

Okmulgee County Rural Water District No. 5
Henryetta, Oklahoma

Financial Statements and
Reports of Independent Auditor

September 30, 2015

Audited by

SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP

Broken Arrow, Oklahoma

Okmulgee County Rural Water District No. 5
Henryetta, Oklahoma
Board of Directors
September 30, 2015

Chairman

James Mankin, Jr.

Vice-Chairman

Robert Sutterfield, Jr.

Secretary/Treasurer

Randy Stafford

Directors

Patricia Hodge

Tammie Kidwell

Alfred Page

Wesley Vanmeter

Operator

Johnny Goodman, Jr.

Bookkeeper

Yvonna Coulter

**P.O. Box 176
Henryetta, Oklahoma 74437
(918) 652-2308**

Okmulgee County Rural Water District No. 5
Henryetta, Oklahoma
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SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the business-type activities of the Okmulgee County Rural Water District No. 5 (the District), Henryetta, Oklahoma, as of and for the year ended September 30, 2015, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District'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 District's internal control. Accordingly, we 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 opinions.

Opinions

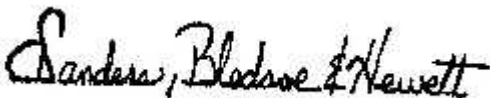
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of September 30, 2015, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

The District has not presented the Management's Discussion and Analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2015 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

December 8, 2015



SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

**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**

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

We have audited, 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, the accompanying financial statements of the Okmulgee County Rural Water District No. 5 (the District), Henryetta, Oklahoma, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 8, 2015.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting in order to determine our auditing procedures that are appropriate for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified no deficiencies in the internal controls that we considered to be material weaknesses.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District'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.

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 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 that are required to be reported under *Government Auditing Standards*.

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 District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

December 8, 2015

Okmulgee County Rural Water District No. 5
Henryetta, Oklahoma
Schedule of Findings and Responses
September 30, 2015

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

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 5
Statement of Net Assets
September 30, 2015

ASSETS

Current Assets:

Cash and cash equivalents	\$ 130,253
Investments	130,000
Accounts receivable	19,690
Prepaid insurance	4,795
Total current assets	<u>284,738</u>

Noncurrent Assets:

Capital Assets-	
Water systems, net of depreciation	<u>1,221,788</u>

Total Assets	<u>1,506,526</u>
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LIABILITIES

Current Liabilities:

Accounts payable	10,694
Accrued interest	541
Renters deposits	4,175
Current portion of long-term debt	20,772
Total current liabilities	<u>36,182</u>

Noncurrent Liabilities:

Long-term debt	<u>339,299</u>
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Total Liabilities	<u>375,481</u>
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NET ASSETS

Invested in capital assets, net of related debt	861,717
Restricted for debt service	34,278
Unrestricted assets	<u>235,050</u>
Total Net Assets	<u>\$ 1,131,045</u>

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

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 5
Statement of Activities
For The Year Ended September 30, 2015

Operating Revenues:	
Water sales	<u>\$ 207,726</u>
Operating Expenses:	
Water purchases	27,486
Salaries and taxes	60,044
Repairs and maintenance	22,369
Vehicle expense	6,865
Telephone	3,824
Insurance	5,776
Dues and fees	2,692
Office expenses	4,330
Professional fees	2,840
Utilities	10,354
Contract labor	7,284
Water tests	3,763
Depreciation	<u>32,627</u>
Total expenses from operations	<u>190,254</u>
Operating Income (Loss)	17,472
Non-Operating Revenues (Expenses):	
Interest income	1,003
Interest paid on long-term debt	<u>(14,215)</u>
Total non-operating revenues (expenses)	<u>(13,212)</u>
Change in Net Assets	4,260
Total Net Assets, beginning of period	<u>1,126,785</u>
Total Net Assets, end of period	<u><u>\$ 1,131,045</u></u>

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

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 5
Statement of Cash Flows
For the Year Ended September 30, 2015

Cash Flows from Operating Activities:

Receipts from customers	\$ 206,838
Payments to employees	(59,949)
Payments to vendors	(96,640)
	<hr/>
Net Cash Provided by Operating Activities	50,249
	<hr/>

Cash Flows from Capital and Related Financing Activities:

Capital assets purchased	(9,425)
Principal paid on long-term debt	(20,047)
Interest paid on long-term debt	(14,215)
	<hr/>
Net Cash Provided by (used in) Financing Activities	(43,687)
	<hr/>

Cash Flows from Investing Activities:

Interest earned on investments	1,003
	<hr/>
Net Cash Provided by (used in) Investing Activities	1,003
	<hr/>

Net increase (decrease) in cash	7,565
Cash and cash equivalents, beginning of period	252,688
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Cash and cash equivalents, end of period	\$ 260,253
	<hr/> <hr/>

