

OTTAWA COUNTY RURAL WATER DISTRICT NO. 5

**ANNUAL FINANCIAL STATEMENTS
AND ACCOMPANYING
INDEPENDENT AUDITOR'S REPORTS**

For the Year Ended February 28, 2014

**OBER & ASSOCIATES, INC., PC
CERTIFIED PUBLIC ACCOUNTANTS
124 South Main
Miami, Oklahoma 74354**

OTTAWA COUNTY RURAL WATER DISTRICT NO. 5
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OTTAWA COUNTY RURAL WATER DISTRICT NO. 5
List of Principal Officials
February 28, 2014

Tim Wilson	Chairman
Ted Bearden	Vice Chairman
Glenn Graham	Secretary/Treasurer
Rick Gideon	Member
Dale DePriest	Member

OTTAWA COUNTY RURAL WATER DISTRICT NO. 5
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended February 28, 2014

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the fiscal year ended February 28, 2014, within the limitations of the District's modified cash basis of accounting. Please read it in conjunction with the District's financial statements that begin on page 9.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at February 28, 2014 by \$811,234.22, representing an increase in net position of \$12,134.39 for the year.
- Total cash revenues from operations were \$150,248.84 this year while cash expenses for operations were \$118,679.71, resulting in cash income from operations of \$31,569.13.
- The District has \$600,236.29 (net of accumulated depreciation) invested in capital assets as of February 28, 2014.

DISTRICT HIGHLIGHTS

- Our customer base has decreased to approximately 385 customers.

USING THIS ANNUAL REPORT

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34. GASB Statement No. 34 implements a new model of financial reporting for state and local governments designed to enhance the usefulness of the District's annual report.

Report Components

This annual report consists of three parts as follows:

Fund Financial Statements: Fund financial statements (*starting on page 9*) focus on the individual parts of the District government. For *proprietary activities*, these statements offer short-term and long-term financial information about the activities the District operates like businesses, such as water and sewer services.

Notes to the Financial Statements: The notes to the financial statements are an integral part of the fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Required Supplementary Information: This Management Discussion and Analysis represents financial information required to be presented by the GASB. Such information provides users of this report with additional data that supplements the fund financial statements and notes (referred to as "the basic financial statements").

OTTAWA COUNTY RURAL WATER DISTRICT NO. 5
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended February 28, 2014

Basis of Accounting

The District has elected to present its financial statements on a modified cash basis of accounting. The modified cash basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to *when* financial events are recorded, such as the timing for recognizing revenues, expenses and their related assets and liabilities. Under the District's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from cash transactions, except for the recording of depreciation expense on capital assets in the fund financial statements for the proprietary fund activities.

As a result of the use of this 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. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

One of the most important questions asked about the District's finances is "Is the District, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Position – Modified Cash Basis and Statement of Revenues, Expenses and Changes in Net Position – Modified Cash Basis report information about the District's activities in a way that will help answer this question. These two statements report the net position of the District and changes in them. Keeping in mind the limitations of the modified cash basis of accounting, you can think of the District's net position – the difference between assets and liabilities – as one way to measure financial health or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, population growth and new or changed legislation.

The Fund Financial Statements

The fund financial statements begin on page 9 and provide detailed information about the District's single proprietary fund.

Proprietary Funds – When the District charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary fund capital assets are capitalized and depreciated and principal payments on long-term debt are recorded as a reduction to the liability. In fact, the District's proprietary (enterprise) fund financial statements are essentially the same as other business-type entities, with the exception of the modified cash basis as previously described.

OTTAWA COUNTY RURAL WATER DISTRICT NO. 5
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended February 28, 2014

The District's total Net Position, resulting from modified cash transactions, increased from last year by \$12,134.39 or about 1.5%. Our analysis below focuses on the District's net position (Table 1) and changes in net position (Table 2) during the year.

Table 1

	<u>2/28/2014</u>	<u>2/29/2013</u>
Current Assets	\$ 254,723.57	\$ 299,638.05
Noncurrent Assets	<u>600,291.29</u>	<u>552,991.99</u>
Total Assets	<u>855,014.86</u>	<u>852,630.04</u>
Current Liabilities	12,976.33	11,089.90
Long-term Liabilities	<u>30,804.31</u>	<u>42,440.31</u>
Total Liabilities	<u>43,780.64</u>	<u>53,530.21</u>
Invested in Capital Assets, Net of Related Debt	557,764.15	499,406.78
Reserved for Debt Service	22,851.96	22,746.65
Unrestricted Net Position	<u>230,618.11</u>	<u>276,946.40</u>
Total Net Position	<u>\$ 811,234.22</u>	<u>\$ 799,099.83</u>

The District's net position reflects its investment in capital assets (e.g. water system, buildings, machinery and equipment) less any related debt used to acquire those assets still outstanding. The District uses these capital assets to provide services to citizens and consumers; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's net position also reflects cash set aside as required by its loan agreements to service its long-term debts.

