

**WAGONER COUNTY RURAL WATER DISTRICT NO. 2**

**WAGONER, OKLAHOMA**

**AUDITED FINANCIAL STATEMENTS AND NOTES**  
**For the year ended December 31, 2017 and 2018**

**Audited by**

**ROBERT ST. PIERRE, CPA, P.C.**  
**CERTIFIED PUBLIC ACCOUNTANT**  
**1113 NORTH SECOND ST.**  
**STILWELL, OK 74960**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Wagoner County Rural Water District No. 2  
Wagoner, OK

### **Report on the Financial Statements**

We have audited the accompanying financial statements Wagoner County Rural Water District No. 2 as of December 31, 2017 and 2018, and the related notes to the financial statements, which collectively comprise the District's 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 of 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 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 purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluation 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 financial position of Wagoner County Rural Water District No. 2 as of December 31, 2017 and 2018, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

***Other Matters******Required Supplementary Information***

The District has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires 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 (GASB), who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our 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*, we have issued a report dated May 14, 2020, on our consideration of Wagoner County Rural Water District No. 2's, internal controls over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 Wagoner County Rural Water District No. 2's, internal control over financial reporting and compliance

***Robert St. Pierre***

Robert St. Pierre, C.P.A., P.C.  
May 14, 2020

**WAGONER COUNTY RURAL WATER DISTRICT NO. 2**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31, 2017 AND 2018**

	<b>ASSETS</b>	<b>2018</b>	<b>2017</b>
<b>CURRENT ASSETS:</b>			
Cash in Bank		270,849	326,211
Accounts Receivable (net of allowance) (Note B)		50,531	37,669
Prepaid Insurance		14,059	4,814
Inventory		<u>79,767</u>	<u>54,787</u>
	<b>TOTAL CURRENT ASSETS</b>	<b>415,206</b>	<b>423,481</b>
<b>RESTRICTED ASSETS:</b>			
Debt Service Fund		120,797	120,797
Debt Service Reserve Fund		<u>24,795</u>	<u>20,603</u>
	<b>TOTAL RESTRICTED ASSETS</b>	<b>145,592</b>	<b>141,400</b>
<b>FIXED ASSETS:</b>			
Land (Note C)		65,000	65,000
Vehicles (Note C)		35,995	35,995
Buildings (Note C)		133,713	133,713
Office Furniture and Equipment (Note C)		171,842	124,347
Water System (Note C)		2,767,828	2,767,828
Accumulated Depreciation (Note C)		<u>(1,573,054)</u>	<u>(1,488,339)</u>
	<b>NET FIXED ASSETS</b>	<b><u>1,601,324</u></b>	<b><u>1,638,544</u></b>
	<b>TOTAL ASSETS</b>	<b><u><u>2,162,122</u></u></b>	<b><u><u>2,203,425</u></u></b>
<b>LIABILITIES AND FUND EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Accounts Payable		12,172	8,197
Accrued Absences		8,501	10,826
Payroll Taxes Payable		2,384	1,563
Accrued Interest Payable		8,881	6,434
Current Portion of Long-Term Debt (Note D)		<u>59,200</u>	<u>56,100</u>
	<b>TOTAL CURRENT LIABILITIES</b>	<b><u>91,138</u></b>	<b><u>83,120</u></b>
<b>LONG TERM LIABILITIES</b>			
Note Payables (Note D)		<u>1,044,000</u>	<u>1,104,340</u>
	<b>TOTAL LIABILITIES</b>	<b><u>1,135,138</u></b>	<b><u>1,187,460</u></b>
<b>NET POSITION</b>			
Invested in Capital Assets Net of Related Debt		498,124	478,104
Restricted for debt service		145,592	141,400
Unrestricted		<u>383,268</u>	<u>396,461</u>
	<b>TOTAL NET POSITION</b>	<b><u><u>1,026,984</u></u></b>	<b><u><u>1,015,965</u></u></b>

**WAGONER COUNTY RURAL WATER DISTRICT NO. 2**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN NET ASSETS**  
For the Year December 31, 2017 and 2018

