

**Adair County Rural Water District No. 5**  
**Adair County, Oklahoma**

**Basic Financial Statements**  
**December 31, 2015**

**TURNER & ASSOCIATES, PLC**  
**Certified Public Accountants**  
**P.O. Box 378**  
**Vinita, OK 74301**  
**918-256-6788**

**Adair County Rural Water District No. 5**  
**Adair County, Oklahoma**  
**Water District Officials**  
**December 31, 2015**

**Board of Directors**

Lonnie Jeffries	Chairperson
Joe D. Leak	Vice-Chairperson
Brian Bigfeather	Secretary
Dallas Jeffries	Treasurer
Josh Pulver	Director

System Manager

Lyle Collins

Office Manager

Lyndia Humphrey

**Adair County Rural Water District No. 5**  
**Adair County, Oklahoma**  
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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Adair County Rural Water District No. 5

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

We have audited the accompanying financial statements of the business-type activities of the Adair County Rural Water District No. 5, of the County of Adair, as of and for the year ended December 31, 2015, 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 the modified cash basis of accounting described in Note I; 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 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. 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 proprietary fund activities of the District, as of December 31, 2015, and the respective changes in modified cash basis financial position, and where applicable, cash flows thereof and for the year then ended in accordance with the modified cash basis of accounting described in Note I.

## ***Basis of Accounting***

We draw attention to Note I 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 opinions are not modified with respect to this matter.

## ***Cumulative Effect of Accounting Change***

The net position for the Trust as of December 31, 2014 was restated due to the change in accounting principal mentioned above. The cumulative effect of the change in accounting principal is described in further details in Note III of these financial statements. Our opinions are not modified with respect to this matter.

## ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2017, on our consideration of the Authority'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 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 accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

*TURNER & ASSOCIATES, PLC*

Vinita, Oklahoma  
August 25, 2017



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING  
STANDARDS***

Board of Directors  
Adair County Rural Water District No. 5

We 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 financial statements of the business-type activities of the Adair County Rural Water District No. 5, County of Adair, Oklahoma, as of and for the year ended December 31, 2015, and the related notes to the financial statements which collectively comprise the District's financial statements, and have issued our report thereon dated August 25, 2017. The Adair County Rural Water District No. 5 did not present the Management's Discussion that accounting principles generally accepted in the United States of America require to supplement, although not to be part of, the basic financial statements.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District'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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of 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.

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. We did identify certain deficiencies in internal control, 2015-1, described in the accompanying schedule of findings and questioned costs that we consider to be a material weakness.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2015-2.

## **District's Response to Findings**

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District'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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

TURNER & ASSOCIATES, PLLC

Vinita, Oklahoma  
August 25, 2017

**Adair County Rural Water District No. 5**  
**Adair County, Oklahoma**  
**Schedule of Findings and Questioned Costs**  
**December 31, 2015**

**2015-1 – MATERIAL ADJUSTING ENTRY**

*Criteria:*

The government's management is responsible for internal controls over accounting and financial reporting. This responsibility includes the design and implementation of controls over fair and complete presentation of the government's annual financial statements in accordance with the modified cash basis of accounting from trial balances derived from the government's accounting records. For trial balances to be both complete and accurate, the government must have effective internal controls over recording, processing, summarizing, and adjusting accounting data. As evidence of effective internal controls over accounting and financial reporting, there should generally be few, if any, material adjustments to the trial balances required that are detected and corrected solely as a result of the financial statement audit. In other words, government management should not rely on the external auditor to detect and correct material misstatements in the books and records as part of its internal control, but rather should have its own procedures designed and in place that are independent of the external auditor to provide reasonable, although not absolute, assurance that material misstatements will be detected and corrected in its trial balances prior to audit.

*Condition:*

The government's trial balance for the year ended December 31, 2015, required a material adjusting entry in order for the financial statements to be prepared in accordance with the modified cash basis of accounting. The necessary adjusting entry, identified solely as a result of the financial statement audit, was necessary to remove a debt reserve balance for an account closed out in a previous year.

*Cause:*

The government's accounting and financial reporting staff lacks the necessary knowledge, expertise, and education, relative to the complex nature of applying the modified cash basis to state and local governments, sufficient to provide reasonable assurance that the trial balances used for preparing the modified cash basis financial statements are complete and accurate prior to audit. As a result, management has had to rely on external auditors to identify and correct a number of material misstatements in the trial balances.

