

**Muskogee County Rural Water District No. 5
Muskogee, Oklahoma**

Financial Statements and Auditor's Reports

Year Ended December 31, 2011

Audited by

**SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP**

BROKEN ARROW, OK

Muskogee County Rural Water District No. 5
Muskogee, Oklahoma
Board of Directors
December 31, 2011

BOARD OF DIRECTORS

Chairman

T.A. Staton
2013

Vice Chairman

Robert Plunkett
2013

Secretary/Treasurer

Beverly Delmedico
2014

Member

Leonard Howdeshell
2012

Member

Bobby Jones, Sr.
2014

MANAGER

Kentley D. McCullar

BOOKKEEPER

Rita Boydston

CLERK

Linda Roberts

Muskogee County Rural Water District No. 5
Muskogee, Oklahoma
December 31, 2011

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SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP

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Independent Auditor's Report

Board of Directors
Muskogee County Rural Water District No. 5
Muskogee, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Muskogee County Rural Water District No. 5 (the District), Muskogee, Oklahoma, as of and for the year ended December 31, 2011, 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 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 the 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 financial position of the business-type activities of the District as of December 31, 2011, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting generally accepted in the United States of America.

The Management Discussion and Analysis on pages 5-7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 13, 2012, 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, grants 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole on the basis of accounting generally accepted in the United States of America.



Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

February 13, 2012

RURAL WATER DISTRICT NO. 5, MUSKOGEE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2011

Our discussion and analysis of the Rural Water District No. 5, Muskogee County's financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2011. Please read it in conjunction with the District's financial statements that begin on page 12.

FINANCIAL HIGHLIGHTS

- The District's total operating revenues exceeded total operating expenses by \$100,576. Overall, the District's cash and cash equivalents increased by \$116,283 in the current fiscal year.
- Interest rates continue to be deflated, with the District earning \$4,653 in interest earnings during 2011.
- We seem to be moving into a new era. Business as usual is no longer the cliché. New technology requires us to change with the times. Overall it is always for the better as it helps us to provide safe water quality and better service to you, our customers. All of us are being forced to pay higher fuel prices which have escalated along with the price of brass and PVC supplies that it takes to maintain the District.
- The District is indebted by one note only to Oklahoma Water Resources Board.

Using This Report

This report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the District's basis of accounting.

Basis of Accounting

The District has elected to present its financial statements in the accrual basis of accounting. According to the accrual basis, revenues are recorded when earned and expenses are recognized when incurred. This policy is in accordance with generally accepted accounting principles.

The Financial Statements

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 Assets, Liabilities and Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets,

and the Statement of Cash Flows report information about the District and about its activities in a way that helps answer this question.

These three statements report the District's net assets and the changes in them. You can think of the District's net assets – the difference between assets and liabilities – as one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in water rates paid or charged and the condition of the District's water system, to assess the overall health of the District.

The District has only one type of fund or activity, which is defined as *Business-type activities*. This is considered a proprietary fund. This means the District charges a fee to customers to help it cover all or most of the cost of certain services it provides.

Fixed Assets

At December 31, 2011 the District had \$2,185,423 invested in fixed assets, net of depreciation, including land, the water system, vehicles and equipment. Some minor equipment purchases were made to the District during 2011. Our member numbers have grown to 1646 during 2011. Growth in our area is still a major factor and the City has yet to offer us additional allocation of water. Without the City of Muskogee allocating additional water the district may, in the future, be required to restrict or deny new taps.

Long-Term Debt

The District is indebted to Oklahoma Water Resources Board on one note obtained for previously extensive extensions and payment of other debts. We have not had the need to apply for another loan for any reason. The outstanding principal balance owed on the note decreased from \$1,019,900 to \$954,050 during the 2011 fiscal year.

