

Bryan County Rural Water & Sewer District #5

Independent Auditors Report

**As of and for the Years Ended
August 31, 2015 and 2014**

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Independent Auditors Report

To the Board of Directors
Bryan County Rural Water & Sewer District #5
Durant, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Bryan County Rural Water & Sewer District #5, as of and for the years ended August 31, 2015 and 2014, and the related notes to the financial statements, which collectively 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 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

Our responsibility is to express opinions 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 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, 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Bryan County Rural Water & Sewer District #5, as of August 31, 2015 and 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ending in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis and budgetary comparison information 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 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 also issued our report dated December 21, 2015, on our consideration of the Bryan County Rural Water & Sewer District #5'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 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 Bryan County Rural Water & Sewer District #5's internal control over financial reporting and compliance.

Russell + Williams CPA's, P.C.

Oklahoma City, Oklahoma
December 21, 2015

Bryan Co. Rural Water & Sewer Dist. #5

Statement of Net Position

August 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash in bank-unrestricted	\$ 1,103,218.83	\$ 1,020,630.53
Certificate of Deposits-unrestricted	233,624.13	233,244.26
Certificate of Deposits-restricted	120,046.17	119,746.46
Accounts receivable, net	159,454.35	146,095.84
Prepaid Insurance	<u>24,827.39</u>	<u>22,375.59</u>
Total current assets	1,641,170.87	1,542,092.68
Capital assets, net	<u>3,063,075.63</u>	<u>3,113,177.50</u>
TOTAL ASSETS	<u><u>\$ 4,704,246.50</u></u>	<u><u>\$ 4,655,270.18</u></u>
LIABILITIES AND NET ASSETS		
Accounts Payable	\$ 57,497.58	\$ 83,811.33
Payroll Taxes Payable	768.50	17,130.19
Accrued Interest Payable	1,290.48	1,290.48
Accrued Compensated Absences	4,898.57	10,279.47
Refundable Meter Deposits	<u>64,100.00</u>	<u>62,850.00</u>
Total current liabilities	128,555.13	175,361.47
Notes Payable USDA	<u>394,396.16</u>	<u>477,899.63</u>
Total Liabilities	<u>522,951.29</u>	<u>653,261.10</u>
NET POSITION		
Net Investment in capital assets	2,668,679.47	2,635,277.87
Restricted for debt service and maintenance	120,046.17	119,746.46
Unrestricted	<u>1,392,569.57</u>	<u>1,246,984.75</u>
Total Net Position	<u>4,181,295.21</u>	<u>4,002,009.08</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 4,704,246.50</u></u>	<u><u>\$ 4,655,270.18</u></u>

The accompanying notes are an integral part of these financial statements.

Bryan Co. Rural Water & Sewer Dist. #5
Statement of Revenues Over Expenses and Changes in Net Position
For the Year Ended August 31, 2015 and 2014

	2015	2014
OPERATING REVENUES		
Water sales	\$ 1,351,835.41	\$ 1,442,673.89
Installation and Tap Fees	77,117.29	59,236.00
Sewer and Trash Collection Fees	11,866.42	14,407.06
TOTAL OPERATING REVENUES	1,440,819.12	1,516,316.95
OPERATING EXPENSES		
Advertising	592.03	1,035.56
Audit	5,100.00	5,100.00
Bank Fees	3,558.69	3,681.33
Computer Software and Maintenance	2,771.80	3,921.75
Depreciation	201,975.53	185,194.17
Dues and Fees	4,523.29	4,474.60
Employee Benefits - Health Insurance	35,405.92	29,426.56
Flowers and Gifts	132.79	4,257.69
Food and Meeting Expense	1,744.52	1,322.81
Insurance and Bonds	38,698.56	35,286.27
Interest	20,860.53	23,500.26
Legal and Professional	5,300.00	-
Medical and Safety Supplies	186.80	122.60
Mileage	556.15	589.47
Miscellaneous	125.00	199.69
Office Supplies and Expense	31,430.36	28,925.08
Payroll Taxes	20,631.49	20,273.52
Pension Plan Expense	9,338.96	6,824.94
Postage	10,867.90	15,980.49
Purchase of Water	553,775.12	623,673.85
Repairs and Maintenance	13,037.65	22,008.66
Salaries and Wages	255,317.82	248,021.89
Truck and Tractor Expense	23,979.01	32,997.87
Uniforms and Laundry	1,661.00	2,109.04
Utilities and Telephone	24,791.25	23,793.62
Water Tests and Lab Fees	8,053.08	6,216.90
TOTAL OPERATING EXPENSES	1,274,415.25	1,328,938.62
OPERATING INCOME (LOSS)	166,403.87	187,378.33
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	1,095.44	1,201.31
Other Income	9,161.82	5,443.28
Memberships	2,625.00	2,925.00
TOTAL NON-OPERATING REVENUES (EXPENSES)	12,882.26	9,569.59
NET INCOME	179,286.13	196,947.92
Beginning Net Position	4,002,009.08	3,805,061.16
Ending Net Position	\$ 4,181,295.21	\$ 4,002,009.08

The accompanying notes are an integral part of these financial statements.

