

ADAIR COUNTY RURAL WATER DISTRICT NO. 5

PROCTOR, OKLAHOMA

**FINANCIAL STATEMENTS AND AUDIT REPORT
For the year ended December 31, 2013**



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MICHAEL W. GREEN

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Adair County Rural Water District No. 5
Proctor, Oklahoma

I have audited the accompanying financial statements of the Adair County Rural Water District # 5 (the District), as of and for the year ended December 31, 2013, and the related notes to the 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my 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 I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District, as of December 31, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Management has omitted the management discussion and analysis 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 operations, economic, or historical context. My 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, I have also issued a report dated April 23, 2015 on my consideration of the District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. The purpose of that report is to describe the scope of my 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 and compliance.

A handwritten signature in black ink, appearing to read "Michael Green", with a stylized, cursive script.

Michael Green
Certified Public Accountant

April 23, 2015

ADAIR COUNTY RURAL WATER DISTRICT NO. 5
BALANCE SHEET
DECEMBER 31, 2013

ASSETS

CURRENT ASSETS:

Cash in Bank O & M	\$ 64,671
Cash in Bank Meter Deposits (Note A:2)	16,177
Bond Related Accounts (Note A:2)	493,838
Accounts Receivable (net of allowance)	30,865
Prepaid Insurance	<u>3,647</u>

TOTAL CURRENT ASSETS	<u>609,198</u>
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FIXED ASSETS:

Land	6,429
Office Furniture and Equipment	28,068
Water System	4,150,525
Accumulated Depreciation	<u>(1,591,258)</u>

NET FIXED ASSETS	<u>2,593,764</u>
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OTHER ASSETS:

Unamortized Bond Issuance Costs	<u>88,037</u>
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TOTAL ASSETS	<u><u>3,290,999</u></u>
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LIABILITIES AND FUND EQUITY

CURRENT LIABILITIES

Accrued Interest Payable	54,175
Meter/Lease Deposits	13,563
Current Portion of Long-Term Debt	<u>10,000</u>
TOTAL CURRENT LIABILITIES	<u>77,738</u>

LONG TERM LIABILITIES

Bonds Payable (<i>Less Bond Discount</i>)	<u>2,323,648</u>
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TOTAL LONG TERM LIABILITIES	<u>2,323,648</u>
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NET ASSETS

Net Assets Restricted by Security Deposits	13,563
Invested in Capital Assets Net of Related Debt	205,941
Restricted for Debt Reserve	493,838
Net Assets: Unrestricted	<u>176,271</u>

TOTAL NET ASSETS	<u>889,613</u>
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TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 3,290,999</u></u>
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The accompanying notes are an integral part of these financial statements.

ADAIR COUNTY RURAL WATER DISTRICT NO. 5
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2013

REVENUE:

Water Sales	\$ 355,218
Membership Fees	8,275
Late Charges	6,300
Other Operating Revenues	<u>4,633</u>

TOTAL OPERATING REVENUE	<u><u>374,426</u></u>
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EXPENDITURES:

Operator Manager	88,075
Contract Services	39,145
Operating Materials and Supplies	16,306
System Repair and Maintenance	25,862
Water Testing	3,352
Water Treatment	7,643
Telephone/Utilities	58,435
Office Expense	10,232
Professional Fees	12,460
Insurance	6,985
Licenses/Subscriptions/Dues	8,994
Advertising	415
Bank Service Charges	6,441
Bad Debt Expense	7,462
Depreciation	<u>104,249</u>

TOTAL OPERATING EXPENDITURES	<u><u>396,056</u></u>
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NET INCOME FROM OPERATIONS	<u><u>(21,630)</u></u>
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OTHER INCOME (EXPENDITURES):

Interest Income	63
Bond Related Expenses	(5,295)
Interest Expense	<u>(131,092)</u>

TOTAL OTHER INCOME AND (EXPENSE)	<u><u>(136,324)</u></u>
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NET INCOME (LOSS)	(157,954)
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NET ASSETS, BEGINNING OF THE YEAR	<u><u>1,047,567</u></u>
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NET ASSETS, END OF THE YEAR	<u><u>\$ 889,613</u></u>
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The accompanying notes are an integral part of these financial statements.

