

**Rogers County Rural Water District No. 5
Claremore, Oklahoma**

Financial Statements and Auditor's Reports

Year Ended May 31, 2012

Audited by

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

BROKEN ARROW, OK

Rogers County Rural Water District No. 5
Claremore, Oklahoma
Board of Directors
May 31, 2012

BOARD OF DIRECTORS

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Martin B. Howard

Vice-Chairman

Robert D. Cox

Secretary/Treasurer

Mike L. Miller

Assistant Secretary/Treasurer

Raymond R. Tomasko

Members

David Sykes

MANAGER

Steve Dunavant

BOOKKEEPER

Becky Shupe

CLERK

Tracy Moore

Rogers County Rural Water District No. 5
Claremore, Oklahoma
May 31, 2012

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SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

Independent Auditor's Report

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

We have audited the accompanying financial statements of the business-type activities of the Rogers County Rural Water District No. 5 (the District), Claremore, Oklahoma, as of and for the year ended May 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 May 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.

The Management Discussion and Analysis on pages 5-6 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 August 30, 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 described in Note A.

A handwritten signature in black ink that reads "Sanders, Bledsoe & Hewett". The script is cursive and fluid, with the ampersand being particularly stylized.

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

August 30, 2012

RURAL WATER DISTRICT NO. 5, ROGERS COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
MAY 31, 2012

Our discussion and analysis of the Rural Water District No. 5, Rogers County's financial performance provides an overview of the District's financial activities for the fiscal year ended May 31, 2012. Please read it in conjunction with the District's financial statements that begin on page 11.

FINANCIAL HIGHLIGHTS

- The District's total operating revenues exceeded total operating expenses by \$1,287,134. Overall, the District's cash and cash equivalents increased by \$656,938 in the current fiscal year.
- The District increased its total investments by \$14,425, and earned a total of \$27,941 in interest in 2011-12, less than prior years due to declining interest rates.
- Membership numbers increased in 2011-12, with total users reaching around 4,391 at year-end.

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 May 31, 2012, the District had \$10,716,554 invested in fixed assets, net of depreciation, including land, buildings, the water system, vehicles and equipment. The District made some water system improvements and replacements in 2011-12, increasing total fixed assets by \$247,635.

Long-Term Debt

The District is indebted to Oklahoma Water Resources Board on two notes obtained for extensive water system extensions, and one note from Rural Development. The outstanding principal balance owed on the note decreased from \$6,685,230 to \$6,429,400 during the 2011-12 fiscal year.

Economic Factors and Next Year's Budget and Rates

DEQ/EPA has new regulations for all Rural Water Districts. There will be continuing substantial costs associated with these test requirements, along with an increase in chemical costs.

The District's operating budget for fiscal year 2012-13 will remain much like previous years budgets.

The District is considering a rate increase to allow for needed improvements to existing infrastructure and the replacement of fixed assets in the future.

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 P.O. Box 1980, Claremore, OK 74018 or call (918) 266-4634.



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
Rogers County Rural Water District No. 5
Claremore, Oklahoma

We have audited the financial statements of the Rogers County Rural Water District No. 5 (the District), Claremore, Oklahoma, as of and for the year ended May 31, 2012 and have issued our report thereon dated August 30, 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.

A handwritten signature in black ink that reads "Sanders, Bledsoe & Hewett". The script is cursive and fluid, with the ampersand clearly visible.

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

August 30, 2012

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

There were no prior year reportable conditions.

ROGERS COUNTY RURAL DISTRICT NO. 5
Schedule of Audit Results, Findings and Questioned Costs
May 31, 2012

Section 1 – Summary of Auditor's Results

1. An unqualified opinion 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

ROGERS COUNTY RURAL WATER DISTRICT NO. 5

Statement of Net Assets

May 31, 2012

ASSETS:

Current Assets:

Cash and cash equivalents	\$ 1,664,998
Investments	1,405,628
Current portion of receivables	187,648
Prepaid assets	<u>5,546</u>
Total current assets	<u>3,263,820</u>

Noncurrent Assets:

Restricted cash-	
Debt service - OWRB	188,115
Investment reserve - Rural Development	252,464
Capital Assets-	
Land	170,611
Plant and water systems, net	10,536,160
Office equipment, net	4,637
Automobiles and equipment, net	<u>5,146</u>
Total noncurrent assets	<u>11,157,133</u>

Other Assets:

Loan costs, net of depreciation	29,257
Utility deposits	<u>200</u>
	<u>29,457</u>

Total Assets	<u>14,450,410</u>
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LIABILITIES:

Current Liabilities:

Accounts payable	57,993
Accrued liabilities	8,573
Current portion of long-term debt	<u>268,974</u>
Total current liabilities	<u>335,540</u>

Noncurrent Liabilities:

Long-term debt	<u>6,160,426</u>
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Total Liabilities	<u>6,495,966</u>
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NET ASSETS:

Invested in capital assets, net of related debt	4,287,154
Restricted for debt service	440,579
Unrestricted assets	<u>3,226,711</u>
Total Net Assets	<u>\$ 7,954,444</u>

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

ROGERS COUNTY RURAL WATER DISTRICT NO. 5

Statement of Activities For The Year Ended May 31, 2012

Operating Revenues:

Water sales	\$ 2,378,467
Other income from operations	<u>225,921</u>
Total revenue from operations	<u>2,604,388</u>

Operating Expenses:

Water purchases	44,826
Salaries and taxes	385,650
Chemicals	402,134
Utilities	132,746
Repairs and maintenance	112,542
Office	2,142
Vehicle expense	34,629
Insurance	112,018
Professional fees	19,006
Equipment lease	11,733
Permits and licenses	1,559
Dues and subscriptions	2,736
Annuity	6,465
Director fees	2,400
Bank and trustee fees	25,618
Postage	12,920
Miscellaneous	<u>8,130</u>
Total expenses from operations	<u>1,317,254</u>

Operating Income (Loss) 1,287,134

Non-Operating Revenues (Expenses):

Interest income	27,941
Reimbursements from ODOT	64,581
Interest paid on long-term debt	(198,393)
Depreciation expense	(361,649)
Amortization expense	<u>(2,321)</u>
Total Non-Operating Revenues (Expenses)	<u>(469,841)</u>

Change in Net Assets 817,293

Total Net Assets, beginning of period 7,137,151

Total Net Assets, end of period \$ 7,954,444

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

ROGERS COUNTY RURAL WATER DISTRICT NO. 5

Statement of Cash Flows For the Year Ended May 31, 2012

Cash Flows from Operating Activities:

Receipts from customers	\$ 2,416,236
Payments to employees	(384,990)
Payments to vendors	<u>(870,843)</u>
Net Cash Provided by Operating Activities	<u>1,160,403</u>

Cash Flows from Financing Activities:

Sale (purchase) of fixed assets	(142,448)
ODOT reimbursements	64,581
Principal paid on long-term debt	(255,830)
Interest paid on long-term debt	<u>(197,715)</u>
Net Cash Provided by (used in) Financing Activities	<u>(531,412)</u>

Cash Flows from Investing Activities:

Interest earned on investments	<u>27,947</u>
Net Increase (Decrease) in Cash	656,938
Cash and cash equivalents, beginning of period	<u>2,854,267</u>
Cash and cash equivalents, end of period	<u>\$ 3,511,205</u>

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

Net Income (Loss)	\$ 817,293
Adjustments to reconcile net income to net cash provided (used) by operating activities:	
Depreciation and Amortization	363,970
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	(25,053)
(Increase) decrease in prepaid insurance	31,338
Increase (decrease) in accounts payable	(26,654)
Increase (decrease) in accruals	<u>(491)</u>
Net cash provided by operating activities	<u>\$ 1,160,403</u>

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

ROGERS COUNTY RURAL WATER DISTRICT NO. 5

Claremore, Oklahoma

Notes to the Financial Statements

May 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 liabilities 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.

Cash and equivalents

The District’s cash accounts at May 31, 2012 are detailed as follows:

Cash on hand	\$ 100
1st Bank, Claremore, Ok-	
Revenue account	796,738
Development account	706,540
Payroll account	212,338
Petty Cash account	1,569
Less: Outstanding checks	(52,287)
Total Cash	<u>\$ 1,664,998</u>
 OWRB Debt Service:	
Bank of New York-	
Trustee account	<u>\$ 188,115</u>

ROGERS COUNTY RURAL WATER DISTRICT NO. 5

Claremore, Oklahoma

Notes to the Financial Statements

May 31, 2012

Note A – Significant Accounting Policies – cont'd

Investments

The District's investments are detailed as follows:

1st Bank, Claremore, Ok-	
Certificate of deposit no. 13026226	\$ 368,642
Certificate of deposit no. 13038704	252,464
Certificate of deposit no. 13038828	269,330
Certificate of deposit no. 13052863	61,283
Certificate of deposit no. 13057962	216,617
Certificate of deposit no. 13038887	237,292
	<hr/>
Total Investments	\$ 1,405,628
	<hr/>

Rural Development Investment:

1st Bank, Claremore, Ok-	
Certificate of deposit no. 13038690	\$ 252,464
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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

	Category			Bank Balance	Carrying Amount
	(A)	(B)	(C)		
Cash	\$ 500,000	718,138		1,218,138	1,213,574
Investments	250,000	1,408,092		1,658,092	1,658,092
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	\$ 750,000	2,126,230	0	2,876,230	2,871,666
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ROGERS COUNTY RURAL WATER DISTRICT NO. 5

Claremore, Oklahoma

Notes to the Financial Statements

May 31, 2012

Note A – Significant Accounting Policies – cont'd

Accounts Receivable

Billings for accounts receivable at May 31, 2012 were \$187,647. No allowance for doubtful accounts was computed because the effect of bad debts on the financial statements is not considered material.

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.

Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance, including workers compensation, for risk of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

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 years
Equipment & tools	5 years
Transportation equipment	5 years
Water & sewer system	40 years
Buildings	25 years
Computer equipment	3 years

ROGERS COUNTY RURAL WATER DISTRICT NO. 5

Claremore, Oklahoma

Notes to the Financial Statements

May 31, 2012

Note A – Significant Accounting Policies – cont'd

The fixed asset information for the District is shown below:

	<u>5/31/2011 Amount</u>	<u>Additions</u>	<u>Deletions</u>	<u>5/31/2012 Amount</u>
Plant and water sys.	\$ 15,325,042	247,635	-	15,572,677
Land	170,611	-	-	170,611
Vehicles and equip.	517,977	-	-	517,977
Furniture	<u>129,184</u>	<u>-</u>	<u>-</u>	<u>129,184</u>
Total Fixed Assets	16,142,814	247,635	-	16,390,449
Less: Accumulated Depreciation	<u>(5,312,246)</u>	<u>(361,649)</u>	<u>-</u>	<u>(5,673,895)</u>
Total	<u>\$ 10,830,568</u>	<u>(114,014)</u>	<u>-</u>	<u>10,716,554</u>

Note B – Long-Term Debt

Long-Term Debt consists of two notes to the Oklahoma Water Resources Board and one note to Rural Development.

The District has a promissory note in the amount of \$2,100,000 with the Oklahoma Water Resources Board (OWRB), dated 1996, for a period of 28 years. The District makes monthly deposits into the trust account at the Bank of New York. The trust account then makes the quarterly payments of principal and interest to the OWRB. The current interest rate on this note is 1.17%. The water system and future water revenues are used as security for this note.

The District has a promissory note in the amount of \$4,700,000 with the Oklahoma Water Resources Board (OWRB), dated 2007, for a period of 20 years. The District makes monthly deposits into the trust account at the Bank of New York. The trust account then makes the quarterly payments of principal and interest to the OWRB. The current interest rate on this note is 3.69%. The water system and future water revenues are used as security for this note.

ROGERS COUNTY RURAL WATER DISTRICT NO. 5

Claremore, Oklahoma

Notes to the Financial Statements

May 31, 2012

Note B – Notes Payable – cont'd

The District has a promissory note in the amount of \$1,000,000 with the Office of Rural Development, dated 2004, for a period of 40 years, at 4.125%. The monthly amount paid on this note is \$4,310. The water system and future water revenues are used as security for this note.

The District has a debt service of \$188,115 on deposit with the Bank of New York in a trustee account for use in retiring the OWRB note. For the Rural Development note, the District has a certificate of deposit at the 1st Bank in Claremore, Oklahoma in the amount of \$252,464.

