

OSAGE COUNTY RURAL WATER DISTRICT NO. 5

ANNUAL FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

OSAGE COUNTY RURAL WATER DISTRICT NO. 5
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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, 2014 and the related statements of revenues, expenses and changes in net position 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, 2014; 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 December 9, 2014 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.

Kimberly R. Mayer, CPA, P.C.

Kimberly R. Mayer, CPA, P.C.
Blackwell, Oklahoma
December 9, 2014

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, 2014, and have issued our report thereon dated December 9, 2014. 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.

 Kimberley R. Mayer, CPA, PC

Kimberlye R. Mayer, CPA, P.C.
Blackwell, Oklahoma
December 9, 2014

OSAGE COUNTY RURAL WATER DISTRICT NO. 5
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2014

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 ASSETS, LIABILITIES AND NET POSITION
JUNE 30, 2014

ASSETS

Current Assets:	
Operating accounts	\$ 63,724
Certificates of deposit	45,259
Total Cash and Cash equivalents	<u>108,983</u>
Certificates of deposit	
Accounts receivable (less allowance for doubtful accounts of \$3,000) (Note 3)	16,679
Prepaid insurance	1,247
Total Current Assets	<u>126,909</u>
Other Assets:	
Meter deposits	55
Restricted funds (Note 4)	13,380
Total Other Assets	<u>13,435</u>
Non-current Assets:	
Property and equipment (net of accumulated depreciation) (Note 2)	<u>299,501</u>
Total Assets	<u><u>\$ 439,845</u></u>

LIABILITIES AND NET POSITION

Current Liabilities:	
Accounts payable	\$ 11,367
Notes payable (current portion) (Note 5)	9,424
Total Current Liabilities	<u>20,791</u>
Non-current Liabilities:	
Notes payable, long term (Note 5)	<u>64,210</u>
Total Liabilities	85,001
Net Position:	
Net investment in capital assets	225,867
Restricted for debt service	13,380
Unrestricted	115,597
Total Net Position	<u>354,844</u>
Total Liabilities and Net Position	<u><u>\$ 439,845</u></u>

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, 2014

Operating Revenue:	
Water service	\$ 136,775
Late penalties	<u>2,984</u>
Total Operating Revenue	<u>139,759</u>
Operating Expense:	
Water costs	103,388
Contract labor	14,058
Service charges	181
Dues and fees	360
Water tests and fees	3,052
Repairs and maintenance	14,846
Insurance	2,619
Professional fees	975
Office supplies and postage	1,558
Telephone and mobiles	1,879
Utilities	3,962
Depreciation	22,098
Storage fees	<u>350</u>
Total Operating Expense	<u>169,326</u>
Income (Loss) From Operations	(29,567)
Non-operating Revenue (Expense):	
Interest income	1,007
Membership fees	2,150
Capital improvement income	2,256
Interest expense	<u>(3,939)</u>
Total Non-operating Revenue (Expense)	<u>1,474</u>
Change in Net Position	(28,093)
Net Position, beginning of year	<u>382,937</u>
Net Position, end of year	<u><u>\$ 354,844</u></u>

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, 2014

Cash Flows From Operating Activities:	
Cash received from customers	\$ 136,521
Cash payments to suppliers for goods and services	<u>(148,291)</u>
Net cash provided (used) by operating activities	(11,770)
 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	(9,441)
Interest paid on notes and loans	(3,939)
System development fees	<u>4,406</u>
Net cash provided (used) by financing activities	(8,974)
 Cash flows from investing activities:	
Interest on cash and investments	1,007
(Increase) decrease in certificates of deposit	19,672
(Increase) decrease in restricted accounts	
Net cash provided (used) by investing activities	<u>20,679</u>
 Net increase (decrease) in cash and cash equivalents	(65)
Beginning cash and cash equivalents	109,048
Ending cash and cash equivalents	<u><u>\$ 108,983</u></u>
 Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:	
Income (Loss) from operations	\$ (29,567)
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:	
Depreciation	22,098
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(3,238)
(Increase) decrease in prepaids	364
Increase (decrease) in payables	<u>(1,427)</u>
Net cash provided (used) by operating activities	<u><u>\$ (11,770)</u></u>

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, 2014

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 Statutes. 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.

OSAGE COUNTY RURAL WATER DISTRICT NO. 5
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

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, 2014 was \$22,098. The balances for depreciable assets by major category are as follows:

	Balance 6/30/13	<u>(Additions)</u>	Balance 6/30/14
Water distribution system	\$ 878,075	\$	\$ 878,075
Office furniture & equipment	3,307		3,307
	881,382		881,382
Less accumulated depreciation	(559,783)	(22,098)	(581,881)
Net	<u>\$ 321,599</u>	<u>\$ (22,098)</u>	<u>\$ 299,501</u>

NOTE 3 – ACCOUNTS RECEIVABLE:

The accounts receivable at June 30, 2014 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, 2013	\$ 83,075
Principle payments	(9,441)
Balance at June 30, 2014	<u>\$ 73,634</u>

OSAGE COUNTY RURAL WATER DISTRICT NO. 5
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

NOTE 5 – NOTES PAYABLE (continued):

The following is a summary of future debt requirements.

<u>Year Ending</u>	<u>Payments</u>	<u>Principle</u>	<u>Interest</u>
6/30/15	\$ 13,380	\$ 9,424	\$ 3,956
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	12,505	875
6/30/2020 - 6/30/2021	23,415	20,439	2,976
	<u>\$ 90,315</u>	<u>\$ 73,634</u>	<u>\$ 16,681</u>

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, 2014 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.

OSAGE COUNTY RURAL WATER DISTRICT NO. 5
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

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 December 9, 2014, the date which the financial statements were available to be issued.