The balance of unrestricted net position may be used to meet the District's ongoing obligations to citizens, customers and creditors. The District's unrestricted net position decreased by \$46,328.29 or 16.7% during the current year.

OTTAWA COUNTY RURAL WATER DISTRICT NO. 5
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended February 28, 2014

Changes in the District's net position can be determined by reviewing the following condensed Statement of Revenues, Expenses and Changes in Net Position – Modified Cash Basis for the year.

Table 2

	<u>2/28/2014</u>	<u>2/29/2013</u>
Total cash revenues from operations	\$ 150,248.84	\$ 118,772.76
Cash operating expenses	(118,679.71)	(92,645.34)
Depreciation expense	(30,100.85)	(27,581.80)
Other cash non-operating revenues (expenses)	(1,833.89)	(1,998.21)
Membership and installation fees	<u>12,500.00</u>	<u>14,500.00</u>
Increase in net position	12,134.39	11,047.41
Beginning net position	<u>799,099.83</u>	<u>788,052.42</u>
Ending net position	<u>\$ 811,234.22</u>	<u>\$ 799,099.83</u>

The District's primary source of revenue is the sale of water which comprises most of the operating revenues. Operating revenues increased by \$31,476.08 or 26.5% from the prior year.

Total operating expenses, excluding depreciation expense, increased by \$26,034.37 or 28.1% from the prior year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of February 28, 2014, the District had \$600,236.29 (net of accumulated depreciation) invested in capital assets, including the water storage and distribution system, improvements, machinery and equipment. The District added \$77,400.15 in water system costs to capital assets during this year. Net capital assets increased by \$47,299.30 or 8.6% from the prior year.

Long-Term Debt

At February 28, 2014 the District had \$42,472.14 in long term debt as compared to \$53,530.21 last year. This represents a decrease in long term debt of \$11,058.07 or 20.7% from the prior year. The District's long term debt consists of two notes payable. Both notes are with Berkadia Commercial Mortgage, LLC, and have a final maturity date of August 2018.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

A product of an ongoing examination of how the District does business, our budget emphasizes outcomes or results for the community and allows for longer-term financial planning decisions.

In considering the District's budget for the fiscal year 2014/2015, the Board estimates that revenues and expenses in the coming year will approximate actual revenues and expenses for the past fiscal year.

**OTTAWA COUNTY RURAL WATER DISTRICT NO. 5
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended February 28, 2014**

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Board of Directors at Ottawa County Rural Water District No. 5, 212 South Main, Wyandotte, Oklahoma 74370.

OBER & ASSOCIATES INC., PC

CERTIFIED PUBLIC ACCOUNTANTS
124 South Main
Miami, Oklahoma 74354
918-542-4401

INDEPENDENT AUDITORS REPORT

To the Board of Directors
Ottawa County Rural Water District No. 5
Miami, Oklahoma

We have audited the accompanying financial statements of the business-type activities of Ottawa County Rural Water District No. 5 as of and for the year ended February 28, 2014, 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 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 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 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 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, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position-modified cash basis of the business-type activities of Ottawa

County Rural Water District No. 5 as of February 28, 2014, and the respective changes in financial position-modified cash basis and cash flows-modified cash basis, thereof for the year then ended, in accordance with the basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 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 opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 6 be presented to supplement the basic financial statements. Such 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 operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2015 on our consideration of Ottawa County Rural Water District No. 5'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 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* in considering Ottawa County Rural Water District No. 5's internal control over financial reporting and compliance.

