

Okmulgee County Rural Water District No. 5
Henryetta, Oklahoma

Financial Statements and
Reports of Independent Auditor

September 30, 2013

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, 2013

Chairman

Bill Mathis

Vice-Chairman

D.D. Chancey

Secretary/Treasurer

Fred Clay

Directors

Patricia Hodge

James Mankin

Clifford Porter

Brad Foster

Manager

Michael Page

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, 2013, 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

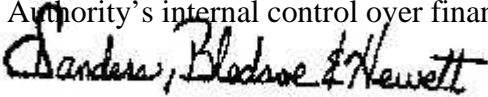
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of June 30, 2013, and the respective changes in financial position and cash flows thereof for the year then ended in 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 November 27, 2013 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



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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 27, 2013.

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

November 27, 2013

Okmulgee County Rural Water District No. 5
Henryetta, Oklahoma
Schedule of Findings and Responses
September 30, 2013

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, 2013

ASSETS

Current Assets:

Cash and cash equivalents	\$ 108,961
Investments	130,000
Accounts receivable	16,697
Prepaid insurance	4,889
Total current assets	<u>260,547</u>

Noncurrent Assets:

Capital Assets-	
Water systems, net of depreciation	<u>1,271,096</u>

Total Assets	<u>1,531,643</u>
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LIABILITIES

Current Liabilities:

Accounts payable	7,544
Accrued interest	572
Renters deposits	4,879
Current portion of long-term debt	19,352
Total current liabilities	<u>32,347</u>

Noncurrent Liabilities:

Long-term debt	<u>380,120</u>
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Total Liabilities	<u>412,467</u>
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NET ASSETS

Invested in capital assets, net of related debt	871,624
Restricted for debt service	34,278
Unrestricted assets	<u>213,274</u>
Total Net Assets	<u>\$ 1,119,176</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, 2013

Operating Revenues:	
Water sales	\$ 212,125
Operating Expenses:	
Water purchases	18,318
Salaries and taxes	51,365
Repairs and maintenance	37,470
Vehicle expense	7,420
Telephone	2,897
Insurance	7,713
Dues and fees	1,879
Office expenses	3,801
Professional fees	1,650
Utilities	8,421
Contract labor	918
Water tests	2,909
Depreciation	33,576
Total expenses from operations	178,337
Operating Income (Loss)	33,788
Non-Operating Revenues (Expenses):	
Grant proceeds	53,250
Interest income	917
Interest paid on long-term debt	(15,570)
Total non-operating revenues (expenses)	38,597
Change in Net Assets	72,385
Total Net Assets, beginning of period	1,046,791
Total Net Assets, end of period	\$ 1,119,176

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, 2013

Cash Flows from Operating Activities:

Receipts from customers	\$ 213,077
Payments to employees	(50,584)
Payments to vendors	(91,800)
	<hr/>
Net Cash Provided by Operating Activities	70,693
	<hr/>

Cash Flows from Capital and Related Financing Activities:

Grant proceeds	53,250
Capital assets purchased	(45,805)
Principal paid on long-term debt	(18,694)
Interest paid on long-term debt	(15,570)
	<hr/>
Net Cash Provided by (used in) Financing Activities	(26,819)
	<hr/>

Cash Flows from Investing Activities:

Investments liquidated (purchased)	(50,000)
Interest earned on investments	917
	<hr/>
Net Cash Provided by (used in) Investing Activities	(49,083)
	<hr/>

Net increase (decrease) in cash	(5,209)
Cash and cash equivalents, beginning of period	<hr/> 114,170
Cash and cash equivalents, end of period	<hr/> \$ 108,961

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

Operating Income	\$ 33,788
Adjustments to reconcile net income to net cash provided (used) by operating activities:	
Depreciation Expense	33,576
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	951
(Increase) decrease in prepaid insurance	303
Increase (decrease) in accounts payable	1,339
Increase (decrease) in accrued interest	(14)
Increase (decrease) in renters deposits	750
	<hr/>
Net cash provided by operating activities	\$ 70,693
	<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, 2013

Note 1 – Significant Accounting Policies

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, 2013 and are comprised as follows:

American Exchange Bank, Henryetta, OK-	
Reserve account	\$ 37,036
Construction account	7,470
Operating account	<u>64,327</u>
Total	<u>\$108,833</u>

The District's cash deposits at September 30, 2013, 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, 2013:

American Exchange Bank, Henryetta, OK-	
Certificate of deposit No. 13960, due 11-24-13, @ .70%	\$ 10,000
Certificate of deposit No. 14813, due 11-13-13, @ .85%	5,000
Certificate of deposit No. 18709, due 11-8-13, @ .85%	5,000
Certificate of deposit No. 20722, due 3-7-14, @ .55%	50,000
Certificate of deposit No. 19450, due 1-8-14, @ .50%	50,000
Certificate of deposit No. 20399, due 10-4-13, @ .85%	5,000
Certificate of deposit No. 18035, due 1-4-14, @ .50%	<u>5,000</u>
Total	<u>\$ 130,000</u>

Accounts Receivable

Billings for accounts receivable at September 30, 2013 were \$16,697. No computation was made for allowance for doubtful accounts, which is not considered to be material to the financial statements.