	2018	2017
<b>REVENUE:</b>		
Water Sales	\$ 349,725	\$ 338,052
Late Charges	24,419	19,022
Reconnect Fees	600	300
	<u>374,744</u>	<u>357,374</u>
<b>TOTAL OPERATING REVENUE</b>		
<b>EXPENDITURES:</b>		
Water Purchased	1,452	1,457
Chemicals	39,907	33,454
Plant Maintenance Supplies	24,502	65,815
Meters and Materials	3,204	-
Equipment Rental	3,000	3,000
Water Test	7,000	6,775
Insurance & Bonds	9,304	10,190
Utilities	21,446	19,334
Telephone	2,474	3,797
Travel	2,850	2,086
Operating Supplies	-	2,151
Accounting	24,689	19,946
Office Supplies	3,501	-
Dues, Fees and Licenses	10,274	5,971
Bank Charges	2,006	-
Postage	3,104	2,630
General and Administrative	360	185
Professional Fees	3,200	3,200
Wages	93,114	65,199
Employee Benefits	8,565	7,104
Payroll Taxes	8,430	7,100
Work Comp Insurance	3,358	3,528
Depreciation Expense	84,715	85,327
	<u>360,455</u>	<u>348,249</u>
<b>TOTAL OPERATING EXPENDITURES</b>		
<b>NET INCOME FROM OPERATIONS</b>	<u>14,289</u>	<u>9,125</u>
<b>OTHER INCOME (EXPENDITURES):</b>		
Interest Income	2,141	1,443
Membership Income	20,500	10,100
Other Income	3,654	(3)
Interest Expense	(29,565)	(23,635)
	<u>(3,270)</u>	<u>(12,095)</u>
<b>TOTAL OTHER INCOME AND EXPENSE</b>		
<b>CHANGE IN NET POSITION</b>	11,019	(2,970)
<b>NET POSITION, BEGINNING OF THE YEAR</b>	<u>1,015,965</u>	<u>1,018,935</u>
<b>NET POSITION, END OF THE YEAR</b>	<u>\$ 1,026,984</u>	<u>\$ 1,015,965</u>

**WAGONER COUNTY RURAL WATER DISTRICT NO. 2**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017 and 2018**

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash Inflows:		
Payments Received from Customers	361,901	357,834
Cash Outflows:		
Payments for Salaries & Wages	(113,463)	(82,932)
Payments to Suppliers for Goods and Services	<u>(191,583)</u>	<u>(181,527)</u>
<b>Net Cash Provided (Used) by Operating Expenses</b>	<u>56,855</u>	<u>93,375</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Purchase of Capital Assets	(47,495)	(27,524)
Membership Income	20,500	10,100
Principal Reduction of Long-Term Debt	(57,240)	(51,960)
Interest Payments on Notes	<u>(29,565)</u>	<u>(23,635)</u>
<b>Net Cash Provided(Used) for Capital &amp; Related Financing Activities</b>	<u>(113,800)</u>	<u>(93,019)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Miscellaneous Income	3,654	(2)
Interest Income	2,121	1,443
<b>Net Cash Provided (Used) for Investing Activities</b>	<u>5,775</u>	<u>1,441</u>
<b>NET CASH INFLOW (OUTFLOW) FROM ALL ACTIVITIES</b>	(51,170)	1,797
<b>CASH AND CASH EQUIVALENTS BEGINNING OF THE YEAR</b>	<u>467,611</u>	<u>465,814</u>
<b>CASH AND CASH EQUIVALENTS END OF THE YEAR</b>	<u>\$ 416,441</u>	<u>\$ 467,611</u>
Interest Paid	<u>29,565</u>	<u>23,635</u>

**WAGONER COUNTY RURAL WATER DISTRICT NO. 2  
STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2018**

	<b>2018</b>	<b>2017</b>
<b>Reconciliation of Operating Income (Loss to Net Cash) Provided by Operating Activities:</b>		
Operating Income	14,289	9,125
Depreciation and Amortization	84,715	85,327
<b>(Increase) Decrease in:</b>		
Accounts Receivable	(12,862)	(1,395)
Inventories	(24,980)	(5,041)
Prepaid Insurance	(9,247)	7,826
<b>(Increase) Decrease in:</b>		
Accounts Payable	6,421	9,128
Accrued Expenses	(2,322)	(11,595)
Payroll Taxes Payable	841	-
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>56,855</b>	<b>93,375</b>



**Wagoner County Rural Water District No. 2**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2018**

The following notes to the financial statements are an integral part of the Wagoner County Rural Water District No. 2's financial statements.

**I. Summary of Significant Accounting Policies**

Wagoner County Rural Water District No. 2 was incorporated under the Rural Water District Act of Oklahoma, for the purpose of acquiring water rights, and to build and acquire pipelines and other facilities and to operate the same for the purpose of furnishing water to serve the need of owners and occupants of land located within the district. The District is exempt from federal and state income tax.

The accounting policies of the District conform to generally accepted accounting principles applicable to governmental units. The District complies with generally accepted accounting principles and applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. In addition, the District applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The District has elected not to follow FASB pronouncements issued since that date.

The District adopted the provisions of GASB Statement No 34, "Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments," in fiscal year 2004. Statement 34 established standards for external financial reporting for all state and local governmental entities which includes a management's discussion and analysis section, a statement of net assets, a statement of activities and changes in net assets and a statement of cash flows. It requires the classification of net assets into three components—invested in capital assets, net of related debt; restricted; and unrestricted.

