

RURAL WATER DISTRICT NO. 5
PITTSBURG COUNTY, OKLAHOMA

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

WITH

REPORT OF CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITOR'S REPORT

January 20, 2016

The Honorable Board of Directors
Pittsburg County Rural Water District No. 5
McAlester, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Pittsburg County Rural Water District No. 5, (District) as of and for the year ended September 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 the 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental and business-type activities of the Pittsburg County Rural Water District No. 5, as of September 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with the accounting basis described in Note 1.

Pittsburg County Rural Water District No. 5
McAlester, Oklahoma

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2016 on our consideration of the District's internal control over financial reporting and 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* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 10 through 12 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



E.R. Dick Shanahan
Certified Public Accountant

RURAL WATER DISTRICT NO. 5
PITTSBURG COUNTY, OKLAHOMA
STATEMENT OF NET ASSETS
September 30, 2012

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 368,235
Accounts Receivable	45,388
Prepaid Insurance	2,556
Total Current Assets	<u>416,179</u>

Restricted Assets:

Reserve Fund (Note 3)	<u>36,661</u>
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Property and Equipment:

Water Distribution System	800,916
Equipment and Vehicles	126,156
Accumulated Depreciation	<u>(608,347)</u>
Total Fixed Assets	<u>318,725</u>

TOTAL ASSETS	<u><u>\$ 771,565</u></u>
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LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable	\$ 23,153
Current Portion of Long-term Debt	9,231
Accrued liabilities	<u>7,591</u>
Total Current Liabilities	<u>39,975</u>

Long Term Liabilities:

Loans Payable (Note 2)	<u>45,299</u>
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TOTAL LIABILITIES	<u>85,274</u>
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Investment in Capital Assets, Net of Related Debt	264,195
Unrestricted Net Assets	<u>422,096</u>

TOTAL NET ASSETS	<u><u>\$ 686,291</u></u>
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RURAL WATER DISTRICT NO. 5
PITTSBURG COUNTY OKLAHOMA
STATEMENT OF RECEIPTS, EXPENSES, AND
CHANGES IN NET ASSETS
For the Year Ended September 30, 2012

OPERATING REVENUE

Water Revenue	\$	417,161
Benefit Units		4,425
Miscellaneous Income		625
		<u>625</u>
Total Revenues		<u>422,211</u>

OPERATING EXPENSES

Water Purchases		316,539
Operating Supplies		18,384
Salaries		81,880
Payroll Taxes		6,454
Insurance and Bonds		12,502
Maintenance		10,650
Vehicle Expense		15,603
Office		5,587
Postage		2,668
Licenses, Fees and Memberships		1,026
Telephone		1,710
Utilities		4,608
Miscellaneous		8,568
		<u>8,568</u>
Total Operating Expenses		<u>486,179</u>

Revenue Over (Under) Expenses From Operations		(63,968)
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OTHER REVENUE AND EXPENSES

Interest Income		1,866
Interest Expense		(3,418)
Depreciation		(30,171)
		<u>(30,171)</u>

Receipts Over (Under) Expenses		(95,691)
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NET ASSETS - BEGINNING OF PERIOD		781,982
		<u>781,982</u>

NET ASSETS - END OF PERIOD	\$	686,291
		<u>686,291</u>

RURAL WATER DISTRICT NO. 5
PITTSBURG COUNTY, OKLAHOMA
COMBINED STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2012

Cash Flows from Operating Activities:	
Cash Received from Water Revenue	\$ 408,375
Benefit Units	4,425
Other Income	625
Payment to Suppliers	(404,146)
Payment for Personal Services	(80,551)
Net Cash Provided by Operating Activities	<u>(71,272)</u>
Cash Flows from Capital and Related Activities:	
Repayment of Loans	(8,666)
Purchase of Assets	(1,833)
Interest reinvested	(1,109)
Interest expense	(3,418)
Net Cash Flows from Capital and Related Activities	<u>(15,026)</u>
Cash Flows from Investing Activities:	
Receipt of Interest Income	<u>1,869</u>
Net Cash Flows from Investing Activities	<u>1,869</u>
Net Increase (Decrease) in Cash	(84,429)
Cash - Beginning of Year	<u>452,664</u>
Cash - End of Year	<u>\$ 368,235</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:	
Operating Income (Loss)	\$ (95,690)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Depreciation	30,171
Increase (Decrease) in current portion of LT Debt	565
Increase (Decrease) in Accounts Payable and Accruals	1,484
Other	984
(Increase) Decrease in Accounts Receivable	<u>(8,786)</u>
Net Cash Provided by Operating Activities	<u>\$ (71,272)</u>

RURAL WATER DISTRICT NO. 5
PITTSBURG COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Organization & Reporting Entity

The District was organized under Title 82, Oklahoma Statutes Annotated, Section 1301 - 1322 for the purpose of providing and maintaining a water distribution system within Pittsburg County, Oklahoma for the members of the District. It is not a component unit as defined by Governmental Accounting Standards Board Statement Number 14.

