

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

Financial Statements and Auditor's Reports

Year Ended December 31, 2013

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, 2013

BOARD OF DIRECTORS

Chairman

Travis Black

Co-Chairman

Marchetta Black

Secretary/Treasurer

Billy Renfro

Members

Delvin Rogers

Tim McNaughton

BOOKKEEPER

Gail Kiker

Seminole County Rural Water District No. 5
Wewoka, Oklahoma
December 31, 2013

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SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

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, 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

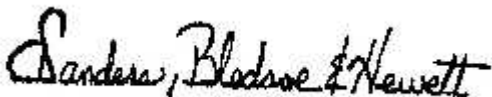
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of December 31, 2013, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 and 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2014 on our consideration of the District'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

RURAL WATER DISTRICT NO. 5, SEMINOLE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013

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, 2013. 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 \$5,022. Overall, the District's total net assets increased by \$5,054 in the current fiscal year.
- The District continued to try for a \$99,000 OWRB-REAP Grant to make water improvements. These funds were slated for probable approval in 2014.

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, 2013 the District had \$159,684 invested in fixed assets, net of depreciation, including land, the water system, pump station and lines. During the 2013 fiscal year, the District extended the water lines at a cost of \$3,269. This amount was added to fixed assets.

Long-Term Debt

The District had no outstanding debt at December 31, 2013.

Economic Factors and Next Year's Budget and Rates

For the upcoming fiscal year ending December 31, 2014, the District's budget is fairly consistent with the 2013 fiscal year.

For the fiscal year 2014, the District may have to again 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

**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
Seminole County Rural Water District No. 5
Wewoka, 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 Seminole County Rural Water District No. 5 (the District), Wewoka, Oklahoma, as of and for the year ended December 31, 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 February 3, 2014.

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. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in the internal controls that we considered to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 13-1, to be a material weakness.

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*.

District's Response to Findings

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

February 3, 2014

SEMINOLE COUNTY RURAL DISTRICT NO. 5
Disposition of Prior Year's Reportable Conditions
December 31, 2013

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, 2013

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 13-1 – 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.

SEMINOLE COUNTY RURAL WATER DISTRICT NO. 5
Statement of Net Assets
December 31, 2013

ASSETS

Current assets:

Cash	\$ 16,346
Current portion of receivables	9,125
Total current assets	<u>25,471</u>

Noncurrent assets:

Capital assets:

Water system and improvements, net of depreciation	<u>159,684</u>
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Total Assets	<u>185,155</u>
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LIABILITIES

Current liabilities:

Water Deposits	<u>10,328</u>
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NET ASSETS

Invested in capital assets, net of related debt	159,684
Unrestricted assets	<u>15,143</u>

Total Net Assets	<u><u>\$ 174,827</u></u>
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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, 2013

Operating Revenues:	
Water sales	\$ 46,165
Connect and reconnect fees	1,672
Total revenues from operations	<u>47,837</u>
Operating Expenses:	
Contract labor	5,800
Contract computer services	964
Depreciation	4,526
Water purchases	15,970
Office	409
Insurance	1,759
Repairs & maintenance	10,330
Testing fees	2,101
Professional fees	780
Dues and fees	176
Total expenses from operations	<u>42,815</u>
Operating Income (Loss)	5,022
Non-Operating Revenues (Expenses):	
Interest income	<u>32</u>
Change in Net Assets	5,054
Total Net Assets, beginning of period	<u>169,773</u>
Total Net Assets, end of period	<u><u>\$ 174,827</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, 2013

Cash Flows from Operating Activities:

Receipts from customers	\$ 46,076
Payments to vendors	<u>(38,364)</u>
Net Cash Provided by Operating Activities	<u>7,712</u>

Cash Flows from Financial Activities:

Sale (purchase) of fixed assets	<u>(3,269)</u>
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Cash Flows from Investing Activities:

Interest revenue	<u>32</u>
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Net Increase (Decrease) in Cash	4,475
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Cash and cash equivalents, beginning of period	<u>11,871</u>
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Cash and cash equivalents, end of period	<u><u>\$ 16,346</u></u>
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Operating Income	\$ 5,022
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	4,526
(Increase) decrease in accounts receivable	(1,936)
Increase (decrease) in meter deposits	<u>100</u>
Net Cash Provided by Operating Activities	<u><u>\$ 7,712</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, 2013

Note A – Significant Accounting Policies

Nature of Organization

The Seminole County Rural Water District No. 5 (the District) was created under the provisions of Title 82 of Oklahoma Statutes, Section 1324.1 – 1324.35 and the Laws of the State of Oklahoma. The purpose of this District is to provide water services to users.