The adoption of Statement No. 34 had no effect on the basic financial statements except for the classification of net assets, the reflection of capital contributions as a change in net assets and the inclusion of a Management's Discussion and Analysis (MD&A) section providing an analysis of the District's overall financial position and results of operations. The District has elected to not present the Management's Discussion and Analysis.

**A. Financial Reporting Entity**

The District complies with GASB Statement No 14. "The Financial Reporting Entity." This statement establishes standards for defining and reporting on the financial reporting entity. It defines component units as legally separate organizations for which the elected officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The District considered all potential component units in determining what organizations should be included in the financial statements. Based on these criteria, there are no component units to include in the District's financial statements.

## **B. Basis of Presentation**

The District's fund is an enterprise fund. Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

## **C. Measurement Focus and Basis of Accounting**

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.

The proprietary funds utilize 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 non-current) associated with their activities are reported. Proprietary fund equity is classified as net assets.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or an economic asset is used.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principle ongoing operations. The principle operating revenues of the District's enterprise fund are charges to customers for sales and services. The District also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

## **D. Assets, Liabilities, and Net Position**

### **1. Deposits and Investments**

Oklahoma Statutes authorize the District to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the district can invest in direct debt securities of the United States of America unless such an investment is expressly prohibited by law.

For purposes of the Statement of Cash Flows, the District considers all cash on hand, demand deposits, and highly liquid investments, with a maturity of three months or less when purchased, to be cash and cash equivalents.

### **Custodial Credit Risk**

At December 31, 2018, the district held deposits of approximately \$416,441 in three accounts. All deposits were covered by FDIC insurance on December 31, 2017 and 2018. The districts cash deposits consisted of interest-bearing certificate of deposit, checking accounts and a restricted account.

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:

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.

Certificates of deposits or savings accounts that are 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.

With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.

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.

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.

Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

At December 31, 2018, the District held no investments.

### **2. Fair Value of Financial Instruments**

The Districts financial statements include cash and investments. The District's estimates of fair value of all financial instruments do not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

### **3. Inventory**

The District's inventory consists of water line parts and supplies as well as chemicals used to treat the water. The District maintains inventory on the first-in, first-out basis.

### **4. Accounts Receivable**

Accounts receivable consists primarily of charges for water sales. Management has not established a provision for uncollectible accounts. Such amounts are written off the month in which management determines they are uncollectible.

### **5. Restricted Assets**

The terms of the loan agreement with the Oklahoma Water Resources Board (OWRB) require that the District maintain funds for the use of servicing debt in The amount of 125% of the total annual payment. The deposits with the Bank of Oklahoma (BOK) trust accounts sufficient to fulfill this requirement.

## **6. Capital Assets**

The water storage and delivery system and furniture and equipment are recorded at cost. Donated capital assets are reported at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. All reported assets are depreciated on the straight-line basis over their estimated useful lives ranging from five to fifty years. All assets with a value of more than \$150 that benefit more than one period will be depreciated.

## **7. Equity Classifications**

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

- a. Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets—Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of their governments; or (2) law through constitutional provisions or enabling legislation, or (3) elected restrictions by management concerning cash to be used for capital improvements.
- c. Unrestricted net assets—All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

## **8. Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## **9. Compensated Absences**

It is the District's policy to permit employees to accumulate earned but unused sick time. Full-time employees are granted vacation and sick leave benefits in varying amounts to specified maximums depending on tenure. Employees are not allowed to carry over unused sick leave or vacation leave from year to year, therefore there are no accrued compensated absences at year end.

## **10. Net Position**

In the basic financial statements, net position represents the difference between assets and liabilities. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets.

## **11. Resource Use Policy**

It is in the District's policy for all funds that when an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources, including net positions, are available, the District considers restricted amounts to be spent first before any unrestricted amounts are used.

**II. Detailed Notes Concerning the Funds**

**A. Deposits and Investments**

State statutes govern the District's investment policy. Permissible investments include direct obligations of the United States Government and Agencies; certificates of deposit of savings and loan associations, and bank and trust companies; and savings accounts or savings certificates of savings and loan associations and trust companies. Collateral is required for demand deposits and certificates of deposit for all amounts not covered by federal deposit insurance. Investments are stated at cost. The District has complied with this requirement.

**B. Accounts Receivable**

Following is an aged schedule of accounts receivable as of December 31, 2017 and 2018.