(B) Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting following generally accepted accounting principles. Using this method, revenues are recognized when earned rather than when received, and expenses are recorded when incurred, rather than paid.

Inventory on hand is immaterial and therefore is not recorded in assets.

The straight-line method of depreciation is used in computing annual depreciation on plant and equipment.

(C) Cash and Cash Equivalents

For purposes of these financial statements, the District considers cash and cash equivalents to be currency on hand and demand deposits with banks. There were no non-monetary transactions.

(D) Income Tax Status

The District is conducting its affairs as a non-profit organization and has made no provisions for federal income tax.

(E) Enterprise Fund

The Enterprise Fund is used to account for the operations of the District that are financed and operated in a manner similar to private business enterprises where the intent is that costs of providing goods and services be recovered in whole or part through user fees or charges.

(F) Compensated Absences

The District has no retirement or deferred compensation plan; there are no post-employment benefits provided.

RURAL WATER DISTRICT NO. 5
PITTSBURG COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 2 - LONG TERM DEBT

Pittsburg County Rural Water District No. 5 has loan balances of \$13,687 and \$66,862 payable to Rural Development with interest rates of 4.125% and 5.00%. Estimated principal maturities are as follow:

<u>Year Ending</u> <u>September 30</u>	<u>Principal</u> <u>Maturities</u>
2013	\$ 9,231
2014	10,065
2015	10,580
2016	11,121
2017	11,690
Thereafter	<u>1,843</u>
Total	<u>\$ 54,530</u>

NOTE 3 - PROPERTY AND EQUIPMENT

As of September 30, 2012 property and equipment consisted of the following:

	<u>Balance</u> <u>9/30/2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>9/30/2012</u>
Water System	\$ 800,916	\$	\$	\$ 800,916
Equipment and Vehicles	<u>124,323</u>	<u>1,833</u>	<u></u>	<u>126,156</u>
	925,239	<u>\$ 1,833</u>	<u>\$ 0</u>	927,072
Accumulated depreciaton	<u>(578,176)</u>	<u>\$ (30,171)</u>		<u>(608,347)</u>
Net fixed assets	<u>\$ 347,063</u>			<u>\$ 318,725</u>

**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**

January 20, 2016

Honorable Board of Directors
Pittsburg County Rural Water District No. 5
McAlester, Oklahoma

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Pittsburg County Rural Water District No. 5 (District), as of and for the year ended September 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 20, 2016.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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.

Pittsburg County Rural Water District No. 5
January 20, 2016

Our 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 over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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*.

This report is intended solely for the information and use of 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.



E.R. Dick Shanahan
Certified Public Accountant

RURAL WATER DISTRICT NO. 5
PITTSBURG COUNTY, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Our discussion and analysis of Rural Water District No. 5's financial performance provides an overview of the financial activities for the fiscal year ended September 30, 2012. Please read it in conjunction with the District's financial statements.

FINANCIAL HIGHLIGHTS

- * The total assets decreased by \$102,873 as a result of this year's operations.
- * The District's return on total ending assets was -12.4%.
- * Total cost of the District's activities was \$486,179 compared to \$492,592 in the prior year.
- * The District added net fixed assets of \$1,833 during the current year.
- * The District's equity decreased by \$95,691.

USING THE ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues and Expenses and Changes in Net Assets provide information about the District's financial position.

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 this year's activities?" The financial statements report information about the assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. Accrual of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

These financial statements report the District's assets and changes in them. You can think of the District's Equity as the difference between assets the members own, and liabilities, what the members owe, as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's equity are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other nonfinancial factors such as the condition of the District's capital assets to assess the *overall health* of the District.

The District's equity changed from a year ago, decreasing from \$781,982 to \$686,291.

FINANCIAL RATIOS

"Working Capital" is the amount by which current assets exceed current liabilities. The Current Ratio, which compares current assets to the current liabilities, is an indicator of the ability to pay current obligations.

	Current Year	Prior Year
Working Capital	\$ 376,204	\$ 453,896
Current Ratio	12.96:1	10.41:1

"Liabilities to Equity" indicates the extent of borrowing.

	Current Year	Prior Year
Liabilities to Equity	9.61%	7.71%

"Return on assets from operations" illustrates to what extent there is sufficient funds to replace assets in the future.

	Current Year	Prior Year
Return on Assets	-12.4%	-10.3%

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the year the District had \$927,072 invested in capital assets. This amount is a net increase of \$1,833 over last year.

Debt

At year-end, the District had \$54,530 in notes outstanding versus \$63,196 last year; a decrease of 13.7%.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

The financial report is designed to provide our members, customers 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 questions about this report or need additional financial information, contact the District Manager.