

**RURAL WATER DISTRICT NO. 5,  
KAY COUNTY, OKLAHOMA**

**ANNUAL FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2016**

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KAY COUNTY, OKLAHOMA  
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## Independent Auditor's Report

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

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

We have audited the accompanying statement of assets, liabilities and net position of Rural Water District No. 5, Kay County, Oklahoma as of December 31, 2016 and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements.

### **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 as described in Note 1. 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 the financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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 whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District'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 District's internal control. Accordingly, we express no such an 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 opinion.

## Opinion

In our opinion, the financial statements referred to above, present fairly, in all material respects, the modified cash basis financial position of Rural Water District No. 5, Kay County, Oklahoma, as of December 31, 2016; the changes in modified cash basis financial position; and cash flows thereof, for the year then ended in conformity with the basis of accounting described in Note 1.

## Basis of Accounting

We draw attention to Note 1 of the financial statements that 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.

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated March 1, 2017 on our consideration of Rural Water District No. 5, Kay County, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain laws, regulations, contracts and grants 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



Kimberlye B. Mayer, CPA, P.C.  
Blackwell, Oklahoma  
March 1, 2017

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  
Rural Water District No. 5, Kay County, Oklahoma

We have audited the financial statements of Rural Water District No. 5, Kay County, Oklahoma as of and for the year ended December 31, 2016 and have issued our report thereon dated March 1, 2017. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements were 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Rural Water District No. 5, Kay County, Oklahoma'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Rural Water District No. 5, Kay County, Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of the Rural Water District No. 5, Kay County, Oklahoma'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 combination of control deficiencies, in internal control that there is reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

Our consideration of internal control was for the limited purpose described in the preceding 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 questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

## **Compliance and Other Matters**

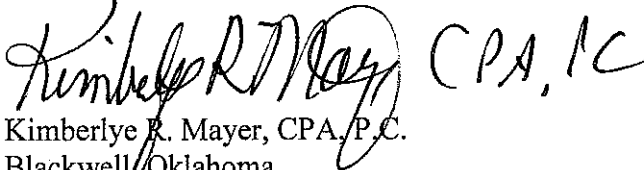
As part of obtaining reasonable assurance about whether Rural Water District No. 5, Kay County, Oklahoma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have 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*.

## **Response to Findings**

Rural Water District No. 5, Kay County, Oklahoma's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Rural Water District No. 5, Kay County, Oklahoma'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.

  
Kimberlye R. Mayer, CPA, P.C.  
Blackwell/Oklahoma  
March 1, 2017

RURAL WATER DISTRICT NO. 5, KAY COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED DECEMBER 31, 2016

**Material Weakness in Internal Control Over Financial Reporting: Inadequate Segregation of Duties:**

**Criteria:** The segregation of duties and responsibilities between different individuals and the reconciliation of those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

**Condition:** Presently, the same individual is responsible for water service billings and receiving payments; making and recording deposits; maintaining billing registers; and reconciling the monthly bank statements. Only limited oversight is provided over this individual in the conduct of their daily functions.

**Cause:** The entity's limited size has made it difficult for management to fully segregate the duties.

**Effect or Potential Effect:** Without sufficient segregation of duties, the risk significantly increases that errors and/or fraud related to the sales and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

**Recommendation:** The board should evaluate the risks associated with the lack of segregation of duties and consider implementing controls that could mitigate these risks.

**Board's Response:** The board has concluded that due to the limited number of personnel, an adequate segregation of duties is not achievable and that the cost of correcting the weakness would exceed the benefits that would be derived from it.

