

RURAL WATER AND SEWER DISTRICT NUMBER 5
LEFLORE COUNTY
HOWE, OKLAHOMA
ANNUAL FINANCIAL REPORT
DECEMBER 31, 2014

RALPH OSBORN
CERTIFIED PUBLIC ACCOUNTANT
500 SOUTH CHESTNUT
P.O. BOX 1015
BRISTOW, OK 74010-1015

INDEPENDENT AUDITORS' REPORT

Board of Directors
Rural Water and Sewer District Number 5
LeFlore County
Howe, Oklahoma

I have audited the accompanying financial statements of the business-type activities of Rural Water and Sewer District Number 5, LeFlore County, Howe, Oklahoma as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise Rural Water and Sewer District No. 5's basic 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 modified cash; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statement that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on our audit. I conducted my audit 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. Those standards require that we 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 judgement, 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.

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

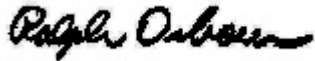
Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Rural Water and Sewer District No. 5 as of December 31, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with modified cash.

Other Matters

Rural Water and Sewer District No. 5 has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statement.

In accordance with *Government Auditing Standards*, I have also issued my report dated April 14, 2015, on my consideration of Rural Water and Sewer District No. 5's internal control over financial reporting and my 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* and should be considered in assessing the results of my audit.



Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
April 14, 2015

RURAL WATER AND SEWER DISTRICT NUMBER 5
LEFLORE COUNTY, OKLAHOMA
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
DECEMBER 31, 2014

ASSETS

Current assets:	
Cash and cash equivalents	\$ 350,977
Restricted assets:	
Cash and cash equivalents	<u>107,184</u>
Total current assets	<u>458,161</u>
Non-current assets:	
Capital assets:	
Land	3,000
Other capital assets, net of accumulated depreciation	<u>2,807,091</u>
Total non-current assets	<u>2,810,091</u>
Total assets	<u>3,268,252</u>

LIABILITIES

Current liabilities:	
Payroll withholding	225
Utility deposits	93,701
Notes payable, current	<u>36,949</u>
Total current liabilities	<u>130,875</u>
Non-current liabilities:	
Notes payable, non-current	<u>2,258,251</u>
Total non-current liabilities	<u>2,258,251</u>
Total liabilities	<u>2,389,126</u>

NET ASSETS

Nonspendable	420,965
Restricted for debt service	107,184
Unassigned	<u>350,977</u>
Net assets	<u>\$ 879,126</u>

The notes to financial statements are an integral part of this statement.

RURAL WATER AND SEWER DISTRICT NUMBER 5
LEFLORE COUNTY, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2014

OPERATING REVENUES

Charges for services:

Water Sales	\$ 645,424
Sewer Sales	55,943
Tap fees	2,380
Other	<u>7,774</u>

Total operating revenues	<u>711,521</u>
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OPERATING EXPENSES

Personal services	147,004
Water purchases	157,317
Insurance	20,805
Maintenance and repairs	85,245
Office expense	8,418
Other	17,067
Professional fees	4,163
Telephone and utilities	20,004
Truck expense	16,576
Depreciation	<u>112,534</u>

Total operating expenses	<u>589,133</u>
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Operating income (loss)	<u>122,388</u>
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NON-OPERATING REVENUE (EXPENSES)

Investment income	712
Interest on notes and lease payable	<u>(70,443)</u>

Total non-operating revenue (expenses)	<u>(69,731)</u>
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Net income (loss)	52,657
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Total net assets, beginning	<u>826,469</u>
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Total net assets, ending	<u><u>\$ 879,126</u></u>
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The notes to financial statements are an integral part of this statement.

RURAL WATER AND SEWER DISTRICT NUMBER 5
LEFLORE COUNTY, OKLAHOMA
STATEMENT OF CASH FLOWS-MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2014

Cash flows from operating activities	
Cash received from customers	\$ 714,952
Cash payments to employees	(147,004)
Cash payments to suppliers for goods and services	<u>(329,679)</u>
Net cash provided (used) by operating activities	<u>238,269</u>
Cash flows from capital and related financing activities	
Proceeds from Rural Development Note	328
Interest paid on notes payable and fiscal fees	(70,443)
Principal paid on notes payable	<u>(42,844)</u>
Net cash used for capital and related financing activities	<u>(112,959)</u>
Cash flows from investing activities	
Interest revenue	<u>712</u>
Net cash used for investing activities	<u>712</u>
Net decrease in cash and cash equivalents	126,022
Cash and cash equivalents, beginning	<u>224,955</u>
Cash and cash equivalents, ending	<u><u>\$ 350,977</u></u>
Reconciliation of operating income (loss)	
to net cash provided by (used) by operating activities	
Operating income (loss)	\$ 122,388
Adjustments to reconcile operating income to	
net cash used by operating activities:	
Depreciation	112,534
Changes in assets and liabilities	
Increase in payroll withholding	(84)
Increase in utility deposits	<u>3,431</u>
Net cash provided by operating activities	<u><u>\$ 238,269</u></u>

See accompanying notes to financial statements.