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 5
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED SEPTEMBER 30, 2013

Note 1 – Significant Accounting Policies – cont'd

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 2012-13 fiscal year is as follows:

	Balance at Oct. 1, 2012	Additions	Deductions	Balance at Sep. 30, 2013
Water distribution system	\$ 1,724,009			1,724,009
Buildings	25,574			25,574
Equipment	28,128			28,128
Construction in progress	-	45,805		45,805
Total depreciated capital assets	<u>1,777,711</u>	<u>45,805</u>	<u>-</u>	<u>1,823,516</u>
Less accumulated depreciation for:				
Water distribution system	490,674	28,734		519,408
Buildings	13,639	427		14,066
Equipment	14,531	4,415		18,946
Total accumulated depreciation	<u>518,844</u>	<u>33,576</u>	<u>-</u>	<u>552,420</u>
Capital assets, net	<u><u>\$ 1,258,867</u></u>	<u><u>12,229</u></u>	<u><u>-</u></u>	<u><u>1,271,096</u></u>

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.

Federal Income Tax

The District is exempt from federal and state income taxes.

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 5
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED SEPTEMBER 30, 2013

Note 1 – Significant Accounting Policies – cont'd

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:

	<u>Category</u>			<u>Bank</u>	<u>Carrying</u>
	<u>(A)</u>	<u>(B)</u>	<u>(C)</u>	<u>Balance</u>	<u>Amount</u>
Cash	\$ 108,961			108,961	108,961
Investments	130,000			130,000	130,000
Totals	<u>\$ 238,961</u>	<u>0</u>	<u>0</u>	<u>238,961</u>	<u>238,961</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, 2013:

	<u>Notes</u>
	<u>Payable</u>
Balance, October 1, 2012	\$ 418,166
Additions/ Retirements	<u>(18,694)</u>
Balance, September 30, 2013	<u>\$ 399,472</u>

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 5
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED SEPTEMBER 30, 2013

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	\$ 44,826
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	18,882
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	275,389
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>60,375</u>
Total	399,472
Less: Current maturities of long-term debt	<u>(19,352)</u>
Total Long-Term Debt	<u><u>\$ 380,120</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>
2014	\$ 19,352	14,926	34,278
2015	20,045	14,232	34,277
2016	20,772	13,506	34,278
2017	21,535	12,743	34,278
2018	22,336	11,941	34,277
2018-23	65,934	52,134	118,068
2023-28	44,956	44,638	89,594
2028-33	46,129	35,591	81,720
2033+	<u>138,413</u>	<u>34,809</u>	<u>173,222</u>
Totals	<u><u>\$ 399,472</u></u>	<u><u>234,520</u></u>	<u><u>633,992</u></u>

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 5
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED SEPTEMBER 30, 2013

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, 2013 was \$37,036.

Note 3 – Accumulated Unpaid Vacation and Sick Pay

At September 30, 2013, 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 November 27, 2013, 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, 2013

<u>ASSETS</u>	September 30,	
	2013	(memo only) 2012
Current Assets:		
Cash	\$ 108,961	114,170
Investments	130,000	80,000
Accounts receivable	16,697	17,648
Prepaid insurance	4,889	5,192
Total current assets	<u>260,547</u>	<u>217,010</u>
Fixed Assets:		
Water system	1,777,711	1,777,711
Construction in progress	45,805	-
Less: accumulated depreciation	(552,420)	(518,844)
Total fixed assets (net)	<u>1,271,096</u>	<u>1,258,867</u>
Total Assets	<u>\$ 1,531,643</u>	<u>1,475,877</u>
 <u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 7,544	6,205
Accrued interest	572	586
Renters deposits	4,879	4,129
Current maturities of long-term debt	19,352	18,692
Total current liabilities	<u>32,347</u>	<u>29,612</u>
Long-Term Debt, less current maturities:		
Notes payable	<u>380,120</u>	<u>399,474</u>
Total Liabilities	<u>412,467</u>	<u>429,086</u>
Fund Equity:		
Retained earnings	<u>1,119,176</u>	<u>1,046,791</u>
Total Liabilities and Fund Equity	<u>\$ 1,531,643</u>	<u>1,475,877</u>

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 5
Statement of Revenue, Expenses and Changes in Retained Earnings
For The Year Ended September 30, 2013

	2012-13	(memo only) 2011-12
Revenue from Operations:		
Water sales	\$ 210,825	217,041
Membership fees/taps	1,300	5,500
Total revenue from operations	<u>212,125</u>	<u>222,541</u>
Expenses from Operations:		
Water purchases	18,318	24,793
Salaries and taxes	51,365	48,708
Repairs and maintenance	37,470	27,305
Vehicle expense	7,420	5,794
Telephone	2,897	2,391
Insurance	7,713	7,421
Dues and fees	1,879	2,194
Office expenses	3,801	8,080
Professional and consulting fees	1,650	4,795
Utilities	8,421	9,279
Contract labor	918	328
Water Tests	2,909	4,273
Depreciation	33,576	33,576
Total expenses from operations	<u>178,337</u>	<u>178,937</u>
Net Income (Loss) from Operations	33,788	43,604
Non-operating revenues:		
Grant proceeds	53,250	-
Interest earnings	917	903
Total non-operating revenues	<u>54,167</u>	<u>903</u>
Non-operating expenses:		
Interest on long-term debt	<u>(15,570)</u>	<u>(16,166)</u>
Net Income (Loss)	72,385	28,341
Retained earnings, beginning of period	<u>1,046,791</u>	<u>1,018,450</u>
Retained earnings, end of period	<u>\$ 1,119,176</u>	<u>1,046,791</u>