

WAGONER COUNTY RURAL WATER DISTRICT #1

WAGONER COUNTY, OKLAHOMA

DECEMBER 31, 2016

Audited By:
Robert St. Pierre CPA, PC.
1113 North Second St
Stilwell, Ok 74960

**WAGONER COUNTY RURAL WATER DISTRICT #1
WAGONER COUNTY, OKLAHOMA**

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INDEPENDENT

AUDITOR'S

REPORTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Wagoner County Rural Water District #1
Wagoner County, Oklahoma

Report on Financial Statements

We have audited the accompanying modified cash basis financial statements of the business type activities of the Wagoner County Rural Water District #1, as of and for the fiscal year ended December 31, 2016, and the related notes to the financial statements, which 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 the modified cash basis of accounting described in Note 1. This includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the 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 audit. 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. Those standards require that we 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 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 District'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 District'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 respective modified cash basis financial position of the business type activities of the Wagoner County Rural Water District #1, Wagoner County, Oklahoma, as of December 31, 2016, and the respective changes in modified cash basis financial position, and where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

The Wagoner County Rural Water District #1, has not presented the management discussion and budgetary analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated May 6, 2019, on our consideration of the Wagoner County Rural Water District #1's internal control over financial reporting and on our 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in compliance with Government Auditing Standards in considering Wagoner County Rural Water District #1's internal control over financial reporting and compliance.

Robert St. Pierre

Robert St Pierre, CPA, PC
May 6, 2019

FINANCIAL
SECTION

Wagoner County Rural Water District #1
Statement of Net Position - Modified Cash Basis
December 31, 2016

ASSETS

CURRENT ASSETS:

Revenue Cash (Note 3)	\$ 3,467
Maintenance Cash (Note 3)	26,927
Reserve Cash (Note 3)	25,123
Deposits	40

TOTAL CURRENT ASSETS	55,557
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NONCURRENT ASSETS:

<u>Capital Assets</u>	
Property, Plant & Equipment (Note 5)	295,514
Less: Accumulated Depreciation (Note 5)	(149,928)
	145,586

TOTAL NONCURRENT ASSETS

TOTAL ASSETS	\$ 201,143
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LIABILITIES & NET POSITION

LIABILITIES:

CURRENT LIABILITIES:

Current Portion of Long-Term Debt (Note 6)	\$ 13,170
Payroll Taxes Payable	1,874

TOTAL CURRENT LIABILITIES	15,044
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TOTAL LONG-TERM LIABILITIES (Note 6)	20,242
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TOTAL LIABILITIES	35,286
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NET POSITION:

Net Investment in capital assets	112,174
Restricted for debt service	25,123
Unrestricted	28,560

TOTAL NET POSITION	165,857
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TOTAL LIABILITIES AND NET POSITION	\$ 201,143
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WAGONER COUNTY RURAL WATER DISTRICT #1
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
MODIFIED CASH BASIS
For the Year Ended December 31, 2016

OPERATING REVENUES

Water Sales	101,760
Tap Fees	1,540
Other Operating Income	2,325

TOTAL OPERATING REVENUES

105,625

OPERATING EXPENSES

Manager's Fees	34,606
Water Testing	2,270
Chemicals	-
Miscellaneous	1,150
Water Purchased	1,215
Electricity	4,934
Depreciation	10,150
Repairs & Maintenance	1,097
Bonds & Insurance	3,879
Office Expense	1,957
Bank Charges	42
Dues, Licenses & Fees	197
Legal & Accounting	6,960
Director's Fees	262
Contract Labor	5,500
Payroll Taxes	2,648
Travel	2,785

TOTAL OPERATING EXPENSES

79,652

OPERATING INCOME

25,973

OTHER REVENUE EXPENSES

Interest Expense	(1,540)
Interest Income	130

TOTAL OTHER REVENUE EXPENSE

(1,410)

CHANGE IN NET POSITION

24,563

TOTAL NET POSITION, Beginning of Year

141,294

TOTAL NET POSITION, End of the Year

165,857

WAGONER COUNTY RURAL WATER DISTRICT #1
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
For the Year Ended December 31, 2016

Cash Flows from Operating Activities:

Cash Receipts from Customers	\$ 105,625
Payments to Suppliers for Goods & Services	(37,254)
Payments to Employees & Laborers	(32,248)
Net Cash Provided (Used) by Operating Activities	<u>36,123</u>

Cash Flows from Capital & Related Financing Activities:

Additions to Capital Assets	478
Certificate of Deposit liquidation	-
Loan Proceeds	-
Principal paid on Long-Term Debt	(13,171)
Interest paid on debt	(1,540)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(14,233)</u>

Cash Flows from Investing Activities:

Interest Income	130
Net Cash Provided (Used) by Investing Activities	<u>130</u>

Net Increase (Decrease) in Cash and Cash Equivalents 22,020

Cash & Cash Equivalents, Beginning of Year 33,537

Cash & Cash Equivalents, End of Year \$ 55,557

Reconciliation of operating income (loss) to net cash provided operating activities:

Operating Income (Loss)	\$ 25,973
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation/Amortization	10,150
	-
	<u><u>\$ 36,123</u></u>

FINANCIAL

STATEMENT

NOTES

WAGONER COUNTY RURAL WATER DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1.C, these financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GARF) established by the Governmental Accounting Standards Board (GASB). These modified cash-basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

A. Reporting Entity

Wagoner County Rural Water District #1 was created under the provisions of the laws of the State of Oklahoma. The purpose of the water district is to provide for the use and benefit of its members a water treatment and distribution system, operations and maintenance.

B. Basis of Presentation

The accounts of the District are organized on the basis of proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net position, revenues and expenses. Enterprise Funds account for activities (1) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (2) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (3) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

C. Measurement Focus and Basis of Accounting

Measurement Focus

The District utilizes an economic resources measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), net financial position, and cash flows. All assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent or financial or nonfinancial) associated with their activities are generally reported within the limitations of the modified cash basis of accounting.

Basis of Accounting

The financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than CAAP as established by GASB. This basis of accounting involves modifications to the cash basis of accounting to report in the statements of net position cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include investments, capital assets and related depreciation, and short-term and long-term liabilities arising from cash transactions or events.

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue billed or provided services not yet collected and other accrued revenue and receivables) and certain liabilities and their related

expenses (such as accounts payable and expenses for goods or services received but not yet paid and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

If the District utilized the basis of accounting recognized as generally accepted in the United States, the fund financial statements for proprietary fund types would use the accrual basis of accounting.

D. Financial Position

Cash & Cash Equivalents

Cash is comprised of deposits in checking accounts. At December 31, 2016, it appears that all deposits were fully insured by FDIC.

Inventory

The District does not maintain inventory records of parts or supplies, but charges these purchases to maintenance or supplies as they are received.

Capital Assets

Asset acquisitions are recorded and depreciated at historical cost. Depreciation on capital assets is calculated using the straight-line method of depreciation with useful lives averaging 60 years for major asset purchases. Other asset purchases are depreciated over a period of 10 years. The District has set the capitalization amount at \$1,000.00 for new assets purchased.

Long-Term Debt

Long-term debt is reported at face value, net of applicable discounts and deferred loss on refunding. Costs related to the issuance of debt are deferred and amortized over the lives of various debt issues.

Equity Classification

Equity is classified as net position and displayed in three components:

1. Net investment in capital assets-Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.
2. Restricted-Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted-Net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

It is the District's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

E. Revenues, Expenditures & Expenses

Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

F. Estimates

The preparation of financial statements in conformity With the modified cash basis of accounting used by the District requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

G. Income Taxes

The District is organized as a not-for-profit entity and is exempt from paying Federal and State Income Taxes.

H. Budgetary Data

In accordance with the By-laws of the District, an annual budget is prepared for internal bookkeeping purposes.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

As a local government unit, the District is subject to various federal, state, and local laws and contractual regulations. In accordance with Government Auditing Standards, the auditor has issued a report on his consideration of the District's internal control over financial reporting and tested its Compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be read in conjunction with this re/art in considering the results of the audit.

The District has no longer long-term debt and therefore has no reserve requirements.

Deficit Fund Balances or Retained Earnings

As indicated in the financial statements, there are no fund balance or retained earnings deficits for the District for this fiscal year.

NOTE 3 - CASH AND INVESTMENTS

Custodial Credit Risk

At December 31, 2016, the District held deposits of \$55,557 in Checking and Savings and no Certificates of Deposit for a total of cash of 55,557 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name.

Investment Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The District has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that is either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

NOTE 4 – RESTRICTED ASSETS

In accordance with the loan agreement with CRG, Inc., the District is required to set aside into an established Debt Reserve Account the sum of \$114.60 each month until there is accumulated in that account the sum of \$13,752.84 after which deposits may be suspended, except to replace withdrawals, when necessary, disbursements may be used for payments due on the Note if sufficient funds are not available in the General Account. As of December 31, 2016, the District is required to have a balance of \$6,417.60 in the Debt Reserve Account. As of that date, the balance in the account is \$25,123.44 which satisfies the requirements of the loan.