Bryan Co. Rural Water & Sewer Dist. #5
Statement of Cash Flows
For the Year Ending August 31, 2015 and 2014

	2015	2014
Cash Flows From Operating Activities		
Receipts from customers	\$ 1,427,460.61	\$ 1,528,797.75
Payments to suppliers	(758,400.55)	(898,412.03)
Payments to employees	(342,436.78)	(285,501.52)
Interest Paid	(20,860.53)	(23,264.14)
Net Cash Provided by Operating Activities	305,762.75	321,620.06
Cash Flows From Investing Activities		
Interest Received	1,095.44	1,201.31
Capital Asset Purchases	(151,873.66)	(30,807.80)
Net Cash Provided by Investing Activities	(150,778.22)	(29,606.49)
Cash Flows From Capital and Related Financing Activities		
Recovery of Bad Debts	-	-
Other Income	9,161.82	5,443.28
Membership Income	2,625.00	2,925.00
Principal paid on long term debt	(83,503.47)	(77,911.74)
Net Cash Flows From Capital and Related Financing Activities	(71,716.65)	(69,543.46)
Net Increase (Decrease) in Cash	83,267.88	222,470.11
Cash, Beginning of the Year	1,373,621.25	1,151,151.14
Cash, End of the Year	\$ 1,456,889.13	\$ 1,373,621.25
Cash and Equivalents - Unrestricted	1,336,842.96	1,253,874.79
Cash and Equivalents - Restricted	120,046.17	119,746.46
Total Cash and Equivalents	\$ 1,456,889.13	\$ 1,373,621.25
<i>Reconciliation of change in net position</i>		
<i>to net cash provided by operations</i>		
Change in Net Position	166,403.87	187,378.33
Adjustments to reconcile change in net position to net cash provided (used) by operating activities:		
Depreciation	201,975.53	185,194.17
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	(14,061.59)	13,137.69
Increase (Decrease) in Doubtful Accounts	703.08	(656.89)
(Increase) Decrease in Prepaid Expenses	(2,451.80)	(665.42)
Increase (Decrease) in Accounts Payable	(26,313.75)	(84,999.33)
Increase (Decrease) in Payroll Taxes Payable	(16,361.69)	12,349.90
Increase (Decrease) in Accrued Interest Payable	-	236.12
Increase (Decrease) in Accrued Compensated Absences	(5,380.90)	6,695.49
Increase (Decrease) in Refundable Meter Deposits	1,250.00	2,950.00
Net cash provided by operating activities	\$ 305,762.75	\$ 321,620.06

The accompanying notes are an integral part of these financial statements.

RURAL WATER AND SEWER DISTRICT NO. 5
Notes to Basic Financial Statements
August 31, 2015 and 2014

Note 1: Summary of Significant Accounting Policies

Financial Reporting Entity

Rural Water and Sewer District No. 5, Bryan County, Oklahoma (the District) was organized for the purpose of providing water to the rural residents and businesses located in a the southern portion of Bryan County, Oklahoma. The water district uses the accrual basis of accounting; consequently, all revenue is included when earned, and all expenses are recognized when the obligation is incurred.

Basis of Presentation, Measurement Focus, and Basis of Accounting

The District is financed and operated in a manner similar to a private business enterprise, where the intent of the governing body is that the costs of providing water to the general public on a continuing basis be financed or recovered primarily through user charges, or 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 District uses one fund which is a proprietary fund of a business-type activity as described above. This fund is reported on the accrual basis of accounting; consequently, all revenue is included when earned, and all expenses are recognized when the obligation is incurred.

Proprietary fund equity is reported as restricted net assets (funds that are restricted to a particular use), unrestricted net assets, and investments in capital assets net of related debt.

Operating revenues and expenses for proprietary funds are those that result from providing water, sewer, and solid waste collection services.

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts in various funds. Actual results could differ from those estimates.