Economic Factors and Next Year's Budget and Rates

December 31, 2011 revenue did not prove to be a large increase as compared to December 31, 2010 revenue. We are still within the same guidelines on our budget expenses. The fact that the price increases, our large growth rate and the age of our system will cause us to raise water rates periodically to keep your District in a financially sound condition. Gradual increases will be more effective and easier to absorb than if we have to have a large increase at once. The Board has our rate studies prepared by Community Resource Group, a State Agency, to analyze our income to debt/expense ratio.

The Board of Directors may change the budget for the fiscal year 2012 somewhat to allow for a more compatible ratio between income and expenses. To better allow for office and field personnel operations, and if there is a need for added staffing or equipment. During this time with the expansion of Muskogee City Water Treatment Plant their cost of water to us will increase 5 ¼ % in 2012. At that time water rates will need to be adjusted to be able to pay for the increases imposed by the City of Muskogee.

The District's budget for fiscal year 2012 will remain much like previous year budget, with the exceptions allowing for the increased expenses and our recent rate increase for added income. Your Board of Directors may change the budget somewhat to better allow for office and field personnel operations, and if there is a need for added staffing.

Contacting the District's Management

This report is designed to provide our customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the District Office at 7181 South Cherokee St., Muskogee, OK 74403 or call (918) 682-6380.

As always, our office personnel, Rita Boydston and Linda Roberts are prepared to assist you with your water district questions. Our manager, Kentley McCullar will be happy to assist you with water line and meter questions.



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**Report On Compliance And On Internal Control Over
Financial Reporting Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards**

Board of Directors
Muskogee County Rural Water District No. 5
Muskogee, Oklahoma

We have audited the financial statements of the Muskogee County Rural Water District No. 5 (the District), Muskogee, Oklahoma, as of and for the year ended December 31, 2011, and have issued our report thereon dated February 13, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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 grants, noncompliance with which could have a direct and material effect on the determination of financial 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 that are required to be reported under auditing standards generally accepted in the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. A material

weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we considered to be material weaknesses.

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



Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

February 13, 2012

MUSKOGEE COUNTY RURAL DISTRICT NO. 5
Disposition of Prior Year's Reportable Conditions
December 31, 2011

There were no prior year reportable conditions.

MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 5
Schedule of Audit Results
December 31, 2011

Section 1 – Summary of Auditor’s Results

1. An unqualified opinion report was issued on the financial statements.
2. The audit disclosed no reportable conditions in the internal controls.
3. The audit disclosed no instances of noncompliance.

Section 2 – Findings relating to the financial statements required to be reported in accordance with GAGAS:

NONE

MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 5

Statement of Net Assets

December 31, 2011

ASSETS:

Current Assets:

Cash and cash equivalents	\$ 564,408
Investments	626,943
Current portion of receivables	53,539
Inventory of supplies	22,773
Prepaid assets	8,956
Total current assets	<u>1,276,619</u>

Noncurrent Assets:

Restricted cash-	
Reserve account	98,000
ORWB project trust funds	115,467
Capital Assets-	
Land	13,272
Building, plant and water systems, net	2,066,081
Other capital assets, net	106,070
Total noncurrent assets	<u>2,398,890</u>

Total Assets 3,675,509

LIABILITIES:

Current Liabilities:

Accounts payable	10,218
Accrued liabilities	667
Current portion of long-term debt	63,400
Total current liabilities	<u>74,285</u>

Noncurrent Liabilities:

Long-term debt	<u>890,650</u>
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Total Liabilities 964,935

NET ASSETS:

Invested in capital assets, net of related debt	1,231,373
Restricted for debt service	213,467
Unrestricted assets	<u>1,265,734</u>
Total Net Assets	<u>\$ 2,710,574</u>

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

MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 5

Statement of Activities

For The Year Ended December 31, 2011

Operating Revenues:

Water sales	\$ 781,603
Fees and fines	28,503
Miscellaneous	1,906
Total revenue from operations	<u>812,012</u>

Operating Expenses:

Salaries and benefits	174,921
Water purchases	256,592
Repairs and maintenance	85,749
Vehicle expense	25,045
Utilities and telephone	16,188
Insurance	13,840
Office expense and postage	26,748
Depreciation	100,229
Professional fees	2,250
Water testing	1,422
Miscellaneous	8,452
Total expenses from operations	<u>711,436</u>

