

RURAL WATER AND SEWER DISTRICT NUMBER 5
LEFLORE COUNTY
HOWE, OKLAHOMA
ANNUAL FINANCIAL REPORT
DECEMBER 31, 2015

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, 2015, 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.

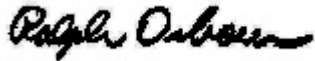
Opinion

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, 2015, 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 June 14, 2016, 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
June 14, 2016

RURAL WATER AND SEWER DISTRICT NUMBER 5
LEFLORE COUNTY, OKLAHOMA
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
DECEMBER 31, 2015

ASSETS

Current assets:	
Cash and cash equivalents	\$ 390,851
Restricted assets:	
Cash and cash equivalents	<u>107,184</u>
Total current assets	<u>498,035</u>
Non-current assets:	
Capital assets:	
Land	3,000
Other capital assets, net of accumulated depreciation	<u>2,766,235</u>
Total non-current assets	<u>2,769,235</u>
Total assets	<u>3,267,270</u>

LIABILITIES

Current liabilities:	
Payroll withholding	252
Utility deposits	96,048
Notes payable, current	<u>42,520</u>
Total current liabilities	<u>138,820</u>
Non-current liabilities:	
Notes payable, non-current	<u>2,236,848</u>
Total non-current liabilities	<u>2,236,848</u>
Total liabilities	<u>2,375,668</u>

NET ASSETS

Invested in capital assets, net related debt	489,867
Restricted for debt service	107,184
Unrestricted	<u>294,551</u>
Net assets	<u>\$ 891,602</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, 2015

OPERATING REVENUES

Charges for services:

Water Sales	\$ 679,231
Sewer Sales	55,840
Tap fees	7,070
Other	<u>5,801</u>

Total operating revenues	<u>747,942</u>
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OPERATING EXPENSES

Personal services	140,126
Water purchases	206,629
Insurance	24,938
Maintenance and repairs	104,685
Office expense	9,371
Other	20,879
Professional fees	12,205
Telephone and utilities	21,712
Truck expense	12,429
Depreciation	<u>115,105</u>

Total operating expenses	<u>668,079</u>
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Operating income (loss)	<u>79,863</u>
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NON-OPERATING REVENUE (EXPENSES)

Investment income	811
Interest on notes and lease payable	(68,599)
Gain/(loss) on sale of asset	<u>400</u>

Total non-operating revenue (expenses)	<u>(67,388)</u>
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Net income (loss)	12,475
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Total net assets, beginning	<u>879,127</u>
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Total net assets, ending	<u><u>\$ 891,602</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, 2015

Cash flows from operating activities	
Cash received from customers	\$ 750,289
Cash payments to employees	(140,126)
Cash payments to suppliers for goods and services	<u>(412,821)</u>
Net cash provided (used) by operating activities	<u>197,342</u>
Cash flows from capital and related financing activities	
Acquisition of fixed assets	(74,249)
Loan Proceeds	24,103
Interest paid on notes payable and fiscal fees	(68,599)
Principal paid on notes payable	(39,935)
Gain/(loss) on sale of asset	<u>400</u>
Net cash used for capital and related financing activities	<u>(158,280)</u>
Cash flows from investing activities	
Interest revenue	<u>811</u>
Net cash used for investing activities	<u>811</u>
Net increase/(decrease) in cash and cash equivalents	39,873
Cash and cash equivalents, beginning	<u>350,978</u>
Cash and cash equivalents, ending	<u><u>\$ 390,851</u></u>
Reconciliation of operating income (loss)	
to net cash provided by (used) by operating activities	
Operating income (loss)	\$ 79,863
Adjustments to reconcile operating income to	
net cash used by operating activities:	
Depreciation	115,105
Changes in assets and liabilities	
Increase/(decrease) in payroll withholding	27
Increase/(decrease) in utility deposits	<u>2,347</u>
Net cash provided by operating activities	<u><u>\$ 197,342</u></u>

See accompanying notes to financial statements.

RURAL WATER AND SEWER DISTRICT NUMBER 5
LEFLORE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

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, 2015

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, 2015

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, 2015, 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 \$498,035 at December 31, 2015. The bank balance of the deposits at December 31, 2015 was approximately \$470,443.

Credit Risk

Fixed-income securities are subject to credit risk. However, the District did not have fixed income securities at December 31, 2015.

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, 2015, 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, 2015

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, 2014	\$ 40,680	\$ 3,634,693	\$ 231,675	\$ 3,907,048	\$ 3,000
Increases	-	-	74,249	74,249	-
Decreases	-	-	-	-	-
Balance, Dec. 31, 2015	<u>40,680</u>	<u>3,634,693</u>	<u>305,924</u>	<u>3,981,297</u>	<u>3,000</u>
Accumulated Depreciation					
Balance, Dec. 31, 2014	15,812	940,600	143,545	1,099,957	
Increase	869	98,945	15,291	115,105	
Decreases	-	-	-	-	
Balance, Dec. 31, 2015	<u>16,681</u>	<u>1,039,545</u>	<u>158,836</u>	<u>1,215,062</u>	
Business-type Activities					
Capital Assets, Net	<u>\$ 23,999</u>	<u>\$ 2,595,148</u>	<u>\$ 147,088</u>	<u>\$ 2,766,235</u>	<u>\$ 3,000</u>

NOTE D - NOTES PAYABLE PROPRIETARY FUND

A brief description of the outstanding notes payable at December 31, 2015 is set forth below:

Rural Development loan in the original loan amount of \$2,494,740, interest rate of 3.00%, term of 40 years, monthly installment of \$8,932.00. \$2,256,339

Chase loan in the original loan amount of \$24,103, interest rate of 4.49%, term of 5 years, monthly installment of \$449.96. 23,029

TOTAL \$2,279,368

Following is the anticipated annual debt service amounts for principal payments.

	Payable at December 31, 2014	Addition	Retirements	Balance at December 31, 2015
Rural Development	\$ 2,295,200	\$ -	\$ (38,861)	\$ 2,256,339
Chase Loan	-	24,103	(1,074)	23,029
TOTAL	<u>\$ 2,295,200</u>	<u>\$ 24,103</u>	<u>(39,935)</u>	<u>\$ 2,279,368</u>

RURAL WATER AND SEWER DISTRICT NUMBER 5
LEFLORE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

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

<u>Year Ended December 31</u>	<u>Rural Development Principal</u>	<u>Interest</u>	<u>TOTAL</u>
2016	\$ 42,520	\$ 70,040	\$ 112,560
2017	43,882	68,678	112,560
2018	45,289	67,272	112,561
2019	46,741	65,819	112,560
2020	46,897	64,324	111,221
2021-2025	234,995	300,852	535,847
2026-2030	272,974	262,873	535,847
2031-2035	317,091	218,756	535,847
2036-2040	368,339	167,508	535,847
2041-2045	427,868	107,979	535,847
2046-2050	432,772	38,828	471,600
Total	<u>\$2,279,368</u>	<u>\$1,432,929</u>	<u>\$3,712,297</u>

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, 2015, 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.

RURAL WATER AND SEWER DISTRICT NUMBER 5
LEFLORE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

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, 2015, 2014 and 2013 were \$13,418, \$15,245, and \$17,844, 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.

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 June 14, 2016, 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, 2015, 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 June 14, 2016 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 of 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.

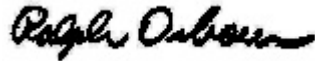
Compliance and Other Matters

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
June 14, 2016