OBER & ASSOCIATES, INC., PC

OBER & ASSOCIATES, INC., PC
CERTIFIED PUBLIC ACCOUNTANTS
January 19, 2015

OTTAWA COUNTY RURAL WATER DISTRICT NO. 5
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
FEBRUARY 28, 2014

ASSETS

Current Assets:

Cash on Hand	\$ 50.00
Cash and Cash Equivalents	71,090.85
Reserve Account - Certificate of Deposit	22,851.96
Certificates of Deposit	<u>160,730.76</u>
Total Current Assets	<u>254,723.57</u>

Noncurrent Assets:

Capital Assets, net of accumulated depreciation	600,236.29
Meter Deposit	<u>55.00</u>
Total Noncurrent Assets	<u>600,291.29</u>
 Total ASSETS	 <u>855,014.86</u>

LIABILITIES

Current Liabilities:

Due to Ottawa County RWD #7	1,308.50
Notes Payable	<u>11,667.83</u>
Total Current Liabilities	<u>12,976.33</u>

Noncurrent Liabilities:

Notes Payable	<u>30,804.31</u>
Total Noncurrent Liabilities	<u>30,804.31</u>
Total LIABILITIES	<u>43,780.64</u>

NET POSITION

Invested in Capital Assets, net of related debt	557,764.15
Reserved for Debt Service	22,851.96
Unrestricted	<u>230,618.11</u>
Total Net Position	<u>\$ 811,234.22</u>

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

OTTAWA COUNTY RURAL WATER DISTRICT NO. 5
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
MODIFIED CASH BASIS
FOR THE YEAR ENDED FEBRUARY 28, 2014

Cash Revenues from Operations	
Water Sales	\$ 128,329.46
Other Income	<u>21,919.38</u>
Total Cash Revenues	<u>150,248.84</u>
 Cash Expenses for Operations	
Accounting and Legal	14,575.85
Advertising	485.10
Credit Card Expense	153.26
Depreciation	30,100.85
Donations	50.00
Dues and Subscriptions	300.25
Insurance and Bonds	735.88
Meter Reading	9,260.00
Office Expense	2,463.90
Operating Supplies	14,761.41
Operator Fees	14,895.00
Repairs and Maintenance	32,124.63
Software	210.00
Testing and Licensing Fees	3,305.91
Travel	1,040.00
Utilities	<u>24,318.52</u>
Total Cash Expenses	<u>148,780.56</u>
 Cash Income (Loss) from Operations	1,468.28
 Non-Operating Income (Expense)	
Interest Income	620.04
Interest Expense	<u>(2,453.93)</u>
Total Non-Operating Income (Expense)	<u>(1,833.89)</u>
 Income before membership and installation fees	(365.61)
 New membership fees	8,000.00
Installation fees	<u>4,500.00</u>
Total membership and installation fees	<u>12,500.00</u>
 Change in Net Position	12,134.39
 Beginning Net Position	<u>799,099.83</u>
 Ending Net Position	<u>\$ 811,234.22</u>

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

OTTAWA COUNTY RURAL WATER DISTRICT NO. 5
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
FOR THE YEAR ENDED FEBRUARY 28, 2014

Cash Flows From Operating Activities

Receipts from customers	\$ 151,557.34
Payments for operating expenses	<u>(118,679.71)</u>
Net Cash Provided by Operating Activities	<u>32,877.63</u>

Cash Flows From Noncapital Financing Activities

Membership fees	8,000.00
Installation fees	<u>4,500.00</u>
Net Cash Provided by Noncapital Financing Activities	<u>12,500.00</u>

Cash Flows From Capital and Related Financing Activities

Purchases of capital assets	(77,400.15)
Principal paid on capital debt	(11,058.07)
Interest paid on capital debt	<u>(2,453.93)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(90,912.15)</u>

Cash Flows From Investing Activities

Interest	<u>620.04</u>
Net Cash Provided by Investing Activities	<u>620.04</u>

Net Increase in Cash and Cash Equivalents	(44,914.48)
Balance - Beginning of the Year	<u>299,638.05</u>
Balance - End of the Year	<u>\$ 254,723.57</u>

Reconciliation of operating income (loss) to net cash provided by operating activities

Operating income (loss)	\$ 1,468.28
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	30,100.85
Increase in Due to Ottawa County RWD #7	<u>1,308.50</u>
Net Cash Provided by Operating Activities	<u>\$ 32,877.63</u>

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

OTTAWA COUNTY RURAL WATER DISTRICT NO. 5 NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

Ottawa County Rural Water District No. 5, (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.

The membership consists of approximately 385 users, each entitled to one vote. The Board of Directors consists of five (5) members serving one to three-year terms. The vacant Board seats are elected at the annual meeting in January, and following, the Board of Directors meets and elects a chairman, secretary/treasurer and vice chairman. All Board members serve without pay.

