

State Auditor & Inspector

Okmulgee County Rural Water District No. 5 Henryetta, Oklahoma

Financial Statements and
Reports of Independent Auditor

September 30, 2011

FILED

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State Auditor & Inspector

RECEIPT #

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Audited by

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

Broken Arrow, Oklahoma

**Okmulgee County Rural Water District No. 5
Seminole, Oklahoma**

Board of Directors
September 30, 2011

Chairman

Bill Mathis

Vice-Chairman

D.D. Chancey

Secretary/Treasurer

Fred Clay

Directors

Patricia Hodge

Jeremy Johnson

Carl VanMeter

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

Table of Contents
September 30, 2011

	<u>Page</u>
Board of Directors	<i>i</i>
Independent Auditor's Report	1
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	2
Schedule of Audit Results	4
Combined Financial Statements:	
Statements of Net Assets	5
Statements of Revenues, Expenses and Changes in Net Assets.....	6
Statements of Cash Flows	7
Notes to the Financial Statements	8
Other Supplementary Information:	
Balance Sheet	13
Statement of Income and Retained Earnings.....	14



SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP

Stephen H. Sanders, CPA
Eric M. Bledsoe, CPA
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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, 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 an opinion 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 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 September 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management has elected to omit the Management Discussion and Analysis, which is considered required supplementary information that is normally subjected to auditing procedures. Due to this omission, the usefulness and accessibility of the financial statements are limited to the District's management. The omission of this information does not affect the opinion expressed on the financial statements as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2011, 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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 described in Note 1.

Sanders, Bledsoe & Hewett

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

November 23, 2011



SANDERS, BLEDSOE & HEWETT
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**Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Standards Performed in Accordance with
Government Auditing Standards**

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

We have audited the combined financial statements of Okmulgee County Rural Water District No. 5 (the District), Okmulgee, Oklahoma, as of and for the year ended September 30, 2011, which, except for the omission of the Management Discussion and Analysis, collectively comprise the District's basic financial statements and have issued our report thereon dated November 23, 2011. 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.

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 auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepting accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in a more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be 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 that are required to be reported under *Government Auditing Standards*.

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

November 23, 2011

Okmulgee County Rural Water District No. 5
Henryetta, Oklahoma
Schedule of Audit Results
September 30, 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

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 5
Statement of Net Assets
September 30, 2011

ASSETS

Current Assets:	
Cash and cash equivalents	\$ 66,711
Investments	80,000
Accounts receivable	22,414
Prepaid insurance	5,066
Total current assets	<u>174,191</u>
Noncurrent Assets:	
Capital Assets-	
Water systems, net of depreciation	<u>1,292,442</u>
Total Assets	<u>1,466,633</u>

LIABILITIES

Current Liabilities:	
Accounts payable	7,340
Accrued interest	634
Renters deposits	3,979
Current portion of long-term debt	18,048
Total current liabilities	<u>30,001</u>
Noncurrent Liabilities:	
Long-term debt	<u>418,182</u>
Total Liabilities	<u>448,183</u>

NET ASSETS

Invested in capital assets, net of related debt	856,212
Restricted for debt service	34,278
Unrestricted assets	127,960
Total Net Assets	<u>\$ 1,018,450</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, 2011

Operating Revenues:	
Water sales	<u>\$ 224,744</u>
Operating Expenses:	
Water purchases	37,603
Salaries and taxes	47,355
Repairs and maintenance	24,800
Vehicle expense	6,289
Telephone	2,386
Insurance	7,671
Dues and fees	2,446
Office expenses	4,716
Professional fees	1,950
Utilities	11,209
Contract labor	820
Water tests	3,832
Depreciation	<u>33,382</u>
Total expenses from operations	<u>184,459</u>
Operating Income (Loss)	40,285
Non-Operating Revenues (Expenses):	
Interest income	593
Interest paid on long-term debt	<u>(16,800)</u>
Total non-operating revenues (expenses)	<u>(16,207)</u>
Change in Net Assets	24,078
Total Net Assets, beginning of period	<u>994,372</u>
Total Net Assets, end of period	<u><u>\$ 1,018,450</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, 2011

