

**Wagoner County Rural Water District No. 5  
Coweta, Oklahoma**

Financial Statements and Auditor's Reports

Year Ended December 31, 2012

Audited by

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

BROKEN ARROW, OK

**Okmulgee County Rural Water District No. 5**  
**Coweta, Oklahoma**  
Board of Directors  
December 31, 2012

**BOARD OF DIRECTORS**

**Chairman**

Frank Hollingshed

**Vice-Chair**

Fred Allee

**Secretary**

Sam Keel

**Treasurer**

Junior Martin

**Members**

Louise Sarty

**MANAGER**

Arvil Morgan

**BOOKKEEPER**

Denette Hughes

**Wagoner County Rural Water District No. 5**  
**Coweta, Oklahoma**  
December 31, 2012

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# SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

## **Independent Auditor's Report**

Board of Directors  
Wagoner County Rural Water District No. 5  
Coweta, Oklahoma

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of December 31, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States.

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 February 20, 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 generally accepted in the United States.

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Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP

February 20, 2013

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

Our discussion and analysis of the Rural Water District No. 5, Wagoner 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 revenues exceeded total operating expenses by \$526,589, which was consistent with the prior year amount of \$549,394.
- The District's net assets increased by \$398,656 in the current fiscal year.
- Investment amounts increased by \$8,725 due to interest earnings, but interest amounts continued to decrease due to falling rates.
- The District continued to pay on their four outstanding notes.
- The District began to purchase radio read meters for their users in 2012.

**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 \$12,532,543 invested in fixed assets, net of depreciation, including land, the water system, vehicles and equipment. Additional amounts were included in 2012 for water plant improvements and radio read meters.

### **Long-Term Debt**

The District has three promissory notes with the Oklahoma Water Resources Board for \$2,310,000 (1.23%), \$4,735,000 (3.55%), and \$1,405,454 (3.66%). The current outstanding balances for these notes are for \$1,799,900, \$3,717,961 and \$1,227,813, respectively.

The District also has a loan with the Office of Rural Development. The note was for \$879,000, and will be paid back in monthly payments over 40 years. The monthly payments of principal and interest are \$3,745 and the fixed interest rate is 4.125%. The outstanding balance at December 31, 2012 is \$814,930.

### **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 prior fiscal year. The normal cost of operation continues to increase for all areas of the economy, and rural water is not exempt from these increases.

### **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 835, Coweta, OK 74429 or call (918)486-5458.



# 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  
Wagoner County Rural Water District No. 5  
Coweta, Oklahoma

We have audited the financial statements of the Wagoner County Rural Water District No. 5 (the District), Coweta, Oklahoma, as of and for the year ended December 31, 2012, and have issued our report thereon dated February 20, 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. 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 being particularly stylized.

Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP

February 20, 2013

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

There were no prior year reportable conditions.

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

Section 1 – Summary of Auditor’s Results:

1. An unqualified opinion report was issued on the financial statements.
2. The audit disclosed no instances of noncompliance which were material to the financial statements.
3. The audit disclosed no reportable conditions in the internal controls over financial reporting which were considered to be material weaknesses.

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

None

**WAGONER COUNTY RURAL WATER DISTRICT NO. 5**

## Statement of Net Assets

December 31, 2012

**ASSETS:**

## Current Assets:

Cash and cash equivalents	\$ 447,116
Investments	558,731
Current portion of receivables	177,528
Inventory on hand	85,876
Prepaid assets	<u>20,549</u>
Total current assets	<u>1,289,800</u>

## Noncurrent Assets:

Reserve account	160,280
Project trust funds	40,832
Capital Assets-	
Land	154,199
Plant and equipment, net	<u>12,378,344</u>
Total noncurrent assets	<u>12,733,655</u>

## Other Assets:

Loan costs, net	<u>31,252</u>
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Total Assets	<u>14,054,707</u>
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**LIABILITIES:**