*Effect:*

As a result of this condition, without reliance on external auditors, the government lacks the necessary internal controls over the completeness and accuracy of the trial balances that are used in the preparation of its financial statements in accordance with the modified cash basis of accounting. This condition can result in undetected and uncorrected material misstatements in the financial statements that are not detected by management and may also not be detected by the financial statement audit. In addition, if management's intentions are to continue to rely on the external auditor to detect and correct material misstatements, this condition could place the auditor in a questionable position regarding auditor independence as a result of the auditor performing part of management's functions regarding the trial balances.

**Adair County Rural Water District No. 5**  
**Adair County, Oklahoma**  
**Schedule of Findings and Questioned Costs**  
**December 31, 2015**

**2015-1 – MATERIAL ADJUSTING ENTRY (continued)**

*Recommendation:*

The government should consider designing and implementing sufficient internal controls over the completeness and accuracy of trial balances by obtaining the necessary knowledge, expertise, and continuing education to apply the modified cash basis in the development of working trial balances that will be used to prepare the government's annual financial statements. This could be achieved through employment of qualified accounting staff or the outsourcing of these control activities to a qualified accounting firm other than the external auditor.

*Client Response:*

This will be corrected with engagement of new accountant and firm. Management reconciles the books but relies on accountant to oversee, correct and add any needed additional entries at year end.

**2015-2 – METER DEPOSITS**

*Criteria:*

According to Oklahoma 11 O.S. § 35-107, deposits for utility service shall be refunded or credited to customer upon termination of service or at an earlier date as allowed by the municipality. Refunds to the customer shall be made in accordance with the procedures set forth by the statute.

*Condition:*

As of December 31, 2015, the District's meter deposit account retained a balance of \$15,529.05. However, the meter deposit liability was \$17,850 resulting in an underfunded liability of \$2,320.95.

*Cause:*

The District deposited all meter funds in the operating account during the year ended December 31, 2015. Additionally, the District made incorrect entries to the utility deposit accounts resulting in trial balances that were inaccurate at year end.

*Effect:*

If the District does not have enough funds to cover utility deposits out of the meter fund, they may not have enough funds to over customer refunds required by state law. Additionally, if they do not keep accurate records, they will not be able to determine the amount of liability that is required.

*Recommendation:*

The District should deposit all meter deposits into the meter fund. Additionally, the District should create processes to ensure that utility deposit accounts reflect the actual amounts owed.

*Client Response:*

Management and the board talked about this in 2015. The board passed to release the responsibility of rentals back to the member in the November 10<sup>th</sup>, 2015 board meeting. This has been done and will be corrected.

**Adair County Rural Water District No. 5**  
**Adair County, Oklahoma**  
**Statement of Net Position – Modified Cash Basis**  
**December 31, 2015**

	December 31, 2015	December 31, 2014 (Memo Only)
<b>ASSETS</b>		
Current Assets		
Cash and Equivalents	\$ 16,609.47	\$ 59,482.76
Non-current Assets		
Restricted Assets:		
Restricted Cash	490,033.67	489,711.31
Capital Assets:		
Property, Plant and Equipment, net	2,395,698.11	2,505,567.11
Land	6,429.00	6,429.00
Total Non-Current Assets	2,892,160.78	3,001,707.42
<b>TOTAL ASSETS</b>	<b>2,908,770.25</b>	<b>3,061,190.18</b>
<b>LIABILITIES</b>		
Current Liabilities		
Deposits Payable	17,850.00	17,650.00
Current Portion of Note Payable	20,000.00	15,000.00
Total Current Liabilities	37,850.00	32,650.00
Long Term Liabilities		
Notes Payable	2,335,000.00	2,355,000.00
<b>TOTAL LIABILITIES</b>	<b>2,372,850.00</b>	<b>2,387,650.00</b>
<b>NET POSITION</b>		
Net Investment in Capital Assets	553,770.25	691,190.18
Restricted for Debt Service	472,183.67	472,061.31
Unrestricted	(490,033.67)	(489,711.31)
Total Net Position	<b>\$ 535,920.25</b>	<b>\$ 673,540.18</b>

The accompanying Notes to the Financial Statements are an integral part of this statement.