RURAL WATER AND SEWER DISTRICT NUMBER 5
LEFLORE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rural Water and Sewer District Number 5 (the "District") was created by the Board of County Commissioners of LeFlore County, Oklahoma under the provisions of the Rural Water District Act (Title 82 Oklahoma Statutes 1961, Sections 1301 to 1321). The District is managed by a seven member Board of Directors. Members of the board are elected by the membership of the District at its annual meeting. Membership in the District is attained by paying membership dues and receiving services from the District. The activities of the District constitute the entire reporting entity. There are no other component or oversight units. The District is a political subdivision of the state of Oklahoma.

Government-Wide and Fund Financial Statements

The District is a special purpose governmental entity engaged only in business type activities. The District prepares financial statements required for enterprise funds.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "how" 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

In the financial statements business-like activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or non-current, financial, or non-financial) associated with their activities are reported. Fund equity is classified as net assets.

Basis of Accounting

In the financial statements, business-like activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

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. If the District utilized the basis of accounting recognized as generally accepted, the financial statements would use the accrual basis of accounting.

RURAL WATER AND SEWER DISTRICT NUMBER 5
LEFLORE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FUND TYPES AND MAJOR FUNDS

The District reports all activity within a single fund.

Investments

The District follows Governmental Accounting Standards Board (GASB) Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which requires marketable securities to be carried at fair value. The District considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The investments reported in the financial statements consist of Certificates of Deposits.

Capital Assets, Depreciation, and Amortization

The District's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost or at estimated historical cost for those items not previously reported. The District maintains infrastructure assets records consistent with all other capital assets. Donated assets are stated at fair value on the date donated. The District generally capitalizes assets with a cost of \$2,500 or more as purchase and construction outlay occur. The cost of normal maintenance and repairs that do not add to the assets value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are moved from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follow:

Buildings	5-60
Improvements, other than buildings	2-50
Mobile equipment	3-40
Furniture , machinery, and equipment	3-30
Utility system	5-60

Compensated Absences

Full-time, permanent employees are granted personal leave in varying amounts to specified maximums depending on tenure with the District. The District does not record a liability for accrued compensated absences. Using the modified cash basis the amount paid for compensated absences is expensed as paid.

Reserves and Designations

Reserves represent those portions of fund balance not available for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

RURAL WATER AND SEWER DISTRICT NUMBER 5
LEFLORE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

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

NOTE B - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Custodial Credit Risk

Custodial credit risk is the risk that in the event of failure of counterparty, the District will not be able to recover the value of its deposits or investments. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Investment securities are exposed to custodial credit risk if they are uninsured, are not registered in the name of the District, and are held by counterparty or the counterparty's trust department but not in the name of the District. The District's policy requires that all deposits and investments in excess of amounts covered by federal deposit insurance be fully collateralized by the entity holding the deposits or investments. As of December 31, 2014, all of the District's deposits and investments were either covered by federal deposit insurance or were fully collateralized.

Deposits

The District had deposits at financial institutions with a carrying amount of approximately \$458,161 at December 31, 2014. The bank balance of the deposits at December 31, 2014 was approximately \$458,399.

Credit Risk

Fixed-income securities are subject to credit risk. However, the District did not have fixed income securities at December 31, 2014.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board of Directors monitor's the investment performance on an ongoing basis to limit the District's interest rate risk. As of December 31, 2014, the District's deposits consisted of demand deposits and certificates of deposit with a maturity of 12 months or less.

RURAL WATER AND SEWER DISTRICT NUMBER 5
LEFLORE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE C - CAPITAL ASSETS

Changes in capital assets.

The following table provides a summary of changes in capital assets:

	CAPITAL ASSETS, DEPRECIATED				Capital Assets Not Depreciated Land
	Buildings	Infrastructure & Improvements Other Than Buildings	Furniture, Machinery, And Equipment	Totals	
PRIMARY GOVERNMENT					
Business-type activities					
Balance, Dec. 31, 2013	\$ 40,680	\$ 3,634,693	\$ 231,675	\$ 3,907,048	\$ 3,000
Increases	-	-	-	-	-
Decreases	-	-	-	-	-
Balance, Dec. 31, 2014	<u>40,680</u>	<u>3,634,693</u>	<u>231,675</u>	<u>3,907,048</u>	<u>3,000</u>
Accumulated Depreciation					
Balance, Dec. 31, 2013	14,943	841,201	131,279	987,423	
Increase	869	99,399	12,266	112,534	
Decreases	-	-	-	-	
Balance, Dec. 31, 2014	<u>15,812</u>	<u>940,600</u>	<u>143,545</u>	<u>1,099,957</u>	
Business-type Activities					
Capital Assets, Net	<u>\$ 24,868</u>	<u>\$ 2,694,093</u>	<u>\$ 88,130</u>	<u>\$ 2,807,091</u>	<u>\$ 3,000</u>