## Current Liabilities:

Accounts payable	40,317
Accrued interest	54,249
Current portion of long-term debt	<u>326,829</u>
Total current liabilities	<u>421,395</u>

## Noncurrent Liabilities:

Long-term debt, less current maturities	<u>7,233,775</u>
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Total Liabilities	<u>7,655,170</u>
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**NET ASSETS:**

Invested in capital assets, net of related debt	4,971,939
Restricted for debt service	501,112
Unrestricted assets	<u>926,486</u>
Total Net Assets	<u>\$ 6,399,537</u>

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

**WAGONER COUNTY RURAL WATER DISTRICT NO. 5**Statement of Activities  
For The Year Ended December 31, 2012**Operating Revenues:**

Water sales	\$ 2,301,994
Charges and late penalties	63,687
Service income	11,709
Other income	<u>13,639</u>
Total revenue from operations	<u>2,391,029</u>

**Operating Expenses:**

Water purchases	59,639
Salaries and benefits	333,906
Payroll taxes	27,244
Repairs and maintenance	57,939
Chemicals	293,558
Power plant costs	86,250
Contract wages	4,270
Employee insurance	99,555
Health reimbursement	9,000
Vehicle expense	3,933
Insurance	33,542
Supplies and materials	179,519
Office expenses	53,385
Depreciation	452,990
Amortization	6,483
Professional fees	102,662
Utilities and phone	15,851
Dues and fees	25,529
Travel	<u>19,185</u>
Total expenses from operations	<u>1,864,440</u>

Operating Income (Loss) 526,589

**Non-Operating Revenues (Expenses):**

Interest income	6,418
Capital contributions-	
Memberships	87,250
Interest paid on long-term debt	<u>(221,601)</u>
Total Non-Operating Revenues (Expenses)	<u>(127,933)</u>

Change in Net Assets 398,656

Total Net Assets, beginning of period 6,000,881

Total Net Assets, end of period \$ 6,399,537

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

# **WAGONER COUNTY RURAL WATER DISTRICT NO. 5**

## **Statement of Cash Flows For the Year Ended December 31, 2012**

### **Cash Flows from Operating Activities:**

Receipts from customers	\$ 2,390,956
Payments to employees	(333,874)
Payments to vendors	<u>(1,044,167)</u>
Net Cash Provided by Operating Activities	<u>1,012,915</u>

### **Cash Flows from Financing Activities:**

Sale (purchase) of fixed assets	(1,089,548)
Principal paid on long-term debt	(315,291)
Interest paid on long-term debt	<u>(221,602)</u>
Net Cash Provided by (used in) Financing Activities	<u>(1,626,441)</u>

### **Cash Flows from Investing Activities:**

Capital contributions - Memberships	87,250
Interest earned on investments	<u>6,418</u>
Net Cash Provided by (used in) Investing Activities	<u>93,668</u>

Net Increase (Decrease) in Cash (519,858)

Cash and cash equivalents, beginning of period 1,726,817

Cash and cash equivalents, end of period \$ 1,206,959

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

Operating Income	\$ 526,589
Adjustments to reconcile net income to net cash provided (used) by operating activities:	
Depreciation Expense	452,990
Amortization Expense	6,483
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	(28,983)
(Increase) decrease in prepaid insurance	(1,829)
(Increase) decrease in inventory	16,885
Increase (decrease) in accounts payable	34,791
Increase (decrease) in accruals	<u>5,989</u>
Net cash provided by operating activities	<u><u>\$ 1,012,915</u></u>

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

## **WAGONER COUNTY RURAL WATER DISTRICT NO. 5**

### **Coweta, Oklahoma**

#### **Notes to the Financial Statements**

**December 31, 2012**

### **Note A – Significant Accounting Policies**

#### Basis of Accounting

The accrual basis of accounting is followed for all accounts. Revenues are recorded when earned and 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. Comparability with reports issued in all prior years is affected.