The District uses the modified cash basis method of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles applicable to governmental units.

The District applies all relevant Government Accounting Standards Board (GASB) pronouncements. In addition, the District applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The District has elected not to follow FASB pronouncements issued since that date.

1.A. Financial Reporting Entity

The District complies with GASB Statement No. 14, "*The Financial Reporting Entity*." This statement establishes standards for defining and reporting on the financial reporting entity. It defines component units as legally separate organizations for which the elected officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The District considered all potential component units determining what organizations should be included in the financial statements. Based on these criteria, there are no component units to include in the District's financial statements.

1.B. Basis of Presentation

The accounts of the District are organized into funds, each of which is considered to be a separate accounting entity. The District uses the following fund types:

Proprietary Funds

Enterprise Funds

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

OTTAWA COUNTY RURAL WATER DISTRICT NO. 5
NOTES TO FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies: continued

Enterprise Funds: continued

by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

1.C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe *which* transactions are recorded within the various financial statements. Basis of accounting refers to *when* transactions are recorded regardless of the measurement focus applied.

Measurement Focus

The proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

Basis of Accounting

The District uses the modified cash basis method of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Revenues are recognized when received and expenses are recognized when paid. Revenues are recognized only when received for book purposes in order to maintain consistency of reporting. It is felt that the administrative cost of a true accrual system would far out-weigh the possible benefits.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund’s principal ongoing operations. The principal operating revenue of the District’s enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

1.D. Assets, Liabilities and Net Position

Cash and Cash Equivalents

For the purposes 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.

OTTAWA COUNTY RURAL WATER DISTRICT NO. 5
NOTES TO FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies: continued

1.D. Assets, Liabilities and Net Position: continued

Fair Value of Financial Instruments

The District's financial statements include cash and investments. 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 assets. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Capital Assets

The water storage and delivery system and equipment are recorded at cost. Donated capital assets are reported at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. All reported capital assets are depreciated on the straight-line basis over the estimated useful life of forty (40) years.

Equity Classification

Equity is classified as net position and displayed in three components:

- a. Invested in capital assets, net of related debt – 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 – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position – All other net position that does not meet the definitions of "restricted" or "invested in capital assets, net of related debt".

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make 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. Actual results could differ from those estimates.

Income Taxes

The District maintains a tax-exempt status; therefore, income taxes are not reflected on these financial statements.

OTTAWA COUNTY RURAL WATER DISTRICT NO. 5
NOTES TO FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies: continued

1.D. Assets, Liabilities and Net Position: continued

Recent Accounting Pronouncements

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63). The objective of GASB 63 is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The pronouncement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statements elements by providing guidance where none previously existed. The provisions of this statement were effective for financial statements for periods beginning after December 15, 2011. The District adopted GASB 63 effective November 1, 2012. The adoption of the statement required the District to adopt the term "net position" as required. In addition, as required by GASB 63, the District determined as of October 31, 2013, there were no items of deferred inflows or outflows of resources, as presently defined, to be reported.

Note 2 - Detailed Notes Concerning Accounts

2.A. Deposits and Investments

At year-end, the carrying amount of the District's deposits was \$254,673.57 and the bank balance was \$250,975.97. The bank balance was completely covered by federal depository insurance or by collateral held by the District's agent in the District's name.

State statutes govern the District's investment policy. Permissible investments include direct obligations of the United States Government and Agencies; certificates of deposit of savings and loan associations, and bank and trust companies; and savings accounts or savings certificates of savings and loan associations and trust companies. Collateral is required for demand deposits and certificates of deposit for all amounts not covered by federal deposit insurance. Investments are stated at cost. Currently the District invests entirely in certificates of deposit.

Credit Risk: The District's investment policy is to apply the "prudent investor" standard. "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."

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. As of February 28, 2014, none of the District's investments were exposed to custodial credit risk because they were either insured or collateralized.

OTTAWA COUNTY RURAL WATER DISTRICT NO. 5
NOTES TO FINANCIAL STATEMENTS

Note 2 - Detailed Notes Concerning Accounts: continued

2.A. Deposits and Investments

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.