Cash Flows from Operating Activities:

Receipts from customers	\$ 219,215
Payments to employees	(47,449)
Payments to vendors	<u>(101,158)</u>
Net Cash Provided by Operating Activities	<u>70,608</u>

Cash Flows from Capital and Related Financing Activities:

Fixed assets purchased	(4,265)
Investments purchased	(55,000)
Principal paid on long-term debt	(17,464)
Interest paid on long-term debt	<u>(16,799)</u>
Net Cash Provided by (used in) Financing Activities	<u>(93,528)</u>

Cash Flows from Investing Activities:

Interest earned on investments	<u>593</u>
--------------------------------	------------

Net increase (decrease) in cash	(22,327)
Cash and cash equivalents, beginning of period	<u>89,038</u>
Cash and cash equivalents, end of period	<u><u>\$ 66,711</u></u>

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

Operating Income	\$ 40,285
Adjustments to reconcile net income to net cash provided (used) by operating activities:	
Depreciation Expense	33,382
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	(5,529)
(Increase) decrease in prepaid insurance	(702)
Increase (decrease) in accounts payable	1,885
Increase (decrease) in accrued interest	(13)
Increase (decrease) in renters deposits	<u>1,300</u>
Net cash provided by operating activities	<u><u>\$ 70,608</u></u>

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, 2011**

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, 2011, and are comprised as follows:

American Exchange Bank, Henryetta, OK-	
Reserve account	\$ 23,216
Construction account	20
Operating account	<u>43,303</u>
Total	<u>\$ 66,539</u>

The District's cash deposits at September 30, 2011, 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, 2011:

American Exchange Bank, Henryetta, OK-	
Certificate of deposit No. 13960, due 11-24-11, @ 1.70%	\$ 10,000
Certificate of deposit No. 14813, due 11-13-11, @ 1.70%	5,000
Certificate of deposit No. 18709, due 11-8-11, @ 1.70%	5,000
Certificate of deposit No. 20722, due 3-7-12, @ .80%	50,000
Certificate of deposit No. 20399, due 10-4-12, @ 1.00%	5,000
Certificate of deposit No. 18035, due 1-4-12, @ 1.25%	<u>5,000</u>
Total	<u>\$ 80,000</u>

Accounts Receivable

Billings for accounts receivable at September 30, 2011, were \$22,414. 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, 2011

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 2010-11 fiscal year is as follows:

	<u>Balance at</u> <u>Oct. 1, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at</u> <u>Sep. 30, 2011</u>
Water distribution system	\$ 1,724,009			1,724,009
Buildings	25,574			25,574
Equipment	23,863	4,265		28,128
Total depreciated capital assets	<u>1,773,446</u>	<u>4,265</u>	<u>-</u>	<u>1,777,711</u>
Less accumulated depreciation for:				
Water distribution system	433,206	28,734		461,940
Buildings	12,787	426		13,213
Equipment	5,893	4,223		10,116
Total accumulated depreciation	<u>451,886</u>	<u>33,383</u>	<u>-</u>	<u>485,269</u>
Capital assets, net	<u>\$ 1,321,560</u>	<u>(29,118)</u>	<u>-</u>	<u>1,292,442</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, 2011**

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:

	Category			Bank Balance	Carrying Amount
	(A)	(B)	(C)		
Cash	\$ 67,383			67,383	66,539
Investments	80,000			80,000	80,000
Totals	\$ 147,383	0	0	147,383	146,539

Note 2 – Long-Term Debt

Notes payable consist of four notes to the Office of Rural Development, one note to the Okmulgee County Industrial Authority and one capital lease.