#### Cash and equivalents

The District’s cash accounts at November 30<sup>th</sup> are detailed as follows:

	December 31,	
	2012	2011
Petty cash (on hand)	\$ 500	500
Bancfirst, Coweta, Ok-		
Revenue account	19,093	17,985
O&M account	290,880	45,468
Payroll account	35,328	42,550
Savings account	395,341	925,251
Less: (Outstanding checks)/DIT	(294,026)	(56,203)
Total Operating Cash	<u>\$ 447,116</u>	<u>975,551</u>
Bank of Oklahoma, Tulsa, Ok-		
OWRB-02 Debt Svc Reserve account	\$ 160,280	160,280
OWRB-02 Debt Service account	6,943	6,962
OWRB-08 Debt Svc account	33,889	34,018
Total Reserve Cash	<u>\$ 201,112</u>	<u>201,260</u>

## **WAGONER COUNTY RURAL WATER DISTRICT NO. 5**

### **Coweta, Oklahoma**

#### **Notes to the Financial Statements**

**December 31, 2012**

#### **Note A – Significant Accounting Policies – cont'd**

##### Investments

The District's investments at December 31, 2012 are detailed as follows:

First National Bank, Coweta, Ok-	
Certificate of deposit no. 20585	\$ 128,964
Certificate of deposit no. 20740	96,897
Certificate of deposit no. 21538	107,696
Certificate of deposit no. 21539	107,696
Certificate of deposit no. 21184 (reserve)	117,478
Total Investments	<u>\$ 558,731</u>

##### 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

	<u>Category</u>			<u>Bank</u>	<u>Carrying</u>
	<u>(A)</u>	<u>(B)</u>	<u>(C)</u>	<u>Balance</u>	<u>Amount</u>
Cash	\$ 451,112	491,142		942,254	648,228
Investments	250,000	308,731		558,731	558,731
Total	<u>\$ 701,112</u>	<u>799,873</u>	<u>0</u>	<u>1,500,985</u>	<u>1,206,959</u>

##### Accounts Receivable

Billings for accounts receivable at December 31, 2012 were \$184,148. An allowance for doubtful accounts was computed at \$6,620.



## **WAGONER COUNTY RURAL WATER DISTRICT NO. 5**

### **Coweta, Oklahoma**

#### **Notes to the Financial Statements**

**December 31, 2012**

#### **Note A – Significant Accounting Policies – cont'd**

##### 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	5-10 years
Equipment & tools	5-10 years
Transportation equipment	5 years
Water system	40 years
Buildings	30 years
Radio read meters	20 years
Computer equipment	5 years

## **WAGONER COUNTY RURAL WATER DISTRICT NO. 5**

### **Coweta, Oklahoma**

#### **Notes to the Financial Statements**

**December 31, 2012**

#### **Note A – Significant Accounting Policies – cont'd**

The fixed asset information for the District is shown below:

	12/31/2011 Amount	Additions	Deletions	12/31/2012 Amount
Land	\$ 129,199	25,000	-	154,199
Water dist. system	7,171,815	786,865	-	7,958,680
Water plant	7,860,522	276,710	-	8,137,232
Buildings and furn.	139,311	-	-	139,311
Vehicles	264,707	973	-	265,680
Office equipment	67,765	-	-	67,765
Total Fixed Assets	15,633,319	1,089,548	-	16,722,867
Less: Accumulated Depreciation	(3,736,334)	(452,990)	-	(4,189,324)
Total	<u>\$ 11,896,985</u>	<u>636,558</u>	<u>-</u>	<u>12,533,543</u>

#### **Note B – Long-Term Debt**

Long-Term Debt consists of four notes:

The District has a 2001 promissory note in the amount of \$2,310,000 with the Oklahoma Water Resources Board (OWRB) for a period of 30 years. The District makes monthly deposits into a trust account at Bank of Oklahoma. The trust account then makes the variable quarter-annual payments of principal and interest to the OWRB. The current variable interest rate on this note is 1.23%. The water system and future water revenues are used as security for this note.