Operating Income (Loss) 100,576

Non-Operating Revenues (Expenses):

Interest income	4,653
Interest paid on long-term debt	<u>(17,342)</u>
Total Non-Operating Revenues (Expenses)	<u>(12,689)</u>

Change in Net Assets 87,887

Total Net Assets, beginning of period 2,622,687

Total Net Assets, end of period \$ 2,710,574

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

MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 5

Statement of Cash Flows

For the Year Ended December 31, 2011

Cash Flows from Operating Activities:

Receipts from customers	\$ 792,284
Payments to employees	(156,034)
Payments to vendors	<u>(438,881)</u>
Net Cash Provided by Operating Activities	<u>197,369</u>

Cash Flows from Financing Activities:

Purchases of capital assets	(441)
Principal paid on long-term debt	(65,850)
Interest paid on long-term debt	<u>(19,448)</u>
Net Cash Provided by (used in) Financing Activities	<u>(85,739)</u>

Cash Flows from Investing Activities:

Interest earned on investments	<u>4,653</u>
Net Increase (Decrease) in Cash	116,283
Cash and cash equivalents, beginning of period	<u>1,288,535</u>
Cash and cash equivalents, end of period	<u>\$ 1,404,818</u>

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

Operating Income	\$ 100,576
Adjustments to reconcile net income to net cash provided (used) by operating activities:	
Depreciation Expense	100,229
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	2,264
(Increase) decrease in supplies inventory	(1,332)
(Increase) decrease in prepaid insurance	(2,039)
Increase (decrease) in accounts payable	<u>(2,329)</u>
Net cash provided by operating activities	<u>\$ 197,369</u>

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

MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 5

Muskogee, Oklahoma

Notes to the Financial Statements

December 31, 2011

Note A – Significant Accounting Policies

Basis of Accounting

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

Reporting Standard

In June 1999, the GASB issued Statement No. 34 “Basic Financial Statements and Management’s Discussion and Analysis for State and Local Government.” This statement establishes new financial reporting requirements for state and local governments throughout the United States. It creates new information and restructures much of the information that governments have presented in the past. Comparability with reports issued in all prior years is affected.

Cash

The District’s accounts are with the Bank of Oklahoma in Muskogee, Oklahoma, and at December 31st, are detailed as follows:

	<u>December 31,</u>	
	<u>2011</u>	<u>2010</u>
Cash on hand	\$ 250	250
Revenue account	457,949	366,217
Emergency account	1,000	-
Operation & Maintenance account	109,964	87,392
Less: Outstanding checks	(4,755)	(2,330)
ORWB Trust Accounts-		
Debt Service account	9	114
Debt Service Reserve account	<u>115,458</u>	<u>115,458</u>
Total	<u>\$ 679,875</u>	<u>567,101</u>

MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 5

Muskogee, Oklahoma

Notes to the Financial Statements

December 31, 2011

Note A – Significant Accounting Policies – cont'd

Investments

The District's investments are with the Bank of Oklahoma in Muskogee, Oklahoma, and at December 31st, are detailed as follows:

	<u>2011</u>	<u>2010</u>
Certificate of deposit no. 7180111331, dated 4-21-11, due 4-21-12	\$ 166,584	165,837
Certificate of deposit no. 71800017781, dated 2-18-11, due 2-18-12	212,734	211,700
Certificate of deposit no. 7180076261 dated 3-18-11, due 3-18-12	109,919	109,330
Certificate of deposit no. 7180102363 dated 8-21-11, due 8-21-12	<u>235,706</u>	<u>234,567</u>
Total Investments	<u>\$ 724,943</u>	<u>721,434</u>

Restricted Cash

In accordance with the Board of Directors, a capital replacement amount of \$98,000 has been approved as restricted cash. These funds are held by the District as part of certificate of deposit number 7180111331 held at Bank of Oklahoma, Muskogee, Oklahoma. This amount is shown on the financial statements as a non-current asset, and not part of the current asset investment amount.