2.B. Changes in Capital Assets

Capital asset activity for the fiscal year ended February 28, 2014 was as follows:

	Beginning of Year	Additions	Deletions	End of Year
Land	\$ 200.00	\$ -	\$ -	\$ 200.00
Water System	1,088,400.05	77,400.15	-	1,165,800.20
Water Line Project	76,933.23	-	-	76,933.23
Total Capital Assets	1,165,533.28	77,400.15	-	1,242,933.43
Less: Accumulated Depreciation	612,596.29	30,100.85	-	642,697.14
Total	<u>\$ 552,936.99</u>	<u>\$ 47,299.30</u>	<u>\$ -</u>	<u>\$ 600,236.29</u>

2.C. Notes Payable

As of February 28, 2014, the long-term debt payable from proprietary fund resources consisted of the following:

	Balance Mar 1, 2013	Issued	Retired	Balance Feb 28, 2014
o 1978 Note payable to Berkadia Commercial Mortgage, payable in monthly installments of \$860.00, with interest at 5.0%, final payment due August 28, 2018.	\$ 42,877.45	\$ -	\$ 8,342.23	\$ 34,535.22
o 1978 Note payable to Berkadia Commercial Mortgage, payable in monthly installments of \$266.00, with interest at 5.0%, final payment due August 28, 2018.	10,652.76	-	2,715.84	7,936.92
Total Notes Payable	<u>\$ 53,530.21</u>	<u>\$ -</u>	<u>\$ 11,058.07</u>	<u>\$ 42,472.14</u>

OTTAWA COUNTY RURAL WATER DISTRICT NO. 5
NOTES TO FINANCIAL STATEMENTS

Note 2 - Detailed Notes Concerning Accounts: continued

2.C. Notes Payable: continued

The annual debt service requirements to maturity for long-term debt as of February 28 are as follows:

<u>Year Ending February 28</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 11,667.83	\$ 1,844.17	\$ 13,512.00
2016	12,252.60	1,259.40	13,512.00
2017	11,782.80	642.32	12,425.12
2018	6,768.91	126.15	6,895.06
	<u>\$ 42,472.14</u>	<u>\$ 3,872.04</u>	<u>\$ 46,344.18</u>

Note 3 - Other Information

3.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.

3.B. Related Party Transaction

One of the directors has a significant interest in the financial institution holding the certificates of deposit.

3.C. Rates and Fees

Water Rates and Charges

First 1,000 gallons @ \$15.00 (Minimum Bill)

Next 2,000 gallons @ \$.23 per 100 gallons

All over 3,000 gallons @ \$.25 per 100 gallons

3.D. Evaluation of Subsequent Events

The District has evaluated subsequent events through January 19, 2015, the date which the financial statements were available to be issued.

REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS

OBER & ASSOCIATES INC., PC

CERTIFIED PUBLIC ACCOUNTANTS

124 South Main

Miami, Oklahoma 74354

918-542-4401

**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**

To the Board of Directors
Ottawa County Rural Water District No. 5
Miami, Oklahoma

We have audited, in accordance with the 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 Ottawa County Rural Water District No. 5, as of and for the year ended February 28, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 19, 2015. The report was a special report on the District's use of a comprehensive 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 Ottawa 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Ottawa County Rural Water District No. 5's internal control. Accordingly, we do not express an opinion on the effectiveness of the Ottawa County Rural Water District No. 5'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 the 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. Item 2014-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Ottawa 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 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Ottawa County Rural Water District No. 5's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Ottawa 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

OBER & ASSOCIATES, INC., PC

OBER & ASSOCIATES, INC., PC
CERTIFIED PUBLIC ACCOUNTANTS
January 19, 2015

OTTAWA COUNTY RURAL WATER DISTRICT NO. 5
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED FEBRUARY 28, 2014

2014-1 Segregation of Duties and Safeguarding of Assets

Criteria or Specific Requirement – Effective internal controls require a separation of duties (i.e. collection of accounts receivable should be separated from the reconciliation of bank statements) so that assets are adequately safeguarded and to prevent and detect fraud.

Condition – One individual is responsible for billing, collections, maintenance of accounts receivable, deposits, reconciliation of bank accounts and posting to the general ledger with limited oversight from management.

Context – Duties listed above should be completed by more than one person with a member of management reviewing the work that has been completed.

Effect – The District is susceptible to misappropriation of assets and possible fraudulent activities that may not be discovered in the normal course of business.

Cause – Lack of sufficient resources to hire additional staff for segregation of duties.

Recommendation – Management should hire additional staff or take a more active role in reviewing the work of the bookkeeper hired to perform the accounting duties.

Response – Management agrees that they are susceptible to misappropriation of assets or fraud, but at this time does not feel the benefits gained would outweigh the additional expenses and thus would not be cost effective.