

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

Financial Statements and Auditor's Reports

Year Ended December 31, 2011

Audited by

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

BROKEN ARROW, OK
SHAWNEE, OK

Seminole County Rural Water District No. 5
Wewoka, Oklahoma
Board of Directors
December 31, 2011

BOARD OF DIRECTORS

Chairman

Travis Black

Co-Chairman

Marchetta Black

Secretary/Treasurer

Billy Renfro

Members

Delvin Rogers

Wayne Carter

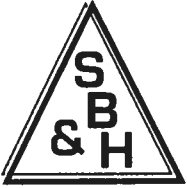
BOOKKEEPER

Gail Kiker

Seminole County Rural Water District No. 5
Wewoka, Oklahoma
December 31, 2011

TABLE OF CONTENTS

	<u>Page</u>
Board of Directors	1
Table of Contents	2
Independent Auditor's Report	3
Management's Discussion and Analysis	5
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	7
Disposition of Prior Year's Reportable Conditions	9
Schedule of Audit Results	10
<u>COMBINED FINANCIAL STATEMENTS:</u>	
Statement of Net Assets	11
Statement of Activities	12
Statement of Cash Flows	13
Notes to Financial Statements	14
<u>OTHER SUPPLEMENTARY INFORMATION:</u>	
Balance Sheet	17
Statement of Revenue, Expenses and Changes in Retained Earnings	18



SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP

Stephen H. Sanders, CPA
Eric M. Bledsoe, CPA
Jeffrey D. Hewett, CPA

P. O. BOX 1310 • 112 W. DALLAS ST. • BROKEN ARROW, OK 74013 • (918) 449-9991 • (800) 522-3831 • FAX (918) 449-9779

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Seminole County Rural Water District No. 5
Wewoka, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Seminole County Rural Water District No. 5 (the District), Wewoka, Oklahoma, as of and for the year ended December 31, 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 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, 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.

The Management Discussion and Analysis 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 January 17, 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.



Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

January 17, 2012

**RURAL WATER DISTRICT NO. 5, SEMINOLE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

DECEMBER 31, 2011

Our discussion and analysis of the Rural Water District No. 5, Seminole County's financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2010. Please read it in conjunction with the District's financial statements that begin on page one.

FINANCIAL HIGHLIGHTS:

- The District's total operating expenses exceeded total operating revenues by \$11,766. Overall, the District's total net assets decreased by \$7,043 in the current fiscal year.

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 Net Assets, the Statement of Activities, 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 December 31, 2011 the District had \$157,872 invested in fixed assets, net of depreciation, including land, the water system, pump station and lines. No additional fixed asset costs were added during the 2011 fiscal year.

Long-Term Debt

The District had no outstanding debt at December 31, 2011.

Economic Factors and Next Year's Budget and Rates

For the upcoming fiscal year ending December 31, 2012, the District's budget is fairly consistent with the 2011 fiscal year.

For the fiscal year 2012, the District may have to increase rates to users to meet the demands of the City of Wewoka if the cost of water purchases is substantially increased.

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 695, Wewoka, OK 74884 or call (405) 257-2371.



SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP

Stephen H. Sanders, CPA
Eric M. Bledsoe, CPA
Jeffrey D. Hewett, CPA

P. O. BOX 1310 • 112 W. DALLAS ST. • BROKEN ARROW, OK 74013 • (918) 449-9991 • (800) 522-3831 • FAX (918) 449-9779

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

We have audited the financial statements of the Seminole County Rural Water District No. 5 (the District), Wewoka, Oklahoma, as of and for the year ended December 31, 2011, and have issued our report thereon dated January 17, 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. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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. This reportable condition is described in the accompanying schedule of audit results as item 11-1.

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. However, we believe that the reportable condition described above is not a material weakness.

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the District's response and, accordingly, we express no opinion on it.

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.

Sanders, Bledsoe & Hewett

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

January 17, 2012

SEMINOLE COUNTY RURAL DISTRICT NO. 5
Disposition of Prior Year's Reportable Conditions
December 31, 2011

Lack of Segregation of Duties

The exception that there were inherent limitations resulting from a small number of employees performing functions that would normally be divided among employees were a larger number available which prevented a proper segregation of accounting functions which is necessary to assure adequate internal accounting controls continued in the current fiscal year.

SEMINOLE COUNTY RURAL WATER DISTRICT NO. 5
Schedule of Audit Results
December 31, 2011

Section 1 – Summary of Auditor’s Results

1. An unqualified opinion was issued on the financial statements.
2. The audit disclosed a reportable condition in the internal controls which was not considered a material weakness.
3. The audit disclosed no instances of noncompliance.