ADAIR COUNTY RURAL WATER DISTRICT NO. 5
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash Inflows:	
Net Income (Loss)	(157,954)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities	
Depreciation	104,249
Other Income and Expense	143,786
Decrease (Increase) in Accounts Receivable	41,958
Decrease (Increase) in Prepaid Insurance	(4)
(Decrease) Increase in accrued interest Payable	321
Decrease) Increase in Meter/Lease Deposits	(197)
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Net Cash Provided (Used) by Operating Activities	132,159

CASH FLOWS FROM FINANCING ACTIVITIES

Changes in Fixed Assets net of Depreciation	(6,674)
Bond Related Expenses	(5,295)
Decrease in Bond Discount	1,655
Decrease in Unammortized Bond Issuance Costs	3,144
Principal Reduction of Long-Term Debt	(5,000)
Interest Payments on Bonds	(131,092)
	<hr/>
Net Cash Provided(Used) for Financing Activities	(143,262)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest Received from Investments	63
(Increase) Decrease in Bond Cash Accounts	52,135
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Net Cash Provided (Used) for Investing Activities	52,198

NET CASH INFLOW (OUTFLOW) FROM ALL ACTIVITIES	41,095
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CASH AND CASH EQUIVALENTS BEGINNING OF THE YEAR	39,753
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CASH AND CASH EQUIVALENTS END OF THE YEAR	\$ 80,848
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The accompanying notes are an integral part of these financial statements.

ADAIR COUNTY RURAL WATER DISTRICT NO. 5
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Adair County Rural Water District No.5 was incorporated August 28, 1986 as a not-for-profit corporation under the laws of the State of Oklahoma for the purpose of obtaining and distributing potable water to rural residences within the district boundaries.

1. Basis of Accounting

The financial statements of the Adair County Rural Water District No. 5 have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

2. Cash and Equivalents

For the purpose of the statement of cash flows, the organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. Restricted cash consists of cash held for customer deposits and cash reserved for debt service.

3. Income Taxes

The Adair County Rural Water District No. 5 is exempt from Federal Income Taxes.

4. Property and Equipment

The District values its property and equipment at historical cost or estimated fair value at the date of receipt. Depreciation is computed using the straight-line method over the estimated useful life of the individual assets. The district policy is to capitalize fixed assets when cost exceeds \$500.00.

NOTE B: CASH AND CASH EQUIVALENTS

Unrestricted Cash consists of the following:

Bank of Commerce - O & M Account	1,297
Arvest Bank Checking - O & M Account	<u>63,374</u>
TOTAL UNRESTRICTED CASH	<u><u>64,671</u></u>

NOTE C: ACCOUNTS RECEIVABLE

Accounts Receivable consists of trade receivables. An aging of accounts receivable is presented below. An allowance for doubtful accounts has been established at this time for the accounts that are sixty days overdue.

Current	\$	29,787
1-30 Days		6,183
30-60 Days		46
Over 60 Days		1,849
Allowance for Doubtful Accounts		<u>(7,000)</u>
Total Accounts Receivables		<u><u>30,865</u></u>

NOTE D: INVENTORY

Expendable items are recorded as expenditures when purchased. Merchandise on hand at December 31, 2013, was determined as not material; therefore no inventories have been reflected in the financial statements.

NOTE E: OTHER ASSETS

Unamortized Bond Issuance Cost is the cost to issue the bonds that is being amortized over a period of 35 years.

NOTE F: LONG TERM DEBT

The District had the following Bonds payable at December 31, 2013:

Date Bonds		Collateral Pledged	Rate of Interest	Balance at 12/31/2013	Current Bonds Due
Payable to	Mature				Within One Year
RCB Bonds	2/1/2043	Assets/Revenues	5.50%	\$2,380,000	\$ 10,000
Unamortized Discount				<u>(46,352)</u>	
				\$2,333,648	

The scheduled maturities of Bonds is as follows:

Years ending December 31,:

	Principal	Interest
2014	\$ 10,000	\$ 130,350
2015	15,000	129,525
2016	20,000	128,425
2017	25,000	127,050
2018	25,000	125,675
Thereafter	<u>2,285,000</u>	

The above bonds are secured by a first mortgage on all the District's assets and revenues. The bonds began to mature in February 2012 and continue until February 2043. The bonds are Refunding Revenue Bonds Series 2007.

