

AUDIT REPORT
ADAIR COUNTY RURAL WATER DISTRICT NO.5
FOR THE YEAR ENDED DECEMBER 31, 2014

AUDITED BY
ALAN CHAPMAN
CERTIFIED PUBLIC ACCOUNTANT
401 S. Water St.
TAHLEQUAH, OKLAHOMA

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INDEPENDENT AUDITOR'S REPORT

Board of Directors

Adair County Rural Water District No.5

Report on the Financial Statements

I have audited the accompanying financial statements activities of Adair County Rural Water District No. 5 (the District), as of and for the year ended December 31, 2014, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of business-type activities of Adair County Rural Water District No. 5. as of December 31, 2014 and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

(Continued)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated May 17, 2016, on my consideration of Adair 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Adair County Rural Water District No.5 internal control over financial reporting and compliance.

May 17,2016

Alan Chapman (5/17/2016)

Alan Chapman, CPA

ADAIR COUNTY RURAL WATER DISTRICT NO. 5
STATEMENT OF NET ASSETS
DECEMBER 31, 2014

ASSETS		
CURRENT ASSETS		
CIBO&M	\$ 59,483	
CIBMETER	15,760	
PREPAID INSURANCE	3,128	
BOND RELATED	452,733	
ACCOUNTS RECEIVABLE	<u>26,829</u>	
TOTAL CURRENT ASSETS		\$ 557,933
FIXED ASSETS		
DISTRIBUTION SYSTEM	\$ 4,178,626	
LAND	6,429	
BUILDING		
MACHINERY & EQUIPMENT	28,068	
LESS ACCUMULATED DEPRECIATION	(1,701,127)	
TOTAL (NET) CAPITAL ASSETS		2,511,996
OTHER ASSETS		
UNAMORTIZED BOND ISSUANCE COSTS	\$ 82,710	
TOTAL OTHER ASSETS		<u>82,710</u>
TOTAL ASSETS		<u>\$ J 152 J2</u>

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

ADAIR COUNTY RURAL WATER DISTRICT NO. 5
 STATEMENT OF NET ASSETS
 DECEMBER 31, 2014

LIABILITIES AND NET WORTH		
CURRENT LIABILITIES		
ACCOUNT PAYABLE	\$ 13,536	
CURRENT PART LONG-TERM DEBT	15,000	
ACCRUED INTEREST	<u>48,130</u>	
TOTAL CURRENT LIABILITIES		\$ 76,666
LONG TERM LIABILITIES		
LONG TERM NOTE	\$ 2,310,303	
TOTAL LONG TERM LIABILITIES		<u>2,310,303</u>
TOTAL LIABILITIES		2,386,969
EQUITY		
MEMBER INVESTMENT	\$ 13,536	
DONATED CAPITAL	138,562	
UNRESTRICTED/RETAINED EARNINGS	452,733	
RESTRICTED NET PROFIT/(LOSS)	<u>160,839</u>	
TOTAL EQUITY		<u>765,670</u>
TOTAL LIABILITIES AND NET WORTH		<u>\$ 3,152,639</u>

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

ADAIR COUNTY RURAL WATER DISTRICT NO. 5
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014

INCOME		
WATER	\$ 376,949	
SERVICE CHGS	9,750	
PENALTIES	8,645	
ALLOWANCES	3,170	
 TOTAL INCOME		 \$ 398,514
EXPENSES		
OPERATOR	\$ 76,800	
CONTRACT LABOR	30,440	
MATERIALS AND SUPPLIES	26,906	
REPAIRS AND MAINTAINENCE	21,955	
WATER TESTING	5,385	
WATER TREATMENT	8,679	
UTILITIES	55,106	
OFFICE EXPENSES	7,487	
PROFESSIONAL FEES		
INSURANCE	6,256	
LICENSES/SUBSCRIPTIONS/DUES	7,527	
ADVERTISING	305	
BANK SERVICE CHARGES	5,152	
BAD DEBT EXPENSE	7,000	
DEPRECIATION EXPENSE	109,869	
 TOTAL EXPENSE		 <u>\$ 368,867</u>
 NET OPERATING PFT/ LOSS		 \$ 29,647
<u>NON-OPERATING INCOME & EXPENSE</u>		
INCOME-INTEREST	\$ 40	
BOND RELATED EXPENSE	(5,326)	
EXPENSE-INTEREST	(148,304)	
 TOTAL NON-OPERATING INCOME- EXPENSE		 (153,590)
 NET PROFIT/ LOSS		 <u>\$ 123,943</u>