FINANCIAL STATEMENTS

AND

NOTES



RURAL WATER DISTRICT NO. 5  
 KAY COUNTY, OKLAHOMA  
 STATEMENT OF ASSETS, LIABILITIES AND NET POSITION  
 MODIFIED CASH BASIS  
 DECEMBER 31, 2016

ASSETS

Current Assets:	
Cash and cash equivalents	\$ 135,373
Certificates of deposit	28,939
ORWAAG reserves	1,000
Utility deposit	30
Total Current Assets	165,342
Restricted Accounts:	
Debt service	1,391
Debt service reserve	14,971
Total Restricted Accounts	16,362
Capital assets (net of accumulated depreciation) (Note 2)	423,753
Total Assets	\$ 605,457

LIABILITIES AND NET POSITION

Liabilities:	
Current Liabilities:	
OWRB notes payable (current portion) (Note 3)	\$ 4,600
Noncurrent Liabilities:	
OWRB notes payable (long-term portion) (Note 3)	48,200
Total Current Liabilities	52,800
Net Position:	
Net investment in capital assets	370,953
Restricted for debt service	16,362
Unrestricted	165,342
Total Net Position	552,657
Total Liabilities and Net Position	\$ 605,457

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

RURAL WATER DISTRICT NO. 5  
 KAY COUNTY, OKLAHOMA  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
 MODIFIED CASH BASIS  
 YEAR ENDED DECEMBER 31, 2016

Operating Revenues:	
Water service	\$ 142,563
Other income	
Total Operating Revenues	142,563
Operating Expenses:	
Water purchases	49,999
Electricity	8,737
Repairs and maintenance	30,589
Permits and fees	2,928
Office supplies and postage	2,656
Insurance and bonds	1,910
Professional fees	8,905
Trustee fees	750
Depreciation	18,970
Dues, meetings and memberships	1,647
Director fees	1,020
Miscellaneous expenses	
Total Operating Expenses	128,111
Operating Revenues Over (Under) Expenses	14,452
Non-operating Revenues (Expenses):	
Interest income	528
Memberships	3,000
Interest expense	(880)
Total Non-operating Revenue (Expense)	2,648
Changes in Net Position	17,100
Net Position, beginning of year	535,557
Net Position, end of year	\$ 552,657

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

RURAL WATER DISTRICT NO. 5  
 KAY COUNTY, OKLAHOMA  
 STATEMENT OF CASH FLOWS  
 MODIFIED CASH BASIS  
 YEAR ENDED DECEMBER 31, 2016

Cash Flows From Operating Activities:	
Cash received from customers	\$ 142,563
Other operating cash receipts	
Cash payments to suppliers for goods and services	<u>(109,141)</u>
Net cash provided (used) by operating activities	33,422
Cash flows from non-capital financing activities:	
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(52,300)
Membership fees	3,000
Interest paid on notes	(880)
(Increase) decrease in reserve accounts	(82)
Principle payments	<u>(4,400)</u>
Net cash provided (used) by financing activities	(54,662)
Cash flows from investing activities:	
Interest income	528
(Increase) decrease in CDs	<u>(58)</u>
Net cash provided (used) by investing activities	<u>470</u>
Net increase (decrease) in cash and cash equivalents	(20,770)
Beginning cash and cash equivalents	<u>156,143</u>
Ending cash and cash equivalents	<u><u>\$ 135,373</u></u>
Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:	
Operating income (loss)	\$ 14,452
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:	
Depreciation	<u>18,970</u>
Net cash provided (used) by operating activities	<u><u>\$ 33,422</u></u>

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

RURAL WATER DISTRICT NO. 5  
KAY COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

The Dale Water Corporation was organized in February, 1980 under the Nonprofit Corporation Act of 1968. During the year ended December 31, 1999, Dale Water Corporation was reorganized into a rural water district under the Rural Water, Sewer, Gas and Solid Waste Management District Act, Title 82, 1324.3 et seq. of the laws of the State of Oklahoma. During their reorganization, all assets and liabilities were transferred from Dale Water Corporation to Rural Water District No. 5, Kay County, Oklahoma. The District is exempt from federal and state income taxes. The purpose of the District is to acquire water and water rights; to build and acquire waterlines and other facilities; and to operate the same for the purpose of furnishing water to serve the needs of owners and occupants of land located within the District, and others as authorized by the By-laws.

The District is a governed entity by a Board of Directors that acts as the authoritative and legislative body of the entity. The Board of Directors is comprised of elected board members.