NOTE D - NOTES PAYABLE PROPRIETARY FUND

The District was approved for a loan from Rural Development in the amount of \$2,494,740 on April 29, 2009. The loan requires monthly payments of \$8,932 beginning on November 5, 2011 with an interest rate of 3%. As of December 31, 2014, the District had drawn down a total of \$2,494,412 and repayment began in January 2011.

	Payable at December 31, 2013	Addition	Retirements	Balance at December 31, 2014
Rural Development	2,332,601	328	(37,729)	2,295,200
TOTAL	<u>\$ 2,332,601</u>	<u>\$ 328</u>	<u>(37,729)</u>	<u>\$ 2,295,200</u>

Principal payments required in future years, based on estimated maximum loan amount, are as follows:

Year Ended December 31	Rural Development		TOTAL
	Principal	Interest	
2015	\$ 36,949	\$ 70,220	\$ 107,169
2016	38,072	69,097	107,169
2017	39,230	67,939	107,169
2018	40,424	66,745	107,169
2019	41,653	65,516	107,169
2020-2024	228,058	307,788	535,846
2025-2029	264,916	270,930	535,846
2030-2034	307,731	228,115	535,846
2035-2039	357,466	178,380	535,846
2040-2044	415,238	120,608	535,846
2045-2049	482,348	53,498	535,846
2050	43,115	1,721	44,836
Total	<u>\$2,295,200</u>	<u>\$1,500,557</u>	<u>\$3,795,757</u>

RURAL WATER AND SEWER DISTRICT NUMBER 5
LEFLORE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE E - RESTRICTED ASSETS

USDA RURAL DEVELOPMENT

The Loan Resolution Security Agreement with the USDA Rural Development requires a reserve fund to be funded equal to the annual installment amount (\$8,932 X 12 = \$107,184). At December 31, 2014, the District was in compliance with a total reserve of \$107,184.

NOTE F - COMPENSATED ABSENCES

The District has not reported an amount for accrued compensated absences. Under the modified cash basis of accounting, payments for vacation and sick leave are expensed as paid.

NOTE G - PENSION

Plan Description. The District contributes to the Oklahoma Public Employees Retirement Plan (the Plan), a cost-sharing multiple-employer defined benefit pension plan administered by the Oklahoma Public Employees Retirement System (OPERS). Benefit provisions are established and amended by the Oklahoma Legislature. The Plan provides retirement, disability, and death benefits to Plan members and beneficiaries. Title 74, Section 901 through 943, as amended, establishes the provisions of the Plan. OPERS issues a publicly available financial report that includes financial statements and supplementary information.

Funding Policy. The contribution rates for each member category are established by the Oklahoma Legislature and are based on an actuarial calculation which is performed to determine the adequacy of contribution rates. District employees are required to contribute 3.5% of earned compensation. The District contributes 15.5% of earned compensation. The District's contributions to the Plan for the years ending December 31, 2014, 2013 and 2012 were \$15,245, \$17,844, and \$17,706, respectively, equal to the required contributions for each year

NOTE H - 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 carries commercial insurance for risk of loss, including workers' compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

RURAL WATER AND SEWER DISTRICT NUMBER 5
LEFLORE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE I - CONTRACTS

The District purchases water for resale from Poteau Valley Improvement Authority, Wister, Oklahoma and Heavener Utilities Authority, Heavener, Oklahoma, for resale to customers. An interruption of the supply from these sources could severely impact the ability of the District to deliver water to its members.

Note J - SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 14, 2015, the date on which the financial statements were available to be issued. The Authority does not believe there are any events requiring disclosure.

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
Rural Water and Sewer District Number 5
LeFlore County
Howe, Oklahoma

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 of Rural Water and Sewer District Number 5, LeFlore County, Howe, Oklahoma, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise Rural Water and Sewer District No. 5's basic financial statements and have issued my report thereon dated April 14, 2015 which did not include Management's Discussion and Analysis.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Rural Water and Sewer 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rural Water and Sewer District No. 5's internal control. Accordingly, I do not express an opinion on the effectiveness of Rural Water and Sewer 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.

My consideration of internal control over financial reporting 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. 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.

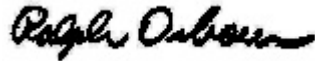
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water and Sewer District Number 5, LeFlore County, Howe, Oklahoma's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of the 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 *Governmental Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sincerely,



Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
April 14, 2015