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

ADAIR COUNTY RURAL WATER DISTRICT NO. 5
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED
DECEMBER 31, 2014

CASH FLOW FROM OPERATING ACTIVITIES	
CASH INFLOWS:	
PAYMENTS RECEIVED FROM CUSTOMERS	402,550
CASH OUTFLOWS:	
PAYMENTS TO SUPPLIERS FOR GOODS & SERVICES	(259,551)
	142,999
NET CASH PROVIDED USED BY OPERATING ACTIVITIES	
CASH FLOWS FROM NO-CAPITAL FINANCING ACTIVITIES	
PRINCIPAL REDUCTION OF LONG-TERM DEBT (NET)	(13,345)
DECREASE IN BOND ISSUANCE	5,327
INTEREST PAYMENTS ON BONDS	(148,304)
	(156,322)
NET CASH PROVIDED (USED) FOR CAPITAL AND RELATED FINANCING ACTIVITIES	
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>	
MISC. INCOME	(5,326)
METER DEPOSITS	(15,760)
PURCHASE OF CAPITAL ASSETS	(28,101)
	(49,187)
NET CASH PROVIDED USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>	
CHANGE IN BOD CASH ACCOUNTS	41,105
INTEREST RECEIVED FROM INVESTMENTS	40
	(21,365)
<u>NET CASH INFLOW <OUTFLOW> FROM ALL ACTIVITIES</u>	
PRIOR PERIOD ADJUSTMENT	
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	80,848
CASH AND CASH EQUIVALENTS AT END OF YEAR	59,483
<u>CASH AND CASH EQUIVALENTS</u>	
UNRESTRICTED CASH AND CASH EQUIVALENTS	59,483
RESTRICTED CASH AND CASH EQUIVALENTS	468,493
	527,976
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</u>	
OPERATING INCOME (LOSS)	29,647
DEPRECIATION	109,869
INCREASE (DECREASE) IN ACCOUNTS & GRANTS RECEIVABLE	4,036
(INCREASE) DECREASE IN PREPAID EXPENSES	519
(INCREASE) DECREASE IN PAYABLES	(1,072)
	142,999
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	

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

NOTES TO THE FINANCIAL STATEMENTS

ADAIR COUNTY RURAL WATER DISTRICT #5
 PROCTOR, Oklahoma
 Notes to the Financial Statements
 December 31, 2014

Note 1-The Reporting Entity

The Adair County Rural Water District #5 was organized under the Rural Water District Act of Oklahoma, for the purpose of acquiring water and water rights, and to build and acquire pipelines and other facilities and to operate the same for the purpose of furnishing water to serve the need of owners and occupants of land located within the district.

Note 2 - Significant Accounting Policies

Basis of Accounting

The accrual basis of accounting is followed for all accounts. Revenues are recorded when earned and expenses are recognized when incurred. This policy is in accordance with generally accepted accounting principles.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the district considers all unrestricted highly liquid investments with an initial maturity of less than three months to be cash equivalents.

Inventory

The District does not maintain inventory records of parts or supplies, but charges these purchases to maintenance or supplies as they are received.

Accounts Receivable

Accounts receivable consists of customer water billings - current and past due. The provision for uncollectible accounts receivable is \$7,000. Customer accounts are written off at the time they are determined to be uncollectible by management and upon approval by the Board of Directors.