**Adair Rural Water District No. 5**  
**Adair County, Oklahoma**  
**Statement of Cash Flows – Modified Cash Basis**  
**For the Year Ended December 31, 2015**

**Cash Flows from Operating Activities**

Cash Inflows:

Payments Received from Customers	\$ 385,931.16
Deposits Received from Customers	200.00
Total Cash Provided by Operating Activities	<u>386,131.16</u>

Cash Outflows:

Payments to Suppliers for Goods and Services	(177,383.27)
Payments for Contract Services	(125,438.00)
Total Cash Used by Operating Activities	<u>(302,821.27)</u>
Net Cash Provided (Used) by Operating Activities	<u>83,309.89</u>

**Cash Flows from Capital and Related Financing Activities**

Fees Paid Related to Bond	(836.99)
Interest Paid on Bond	(129,372.50)
Principal Paid on Bond	(15,000.00)
Membership Fees Received	19,311.80
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(125,897.69)</u>

**Cash Flows from Investing Activities**

Interest Received	<u>36.87</u>
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**Net Cash Inflow (Outflow) from All Activities** (42,550.93)

Cash and Cash Equivalents at Beginning of Year 549,194.07

**Cash and Cash Equivalents at End of Year** \$ 506,643.14

**Reconciliation of Operating Income (Loss) to Net Cash**

**Provided by Operating Activities:**

Operating Income (Loss)	\$ (26,759.11)
Depreciation	109,869.00
(Increase) Decrease in:	
Customer Deposits	200.00
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 83,309.89</u></u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

**Adair Rural Water District No. 5**  
**Adair County, Oklahoma**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2015**

The following notes to the financial statements are an integral part of Adair County Rural Water District No. 5's financial statements.

**I. Summary of Significant Accounting Policies**

Adair Rural Water District No. 5, Adair County, Oklahoma (the "District") was created under the provisions of Title 82, O.S. 1981, Sections 1324.1-1324.26 inclusive, for the purpose of providing water to the members of the District it serves. Membership in the water district consists of water users who have paid the required membership and connection fees. The District is exempt from federal and state income taxes.

The membership consists of approximately 589 users, each entitled one vote. The Board of Directors consists of 5 members serving three year staggered terms. The vacant Board seats are elected at the annual meeting, and following, the Board of Directors meet and elect a chairman, vice-chairman, secretary, treasurer, and director. All Board members serve without pay.

The accounting policies of the District conform to generally accepted accounting principles applicable to governmental units. The District complies with the modified cash basis of accounting and applies all relevant Government Accounting Standards Board (GASB) pronouncements. The District has elected to apply only applicable FASB Statements and Interpretations issued on or before November 30, 1989 that do not contradict GASB pronouncements in its accounting and reporting practices for its proprietary operations.

**A. Financial Reporting Entity**

Adair County Rural Water District No. 5 is an independent, self-contained reporting entity with no associated component units. It is operated in a manner similar to a private business enterprise where the cost (expenses, including depreciation) of providing water services is financed through user charges.

**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**

The Trust's proprietary fund financial statements are prepared on a modified basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). This basis of presentation differs from GAAP in that certain revenues are recognized when received rather than earned and certain expenses are recognized when paid rather than when the obligation is incurred. Specifically, the variances from GAAP include omission of receivables and accruals. Such variances are presumed to be material.

**Adair Rural Water District No. 5**  
**Adair County, Oklahoma**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2015**

**I. Summary of Significant Accounting Policies (continued)**

**C. Measurement Focus and Basis of Accounting (continued)**

Similar to financial statements prepared in accordance with GAAP, these financial statements reflect the capitalized cost of property and equipment and related depreciation, along with amounts attributed to long term debt. The accompanying financial statements are not intended to present the financial position and results of operations in conformity with accounting principles generally accepted in the United States of America.

**Memorandum Only – Total Column**

The total column on the financial statements is captioned “Memo Only” to indicate that it is present only to facilitate financial analysis.

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

**1. Cash and Cash Equivalents**

For purposes of the statement of cash flows, the District considers all cash on hand, demand deposits, and highly liquid investments, with an original maturity of three months or less when purchased, to be cash and cash equivalents.

