

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

Basic Financial Statements
December 31, 2016

TURNER & ASSOCIATES, PLC
Certified Public Accountants
P.O. Box 378
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Adair County Rural Water District No. 5
Adair County, Oklahoma
Water District Officials
December 31, 2016

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, 2016, 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, 2016, 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, 2015 was restated due to the change in accounting principal mentioned above. The cumulative effect of the change in accounting principal is described in further detail 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 February 16, 2018, 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
February 16, 2018



**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, 2016, and the related notes to the financial statements which collectively comprise the District's financial statements, and have issued our report thereon dated February 16, 2018. The District 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, 2016-1, 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 2016-2.

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
February 16, 2018

Adair County Rural Water District No. 5
Adair County, Oklahoma
Schedule of Findings and Questioned Costs
December 31, 2016

2016-1 – 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, 2016, 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. In addition to this entry, another adjustment had to be made to record depreciation expense for the year ended December 31, 2016.

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, 2016

2016-1 – 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.

2016-2 – 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, 2016, the District's meter deposit account retained a balance of \$15,060.19. However, the meter deposit liability was \$17,800 resulting in an underfunded liability of \$2,739.81.

Cause:

The District deposited all meter funds in the operating account during the year ended December 31, 2016. 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 cover 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:

The District returned the responsibility of lease deposits back to the member in the 2015. Management has transferred to the meter account, the funds necessary to cover utility deposits. Checks from the meter account for remaining lease deposits were returned to the renters with a notice to their members.

Auditor Response:

The District should ensure that it has enough funds on deposit in the meter deposit fund to cover utility deposits.

Adair County Rural Water District No. 5
Adair County, Oklahoma
Statement of Net Position – Modified Cash Basis
December 31, 2016

	December 31, 2016	December 31, 2015 (Memo Only)
ASSETS		
Current Assets		
Cash and Equivalents	\$ 26,657.90	\$ 12,677.28
Non-current Assets		
Restricted Assets:		
Restricted Cash	497,729.17	490,033.67
Capital Assets:		
Property, Plant and Equipment, net	2,285,829.11	2,395,698.11
Land	6,429.00	6,429.00
Total Non-Current Assets	2,789,987.28	2,892,160.78
TOTAL ASSETS	2,816,645.18	2,904,838.06
LIABILITIES		
Current Liabilities		
Deposits Payable	17,800.00	17,850.00
Current Portion of Note Payable	25,000.00	20,000.00
Total Current Liabilities	42,800.00	37,850.00
Long Term Liabilities		
Notes Payable	2,310,000.00	2,335,000.00
TOTAL LIABILITIES	2,352,800.00	2,372,850.00
NET POSITION		
Net Investment in Capital Assets	213,100.89	302,946.44
Restricted for Debt Service	226,826.20	222,617.48
Unrestricted	23,918.09	10,356.33
Total Net Position	\$ 463,845.18	\$ 535,920.25

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 Revenues, Expenses and Changes in Net Position –
Modified Cash Basis
For the Year Ended December 31, 2016

	December 31, 2016	December 31, 2015 (Memo Only)
Operating Revenues		
Water Revenues	\$ 424,757.48	\$ 378,667.64
Penalties and Fees	8,163.99	7,101.87
Other Operating Revenues	2,144.35	161.65
Total Operating Revenues	435,065.82	385,931.16
Operating Expenses		
Annual Dues / Fees	7,992.93	7,672.30
Bank Service Charges	6,830.83	5,919.75
Contract Services	49,075.00	43,838.00
Depreciation	109,869.00	109,869.00
Insurance	6,745.68	6,975.09
Office Expense	9,784.09	8,812.95
Operating Materials & Supplies	17,170.88	36,382.29
Operator / Manager	81,600.00	81,600.00
Professional Fees	8,250.00	14,387.50
Publications & Advertising	650.75	260.00
Repairs & Maintenance	30,042.64	24,433.80
Telephone & Utilities	49,214.10	51,562.48
Water Purchases	-	3,897.06
Water Testing	1,980.00	1,546.56
Water Treatment	10,327.29	15,533.49
Total Operating Expenses	389,533.19	412,690.27
Operating Income (Loss)	45,532.63	(26,759.11)
Non-Operating Revenues (Expenses)		
Interest Income	52.30	36.87
Bond Fees	(1,000.00)	(836.99)
Interest Expense	(128,585.00)	(129,372.50)
Total Non-Operating Revenues (Expenses)	(129,532.70)	(130,172.62)
Capital Contributions		
Membership Fees	11,925.00	19,311.80
Net Income (Loss)	(72,075.07)	(137,619.93)
Net Position, Beginning of Year	535,920.25	673,540.18
Net Position, End of Year	\$ 463,845.18	\$ 535,920.25

