\$ 2,780,776	\$ 11,250	\$ -	\$ 2,792,026
Extensions	656,139	-	-	656,139
Office Furniture & Fixtures	17,026	-	-	17,026
Equipment	143,548	5,500	-	149,048
Vehicles	44,061	16,390	(16,012)	44,439
Buildings	179,325	-	-	179,325
Total Assets	\$ 3,820,875	\$ 33,140	\$ (16,012)	\$ 3,838,003

Accumulated Depreciation:

Water System Plant Assets	\$ 2,376,363	\$ 73,142	\$ -	\$ 2,449,505
Extensions	346,188	16,824	-	363,012
Office Furniture & Fixtures	14,333	554	-	14,887
Equipment	94,577	11,839	-	106,416
Vehicles	26,531	11,110	(16,012)	21,629
Buildings	100,123	8,966	-	109,089
Total Accumulated Deprec.	\$ 2,958,115	\$ 122,435	\$ (16,012)	\$ 3,064,538

Net Fixed Assets	\$ 862,760	\$ (89,295)	\$ -	\$ 773,465
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Note 6 - Donated Assets

Donated assets are the estimated value of water lines installed by members from the existing lines of the system to the member's meter. The value of the lines donated to the District for the years ending December 31, 2018 and 2017 were \$0 and \$700, respectively.

Note 7 - Components of Cash and Investments

	Date of Maturity	Interest Rate	12/31/2018 Balance	12/31/2017 Balance
Checking - Bank of Cordell	-	0.30%	\$ 291,643	\$ 436,269
Petty Cash	-	0.00%	300	300
CD - Bank of Hydro	3/6/2018	0.75%	-	123,217
CD - Bank of Cordell	4/19/2019	1.10%	58,000	58,000
CD - First National Bank	2/27/2019	0.80%	152,877	151,666
CD - High Plains Bank	3/13/2019	1.85%	100,000	-
CD - High Plains Bank	4/26/2019	1.90%	124,145	-
CD - Bank of Western OK	3/12/2020	2.10%	200,000	-
Total Cash and Investments			\$ 926,965	\$ 769,452

Designation:

Operating	\$ 291,943
Reserved for System Improvements	577,134
Restricted for Debt Service - Rural Development	57,888
	\$ 926,965

**Rural Water, Sewer & Solid Waste Management
District #2, Washita County, Oklahoma**

Notes to the Financial Statements
For the Years Ended December 31, 2018 and 2017

Note 8 - Retirement

The District provides a Simple IRA retirement plan for its participating employees. The District matches contributions up to 3% of the employee wages. The funds are managed by Edward Jones.

Note 9 - Long Term Liabilities

The District has two 40 year notes with Rural Development, an agency of the United States Department of Agriculture. The loans are all 5% fixed interest notes. The notes are secured by the assets of the District. Rural Development requires the District to reserve enough funds to pay an amount equal to a year's total payments. The District makes monthly payments on each of the notes.

Note Number	Date of Note	Annual Payment	Balance 12/31/2018	Balance 12/31/2017
			-	-
91-11	2/21/1983	32,664	91,947	119,269
91-13	5/23/1997	25,224	286,641	297,245
		<u>\$ 57,888</u>	<u>\$ 378,588</u>	<u>\$ 416,514</u>
Less: Current Portion			39,972	38,047
Net Long-Term Liabilities			<u>\$ 338,616</u>	<u>\$ 378,467</u>

Current Portion:		Note 91-11	Note 91-13
Year Ending	12/31/2019	-	28,785
Year Ending	12/31/2020	-	30,259
Year Ending	12/31/2021	-	31,810
Year Ending	12/31/2022	-	1,093
Year Ending	12/31/2023	-	-
			13,639

Note 10 - Prior Period Adjustments

There were no prior period adjustments in the financial statements for the years ending December 31, 2018 or 2017.

Note 11 - Evaluation of Subsequent Events

The subsequent events were evaluated through January 30, 2019, the date of the report.

SCOTT NORTHRIP, CPA

P.O. Box 642, Hobart, Oklahoma 73651

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
Rural Water, Sewer, and Solid Waste Management Dist. #2
Washita County, Oklahoma

I have audited, 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, the basic financial statements of Rural Water, Sewer, and Solid Waste Management District #2, Washita County, Oklahoma (District), as of and for the years ending December 31, 2018 and 2017, and have issued my report thereon dated January 30, 2019.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, I performed test 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 our 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*.

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I considered the District's internal control over financial reporting (internal control) to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Report on Compliance and Internal Controls-Continued

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

Scott Northrip

Certified Public Accountant

January 30, 2019