The District has a 2007 promissory note in the amount of \$4,735,000 with the Oklahoma Water Resources Board (OWRB) for a period of 20 years. The District makes monthly deposits into a trust account at Bank of Oklahoma. The trust account then makes the variable semi-annual payments of principal and interest to the OWRB. The fixed interest rate on this note is 3.55%. The water plant and future water revenues are used as security for this note.

# WAGONER COUNTY RURAL WATER DISTRICT NO. 5

## Coweta, Oklahoma

### Notes to the Financial Statements

December 31, 2012

#### Note B – Notes Payable – cont'd

The District has a 2009 promissory note in the amount of \$1,405,454 with the Oklahoma Water Resources Board (OWRB) for a period of 20 years. The District makes monthly deposits into a trust account at Bank of Oklahoma. The trust account then makes the variable semi-annual payments of principal and interest to the OWRB. The fixed interest rate on this note is 3.66%. The water system and future water revenues are used as security for this note.

In 2007, the District was approved for a \$879,000 loan with the Office of Rural Development for continued improvements on their water system and plant. The interest rate is 4.125%, and the District is required to make monthly payments of principal and interest of \$3,745. The water system and future water revenues are used as security for this note.

The District has an OWRB debt service reserve and debt service of \$160,280 and \$6,943, respectively, on deposit with Bank of Oklahoma in a trustee account for use in retiring the note. The reserve is not available for any other purposes.

	December 31,	
	2012	2011
Oklahoma Water Resources Board note payable, issued for \$2,310,000, at 1.23% interest, due in quarter-annual installments, until paid;	\$ 1,799,900	1,859,100
Oklahoma Water Resources Board note payable, issued for \$4,735,000, at 3.55% interest, due in semi-annual installments, until paid;	3,717,961	3,909,962
Oklahoma Water Resources Board note payable, issued for \$1,405,454, at 3.66% interest, due in semi-annual installments, until paid;	1,227,813	1,280,828
Rural Development note payable, issued for \$879,000 at 4.125% interest, payable in monthly payments of \$3,745, until paid;	814,930	826,006
Long-Term Debt Outstanding	7,560,604	7,875,896
Less: Current maturities of long-term debt	(326,829)	(296,998)
Total Long-Term Debt, Net	\$ 7,233,775	7,578,898

**WAGONER COUNTY RURAL WATER DISTRICT NO. 5****Coweta, Oklahoma**

## Notes to the Financial Statements

December 31, 2012

**Note B – Notes Payable – cont'd**

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

Year	Total	ORWB (3)	Rural Dev. (1)
2013	\$ 326,829	315,289	11,540
2014	337,453	325,427	12,026
2015	348,451	335,920	12,531
2016	359,410	346,352	13,058
2017	371,595	357,988	13,607
2018-22	2,049,347	1,972,235	77,112
2023-27	2,246,009	2,151,266	94,743
2028+	1,520,511	940,198	580,313
Total	<u>\$ 7,559,605</u>	<u>6,744,675</u>	<u>814,930</u>

The District is required to maintain a schedule of rates or charges for the services of the system which together with other revenues shall (A) provide funds at least 125% of the maximum annual debt service requirements for ORWB loans and any other loans of parity. This schedule of rates and charges should also always generate (B) sufficient monies to pay operation and maintenance expenses of the system without consideration of any other revenue source. Operating results for the year ended December 31, 2012 are summarized below:

(A)	Net income from system (before debt service)	\$ 526,589		
	Membership fees	87,250		
	Interest expenses	6,418		
	Depreciation & Amortization expenses	459,473		
	Total Funds Available for Debt Service	<u>\$ 1,079,730</u>		
	125% of Maximum Annual Debt Service (\$559,632)	<u>\$ 699,540</u>		
(B)	Total Revenue from the water system	\$ 2,391,029		
	Operation and maintenance expenses	(1,404,967)		
	Net Operating Income	<u>\$ 986,062</u>		

As of December 31, 2012 the District had met the requirements of the rate covenant as described above.