Collateral Pledged

The District's cash deposits at December 31, 2011 are categorized to give an indication of the level of risk assumed by the District at year-end.

The District's investments at December 31, 2011 consisted of certificates of deposit, and are categorized to give an indication of the level of risk assumed by the District at year-end.

MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 5
Muskogee, Oklahoma
Notes to the Financial Statements
December 31, 2011

Note A – Significant Accounting Policies – cont'd

Deposit Categories of Credit Risk

- (A) Insured by Federal Deposit Insurance
- (B) Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name
- (C) Uncollateralized

	Category			Bank Balance	Carrying Amount
	(A)	(B)	(C)		
Cash	\$ 250,000	203,714		453,714	448,959
Investments	250,000	474,943		724,943	724,943
Total	\$ 500,000	678,657	0	1,178,657	1,173,902

Accounts Receivable

Billings for accounts receivable at December 31, 2011 were \$53,539. No allowance for doubtful accounts was computed because the effect of bad debts on the financial statements is not considered material.

Inventory

Supplies inventory is valued at the lower of cost or market, using the FIFO method (first in, first out).

Fixed Assets

Fixed assets are valued at cost, depreciation is computed by use of the straight-line method. The estimated useful lives of these assets are as follows:

Land	N/A
Office furniture & fixtures	5-10 years
Equipment & tools	5 years
Transportation equipment	5 years
Water & sewer system	50 years
Buildings	31 years
Computer equipment	3 years

MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 5
Muskogee, Oklahoma
Notes to the Financial Statements
December 31, 2011

Note A – Significant Accounting Policies – cont'd

The fixed asset information for the District is shown below:

	12/31/2010 Amount	Additions	Deletions	12/31/2011 Amount
Land	\$ 13,272	-	-	13,272
Building	78,762	-	-	78,762
Office equipment	53,148	-	-	53,148
Plant and water sys.	3,339,505	-	-	3,339,505
Vehicles and equip.	262,589	441	-	263,030
Total Fixed Assets	3,747,276	441	-	3,747,717
Less: Accumulated Depreciation	(1,462,065)	(100,229)	-	(1,562,294)
Total	<u>\$ 2,285,211</u>	<u>(99,788)</u>	<u>-</u>	<u>2,185,423</u>

Accumulated Unpaid Vacation and Sick Pay

At December 31, 2011, no determination of the aggregate dollar value of vacation or sick pay had been made.

Prior Year Information

Prior year financial statement information is included in the other supplementary information section for comparative purposes only. No opinions are issued on these amounts, and are included as memorandum.

Note B – Notes Payable

Notes payable consists of one note to the Oklahoma Water Resources Board.

The District has a promissory note in the amount of \$1,390,000 with the Oklahoma Water Resources Board (OWRB), dated August 14, 2003, for a period of 20 years. The District makes monthly deposits into the trust account at the Bank of Oklahoma. The trust account then makes the semi-annual payments of principal and interest to the OWRB. The current interest rate on this note is 1.7%. The water system and future water revenues are used as security for this note.

MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 5

Muskogee, Oklahoma

Notes to the Financial Statements

December 31, 2011

Note B – Notes Payable – cont'd

	<u>2011</u>	<u>2010</u>
Oklahoma Water Resources Board note payable, issued for \$1,390,000, dated 8-14-03, at 1.7% interest, due in quarterly installments, until paid;	\$ 954,050	1,019,900
Less: Current maturities of long-term debt	<u>(63,400)</u>	<u>(45,200)</u>
Total Long-Term Debt	<u>\$ 890,650</u>	<u>974,700</u>

The scheduled maturities for the next five (5) years, and in total thereafter, are detailed as follows:

2012	\$ 63,400
2013	66,900
2014	70,600
2015	74,600
2016	78,700
2016-21	464,600
2021-23	<u>135,250</u>
Total	<u>\$ 954,050</u>

Reserve Account

The District has a debt service account and debt service reserve account with balances of \$9 and \$115,458, respectively, on deposit with the Bank of Oklahoma in a trustee account for use in retiring the note. The reserve is available to make debt service payments in the event the district cannot meet their debt obligations. These reserve account funds are not available for any other purposes.