NOTE 5 – CAPITAL ASSETS

Capital asset activity; for the fiscal year ended December 31, 2016, was as follows:

	Balance at Dec. 31, 2015	Additions	Deductions	Balance at Dec. 31, 2016
Property, Plant & Equipment	295,514	-	-	295,514
Subtotal	295,514	-	-	295,514
Less: Accumulated Depreciation	(139,778)	(10,150)	-	(149,928)
Total Capital Assets (Net of Depreciation)	155,736	(10,150)	-	145,586

NOTE 6 – LONG TERM DEBT

On April 17, 2011, the District entered into a loan agreement with Community Resource Group, Inc. The loan is for \$61,000.00 with an interest rate of 5.5% payable in 60 (sixty) equal monthly installments of \$1,146.07 beginning May 28, 2011. The loan was to be used to replace two raw water pumps and the electrical components. As of December 31, 2016, loan proceeds of \$53,373.83 have been received.

On April 16, 2013, the District entered into a lease payable to Government Capital Corporation (Central Trust Bank). The lease is for \$39,490.04 with an interest rate of 2.972% payable in monthly installments of \$520.00 until maturity in March 2020. The proceeds were used to purchase water meters from Pioneer Supply.

The District had the following Long Term Debt at December 31, 2016:

Payable to	Date Note Matures	Collateral Pledged	Rate of Interest	Original Balance	Balance At 12/31/2016
CRG	3/18/2019	Equipment	5.50%	61,000	13,922
GCC	3/15/2020	Water Meters	2.97%	39,490	19,491
				<u>100,490</u>	<u>33,413</u>

The total future scheduled maturities of long-term debt are as follows:

Years ending December 31 :

	PRINCIPAL	INTEREST
Current Portion	11,497	496
2018	11,934	680
2019	8,503	233
2020	1,479	8
2021		
TOTAL	<u>33,413</u>	<u>1,417</u>

NOTE 7 – FUND EQUITY

As described in Note 1 above, equity is classified as net position and displayed in three components:

1. Net investment in capital assets
2. Restricted
3. Unrestricted

Restricted amounts are described in Note 4 above.

NOTE 8 - CONTINGENCIES

Litigation

According to management there were no known contingent liabilities at December 31, 2016, which would have a material effect on the financial statements.

Federally Assisted Programs

In the normal course of operations, the District participates in various federal or state/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

NOTE 9 - INSURANCE

The Wagoner County Rural Water District #1 has the following insurance coverage in effect at December 31, 2016:

Employee Dishonesty and Crime Coverage - Blanket Coverage Property Coverage - Building and Personal Property Comprehensive General Liability
Auto Liability
Workers Compensation

NOTE 10 – WATER PURCHASES

The District purchases its water from the Grand River Dam Authority.

NOTE 11 – WATER FOR BOARD MEMBERS

At the April 10, 2001 board meeting, the members of the Board voted to give themselves & the Manager free water up to \$50. This change took effect May 1, 2001 and will continue unless the District gets into financial trouble.

NOTE 12 – PENSION PLAN

The District does not provide a pension plan to the employees.

NOTE 13 – COMPENSATED ABSENCES

The District does not have compensated absences.

NOTE 14 – SUBSEQUENT EVENTS

The District did not have any subsequent events through May 6, 2019, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending December 31, 2016.

SUPPLEMENTARY

INFORMATION

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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

To the Board of Directors
Wagoner County Rural Water District #1
Wagoner County, Oklahoma

We 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 Wagoner County Rural Water District #1 as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise Wagoner County Rural Water District #1's basic financial statements and have issued our report thereon dated May 6, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Wagoner County Rural Water District #1's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Wagoner County Rural Water District #1's internal control. Accordingly, we do not express an opinion on the effectiveness of Wagoner County Rural Water District #1'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.

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 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned cost that we consider to be reportable conditions. 2016-1

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Wagoner County Rural Water District #1's financial statements are free from 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

Wagoner County Rural Water District #1's Response to Findings

Wagoner County Rural Water District #1's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Wagoner County Rural Water District #1's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Robert St. Pierre

Robert St. Pierre C.P.A., P.C.
Certified Public Accountant
May 6, 2019

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

2016-1 Reportable Condition

Criteria: The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping 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 the same individual that is responsible for billing and adjustments; posts 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.

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.