Section 2 – Findings relating to the financial statements required to be reported in accordance with GAGAS:

Item 11-1 – Lack of Segregation of Duties-

Criteria-

An organization should ensure that there is a proper segregation of duties regarding cash collections and the payment of expenses.

Cause-

The District is not large enough to justify the hiring of additional personnel.

Effect-

There is always the possibility that not all collections are actually receipted or deposited, and the possibility that funds expended are not used for actual District obligations.

Recommendation-

The current procedures should not be changed. However, there should be additional personnel instilled into the collection, receipt, deposit, reconciliation and payment procedures when this becomes economically possible.

Response-

Additional personnel will be hired when the actual funds are available.

COMBINED FINANCIAL STATEMENTS

SEMINOLE COUNTY RURAL WATER DISTRICT NO. 5
Statement of Net Assets
December 31, 2011

ASSETS

Current assets:

Cash	\$	6,221
Current portion of receivables		7,798
Investments with fiscal agents		14,765
Total current assets		28,784

Noncurrent assets:

Capital assets:

Water system and improvements, net of depreciation		157,872
		157,872

Total Assets

186,656

LIABILITIES

Current liabilities:

Water Deposits		9,345
		9,345

NET ASSETS

Invested in capital assets, net of related debt		157,872
Unrestricted assets		19,439
		177,311

Total Net Assets

\$ 177,311

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

SEMINOLE COUNTY RURAL WATER DISTRICT NO. 5
Statement of Activities
For The Year Ended December 31, 2011

Operating Revenues:	
Water sales	\$ 44,754
Reconnect fees	1,035
Total revenues from operations	<u>45,789</u>
Operating Expenses:	
Contract labor	6,200
Contract computer services	865
Depreciation	4,365
Water purchases	32,586
Office	1,364
Insurance	1,799
Repairs & maintenance	5,957
Testing fees	1,500
Professional fees	1,883
Dues and fees	1,036
Total expenses from operations	<u>57,555</u>
Operating Income (Loss)	(11,766)
Non-Operating Revenues (Expenses):	
Interest income	177
FEMA reimbursement	2,231
Total non-operating revenues (expenses)	<u>2,408</u>
Change in Net Assets	(9,358)
Total Net Assets, beginning of period	<u>186,669</u>
Total Net Assets, end of period	<u><u>\$ 177,311</u></u>

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

SEMINOLE COUNTY RURAL WATER DISTRICT NO. 5
Statement of Cash Flows
For Year Ended December 31, 2011

Cash Flows from Operating Activities:	
Receipts from customers	\$ 43,939
Payments to vendors	<u>(53,390)</u>
Net Cash Provided by Operating Activities	<u>(9,451)</u>
 Cash Flows from Financial Activities:	
FEMA reimbursement	<u>2,231</u>
 Cash Flows from Investing Activities:	
Interest revenue	<u>177</u>
Net Increase (Decrease) in Cash	(7,043)
Cash and cash equivalents, beginning of period	<u>28,029</u>
Cash and cash equivalents, end of period	<u><u>\$ 20,986</u></u>
Operating Income	\$ (11,766)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	4,365
(Increase) decrease in accounts receivable	(2,275)
Increase (decrease) in meter deposits	<u>225</u>
Net Cash Provided by Operating Activities	<u><u>\$ (9,451)</u></u>

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

SEMINOLE COUNTY RURAL WATER DISTRICT NO. 5
Notes to Financial Statements
December 31, 2011

Note A – Significant Accounting Policies

Basis of Accounting

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

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. The District complied with this requirement.

Cash

The District’s accounts are with the Security State Bank, Wewoka, Oklahoma, and are detailed as follows:

	December 31,	
	2011	2010
Revenue Account	\$ 6,293	13,334
Add: Deposits in transit	-	-
Less: Outstanding checks	(72)	-
Total	\$ 6,221	13,334

Investments

The District had the following outstanding investments, recorded at cost, at December 31, 2011:

Security State Bank, Wewoka, Oklahoma	
Certificate of deposit No. 22010, dated 11-08-11,	
due 5-08-11, @ 0.40%	\$ 8,741

SEMINOLE COUNTY RURAL WATER DISTRICT NO. 5
Notes to Financial Statements
December 31, 2011

Note A – Significant Accounting Policies – cont'd

Investments – cont'd

Security State Bank, Wewoka, Oklahoma Certificate of deposit No. 21052, dated 9-17-11 due 3-17-12, @ 0.50%	<u>\$ 6,024</u>
Total investments	<u>\$14,765</u>

Accounts Receivable

Billings for accounts receivable at December 31, 2011 were \$7,798. No provision for allowance for doubtful accounts was calculated.

