

**Pushmataha County Rural Water District No. 5
Nashoba, Oklahoma**

Financial Statements and Auditor's Reports

Year Ended December 31, 2012

Audited by

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

BROKEN ARROW, OK

Pushmataha County Rural Water District No. 5
Nashoba, Oklahoma
Board of Directors
December 31, 2012

BOARD OF DIRECTORS

Chairman

David Mahoney

Vice Chairman

Juanita Briggs

Secretary/Treasurer

Louise Tittsworth

Members

Elaine Mahoney

Larry Burke

Bookkeeper

Judith Patterson

Pushmataha County Rural Water District No. 5
Nashoba, Oklahoma
December 31, 2012

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SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the business-type activities of the Pushmataha County Rural Water District No. 5 (the District), Nashoba, Oklahoma, as of and for the year ended December 31, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to 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, 2012, 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.

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 a report dated February 4, 2013 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 grants. This 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 A.

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Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

February 4, 2013



SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

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
Pushmataha County Rural Water District No. 5
Nashoba, Oklahoma

We have audited the financial statements of the Pushmataha County Rural Water District (the District) No. 5, Nashoba, Oklahoma, as of and for the year ended December 31, 2012, and have issued our report thereon dated February 4, 2013. 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.

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 generally accepted auditing standards.

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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

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 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. 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.

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.

A handwritten signature in black ink that reads "Sanders, Bledsoe & Hewett". The signature is written in a cursive, flowing style.

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

February 4, 2013

PUSHMATAHA COUNTY RURAL DISTRICT NO. 5
Disposition of Prior Year's Reportable Conditions
December 31, 2012

There were no prior year reportable conditions.

PUSHMATAHA COUNTY RURAL WATER DISTRICT NO. 5
Schedule of Audit Results
December 31, 2012

Section 1 – Summary of Auditor’s Results:

1. An unqualified opinion report was issued on the financial statements.
2. The audit disclosed no significant deficiencies in the internal controls that were considered material weaknesses.
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

PUSHMATAHA COUNTY RURAL WATER DISTRICT NO. 5
STATEMENT OF NET ASSETS
DECEMBER 31, 2012

ASSETS:

Current assets:

Cash	\$ 18,069
Investments	23,550
Accounts receivable	10,623
Prepaid assets	2,132
Total current assets	<u>54,374</u>

Noncurrent assets:

Restricted cash and cash equivalents	20,918
Capital assets:	
Water distribution system-net	1,805,777
Building-net	31,812
Total noncurrent assets	<u>1,858,507</u>

Total Assets	<u>1,912,881</u>
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LIABILITIES:

Current liabilities:

Accounts/wages payable	6,301
Accrued interest on long-term debt	1,127
Current portion of long-term debt	8,985
Total current liabilities	<u>16,413</u>

Noncurrent liabilities:

Long-term notes payable	<u>413,605</u>
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Total Liabilities	<u>430,018</u>
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NET ASSETS:

Invested in capital assets, net of related debt	1,414,999
Unrestricted	67,864
Total Net Assets	<u>\$ 1,482,863</u>

The accompanying notes are an integral part of the financial statements

PUSHMATAHA COUNTY RURAL WATER DISTRICT NO. 5
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

Operating Revenues:	
Water revenue	<u>\$ 118,146</u>
Operating Expenses:	
Salaries and taxes	27,500
Water purchases	28,161
Utilities and telephone	2,926
Depreciation	63,304
Supplies and materials	7,816
Office	1,821
Insurance	4,097
Contract labor	6,580
Professional fees	2,166
Postage	1,269
Mileage and travel	4,674
Dues and fees	867
Miscellaneous	<u>705</u>
Total expenses from operations	<u>151,886</u>
Operating Income (Loss)	(33,740)
Non-Operating Revenues (Expenses):	
Interest income	577
Interest paid on long-term debt	<u>(19,735)</u>
Total Non-Operating Revenues (Expenses)	<u>(19,158)</u>
Change in Net Assets	(52,898)
Total Net Assets, beginning of period	<u>1,535,761</u>
Total Net Assets, end of period	<u><u>\$ 1,482,863</u></u>

The accompanying notes are an integral part of the financial statements

PUSHMATAHA COUNTY RURAL WATER DISTRICT NO. 5

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2012

Cash Flows from Operating Activities:

Receipts from customers	\$ 118,744
Payments to employees	(27,639)
Payments to vendors	<u>(60,920)</u>
Net Cash Provided by (used in) Operating Activities	<u>30,185</u>

Cash Flows from Financing Activities:

Principal paid on long-term debt	(8,567)
Interest paid on long-term debt	<u>(19,741)</u>
Net Cash Provided by (used in) Financing Activities	<u>(28,308)</u>

Cash Flows from Investing Activities:

Interest earned on investments	<u>577</u>
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Net increase (decrease) in cash and cash equivalents 2,454

Cash and cash equivalents, beginning of period 60,083

Cash and cash equivalents, end of period \$ 62,537

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

Operating Income (loss)	\$ (33,740)
Adjustments to reconcile net income to net cash provided (used) by operating activities:	
Depreciation Expense	63,304
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	598
(Increase) decrease in prepaid assets	(353)
Increase (decrease) in accounts payable	<u>376</u>
Net cash provided by operating activities	<u><u>\$ 30,185</u></u>

The accompanying notes are an integral part of the financial statements

PUSHMATAHA COUNTY RURAL WATER DISTRICT NO. 5
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

Note A – 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.

New 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. The District has elected to implement this standard.

Cash

The District’s cash accounts are with the Shamrock Bank, Coalgate, Oklahoma, and are detailed as follows:

	December 31,	
	2012	2011
Operating Account	\$ 19,385	20,325
Construction Account	543	543
Less: Outstanding checks	(1,859)	(1,868)
Totals	<u>\$ 18,069</u>	<u>19,000</u>

Collateral Pledged

It appears that all funds were adequately insured by \$250,000 FDIC coverage as of December 31, 2012.

Prior Year Information

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

PUSHMATAHA COUNTY RURAL WATER DISTRICT NO. 5
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

Note A – Significant Accounting Policies – cont'd

Investments

The District's investment accounts (which are restricted) are with the Shamrock Bank, Coalgate, Oklahoma, and are detailed as follows:

	December 31,	
	2012	2011
Money Market Account	\$ 14,516	11,664
Certificates of Deposits	9,034	8,998
Total Investments	<u>\$ 23,550</u>	<u>20,662</u>

Restricted Asset – Investment Reserves

In compliance with Rural Economic and Community Development regulations, cash reserves have been established to collect up to one year's payments on the notes payable, or \$16,212, at which time deposits into the reserve can be suspended. The reserve account funds have been deposited in a certificate of deposit at Shamrock Bank, Coalgate, Oklahoma, which is insured by the federal government. At December 31, 2012 the restricted asset-investment reserve balance was \$20,918.

Accounts Receivable

Billings for accounts receivable at December 31, 2012 were \$10,623. Allowance for doubtful accounts was not estimated, since the amount is considered immaterial.

Fixed Assets

Fixed assets obtained prior to December 31, 1995, are carried at estimated cost, which is equivalent to the loan proceeds and grants obtained to finance the purchase of property, plant, and equipment. Subsequent additions are recorded at cost. Depreciation of the waterworks system and improvements is provided using the straight-line method based on a forty-year life. Equipment is depreciated over a five-year life. Depreciation expense for the year is presented as an operating expense and closed, along with other operating expenses, directly to retained earnings.

PUSHMATAHA COUNTY RURAL WATER DISTRICT NO. 5
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

Note B – Long-Term Debt

The District is indebted to the USDA Rural Development Program on two notes obtained to finance system improvements. The notes are secured by system revenues and property, plant and equipment. Long-term debt at December 31, is summarized as follows:

	<u>2012</u>	<u>2011</u>
Note No. 91-01, issued for \$275,000, dated 9-7-93, at 5% interest, due in monthly installments of \$1,351, until paid;	\$ 207,967	213,627
Note No. 91-01, issued for \$230,000, dated 2-14-06, at 4.25% interest, due in monthly installments of \$1,008, until paid;	214,623	217,530
Less: Current maturities of long-term debt	<u>(8,985)</u>	<u>(8,566)</u>
Total Long-Term Debt, Less Current Maturities	<u>\$ 413,605</u>	<u>422,591</u>

The estimated maturities for the next five (5) years, plus the total amount due thereafter, based on the required monthly payments, are detailed as follows:

	<u>Rural Development</u>
2013	\$ 8,985
2014	9,418
2015	9,875
2016	10,354
2017	10,856
2018-22	62,727
2023-2027	79,540
2028-32	100,889
2033-37	47,470
2038+	82,477
Total	<u>\$ 422,591</u>

PUSHMATAHA COUNTY RURAL WATER DISTRICT NO. 5
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

Note C- Contributed Capital

Contributed capital of \$674,036 was provided by grants from the Rural Economic and Community Development and other sources to assist in building and improving the water system. In 2006 and 2007, the District received grants from Rural Development (\$905,551), ORWB (\$119,000) and the Choctaw Nation (\$50,000), as well as a KEDDO Grant (\$10,751) and ODOC Grant (\$250,000) which were administered through Pushmataha County. These grants, along with the loan proceeds received in 2006 and 2007, were used to complete the water distribution system in Snow and assist in the building of an office building.

PUSHMATAHA COUNTY RURAL WATER DISTRICT NO. 5
 BALANCE SHEET
 DECEMBER 31, 2012

	DECEMBER 31,	
	2012	(memo only) 2011
<u>ASSETS</u>		
Current Assets:		
Cash in bank	\$ 18,069	19,000
Investments	23,550	20,662
Accounts receivable	10,623	11,221
Prepaid Insurance	2,132	1,779
Total Current Assets	<u>54,374</u>	<u>52,662</u>
Fixed Assets:		
Water distribution system	2,478,013	2,478,013
Building	40,611	40,611
Equipment	14,648	14,648
Office equipment	2,721	2,721
Total Fixed Assets	<u>2,535,993</u>	<u>2,535,993</u>
Less: accumulated depreciation	<u>(698,404)</u>	<u>(635,100)</u>
Total Fixed Assets (net of depreciation)	<u>1,837,589</u>	<u>1,900,893</u>
Restricted Assets:		
Investment reserves	<u>20,918</u>	<u>20,421</u>
Total Assets	<u>\$ 1,912,881</u>	<u>1,973,976</u>
<u>LIABILITIES AND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 4,136	3,621
Accrued wages	1,802	1,840
Payroll taxes payable	363	464
Accrued interest	1,127	1,133
Current maturities of long-term debt	8,985	8,566
Total Current Liabilities	<u>16,413</u>	<u>15,624</u>
Long-Term Debt, less current maturities:		
Notes payable	<u>413,605</u>	<u>422,591</u>
Total Liabilities	<u>430,018</u>	<u>438,215</u>
Equity:		
Contributed capital	2,009,338	2,009,338
Retained earnings (deficit)	<u>(526,475)</u>	<u>(473,577)</u>
Total Equity	<u>1,482,863</u>	<u>1,535,761</u>
Total Liabilities and Equity	<u>\$ 1,912,881</u>	<u>1,973,976</u>

PUSHMATAHA COUNTY RURAL WATER DISTRICT NO. 5
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
FOR YEARS ENDED DECEMBER 31, 2012

	2012	(memo only) 2011
Revenue from operations:		
Water revenue	\$ 103,737	109,601
Memberships	5,670	2,687
Miscellaneous	8,739	2,328
Total revenue from operations	<u>118,146</u>	<u>114,616</u>
Expenses from operations:		
Salaries and taxes	27,500	24,335
Water purchases	28,161	27,489
Utilities and telephone	2,926	3,765
Depreciation	63,304	63,430
Supplies and materials	7,816	6,330
Office	1,821	1,141
Insurance	4,097	4,430
Contract labor	6,580	4,540
Professional fees	2,166	1,700
Postage	1,269	1,216
Mileage and reimbursements	4,674	4,234
Dues and fees	867	1,086
Miscellaneous	705	637
Total expenses from operations	<u>151,886</u>	<u>144,333</u>
Net Income (Loss) From Operations	(33,740)	(29,717)
Non-operating revenue:		
Interest earnings	<u>577</u>	<u>610</u>
Non-operating expenses:		
Interest paid on long-term debt	<u>(19,735)</u>	<u>(20,114)</u>
Net Income (Loss)	(52,898)	(49,221)
Retained earnings, beginning of period (deficit)	<u>(473,577)</u>	<u>(424,356)</u>
Retained earnings, end of period (deficit)	<u><u>\$ (526,475)</u></u>	<u><u>(473,577)</u></u>