**2. Fair Value of Financial Instruments**

The District’s financial statements include cash and cash equivalents. The District’s estimates of the fair value of all financial instruments do not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying Statement of Net Position. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

**3. Restricted Assets**

Restricted assets include cash and cash equivalents held by the Bank of Oklahoma for purposes related to the 2007 series revenue bonds. According to the bond indenture, the Bond Fund Reserve account shall be funded in an amount equal to \$150,000. The Bond Fund Reserve account shall be used to receive the reserve requirement upon the issuance of the bonds, to transfer the excess investment monies to the principal account, interest account, or any other account, to receive reserve requirements of any additional bonds, to pay the last maturing bonds, and to transfer monies in excess to the project fund until the completion of the project and thereafter to the principal and/or interest accounts.

**4. Inventory of Supplies and Materials**

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

**Adair Rural Water District No. 5**  
**Adair County, Oklahoma**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2015**

**I. Summary of Significant Accounting Policies (continued)**

**D. Assets, Liabilities and Net Position (continued)**

**5. Capital Assets**

Capital assets are carried at historical cost. Donated capital assets are reported at fair market value as of the date donated. The District determines which assets to capitalize on a case by case basis.

Additions and improvements that significantly extend the useful life of an asset are capitalized. The cost of normal maintenance and repairs are expensed as incurred.

All reported capital assets are depreciated on the straight-line basis over the estimated useful lives ranging from five to forty years as listed below:

Equipment	5 years
Water System	40 years
Water System Additions	20 years
Buildings	15 years

**6. Liabilities**

The District's deposits payable balance of \$17,850 at year end consists of amounts to be refunded to customers.

**7. Long-Term Obligations**

On February 1, 2007, the District issued revenue bond series 2007. The bonds are special obligations of the District payable and secured by a lien on the gross revenues of the District's water facilities. The District has covenanted to indenture to fix and maintain rates for water services which shall provide gross revenues in an amount adequate to:

- (i) maintain the facilities in good repair and condition,
- (ii) pay all operation and maintenance expenses related to the facilities,
- (iii) pay all amounts required to be paid by the District under the terms of the Indenture,
- (iv) generate on an annual basis an amount equal to 110% of the annual debt service on the bonds for that year after payment of the amounts required in (i) and (ii), and
- (v) provide for any other amounts which may be required under the terms of the Indenture.

Long-term debt is reported as a liability in the District's balance sheet. Bond premiums and discounts, as well as issuance costs, are recognized as non-operating income or expense items in the Statement of Revenues, Expenses, and Changes in Net Position.

**Adair Rural Water District No. 5**  
**Adair County, Oklahoma**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2015**

**I. Summary of Significant Accounting Policies (continued)**

**D. Assets, Liabilities and Net Position (continued)**

**8. Budget**

The district's management prepares an annual budget as directed by Title 82, O.S. 1994 §, 1324.18.

**9. Net Position**

Proprietary fund financial statements report net position. Amounts invested in capital assets, net of related debt, and legally restricted amounts are separated from unrestricted net position:

- a. 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 mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- b. Restricted net position --- Amounts reported as restricted for debt service include those amounts held in restricted accounts as required by the debt instrument.

**II. Detailed Notes Concerning the Funds**

**A. Deposits and Investments**

*Custodial Credit Risk – Deposits:* Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's cash deposits, including interest-bearing certificates of deposit, are maintained in financial institutions. The District does not have a deposit policy for custodial credit risk. As of December 31, 2015, none of the District's investments were exposed to custodial credit risk because they were uninsured or uncollateralized.

*Interest rate risk:* This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. 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.

*Repurchase agreements:* A portion of the District's reserve funds held by the Bank of Oklahoma are invested in Cavanal Hill US Treasury Funds. According to the Cavanal Hill's annual holdings report, 51% of the investments are subject to repurchase agreements. The District's investments are collateralized by Treasury securities; however, current and future earnings are subject to risk.

**Adair Rural Water District No. 5**  
**Adair County, Oklahoma**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2015**

**II. Detailed Notes Concerning the Funds (continued)**

**B. Changes in Capital Assets**

Capital asset activity for the year was as follows:

	December 31, 2014			December 31, 2015
Capital assets not being depreciated:				
Land	\$ 6,429.00	\$ -	\$ -	\$ 6,429.00
Other capital assets:				
Water Distribution System	4,178,626.60	-	-	4,178,626.60
Furniture & Equipment	28,067.51	-	-	28,067.51
Total other capital assets	4,206,694.11	-	-	4,206,694.11
Less accumulated depreciation	(1,701,127.00)	(109,869.00)		(1,810,996.00)
Total Depreciable Assets	2,505,567.11	(109,869.00)	-	2,395,698.11
Total capital assets	<u>\$ 2,511,996.11</u>	<u>\$ (109,869.00)</u>	<u>\$ -</u>	<u>\$ 2,402,127.11</u>

**C. Long-Term Debt**

Revenue Bonds Series 2007

On February 1, 2007, the District issued \$2,390,000 in refunding revenue bonds with interest rates ranging between 4.5% and 5.5%. The proceeds of the bonds were used to refund the outstanding indebtedness of the District, fund the debt service reserve, pay all costs of issuance, and fund a project fund.