Fixed Assets

Neither the District nor the previous auditors were able to provide us with the method of calculating depreciation used in prior years. Therefore, to remain consistent, the same provision for depreciation used in previous years continues to be used. The fixed asset information for the District is shown below:

	12/31/2010 Amount	Additions	Deletions	12/31/2011 Amount
Water system	\$ 135,304	-	-	135,304
Pump station and lines	112,579	-	-	112,579
Total Fixed Assets	247,883	-	-	247,883
Less: Accumulated Depreciation	(85,646)	(4,365)	-	(90,011)
Total	\$ 162,237	(4,125)	-	157,872

SEMINOLE COUNTY RURAL WATER DISTRICT NO. 5
Notes to Financial Statements
December 31, 2011

Note A – Significant Accounting Policies – cont’d

Federal Income Tax

The District is exempt from Federal and State income taxes.

Collateral Pledged

All District funds were adequately insured by FDIC as of December 31, 2011. Combined cash and investment balances did not exceed \$250,000 at any time during the 2011 fiscal year.

Note B – Long-Term Debt

The District had no outstanding debt in 2011, nor was any new debt acquired.

Note C – Insurance and Surety Bond Coverage

At December 31, 2011 the District had the following coverage:

<u>Types of Coverage</u>	<u>Company/ Policy Number</u>	<u>Amount of Coverage</u>	<u>Policy Expiration</u>
Liability Property Dir. & Off.	ORWAAG/ 00- 10329	\$500,000 each occurrence \$1,000,000 annual aggregate liability for employment practice limit, \$25,000 each property damage loss per occurrence \$1,000,000 aggregate per occurrence \$125,000 each other loss per occurrence \$1,000,000 annual aggregate \$ 10,000 blanket coverage employee dishonesty and crime coverage \$ 40,000 blanket coverage for Gail Kiker dishonesty and crime coverage	6-01-11

Note D – Contributed Capital

In November, 2001, the District was awarded a REAP grant from the Oklahoma Rural Water Association in the amount of \$99,900. The proceeds were used for tower refurbishing, line extensions and the installation of a pump station. \$99,770 was received in 2002, and \$82,533 was spent for approved purchases. An additional \$1,070 was spent by the operating fund for wiring to the pump station.

OTHER SUPPLEMENTARY INFORMATION

SEMINOLE COUNTY RURAL WATER DISTRICT NO. 5
Balance Sheet
December 31, 2011

	DECEMBER 31,	
<u>ASSETS</u>	2011	(memo only) 2010
Current Assets:		
Cash in bank	\$ 6,221	13,334
Investments	14,765	14,695
Accounts receivable	7,798	5,523
Total current assets	28,784	33,552
Fixed Assets:		
Water system and improvements	247,883	247,883
Less: accumulated depreciation	(90,011)	(85,646)
Total fixed assets (net)	157,872	162,237
Total Assets	\$ 186,656	195,789
<u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Meter deposits	\$ 9,345	9,120
Fund Equity:		
Contributed capital	99,770	99,770
Retained earnings	77,541	86,899
Total Fund Equity	177,311	186,669
Total Liabilities and Fund Equity	\$ 186,656	195,789

SEMINOLE COUNTY RURAL WATER DISTRICT NO. 5
Statement of Revenue, Expenses and Changes in Retained Earnings
For Years Ended December 31, 2011

	2011	(memo only) 2010
Revenue from Operations:		
Water sales	\$ 43,969	39,328
Late charges	785	743
Benefit units	-	500
Hook up and reconnect fees	200	150
Refunds and reimbursements	835	44
Total revenue from operations	<u>45,789</u>	<u>40,765</u>
Expenses from Operations:		
Contract labor	6,200	6,200
Contract computer services	865	851
Depreciation	4,365	4,365
Water purchases	32,586	31,747
Office	1,364	1,198
Insurance	1,799	1,894
Repairs & maintenance	5,957	11,914
Testing fees	1,500	1,565
Professional fees	1,883	760
Dues and fees	1,036	847
Total expenses from operations	<u>57,555</u>	<u>61,341</u>
Net Income (Loss) from Operations	(11,766)	(20,576)
Other Income:		
FEMA reimbursement	2,231	-
Interest earnings	177	225
Total other income	<u>2,408</u>	<u>225</u>
Net Income (Loss)	(9,358)	(20,351)
Retained earnings, beginning of period	<u>86,899</u>	<u>107,250</u>
Retained earnings, end of period	<u>\$ 77,541</u>	<u>86,899</u>