The following is a summary of the long-term debt transactions of the District for the year ended September 30, 2011:

	Notes Payable
Balance, October 1, 2010	\$ 453,694
Additions/ Retirements	(17,464)
Balance, September 30, 2011	\$ 436,230

**OKMULGEE COUNTY RURAL WATER DISTRICT NO. 5
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED SEPTEMBER 30, 2011**

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	\$ 57,369
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	24,383
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	283,603
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>70,875</u>
Total	436,230
Less: Current maturities of long-term debt	<u>(18,048)</u>
Total Long-Term Debt	<u><u>\$ 418,182</u></u>

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

Year Ended	Principal	Interest	Totals
2012	\$ 18,048	16,230	34,278
2013	18,677	15,601	34,278
2014	19,337	14,941	34,278
2015	20,030	14,248	34,278
2016	20,756	13,522	34,278
Thereafter	<u>339,382</u>	<u>116,008</u>	<u>455,390</u>
Totals	<u><u>\$ 436,230</u></u>	<u><u>190,550</u></u>	<u><u>626,780</u></u>

**OKMULGEE COUNTY RURAL WATER DISTRICT NO. 5
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED SEPTEMBER 30, 2011**

Note 2 – Long-Term Debt

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 and CD investments held at American Exchange Bank for the purpose of making future principal and interest payments. The balance at the end of September 30, 2011 was \$103,216.

Note 3 – Accumulated Unpaid Vacation and Sick Pay

At September 30, 2011, no determination of the aggregate dollar value of vacation and sick pay had been made.

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 5
Balance Sheet
September 30, 2011

<u>ASSETS</u>	September 30,	
	2011	(memo only) 2010
Current Assets:		
Cash	\$ 66,711	89,038
Investments	80,000	25,000
Accounts receivable	22,414	16,885
Prepaid insurance	5,066	4,364
Total current assets	174,191	135,287
Fixed Assets:		
Water system	1,777,711	1,773,446
Less: accumulated depreciation	(485,269)	(451,886)
Total fixed assets (net)	1,292,442	1,321,560
Total Assets	\$ 1,466,633	1,456,847
<u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 7,340	5,455
Accrued interest	634	647
Renters deposits	3,979	2,679
Current maturities of long-term debt	18,048	17,463
Total current liabilities	30,001	26,244
Long-Term Debt, less current maturities:		
Notes payable	418,182	436,231
Total Liabilities	448,183	462,475
Fund Equity:		
Retained earnings	1,018,450	994,372
Total Liabilities and Fund Equity	\$ 1,466,633	1,456,847

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 5
Statement of Revenue, Expenses and Changes in Retained Earnings
For The Year Ended September 30, 2011

	<u>2010-11</u>	<u>(memo only) 2009-10</u>
Revenue from Operations:		
Water sales	\$ 222,561	211,757
Membership fees/taps	2,183	4,736
Total revenue from operations	<u>224,744</u>	<u>216,493</u>
Expenses from Operations:		
Water purchases	37,603	38,610
Salaries and taxes	47,355	44,869
Repairs and maintenance	24,800	26,255
Vehicle expense	6,289	5,772
Telephone	2,386	2,439
Insurance	7,671	8,749
Dues and fees	2,446	1,760
Office expenses	4,716	4,138
Professional and consulting fees	1,950	1,650
Utilities	11,209	9,490
Contract labor	820	3,928
Water Tests	3,832	0
Depreciation	33,382	31,195
Total expenses from operations	<u>184,459</u>	<u>178,855</u>
Net Income (Loss) from Operations	40,285	37,638
Non-operating revenues:		
Interest earnings	<u>593</u>	<u>716</u>
Non-operating expenses:		
Interest on long-term debt	<u>(16,800)</u>	<u>(17,143)</u>
Net Income (Loss)	24,078	21,211
Retained earnings, beginning of period	<u>994,372</u>	<u>973,161</u>
Retained earnings, end of period	<u>\$ 1,018,450</u>	<u>994,372</u>