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

Operating Income	\$ 17,472
Adjustments to reconcile net income to net cash provided (used) by operating activities:	
Depreciation Expense	32,627
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	(888)
(Increase) decrease in prepaid insurance	(30)
Increase (decrease) in accounts payable	884
Increase (decrease) in accrued interest	(16)
Increase (decrease) in renters deposits	200
	<hr/>
Net cash provided by operating activities	\$ 50,249
	<hr/> <hr/>

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

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 5
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED SEPTEMBER 30, 2015

Note 1 – Significant Accounting Policies

Nature of Organization

The Okmulgee County Rural Water District No. 5 (the District) was created under the provisions of Title 82 of Oklahoma Statutes, Section 1324.1 – 1324.35 and the Laws of the State of Oklahoma. The purpose of this District is to provide water services to users.

Basis of Accounting

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

Cash

The District's accounts at September 30, 2015 and are comprised as follows:

American Exchange Bank, Henryetta, OK-	
Reserve account	\$ 51,000
Operating account	<u>79,093</u>
Total	<u>\$130,093</u>

The District's cash deposits at September 30, 2015, are categorized to give an indication of the level of risk assumed by the district at year-end.

Investments

The District had the following investments at September 30, 2015:

American Exchange Bank, Henryetta, OK-	
Certificate of deposit No. 13960, due 11-24-15, @ .75%	\$ 10,000
Certificate of deposit No. 14813, due 11-13-15, @ .75%	5,000
Certificate of deposit No. 18709, due 11-8-15, @ .75%	5,000
Certificate of deposit No. 20722, due 3-7-16, @ .55%	50,000
Certificate of deposit No. 19450, due 1-8-16, @ .55%	50,000
Certificate of deposit No. 20399, due 10-4-15, @ .75%	5,000
Certificate of deposit No. 18035, due 1-4-16, @ .55%	<u>5,000</u>
Total	<u>\$ 130,000</u>

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 5
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED SEPTEMBER 30, 2015

Note 1 – Significant Accounting Policies – cont’d

Accounts Receivable

Billings for accounts receivable at September 30, 2015 were \$19,690. No computation was made for allowance for doubtful accounts, which is not considered to be material to the financial statements.

Fixed Assets

Capital (fixed) assets are valued at cost, and depreciation is computed by use of the straight-line method. The estimated useful life of these assets range from five to 60 years.

Capital (fixed) asset information for the 2014-15 fiscal year is as follows:

	Balance at Oct. 1, 2014	Additions	Deductions	Balance at Sep. 30, 2015
Water distribution system	\$ 1,724,009	62,700		1,786,709
Buildings	25,574			25,574
Equipment	28,128			28,128
Construction in progress	53,275	-	(53,275)	-
Total depreciated capital assets	1,830,986	62,700	(53,275)	1,840,411
Less accumulated depreciation for:				
Water distribution system	548,142	29,780		577,922
Buildings	14,493	426		14,919
Equipment	23,361	2,421		25,782
Total accumulated depreciation	585,996	32,627	-	618,623
Capital assets, net	\$ 1,244,990	30,073	-	1,221,788

Inventories

The District does not include an inventory amount on its financial statements. All items purchased for inventory are expensed immediately.

Prior Year Information

Prior year information is shown on the financial statements for comparative purposes only. No assurance is given on prior year amounts.

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 5
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED SEPTEMBER 30, 2015

Note 1 – Significant Accounting Policies – cont'd

Federal Income Tax

The District is exempt from federal and state income taxes.

Collateral Pledged

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

Deposit Categories of Credit Risk:

	Category			Bank	Carrying
	(A)	(B)	(C)	Balance	Amount
Cash	\$ 132,599			132,599	130,093
Investments	130,000			130,000	130,000
Totals	<u>\$ 262,599</u>	<u>0</u>	<u>0</u>	<u>262,599</u>	<u>260,093</u>

Note 2 – Long-Term Debt

Notes payable consist of three notes to the Office of Rural Development and one note to the Okmulgee County Industrial Authority.