Basis of Accounting

The District is classified as an Enterprise Fund. The costs of providing the water services to the public are financed mainly through user charges. The financial statements of the District have been prepared using the modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation. This basis is a basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

Cash and Deposits

Cash and deposits are maintained in financial institutions which provide coverage to depositors through the Federal Deposit Insurance Corporation.

RURAL WATER DISTRICT NO. 5  
 KAY COUNTY, OKLAHOMA  
 NOTES TO FINANCIAL STATEMENTS  
 YEAR ENDED DECEMBER 31, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

The State of Oklahoma allows government entities to invest in the following: direct obligations of the United States Government, its agencies or instrumentalities; collateralized or insured certificates of deposit; insured savings accounts or savings certificates; or county, municipal or school district direct debt.

NOTE 2 – PROPERTY AND EQUIPMENT:

Waterline extensions and additions are capitalized and depreciated over their estimated useful lives. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are expendable. Annual depreciation is calculated on a straight-line basis. Total depreciation for the year ended December 31, 2016 was \$18,970. The balances for depreciable assets by major category are as follows:

	<u>12/31/15</u>	<u>Additions</u>	<u>12/31/16</u>
Land	\$ 1,000	\$	\$ 1,000
Waterline system	1,043,884	52,300	1,096,184
Accumulated depreciation	<u>(654,461)</u>	<u>(18,970)</u>	<u>(673,431)</u>
Net	<u>\$ 390,423</u>	<u>\$ 33,330</u>	<u>\$ 423,753</u>

NOTE 3 – NOTES PAYABLE:

During the year ended December 31, 2006 the District borrowed \$180,000 from the Oklahoma Water Resources Board for waterline system improvements. The security for the note includes a pledge and assignment of its revenues and receipts. The note matures on September 15, 2035 and carries a variable interest rate which is adjusted every six months. The current interest rate is 1.47%. Principle payments of \$4,400 were made during the year ending December 31, 2016. The following is a summary of the Districts future debt requirements and the balance at December 31, 2016:

<u>Year Ending</u>	<u>Principle</u>	<u>Interest</u>
12/31/17	\$ 4,600	\$ 824
12/31/18	4,900	752
12/31/19	5,100	672
12/31/20	5,400	585
12/31/21	5,700	341
12/31/2022 - 12/31/2026	27,100	14
	<u>\$ 52,800</u>	<u>\$ 3,188</u>

RURAL WATER DISTRICT NO. 5,  
KAY COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016

NOTE 4 – CASH AND CASH EQUIVALENTS:

The District considers all checking and savings accounts and deposits with a maturity of three months or less to be cash equivalents.

NOTE 5 – NET POSITION:

Net position presents the difference between assets and liabilities in the statement of net position. Net investment in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are legal limitations imposed on their use by District legislation or external restrictions by creditors, grantors, laws or regulations of other governments.

NOTE 6 – FAIR VALUE OF FINANCIAL INSTRUMENTS:

The definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosure about the use of fair value measurements in an effort to make the measurement of fair value more consistent and comparable.

**Level 1:** Quoted prices in active markets for identical securities.

**Level 2:** Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment spread and credit risk).

**Level 3:** Significant unobservable inputs (including the District's own assumptions in determining the fair value of investments).

The District's financial instruments include cash and cash equivalents, certificates of deposit, and notes payable. The District's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying value 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.

NOTE 7 – RISK MANAGEMENT:

The District is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District manages this risk through the purchase of commercial insurance policies. Claims are recognized when it is probably that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. There were no claims during the year ended December 31, 2016.

RURAL WATER DISTRICT NO. 5,  
KAY COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016

NOTE 8 – ESTIMATES:

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

NOTE 9 – CONTINGENCIES:

As of December 31, 2016 the District did not have any pending litigation or potential non-disclosed liabilities that management believes would have a material effect on the financial statements.

NOTE 10 – EVALUATION OF SUBSEQUENT EVENTS:

The Corporation has evaluated subsequent events through March 1, 2017, the date which the financial statements were available to be issued.