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.

The District follows GASB issued Statement No. 34 “Basic Financial Statements and Management’s Discussion and Analysis for State and Local Government.” This statement establishes financial reporting requirements for state and local governments throughout the United States.

Cash

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

	December 31,	
	2013	2012
Revenue Account	\$ 16,346	11,871
Add: Deposits in transit	-	-
Less: Outstanding checks	-	-
Total	<u>\$ 16,346</u>	<u>11,871</u>

Investments

The District had no outstanding investments at December 31, 2013.

SEMINOLE COUNTY RURAL WATER DISTRICT NO. 5
Notes to Financial Statements
December 31, 2013

Note A – Significant Accounting Policies – cont'd

Accounts Receivable

Billings for accounts receivable at December 31, 2013 were \$9,125. 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:

	12/31/2012 Amount	Additions	Deletions	12/31/2013 Amount
Water system	\$ 135,304	-	-	135,304
Pump station and lines	120,079	3,269	-	123,348
Total Fixed Assets	255,383	3,269	-	258,652
Less: Accumulated Depreciation	(94,442)	(4,526)	-	(98,968)
Total	<u>\$ 160,941</u>	<u>(1,257)</u>	<u>-</u>	<u>159,684</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.

Subsequent Events

Management has evaluated subsequent events through February 3, 2014, 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.

SEMINOLE COUNTY RURAL WATER DISTRICT NO. 5
Notes to Financial Statements
December 31, 2013

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, 2013. Combined cash and investment balances did not exceed \$250,000 at any time during the 2013 fiscal year.

Note B – Long-Term Debt

The District had no outstanding debt in 2013, nor was any new debt acquired.

Note C – Insurance and Surety Bond Coverage

At December 31, 2013 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	6-01-14

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.

SEMINOLE COUNTY RURAL WATER DISTRICT NO. 5
Balance Sheet
December 31, 2013

	DECEMBER 31,	
	2013	(memo only) 2012
<u>ASSETS</u>		
Current Assets:		
Cash in bank	\$ 16,346	11,871
Accounts receivable	9,125	7,189
Total current assets	<u>25,471</u>	<u>19,060</u>
Fixed Assets:		
Water system and improvements	258,652	255,383
Less: accumulated depreciation	(98,968)	(94,442)
Total fixed assets (net)	<u>159,684</u>	<u>160,941</u>
Total Assets	<u><u>\$ 185,155</u></u>	<u><u>180,001</u></u>
<u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Meter deposits	\$ 10,328	10,228
Fund Equity:		
Contributed capital	99,770	99,770
Retained earnings	75,057	70,003
Total Fund Equity	<u>174,827</u>	<u>169,773</u>
Total Liabilities and Fund Equity	<u><u>\$ 185,155</u></u>	<u><u>180,001</u></u>

SEMINOLE COUNTY RURAL WATER DISTRICT NO. 5
Statement of Revenue, Expenses and Changes in Retained Earnings
For Years Ended December 31, 2013

	2013	(memo only) 2012
Revenue from Operations:		
Water sales	\$ 44,951	43,311
Late charges	1,214	800
Benefit units	950	2,000
Hook up and reconnect fees	150	7,775
Refunds and reimbursements	572	140
Total revenue from operations	<u>47,837</u>	<u>54,026</u>
Expenses from Operations:		
Contract labor	5,800	5,750
Contract computer services	964	934
Depreciation	4,526	4,431
Water purchases	15,970	36,165
Office	409	1,387
Insurance	1,759	1,799
Repairs & maintenance	10,330	7,807
Testing fees	2,101	2,088
Professional fees	780	780
Dues and fees	176	466
Total expenses from operations	<u>42,815</u>	<u>61,607</u>
Net Income (Loss) from Operations	5,022	(7,581)
Other Income:		
Interest earnings	<u>32</u>	<u>43</u>
Net Income (Loss)	5,054	(7,538)
Retained earnings, beginning of period	<u>70,003</u>	<u>77,541</u>
Retained earnings, end of period	<u><u>\$ 75,057</u></u>	<u><u>70,003</u></u>