NOTE G: MANAGER'S USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE H: COMMITMENTS AND CONTINGENCIES

Adair County Rural Water District No. 5 currently participates in various grant programs. These grants are subject to audit by the grantor agency or their representatives. Such audits could lead to requests for reimbursement to the grantor agency for services disallowed under the terms of the contract. Presently Adair County Rural Water District No. 5 is not aware of any pending requests, and in the opinion of management, any such amounts would not be considered material.

NOTE I: Subsequent Events

Subsequent events have been evaluated through April 23, 2015, which is the date the financial statements were available to be issued.

MICHAEL W. GREEN
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827 W. LOCUST STREET
Stilwell, Ok. 74960
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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*

Board of Directors
Adair County Rural Water District No. 5
Proctor, Oklahoma

I have audited the financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the Adair County Rural Water District No. 5 (the District), as of and for the year ended December 31, 2013, which collectively comprise the District's basic financial statements and have issued my report thereon dated April 23, 2015. I conducted my 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.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I 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 my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, I do not express an opinion on the effectiveness of the Organization's internal control.

My consideration of internal control was for the limited purpose described in the first paragraph 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. However, as described in the accompanying schedule of findings and recommendations, I identified certain deficiencies in internal control that I consider to be material weaknesses and significant deficiencies.

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. I consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. 13-1, 13-2.

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. I consider the deficiencies described in the accompanying schedule of findings and responses to be to be significant deficiencies. 13-4, 13-5.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and is disclosed as item numbers 13-2, 13-3, 13-6, 13-7 in the accompanying schedule of findings and recommendations.

Adair County Rural Water District No. 5's Response to Findings

The District's response to the findings identified in my audit is described in a separate letter from the District. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "Michael Green", is positioned above the printed name.

Michael Green, CPA
April 23, 2015

SCHEDULE OF FINDINGS AND RESPONSES

13-1 Due to the lack of sufficient personnel there is not adequate segregation of duties. This precludes good internal control from within the organization. We strongly **recommend** the involvement of an independent accountant for the monthly compilation of financial statements and review of billing and accounts receivable activity for each month. This individual should report directly to the board of directors.

Response: A much larger staff would be necessary in order to assure adequate segregation of duties. However, with the assistance of an independent accountant and active involvement of the board in the day to day activities of the water district internal control will be improved.

13-2 Annual audits are not being done timely since the financial statements are not prepared on a timely basis. The **recommendation** in 13-1 should also resolve this issue.

Response: The district will review the benefits of involving an independent accountant on a monthly basis

13-3 It does not appear that the district generated the required amount of adjusted net income (110% of the annual debt service requirement) to comply with the terms of the bond agreement. A rate study or cost cutting measures may be needed in order to comply with this requirement.

Response: The district will study this issue and determine how best to resolve it.

13-4 There does not appear to be adequate control over account adjustments. We did not see any kind of approval for adjustments in the board minutes. When an account is adjusted there should be a description of the reason for the adjustment and written approval by the manager and subsequent disclosure / approval by the board.

Response: The district will create a policy to ensure the suggestions listed above are put in place.

13-5 There does not appear to be formal list of all outstanding meter deposits. Deposit details are maintained by multiplying the number of customers by the meter deposit amount and adding renter's deposits. We **recommend** that a formal list of meter deposits be maintained and reconciled each month.

Response: It appears that this has been corrected in 2014.

13-6 According to the Rural Water, Sewer, Gas and Solid Waste Management District Act of Oklahoma, the District Board should annually prepare an estimated budget for the coming year. The district is in violation of this requirement.

Response: This district has hired a CPA to help with the accounting and other items such as correcting this violation.

13-7 Cash should be deposited daily. At present it is deposited weekly. We **recommend** that cash be deposited daily if there is a sufficient amount to warrant the deposit.

Response: The district will review this issue and determine when cash should be deposited.