The following is a summary of the long-term debt transactions of the District for the year ended September 30, 2015:

	Notes
	Payable
Balance, October 1, 2014	\$ 380,118
Additions/ Retirements	<u>(20,047)</u>
Balance, September 30, 2015	<u>\$ 360,071</u>

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 5
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED SEPTEMBER 30, 2015

Note 2 – Long-Term Debt – cont'd

The notes payable at September 30th, are detailed as follows:

Note No. 91-04, Rural Economic & Community Development, issued for \$150,000, dated 6-25-80, at 5.00% interest due in monthly installments of \$737	\$ 30,967
Note No. 91-06, Rural Economic & Community Development, issued for \$65,000, dated 6-25-80, at 5.00% interest due in monthly installments of \$320	12,804
Note No. 91-07, Rural Economic & Community Development, issued for \$305,300, dated 5-14-04, at 4.375% interest, due in monthly installments of \$1,362	266,425
Note to Okmulgee County Industrial Authority, CDBG, issued for \$105,000, dated 5-28-02, at 0% interest, due in monthly installments of \$438	<u>49,875</u>
Total	360,071
Less: Current maturities of long-term debt	<u>(20,772)</u>
Total Long-Term Debt	<u><u>\$ 339,299</u></u>

The scheduled maturities for the notes and lease payments are detailed as follows:

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2016	\$ 20,772	14,028	34,800
2017	21,535	13,293	34,828
2018	22,336	12,519	34,855
2019	21,421	11,709	33,130
2020	18,353	10,870	29,223
2020-25	37,777	49,192	86,969
2025-30	45,715	41,254	86,969
2530-35	55,214	31,419	86,633
2035-43	<u>116,948</u>	<u>23,584</u>	<u>140,532</u>
Totals	<u><u>\$ 360,071</u></u>	<u><u>207,868</u></u>	<u><u>567,939</u></u>

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 5
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED SEPTEMBER 30, 2015

Note 2 – Long-Term Debt – cont'd

Debt Service Reserve

In accordance with the loan agreement with Rural Development, the District is required to build and maintain a Debt Service Reserve Fund with a balance of no less than \$34,560 as per the Trust Agreement, which is equal to 12 months payments on the notes. The total amount of the restricted assets represents the Reserve account cash held at American Exchange Bank for the purpose of making future principal and interest payments. The balance at the end of September 30, 2014 was \$51,000.

Note 3 – Accumulated Unpaid Vacation and Sick Pay

At September 30, 2015, no determination of the aggregate dollar value of vacation and sick pay had been made.

Note 4 – Subsequent Events

Management has evaluated subsequent events through December 8, 2015, which is the date the financial statements were available to be issued and have determined that no additional information needs to be added to the financial statements.

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 5
Balance Sheet
September 30, 2015

	September 30,	
	2015	(memo only) 2014
<u>ASSETS</u>		
Current Assets:		
Cash	\$ 130,253	122,688
Investments	130,000	130,000
Accounts receivable	19,690	18,802
Prepaid insurance	4,795	4,765
Total current assets	<u>284,738</u>	<u>276,255</u>
Fixed Assets:		
Water system	1,840,411	1,777,711
Construction in progress	-	53,275
Less: accumulated depreciation	(618,623)	(585,996)
Total fixed assets (net)	<u>1,221,788</u>	<u>1,244,990</u>
Total Assets	<u>\$ 1,506,526</u>	<u>1,521,245</u>
 <u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 10,694	9,810
Accrued interest	541	557
Renters deposits	4,175	3,975
Current maturities of long-term debt	20,772	20,045
Total current liabilities	<u>36,182</u>	<u>34,387</u>
Long-Term Debt, less current maturities:		
Notes payable	<u>339,299</u>	<u>360,073</u>
Total Liabilities	<u>375,481</u>	<u>394,460</u>
Fund Equity:		
Retained earnings	<u>1,131,045</u>	<u>1,126,785</u>
Total Liabilities and Fund Equity	<u>\$ 1,506,526</u>	<u>1,521,245</u>

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 5
Statement of Revenue, Expenses and Changes in Retained Earnings
For The Year Ended September 30, 2015

	2014-15	(memo only) 2013-14
Revenue from Operations:		
Water sales	\$ 203,826	210,058
Membership fees/taps	3,900	1,789
Total revenue from operations	<u>207,726</u>	<u>211,847</u>
Expenses from Operations:		
Water purchases	27,486	28,677
Salaries and taxes	60,044	50,679
Repairs and maintenance	22,369	28,157
Vehicle expense	6,865	6,673
Telephone	3,824	4,579
Insurance	5,776	9,050
Dues and fees	2,692	2,872
Office expenses	4,330	4,296
Professional and consulting fees	2,840	1,812
Utilities	10,354	10,859
Contract labor	7,284	3,598
Water Tests	3,763	5,461
Depreciation	32,627	33,576
Total expenses from operations	<u>190,254</u>	<u>190,289</u>
Net Income (Loss) from Operations	17,472	21,558
Non-operating revenues:		
Interest earnings	<u>1,003</u>	<u>960</u>
Non-operating expenses:		
Interest on long-term debt	<u>(14,215)</u>	<u>(14,909)</u>
Net Income (Loss)	4,260	7,609
Retained earnings, beginning of period	<u>1,126,785</u>	<u>1,119,176</u>
Retained earnings, end of period	<u><u>\$ 1,131,045</u></u>	<u><u>1,126,785</u></u>