Note C – Contributed Capital

Contributed capital was provided by payments of \$131,998 from the Oklahoma Department of Transportation to reimburse the District for relocation of lines in 2003 and a \$100,000 Emergency Grant from the Oklahoma Water Resources Board to assist in building and improving the water system in 2005.

MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 5

Balance Sheet

December 31, 2011 and 2010

<u>ASSETS</u>	DECEMBER 31,	
	2011	(memo only) 2010
Current Assets:		
Cash and cash equivalents	\$ 564,408	451,529
Investments	626,943	623,434
Accounts receivable	53,539	55,803
Inventory	22,773	21,441
Prepaid insurance	8,956	6,917
Total current assets	<u>1,276,619</u>	<u>1,159,124</u>
Restricted Assets:		
Reserve account	98,000	98,000
ORWB Project trust funds:		
Debt service account	9	114
Debt service reserve account	115,458	115,458
Total restricted assets	<u>213,467</u>	<u>213,572</u>
Fixed Assets:		
Land	13,272	13,272
Building	78,762	78,762
Office equipment	53,148	53,148
Plant and water systems	3,339,505	3,339,505
Vehicles and equipment	263,030	262,589
Total fixed assets	<u>3,747,717</u>	<u>3,747,276</u>
Less: accumulated depreciation	<u>(1,562,294)</u>	<u>(1,462,065)</u>
Total fixed assets (net)	<u>2,185,423</u>	<u>2,285,211</u>
Total Assets	<u>\$ 3,675,509</u>	<u>3,657,907</u>
 <u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 10,218	12,547
Accrued interest	667	2,773
Current maturities of long-term debt	63,400	45,200
Total current liabilities	<u>74,285</u>	<u>60,520</u>
Long-Term Debt, less current maturities:		
Notes payable	<u>890,650</u>	<u>974,700</u>
Total Liabilities	<u>964,935</u>	<u>1,035,220</u>
Fund Equity:		
Contributed capital	231,998	231,998
Retained earnings	2,478,576	2,390,689
Total fund equity	<u>2,710,574</u>	<u>2,622,687</u>
Total Liabilities and Fund Equity	<u>\$ 3,675,509</u>	<u>3,657,907</u>

MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 5
Statement of Revenue, Expenses and Changes in Retained Earnings
For The Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>(memo only) 2010</u>
Revenue from Operations:		
Water sales	\$ 712,153	673,247
Penalties	26,208	25,157
Benefit unit sales	69,450	50,990
Installation fees	2,295	2,774
Other sales and services	1,906	602
Total revenue from operations	<u>812,012</u>	<u>752,770</u>
Expenses from Operations:		
Salaries and benefits	174,921	149,724
Water purchases	256,592	250,216
Repairs and maintenance	85,749	59,582
Vehicle expense	25,045	18,500
Utilities and telephone	16,188	16,421
Insurance	13,840	11,316
Office expense and postage	26,748	24,867
Depreciation	100,229	99,704
Professional fees	2,250	2,200
Trustee fees	1,000	1,000
Water testing	1,422	3,791
Miscellaneous (nsf)	7,452	7,805
Total expenses from operations	<u>711,436</u>	<u>645,126</u>
Net Income (Loss) from Operations	100,576	107,644
Non-operating income:		
Interest earnings	<u>4,653</u>	<u>6,608</u>
Non-operating expense:		
Interest on long-term debt	<u>(17,342)</u>	<u>(18,873)</u>
Net Income (Loss)	87,887	95,379
Retained earnings, beginning of period	<u>2,390,689</u>	<u>2,295,310</u>
Retained earnings, end of period	<u>\$ 2,478,576</u>	<u>2,390,689</u>