	<u>Current</u>	<u>1-30 Days</u>	<u>31-60 Days</u>	<u>90 Days</u>	<u>Prepayments</u>	<u>Total</u>
<b>2018</b>	34,107	7,027	3,094	9,762	(3,459)	50,531
<b>2017</b>	30,887	4,295	2,645	6,061	(6,219)	37,669

**Changes in Capital Assets**

Capital asset activity for the year was as follows:

<b>2018</b>	Beginning of Year	Additions	Deletions	End of Year
Capital Assets				
Land	65,000	-	-	65,000
Distribution System	2,767,828	-	-	2,767,828
Buildings	133,713	-	-	133,713
Office Equipment & Equipment	124,347	47,495	-	171,842
Trucks	35,995	-	-	35,995
Total Capital Assets	3,126,883	47,495	-	3,174,378
Less: Accumulated Depreciation	1,488,339	84,715	-	1,573,054
Net Book Value	1,638,544	(37,220)	-	1,601,324

<b>2017</b>	Beginning of Year	Additions	Deletions	End of Year
Capital Assets				
Land	65,000	-	-	65,000
Distribution System	2,773,855	-	-	2,773,855
Buildings	133,713	-	-	133,713
Office Equipment & Equipment	191,796	26,694	81,343	137,147
Trucks	18,000	-	-	18,000
Total Capital Assets	3,182,364	26,694	81,343	3,127,715
Less: Accumulated Depreciation	1,486,020	85,327	82,176	1,489,171
Net Book Value	1,696,344	(58,633)	(833)	1,638,544

### C. Long -Term Debt

Wagoner County Rural Water District No. 2 borrowed \$1,765,000 from the Oklahoma Water Resource Board, (OWRB). Substantially all fixed assets, accounts receivable, and assignment of revenues are pledged as security for the OWRB note. The note is subject to a variable interest rate adjusted semi-annually. This note will mature on March 15, 2032. Payments are made by the 15th day of each month to the trustee bank and placed into a restricted debt service account. A debt service reserve account as part of the loan agreement must maintain a minimum balance of 125% of the maximum annual amount required for debt service. Earnings from the debt service and debt service reserve accounts are placed into the debt service reserve fund. Semi-annual note payments are made each March 15th, and September 15th, from the debt service account.

Annual debt service on these notes over the life of the loans is as follows:

Year Ended Dec. 31,	Principal	Interest
Current Portion	59,200	35,053
2021	62,600	40,718
2022	66,100	34,829
2023	69,700	32,484
2024	73,600	30,010
2025	77,700	27,398
2024-2028	458,700	92,408
2029-2032	235,600	13,405
Total	1,044,000	271,252
<b>TOTAL LONG TERM DEBT</b>	<b>1,103,200</b>	<b>306,305</b>

#### D. Changes in General Long-Term Debt

Long-term debt consists of notes payable. The following is a summary of the changes in general long-term debt, including the current part, of the District for the fiscal year.

	Balance Beg. Of Year	Advances	Reduction	Balance End of Year
Notes Payable	1,216,540	-	57,240	1,159,300
Total	1,216,540	-	57,240	1,159,300

### III. Other Information

#### A. Risk Management

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District purchases commercial insurance to cover these risks, including general and auto liability, property damage, and public official's liability. There were no significant reductions in insurance coverage from the prior year. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

#### B. Arbitrage Agreement

The District should monitor their obligation related to the arbitrage agreement signed when they obtained their loan from the OWRB. The arbitrage calculations are normally due every five years.

#### C. EVALUATION OF SUBSEQUENT EVENTS

The Company has evaluated subsequent events through May 14, 2020 the date which the financial statements were available to be issued.

**D. COMMITMENTS AND CONTINGENCIES**

Wagoner County Rural Water District No. 2 currently participates in various grant programs. These grants are subject to audit by the grantor agency or their representatives. Such audits could lead to requests for reimbursement to the grantor agency for services disallowed under the terms of the contract. Presently Wagoner County Rural Water District No. 2 is not aware of any pending requests, and in the opinion of management, any such amounts would not be considered material.

**E. 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 report in considering the results of the audit.

**F. FINANCE- RELATED LEGAL AND CONTRACTUAL PROVISIONS**

The terms of the loan agreements require Reserve Accounts as shown on the financial statements under restricted assets.

**G. DEFICIT FUND BALANCE 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.



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL 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 No. 2  
Wagoner, OK

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 No. 2 as of and for the year ended December 31, 2017 and 2018, and the related notes to the financial statements, which collectively comprise Wagoner County Rural Water District No. 2's basic financial statements and have issued our report thereon dated May 14, 2020.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Wagoner County Rural Water District No. 2's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Wagoner County Rural Water District No. 2's internal control. Accordingly, we do not express an opinion on the effectiveness of Wagoner County Rural Water District No. 2's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or 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 significant deficiencies. 2018-1.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Wagoner County Rural Water District No. 2'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 No. 2's Response to Findings**

Wagoner County Rural Water District No. 2'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 No. 2'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.  
May 14, 2020

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

2018-1

**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. This condition was also reported in 2017.

**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.



**INDEPENDENT  
AUDITOR'S  
REPORTS**

**FINANCIAL**

**SECTION**

**FINANCIAL**

**STATEMENT**

**NOTES**

**SUPPLEMENTARY**

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