Note 2: Stewardship, Compliance and Accountability

Budget

The District prepares an annual estimated budget of cash receipts and disbursements for the purpose of adjusting water rates if necessary and as a forecast of cash receipts and disbursements required by the USDA Rural Development. This does not meet the definition of a legally required and adopted budget and accordingly is not presented.

Risk Management

The District's business activity is with customers located within a portion of Bryan County, Oklahoma. As of August 31, 2015 and 2014, the District's receivables were \$167,846 and \$153,785, respectively. An overall decline in the economic condition of the area could affect the collection of those receivables.

RURAL WATER AND SEWER DISTRICT NO. 5
Notes to Basic Financial Statements
August 31, 2015 and 2014

The District is exposed to various risks of loss related to theft of and damage to assets, errors and omissions, injuries to employees, and natural disasters. The District purchases commercial insurance to cover these possible liabilities.

Commitments and Contingencies

The District participates in state and federally assisted loan and grant programs. These programs are subject to program compliance audits by grantors or their representatives. Accordingly, the District's compliance with applicable loan and grant requirements will be established at some future date. The amount, if any, of expenses which may be disallowed by the granting agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

Note 3: Detail Notes On Transaction Classes and Accounts

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/expenses.

Cash and Equivalents

For the purpose of the Statement of Net Assets, "cash" includes all demand, savings accounts, and certificates of deposits of the District. For the purpose of the proprietary fund Statement of Cash Flows, "cash and equivalents" includes all demand and savings accounts, and certificates of deposit with an original maturity of three months or less.

Deposits are classified into the following three categories: (1) Insurance or collateralized with securities held by the entity or by its agent or in the entity's name (Category 1); (2) Collateralized with securities held by the pledging financial institutions trust department or agent In the entity's name (Category 2); and (3) Uncollateralized, including any bank balance that is collateralized with securities held by the pledging institution, or by its trust department or agent but not in the entity's name (Category 3).

All of the District's cash accounts are considered Category 1. The accounts are covered by FDIC insurance up to \$250,000. The accounts are further collateralized by \$1,750,000 in letters of credit from the Federal Home Loan Bank of Topeka, KS. At August 31, 2015 all accounts were covered by either the federal depository insurance or other collateral.

Accounts Receivable

Accounts receivables consist of all revenues earned at year-end and not yet received. Allowances for doubtful accounts are based on 5% of the accounts receivable balance at the end of the accounting year.

RURAL WATER AND SEWER DISTRICT NO. 5
Notes to Basic Financial Statements
August 31, 2015 and 2014

Capital Assets

Capital assets used in the District's operations are stated at cost less accumulated depreciation. Depreciation is provided on the straight-line method at various rates based on the estimated useful lives of the assets. Generally, estimated useful lives of five years for trucks and tractors, ten years for furniture, fixtures and equipment, and thirty years for the building and water system are used. Maintenance and repairs as well as renewals and betterments of small amounts are charged against Income as incurred whereas major renewals or betterments which extend the life or increase the value of property are capitalized.

Capital asset activity for the year ended August 31, 2015 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Water System	6,515,731	-	-	6,515,731
Land	36,575	-	-	36,575
Trucks & Tractors	355,855	151,874	(25,558)	482,171
Office Building	50,288	-	-	50,288
Office Furniture & Equipment	72,938	-	-	72,938
Total	7,031,387	151,874	(25,558)	7,157,703
Less: Accumulated Depreciation	(3,918,210)	(201,976)	25,558	(4,094,628)
Net Capital Assets	<u>\$ 3,113,177</u>			<u>\$ 3,063,075</u>

Capital asset activity for the year ended August 31, 2014 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Water System	6,484,923	30,808	-	6,515,731
Land	36,575	-	-	36,575
Trucks & Tractors	355,855	-	-	355,855
Office Building	50,288	-	-	50,288
Office Furniture & Equipment	72,938	-	-	72,938
Total	7,000,579	30,808	-	7,031,387
Less: Accumulated Depreciation	(3,733,016)	(185,194)	-	(3,918,210)
Net Capital Assets	<u>\$ 3,267,563</u>			<u>\$ 3,113,177</u>

Noncurrent Debt

Non-current debt includes the original note payable to the USDA Rural Development with monthly payments of \$5,683 per month including Interest at the rate of 5%. The original amount of the loan was \$1,158,864. As of August 31, 2015, that balance had been reduced to \$82,219 of which \$65,574 will be paid on the principal during the coming year of all payment are made timely.

