

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

Financial Statements and Auditor's Reports

Year Ended December 31, 2012

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, 2012

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, 2012

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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, 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 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, 2012, 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 18, 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, 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 signature is written in a cursive, flowing style.

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

January 18, 2013

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

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, 2012. Please read it in conjunction with the District's financial statements that begin on page 11.

FINANCIAL HIGHLIGHTS:

- The District's total operating expenses exceeded total operating revenues by \$7,581. Overall, the District's total net assets decreased by \$7,538 in the current fiscal year.
- The District was forced to liquidate their two certificates of deposit in order to meet cash flow demands.

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, 2012 the District had \$160,941 invested in fixed assets, net of depreciation, including land, the water system, pump station and lines. During the 2012 fiscal year, the District extended the water lines at a cost of \$7,500. This amount was added to fixed assets.

Long-Term Debt

The District had no outstanding debt at December 31, 2012.

Economic Factors and Next Year's Budget and Rates

For the upcoming fiscal year ending December 31, 2013, the District's budget is fairly consistent with the 2012 fiscal year.

For the fiscal year 2013, 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

**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, 2012, and have issued our report thereon dated January 18, 2013. 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 12-1.

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
Certified Public Accountants, LLP

January 18, 2013

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

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, 2012

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 12-1 – 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, 2012

ASSETS

Current assets:

Cash	\$ 11,871
Current portion of receivables	7,189
Total current assets	<u>19,060</u>

Noncurrent assets:

Capital assets:

Water system and improvements, net of depreciation	<u>160,941</u>
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Total Assets	<u>180,001</u>
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LIABILITIES

Current liabilities:

Water Deposits	<u>10,228</u>
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NET ASSETS

Invested in capital assets, net of related debt	160,941
Unrestricted assets	<u>8,832</u>

Total Net Assets	<u>\$ 169,773</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, 2012

Operating Revenues:	
Water sales	\$ 44,111
Connect and reconnect fees	9,915
Total revenues from operations	<u>54,026</u>
Operating Expenses:	
Contract labor	5,750
Contract computer services	934
Depreciation	4,431
Water purchases	36,165
Office	1,387
Insurance	1,799
Repairs & maintenance	7,807
Testing fees	2,088
Professional fees	780
Dues and fees	466
Total expenses from operations	<u>61,607</u>
Operating Income (Loss)	(7,581)
Non-Operating Revenues (Expenses):	
Interest income	<u>43</u>
Change in Net Assets	(7,538)
Total Net Assets, beginning of period	<u>177,311</u>
Total Net Assets, end of period	<u>\$ 169,773</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, 2012

Cash Flows from Operating Activities:	
Receipts from customers	\$ 55,610
Payments to vendors	<u>(57,268)</u>
Net Cash Provided by Operating Activities	<u>(1,658)</u>
 Cash Flows from Financial Activities:	
Sale (purchase) of fixed assets	<u>(7,500)</u>
 Cash Flows from Investing Activities:	
Interest revenue	<u>43</u>
Net Increase (Decrease) in Cash	(9,115)
Cash and cash equivalents, beginning of period	<u>20,986</u>
Cash and cash equivalents, end of period	<u><u>\$ 11,871</u></u>
Operating Income	\$ (7,581)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	4,431
(Increase) decrease in accounts receivable	609
Increase (decrease) in meter deposits	<u>883</u>
Net Cash Provided by Operating Activities	<u><u>\$ (1,658)</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, 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 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,	
	2012	2011
Revenue Account	\$ 11,871	6,293
Add: Deposits in transit	-	-
Less: Outstanding checks	-	(72)
Total	\$ 11,871	6,221

Investments

The District had no outstanding investments at December 31, 2012.

SEMINOLE COUNTY RURAL WATER DISTRICT NO. 5
Notes to Financial Statements
December 31, 2012

Note A – Significant Accounting Policies – cont’d

Accounts Receivable

Billings for accounts receivable at December 31, 2012 were \$7,189. 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:

	12/31/2011 Amount	Additions	Deletions	12/31/2012 Amount
Water system	\$ 135,304	-	-	135,304
Pump station and lines	112,579	7,500	-	120,079
Total Fixed Assets	247,883	7,500	-	255,383
Less: Accumulated Depreciation	(90,011)	(4,431)	-	(94,442)
Total	<u>\$ 157,872</u>	<u>(4,125)</u>	<u>-</u>	<u>160,941</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.

SEMINOLE COUNTY RURAL WATER DISTRICT NO. 5
Notes to Financial Statements
December 31, 2012

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, 2012. Combined cash and investment balances did not exceed \$250,000 at any time during the 2012 fiscal year.

Note B – Long-Term Debt

The District had no outstanding debt in 2012, nor was any new debt acquired.

Note C – Insurance and Surety Bond Coverage

At December 31, 2012 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	6-01-13

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, 2012

	DECEMBER 31,	
	2012	(memo only) 2011
<u>ASSETS</u>		
Current Assets:		
Cash in bank	\$ 11,871	6,221
Investments	0	14,765
Accounts receivable	7,189	7,798
Total current assets	19,060	28,784
Fixed Assets:		
Water system and improvements	255,383	247,883
Less: accumulated depreciation	(94,442)	(90,011)
Total fixed assets (net)	160,941	157,872
Total Assets	\$ 180,001	186,656
<u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Meter deposits	\$ 10,228	9,345
Fund Equity:		
Contributed capital	99,770	99,770
Retained earnings	70,003	77,541
Total Fund Equity	169,773	177,311
Total Liabilities and Fund Equity	\$ 180,001	186,656

SEMINOLE COUNTY RURAL WATER DISTRICT NO. 5
Statement of Revenue, Expenses and Changes in Retained Earnings
For Years Ended December 31, 2012

	2012	(memo only) 2011
Revenue from Operations:		
Water sales	\$ 43,311	43,969
Late charges	800	785
Benefit units	2,000	0
Hook up and reconnect fees	7,775	200
Refunds and reimbursements	140	835
Total revenue from operations	<u>54,026</u>	<u>45,789</u>
Expenses from Operations:		
Contract labor	5,750	6,200
Contract computer services	934	865
Depreciation	4,431	4,365
Water purchases	36,165	32,586
Office	1,387	1,364
Insurance	1,799	1,799
Repairs & maintenance	7,807	5,957
Testing fees	2,088	1,500
Professional fees	780	1,883
Dues and fees	466	1,036
Total expenses from operations	<u>61,607</u>	<u>57,555</u>
Net Income (Loss) from Operations	(7,581)	(11,766)
Other Income:		
FEMA reimbursement	0	2,231
Interest earnings	43	177
Total other income	<u>43</u>	<u>2,408</u>
Net Income (Loss)	(7,538)	(9,358)
Retained earnings, beginning of period	<u>77,541</u>	<u>86,899</u>
Retained earnings, end of period	<u>\$ 70,003</u>	<u>77,541</u>