OSAGE COUNTY RURAL WATER DISTRICT NO. 5

ANNUAL FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

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Independent Auditor's Report

Board of Directors
Osage County Rural Water District No. 5

Report on the Financial Statements

We have audited the accompanying statement of assets, liabilities and net position of Osage County Rural Water District No. 5 as of June 30, 2015 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 accounting principles generally accepted in the United States of America. 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 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 *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 financial position of Osage County Rural Water District No. 5, as of June 30, 2015; the changes in financial position; and, cash flows thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis 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 basis financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated September 2, 2015 on our consideration of Osage County Rural Water District No. 5'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 R Mayer CPA, PC

Kimberlye R. Mayer, CPA, P.C.
Blackwell, Oklahoma
September 2, 2015

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*

The Board of Directors
Osage County Rural Water District No. 5

We have audited the financial statements of the Osage County Rural Water District No. 5 as of and for the year ended June 30, 2015, and have issued our report thereon dated September 2, 2015. 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.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Osage County Rural Water District No. 5's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Osage County Rural Water District No. 5's internal control. Accordingly, we do not express an opinion on the effectiveness of the Osage County Rural Water District No. 5's internal control.

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.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Osage County Rural Water District No. 5'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

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

Kimberlye R. Mayer, CPA, P.C.
Blackwell, Oklahoma
September 2, 2015

OSAGE COUNTY RURAL WATER DISTRICT NO. 5
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2015

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 water billing 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

OSAGE COUNTY RURAL WATER DISTRICT NO. 5
STATEMENT OF NET POSITION
JUNE 30, 2015

ASSETS

Current Assets:	
Operating accounts	$ 62,004
Certificates of deposit	45,781
Total Cash and Cash equivalents	107,785
Certificates of deposit	
Accounts receivable (less allowance for doubtful accounts of $3,000) (Note 3)	47,920
Prepaid insurance	1,280
Total Current Assets	156,985
Other Assets:	
Meter deposits	55
Restricted funds (Note 4)	13,380
Total Other Assets	13,435
Non-current Assets:	
Property and equipment (net of accumulated depreciation) (Note 2)	277,675
Total Assets	$ 448,095

LIABILITIES AND NET POSITION

Current Liabilities:	
Accounts payable	$ 16,265
Notes payable (current portion) (Note 5)	9,907
Total Current Liabilities	26,172
Non-current Liabilities:	
Notes payable, long term (Note 5)	54,653
Total Liabilities	80,825
Net Position:	
Net investment in capital assets	213,115
Restricted for debt service	13,380
Unrestricted	140,775
Total Net Position	367,270
Total Liabilities and Net Position	$ 448,095

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

OSAGE COUNTY RURAL WATER DISTRICT NO. 5
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2015

Operating Revenue:	
Water service	$ 174,268
Late penalties	3,112
Total Operating Revenue	177,380
Operating Expense:	
Water costs	95,406
Contract labor	15,380
Bank charges	220
Dues and fees	187
Water tests and fees	4,652
Repairs and maintenance	24,740
Insurance	2,231
Professional fees	1,317
Office supplies and postage	2,106
Telephone and mobiles	1,944
Utilities	3,629
Depreciation	21,826
Other expenses	437
Total Operating Expense	174,075
Income (Loss) From Operations	3,305
Non-operating Revenue (Expense):	
Interest income	876
Membership fees	10,277
Capital improvement income	2,274
Interest expense	(4,306)
Total Non-operating Revenue (Expense)	9,121
Change in Net Position	12,426
Net Position, beginning of year	354,844
Net Position, end of year	$ 367,270

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

OSAGE COUNTY RURAL WATER DISTRICT NO. 5
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2015

Cash Flows From Operating Activities:	
Cash received from customers	$ 146,139
Cash payments to suppliers for goods and services	(147,384)
Net cash provided (used) by operating activities	(1,245)
Cash flows from non-capital financing activities:	
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	
Principal paid on notes and loans	(9,074)
Interest paid on notes and loans	(4,306)
System development fees	12,551
Net cash provided (used) by financing activities	(829)
Cash flows from investing activities:	
Interest on cash and investments	876
(Increase) decrease in certificates of deposit	
(Increase) decrease in restricted accounts	
Net cash provided (used) by investing activities	876
Net increase (decrease) in cash and cash equivalents	(1,198)
Beginning cash and cash equivalents	108,983
Ending cash and cash equivalents	$ 107,785
Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:	
Income (Loss) from operations	$ 3,305
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:	
Depreciation	21,826
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(31,241)
(Increase) decrease in prepaids	(33)
Increase (decrease) in payables	4,898
Net cash provided (used) by operating activities	$ (1,245)

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

OSAGE COUNTY RURAL WATER DISTRICT NO. 5
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

Osage County Rural Water District No. 5 was incorporated under the Rural Water District Act, as amended, Title 82, Section 1301-1321 of the Oklahoma State Statues. The purpose of the District is to acquire water and water rights; to build and acquire pipelines and other facilities; and to operate the same for the purpose of furnishing water to serve the needs of owner 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 accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred.

Cash and Deposits

Cash is maintained in financial institutions, which provide coverage to depositors through the Federal Deposit Insurance Corporation.

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.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the District considers demand accounts, subject to withdrawal by check, and certificates of deposit with a maturity of three months or less to be cash equivalents.

NOTE 2 – PROPERTY, PLANT AND EQUIPMENT:

Waterline extensions and additions are capitalized and depreciated over their estimated useful lives. Depreciation is calculated on a straight-line basis. Total depreciation for the year ended June 30, 2015 was $21,826. The balances for depreciable assets by major category are as follows:

	Balance 6/30/14	(Additions)	Balance 6/30/15
Water distribution system	$ 878,075	$	$ 878,075
Office furniture & equipment	3,307		3,307
	881,382		881,382
Less accumulated depreciation	(581,881)	(21,826)	(603,707)
Net	$ 299,501	$ (21,826)	$ 277,675

NOTE 3 – ACCOUNTS RECEIVABLE:

The accounts receivable at June 30, 2015 consist of amounts due from customers for water services.

NOTE 4 – RESTRICTED FUNDS:

Restricted funds consist of a certificate of deposit that represent amounts required by debt covenant

NOTE 5 – NOTES PAYABLE:

The note agreement is collateralized by the water system and carries an interest rate of 5%. The monthly payments are $1,115. The note matures March 1, 2021.

Balance at June 30, 2014	$ 73,634
Principle payments	(9,074)
Balance at June 30, 2015	$ 64,560

NOTE 5 – NOTES PAYABLE (continued):

The following is a summary of future debt requirements.

Year Ending	Payments	Principle	Interest
6/30/16	$ 13,380	$ 9,907	$ 3,473
6/30/17	13,380	10,413	2,967
6/30/18	13,380	10,946	2,434
6/30/19	13,380	11,505	1,875
6/30/20	13,380	12,095	1,285
6/30/21	10,035	9,694	341
	$ 76,935	$ 64,560	$ 12,375

NOTE 6 - ESTIMATES:

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of management estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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 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 probable 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.

NOTE 8 – CONTINGENCIES:

As of June 30, 2015 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 9 - FAIR VALUE OF INSTRUMENTS:

The District's financial instruments include cash and cash equivalents, accounts receivable, accounts payable and notes payable. The District's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of net assets. The carrying amount of these financial statements approximates fair value because of the short maturity of these instruments.

NOTE 10 – NET ASSETS:

Net position presents the difference between assets and liabilities in the statement of net position. Net investment in capital assets is 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 11 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through September 2, 2015, the date which the financial statements were available to be issued.