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, 2016

Cash Flows from Operating Activities

Cash Inflows:

Payments Received from Customers	\$ 435,065.82
Deposits Received from Customers	-
Total Cash Provided by Operating Activities	<u>435,065.82</u>

Cash Outflows:

Payments to Suppliers for Goods and Services	(148,989.19)
Payments for Contract Services	(130,675.00)
Deposits Refunded to Customers	(50.00)
Total Cash Used by Operating Activities	<u>(279,714.19)</u>
Net Cash Provided (Used) by Operating Activities	<u>155,351.63</u>

Cash Flows from Capital and Related Financing Activities

Fees Paid Related to Bond	(1,000.00)
Interest Paid on Bond	(128,585.00)
Principal Paid on Bond	(20,000.00)
Membership Fees Received	11,925.00
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(137,660.00)</u>

Cash Flows from Investing Activities

Interest Received	<u>52.30</u>
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Net Cash Inflow (Outflow) from All Activities

Cash and Cash Equivalents at Beginning of Year	506,643.14
Cash and Cash Equivalents at End of Year	<u>\$ 524,387.07</u>

Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:

Operating Income (Loss)	\$ 45,532.63
Depreciation	109,869.00
(Increase) Decrease in:	
Customer Deposits	(50.00)
Net Cash Provided (Used) by Operating Activities	<u>\$ 155,351.63</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, 2016

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.

At December 31, 2016, the membership consists of approximately 631 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, 2016

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 for debt service, construction proceeds, and meter deposits. Restricted assets for debt service are 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. Restricted assets for construction proceeds are also held by the Bank of Oklahoma in accounts designated for construction funds. Restricted assets for meter deposits are held by the Bank of Commerce.

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, 2016

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 \$17,800 at year end consists of amounts to be refunded to customers. However, the District has only \$15,060.19 on deposit to cover this liability. The result is that the District's meter deposits payable balance is underfunded by \$2,739.81 at December 31, 2016.

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, 2016

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, 2016, 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 U.S. Treasury Funds. According to the U.S Treasury Fund Quarterly Fact Sheet, 14.9% 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, 2016

II. Detailed Notes Concerning the Funds (continued)

B. Changes in Capital Assets

Capital asset activity for the year was as follows:

	<u>December 31, 2015</u>			<u>December 31, 2016</u>
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	(1,810,996.00)	(109,869.00)		(1,920,865.00)
Total Depreciable Assets	2,395,698.11	(109,869.00)	-	2,285,829.11
Total capital assets	<u>\$ 2,402,127.11</u>	<u>\$ (109,869.00)</u>	<u>\$ -</u>	<u>\$ 2,292,258.11</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 1 and August 1 at varying rates starting August 1, 2007. Principal payments are due annually on February 1 starting February 1, 2012.

Debt service requirements for the Series 2007 bonds are:

Year Ended December 31,	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2017	4.50%	25,000.00	127,572.50	152,572.50
2018	5.50%	25,000.00	126,322.50	151,322.50
2019	5.50%	30,000.00	124,810.00	154,810.00
2020	5.50%	35,000.00	123,022.50	158,022.50
2021	5.50%	45,000.00	120,822.50	165,822.50
2022-2026	5.50%	255,000.00	565,092.50	820,092.50
2027-2031	5.4% to 5.5%	355,000.00	481,742.50	836,742.50
2032-2036	5.4% to 5.5%	480,000.00	306,497.50	786,497.50
2037-2041	5.50%	630,000.00	250,873.75	880,873.75
2042-2043	5.50%	455,000.00	58,968.75	513,968.75
		<u>\$ 2,335,000.00</u>	<u>\$ 2,285,725.00</u>	<u>\$ 4,620,725.00</u>

Adair Rural Water District No. 5
Adair County, Oklahoma
Notes to the Financial Statements
For the Year Ended December 31, 2016

II. Detailed Notes Concerning the Funds (continued)

D. Changes in Long-Term Debt

Long-term debt consists of bonds payable. The following is a summary of the changes in long-term debt of the District for the fiscal year.

	Balance 12/31/2015	Proceeds	Payments	Balance 12/31/2016	Due Within One Year
Bonds Payable	\$ 2,355,000.00	\$ -	\$ 20,000.00	\$ 2,335,000.00	\$ 25,000.00

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

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

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Notes to the Financial Statements
For the Year Ended December 31, 2016

III. Other Information (continued)

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 Office 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 27th, 2016 and calls for either a monthly payment of \$200 for 12 months or a single payment of \$2,400. On December 19th, 2016, the District paid the Office Manager the amount of \$2,400 for the 12-month lease.

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.