RURAL WATER AND SEWER DISTRICT NO. 5
Notes to Basic Financial Statements
August 31, 2015 and 2014

During 1985 an additional loan in the amount of \$150,000 was granted by the USDA Rural Development for the purpose of constructing water towers at Calera and Cartwright, Oklahoma. Monthly payments on that note are \$965 per month including interest at the rate of 6.75%. As of August 31, 2015, the original \$150,000 has been paid down to a balance of \$14,393 of which \$10,943 will be paid on the principal during the coming year if all payments are made timely.

During 1994 a third loan in the amount of \$325,000 was granted by the USDA Rural Development for the purpose of constructing additional water lines and a tower. Monthly payments on that note are \$1,476 including interest at the rate of 4.5%. As of August 31, 2015, the original \$325,000 loan had been paid down to a balance of \$222,671 of which \$7,785 will be paid on the principal during the coming year if all payments are made timely.

On August 13, 1997, an additional loan in the amount of \$100,000 was granted by the USDA Rural Development for reimbursement of overrun costs on the additional water lines constructed in 1995. Monthly payments on that note are \$450 including Interest at the rate of 4.5%. As of August 31, 2015, the original \$100,000 loan had been paid down to a balance of \$75,113 of which \$2,062 will be paid on the principal during the coming year if all payments are made timely.

All of the above notes are secured by the revenues and net assets of the organization.

Schedule of Notes Payable:	Current	Non-Current	Total
USDA-RD #9111	65,574	16,645	82,219
USDA-RD #9112	10,943	3,450	14,393
USDA-RD #9113	7,785	214,886	222,671
USDA-RD #9114	2,062	73,050	75,113
Totals	\$ 86,364	\$ 308,031	\$ 394,395

The annual requirements to amortize all debt outstanding to the USDA Rural Development as of August 31, 2015 including interest payments of \$175,569 will be as follows:

	Original Loan 5%	Additional Loan 6.75%	Additional Loan 4.50%	Additional Loan 4.50%	Totals
2016	68,196	11,580	17,712	5,400	102,888
2017	16,760	3,492	17,712	5,400	43,364
2018	-	-	17,712	5,400	23,112
2019	-	-	17,712	5,400	23,112
2020	-	-	17,712	5,400	23,112
2021/2025	-	-	88,560	27,000	115,560
2025/2030	-	-	88,560	27,000	115,560
2030/2033	-	-	66,652	27,000	93,652
2033/2037	-	-	-	10,220	10,220
Totals	\$ 84,956	\$ 15,072	\$ 332,332	\$ 118,220	\$ 550,580

RURAL WATER AND SEWER DISTRICT NO. 5
Notes to Basic Financial Statements
August 31, 2015 and 2014

Retirement Plan

On January 10, 1997 the water district adopted the National Association of Counties Deferred Compensation Program for its full time employees through a joint contributory defined contribution plan. The water district's total payroll for the year was \$255,318 and the covered payroll was \$178,110. The water district's contributions for the year were \$9,339 and the employee's contributions were \$11,711. There were no related party transactions in the plan during the year. Employer contributions to the plan vest at the time contributions are made. The employee may elect the time at which distributions under the Plan are to commence by designating the month and year during which the first distribution is to be made. The earliest distribution commencement date that may be elected by the employee shall be the earlier of (a) the date on which the employee separates from services; or (b) the date on which the employee attains age 70 1/2 or terminates deferrals under this plan, whichever is later.

Restricted Assets

The USDA Rural Development requires an amount equal to the note payments for one year be set aside and controlled by them. On April 26, 1999 Rural Development approved a request by the Water District to withdraw \$50,000 from the set aside amount for the purchase of equipment. At August 31, 2015, the account had a balance of \$120,046 which exceeds the required \$102,888.

Subsequent Events

Subsequent events have been evaluated through December 21, 2015 which is the date the financial statements were issued.

Russell & Williams CPA's, P.C.

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INDEPENDENT AUDITOR'S 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
Bryan County Rural Water & Sewer District #5
Durant, 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 accompanying financial statements of the business-type activities of the Bryan County Rural Water & Sewer District #5, as of and for the year ended August 31, 2015, and the related notes to the financial statements, which collectively comprise the Bryan County Rural Water & Sewer District #5's basic financial statements, and have issued our report thereon dated December 21, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Bryan County Rural Water & Sewer District #5'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 the Bryan County Rural Water & Sewer District #5's internal control. Accordingly, we do not express an opinion on the effectiveness of the Bryan County Rural Water & Sewer District #5'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. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Bryan County Rural Water & Sewer District #5'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.

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.

Russell + Williams CPAs, P.C.

Oklahoma City, Oklahoma
December 21, 2015