Current	<u>0-30 Days</u>	<u>31-60 Days</u>	<u>Over60 Days</u>	Allowance	Total
27,383	3,713	951	1,782	(7,000)	26,829

Fixed Assets

Fixed assets are valued at cost, and depreciation is computed using the straight line method. The estimated useful life of these assets is detailed as follows:

Equipment	5 years
Water System	40 years
Water System Additions	20 years
Buildings	15 years

Income Taxes

The District is exempt from federal and state income taxes.

ADAIR COUNTY RURAL WATER DISTRICT #5
 PROCTOR, Oklahoma
 Notes to the Financial Statements
 December 31, 2014

Note 3-Cash and Cash Equivalents

Unrestricted Cash consists of the following:

Bank of Commerce-	1,298
Arvest Bank Checking-	58,185
	59,483

Note 4-Long Term Debt

The District had the following Bonds payable at December 31,2014:

Pa able to	Mature date	Collateral	Interest	12/31/2014	Current
RCBBONDS	2/112043	Assets/Rev	4.50%	\$ 2,370,000	\$ 15,000
				<u>(462352)</u>	
				\$2,323,648	

Year Ended Dec. 31,	Principal	Interest
2015	15,000	130,160
2016	20,000	129,710
2017	25,000	129,035
2018	25,000	128,135
2019	302000	127,010
Totals	<u>2!225!QQQ</u>	

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

Note 5-Commitments and Contingencies

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

ADAIR COUNTY RURAL WATER DISTRICT #5
 PROCTOR , Oklahoma
 Notes to the Financial Statements
 December 31, 2014

Note 6 -Assets

	BEGINNING OF YEAR	ADDITION	DELETION	END OF YEAR
CAPITAL ASSETS				
DISTRIBUTION SYSTEM	4,150,525	28,101		4,178,626
LAND	6,429			6,429
MACHINERY & EQUIPMENT	28,068			28,068
 TOTAL CAPITAL ASSETS	 4,185,022	 28,101		 4,213,123
 LESS: ACCUMULATED DEPRECIATION	 1,591,258	 109,869		 1,701,127
 NET BOOK VALUE	 <u>2,252,316</u>			 <u>2,511,126</u>

Note 7 -Insurance

The District purchases commercial insurance policies covering property casualty loss, public liability, board member and administrator liability, and workers compensation. The District also purchases surety bonds for employees in all positions required by state law to be bonded.

Note 8 -Accrued Compensated Absences

The annual leave (vacation) policy of Adair County Water District# 5 meets the criteria of FASB#43; however, leave records were not available to compute the accrual, and the estimate made of the liability is not material to the overall financial statement presentation.

Note 9 -Employee Retirement

The District allows employees to participate in a tax deferred Simple Individual Retirement Account after ninety days of employment. The District will match up to three percent of employee employee contributions.

ADAIR COUNTY RURAL WATER DISTRICT #5
PROCTOR, Oklahoma
Notes to the Financial Statements
December 31, 2014

Other Information

A. Risk Management

The District is exposed to various risk of loss related to torts: theft of, damage to, and destruction of assets: errors and omissions: injuries to employees and natural disaster. 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 from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

B. Arbitrage Agreement

The District should monitor their obligation related to the arbitrage agreement signed when they obtained their loan from the OWRB. The arbitrage calculations are normally due every five years.

GOVERNMENTAL AUDITING STANDARDS

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
COMBINED FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Adair County Rural Water District No.5

I 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 Adair County Rural Water District No. 5, as of and for the year ended December 31, 2014 and have issued our report thereon dated May 17, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Adair County Rural Water District No. 5 internal control over financial reporting as a basis for designing my audit procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Adair County Rural Water District No.5 internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Adair County Rural Water District No. 5 financial statements are free of 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,

Report on Compliance (continued)

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*.

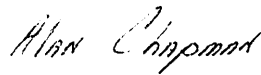
District's Response to Findings

The Adair County Rural Water District No. 5 response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Adair County Rural Water District No.5 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

This report is intended solely for the information and use of the Board of Directors, management, and all applicable federal and state agencies, and is not intended to be and should not be used by anyone other than these specified parties.

May 17,2016



Alan Chapman, CPA