Interest on the bonds is payable semi-annually on February 1st and August 1st at varying rates starting August 1, 2007. Principal payments are due annually on February 1st starting February 1, 2007.

Debt service requirements for the Series 2007 bonds are:

Year Ended December 31,	Rate	Principal	Interest	Total Requirements
2016	4.50%	20,000.00	128,585.00	148,585.00
2017	4.50%	25,000.00	127,572.50	152,572.50
2018	5.50%	25,000.00	151,319.50	176,319.50
2019	5.50%	30,000.00	154,810.00	184,810.00
2020	5.50%	35,000.00	158,022.50	193,022.50
2021-2025	5.50%	240,000.00	578,705.00	818,705.00
2026-2030	5.4% to 5.5%	335,000.00	500,467.50	835,467.50
2031-2035	5.4% to 5.5%	450,000.00	326,115.50	776,115.50
2036-2040	5.50%	600,000.00	283,143.75	883,143.75
2041-2043	5.50%	595,000.00	95,598.75	690,598.75
		<u>\$ 2,355,000.00</u>	<u>\$ 2,504,340.00</u>	<u>\$ 4,859,340.00</u>

**Adair Rural Water District No. 5**  
**Adair County, Oklahoma**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2015**

**III. Other Information**

**A. Risk Management**

The District is exposed to various risks 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 officials liability. There were no significant reductions in insurance coverage from the prior year. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**B. Rates and Fees**

**Deposits**

Meter Deposit	\$ 25.00
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**Fees**

New Membership Fee (3/4 " Meter)	\$ 900.00
New Membership Fee (1 " Meter)	\$ 1,800.00
New Membership Fee (2 " Meter)	\$ 2,500.00
Membership Fee (Previous installation)	\$ 500.00
Reconnect Fee	\$ 75.00

**Rates**

First 1,000 Galloons (Base Rate)	\$ 31.00
1,000 to 5,000 Galloons	\$ 5.75
5,000 to 8,000 Galloons	\$ 6.50
8,000 to 10,000 Galloons	\$ 6.75
10,000 & Above Galloons	\$ 5.25

**C. Contingent Liabilities**

The governing board of the District is not aware of any pending or threatened legal actions against it. However, any such actions would probably be covered by insurance.

**D. Related Party Transactions**

Management has entered into an agreement with the System Manager to lease a piece of land along with the associated building for use by the District in providing water services. The lease agreement is dated December 8<sup>th</sup>, 2015 and calls for either a monthly payment of \$200 for 12 months or a single payment of \$2,400. On December 8<sup>th</sup>, 2015, the District paid the System Manager the amount of \$2,400 for the 12-month lease.

**Adair Rural Water District No. 5**  
**Adair County, Oklahoma**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2015**

**III. Other Information (continued)**

**E. Subsequent Events**

Management has evaluated subsequent events through the date of this report, which is the date the financial statements were available to be issued.

**F. Correction of an Error**

Beginning net assets for the year ended December 31, 2014 were restated due to an understatement of cash balances, deposits payable, and long-term debt of \$21,217.85, \$4,114.43, and \$44,696.56 respectively. As a result, net assets were overstated by \$27,593.14 before adjustments for the cumulative effect of accounting change. The effect of the change was a decrease in beginning net position from \$765,669.74 to \$738,076.60.

**G. Cumulative Effect of Accounting Change**

Effective January 1, 2015, the District changed its accounting method from accrual method for revenue and expense to the modified cash method. The new method has been applied to revenue and expense recorded in prior years. Management believes the new method will more accurately reflect its financial results. The cumulative effect of the change on prior years totaled a reduction of \$64,536.42 after adjustments for the correction of errors and is included in the Statement of Net Position – Modified Cash Basis. The effect of the change was a decrease in beginning net position from \$738,076.60 (after correction of errors), to \$673,540.18.