	May 31,	
	2012	2011
Oklahoma Water Resources Board note payable, issued for \$2,100,000, dated 2-29-96, at 1.55% interest, due in quarterly installments, until paid;	\$ 1,399,300	1,465,800
Oklahoma Water Resources Board note payable, issued for \$4,700,000, dated 9-27-07, at 3.69% interest, due in quarterly installments, until paid;	4,096,971	4,273,373
Rural Development note payable, issued for \$1,000,000, dated May 21, 2004, at 4.125%, due in monthly payments of \$4,310	933,130	946,057
Less: Current maturities of long-term debt	(268,974)	(256,167)
Total Long-Term Debt	<u>\$ 6,160,427</u>	<u>6,429,063</u>

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

2012-13	\$ 268,974
2013-14	282,370
2014-15	296,451
2015-16	310,978
2016-17	327,201
2017-22	1,907,612
2022-27	1,892,430
2027+	1,143,384
Total	<u>\$ 6,429,400</u>

ROGERS COUNTY RURAL WATER DISTRICT NO. 5

Balance Sheet

May 31, 2012

<u>ASSETS</u>	MAY 31,	
	2012	(memo only) 2011
Current Assets:		
Cash and cash equivalents	\$ 1,664,998	1,025,459
Investments	1,405,628	1,391,203
Accounts receivable	187,648	162,595
Prepaid insurance	5,546	36,884
Total current assets	<u>3,263,820</u>	<u>2,616,141</u>
Restricted Assets:		
Debt service - OWRB	188,115	188,115
Investment - Rural Development	252,464	249,490
Total restricted assets	<u>440,579</u>	<u>437,605</u>
Fixed Assets:		
Land	170,611	170,611
Water distribution system	15,572,677	15,325,042
Office equipment	129,184	129,184
Vehicles and equipment	517,977	517,977
Total fixed assets	<u>16,390,449</u>	<u>16,142,814</u>
Less: accumulated depreciation	<u>(5,673,895)</u>	<u>(5,312,246)</u>
Total fixed assets (net)	<u>10,716,554</u>	<u>10,830,568</u>
Other Assets:		
Utility deposits	200	200
Loan costs (net of amortization)	29,257	31,578
Total other assets	<u>29,457</u>	<u>31,778</u>
Total Assets	<u>\$ 14,450,410</u>	<u>13,916,092</u>
 <u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 57,993	84,647
Accrued interest on long-term debt	8,573	9,064
Current maturities of long-term debt	268,974	256,167
Total current liabilities	<u>335,540</u>	<u>349,878</u>
Long-Term Debt, less current maturities:		
Notes payable	<u>6,160,426</u>	<u>6,429,063</u>
Total Liabilities	<u>6,495,966</u>	<u>6,778,941</u>
Fund Equity:		
Member capital	2,486,033	2,486,033
Retained earnings	5,468,411	4,651,118
Total fund equity	<u>7,954,444</u>	<u>7,137,151</u>
Total Liabilities and Fund Equity	<u>\$ 14,450,410</u>	<u>13,916,092</u>

ROGERS COUNTY RURAL WATER DISTRICT NO. 5
Statement of Revenue, Expenses and Changes in Retained Earnings
For The Year Ended May 31, 2012

	2011-12	(memo only) 2010-11
Revenue from Operations:		
Water sales	\$ 2,378,467	1,740,268
Membership fees/taps	77,120	65,280
Other income	148,801	52,276
Total revenue from operations	<u>2,604,388</u>	<u>1,857,824</u>
Expenses from Operations:		
Water purchases	44,826	7,607
Salaries and taxes	385,650	365,768
Plant supplies/ Chemicals	402,134	367,180
Utilities	132,746	87,071
Repairs and maintenance	112,542	117,739
Office	2,142	5,622
Vehicle expense	34,629	23,700
Insurance	112,018	110,808
Professional fees	19,006	40,999
Equipment lease	11,733	12,373
Permits and licenses	1,559	775
Dues and suscriptions	2,736	2,889
Annuity	6,465	6,465
Director fees	2,400	2,280
Bank and trustee fees	25,618	24,690
Postage	12,920	14,211
Miscellaneous	8,130	11,288
Total expenses from operations	<u>1,317,254</u>	<u>1,201,465</u>
Net Income (Loss) from Operations	1,287,134	656,359
Non-operating revenues (expenes):		
Interest earnings	27,941	28,427
Reimbursements from ODOT	64,581	176,891
Interest paid on long-term debt	(198,393)	(221,555)
Depreciation expense	(361,649)	(362,580)
Amortization expense	(2,321)	(2,321)
Total non-operating revenues (expenses)	<u>(469,841)</u>	<u>(381,138)</u>
Net Income (Loss)	817,293	275,221
Retained earnings, beginning of period	<u>7,137,151</u>	<u>6,861,930</u>
Retained earnings, end of period	<u><u>\$ 7,954,444</u></u>	<u><u>7,137,151</u></u>