

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

Financial Statements and Auditor's Reports

Year Ended December 31, 2014

Audited by

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

BROKEN ARROW, OK

Wagoner County Rural Water District No. 5
Coweta, Oklahoma
Board of Directors
December 31, 2014

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, 2014

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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, 2014, 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

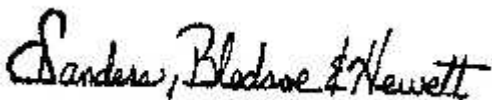
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of December 31, 2014, and the respective changes in financial position and cash flows thereof for the year then ended 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 January 23, 2015 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, WAGONER COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014

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, 2014. 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 \$257,963, which was fairly consistent with the prior year amount of \$385,928.
- The District's net assets increased by \$357,748 in the current fiscal year.
- The District continued to pay on their four outstanding notes, and added a \$550,000 note from BancFirst for an Economic Development project with Wagoner County.
- The District's professional fees (attorney, accountant, etc.) were excessive in 2014 due to the ongoing litigation with the City of Coweta. However, this case was resolved 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, 2014, the District had \$12,571,390 invested in fixed assets, net of depreciation, including land, the water system, vehicles and equipment. Additional amounts were included in 2014 for some water plant improvements.

Long-Term Debt

The District has three promissory notes with the Oklahoma Water Resources Board for \$2,310,000 (1.56%), \$4,735,000 (3.55%), and \$1,405,454 (3.66%). The current outstanding balances for these notes are \$1,688,400, \$3,288,227 and \$1,114,292, 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, 2014 is \$791,361.

The District obtained a \$550,000 loan with BancFirst in 2014. This is a five year, 2.45% note, with semi-annual note payments of \$58,833, due to be paid off in 2019.

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 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

**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
Wagoner County Rural Water District No. 5
Coweta, 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 Wagoner County Rural Water District No. 5 (the District), Coweta, Oklahoma, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 23, 2015.

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. We identified no deficiencies in the internal controls that we considered to be material weaknesses.

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.

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*.

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

January 23, 2015

WAGONER COUNTY RURAL DISTRICT NO. 5
Disposition of Prior Year's Reportable Conditions
December 31, 2014

There were no prior year reportable conditions.

WAGONER COUNTY RURAL WATER DISTRICT NO. 5
Schedule of Audit Results
December 31, 2014

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, 2014

ASSETS:

Current Assets:	
Cash and cash equivalents	\$ 973,609
Investments	556,389
Current portion of receivables	174,651
Inventory on hand	75,643
Prepaid assets	24,993
Total current assets	<u>1,805,285</u>
Noncurrent Assets:	
Reserve account	160,281
Project trust funds	57,406
Capital Assets-	
Land	154,199
Plant and equipment, net	12,417,191
Total noncurrent assets	<u>12,789,077</u>
Other Assets:	
Loan costs, net	<u>18,286</u>
Total Assets	<u>14,612,648</u>

LIABILITIES:

Current Liabilities:	
Accounts payable	104,440
Accrued interest	12,905
Current portion of long-term debt	453,160
Total current liabilities	<u>570,505</u>
Noncurrent Liabilities:	
Long-term debt, less current maturities	<u>6,979,120</u>
Total Liabilities	<u>7,549,625</u>

NET ASSETS:

Invested in capital assets, net of related debt	5,139,110
Restricted for debt service	194,176
Unrestricted assets	<u>1,729,737</u>
Total Net Assets	<u><u>\$ 7,063,023</u></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, 2014

Operating Revenues:

Water sales	\$ 2,086,525
Charges and late penalties	60,376
Service income	33,750
Other income	10,581
Total revenue from operations	<u>2,191,232</u>

Operating Expenses:

Water purchases	43,039
Salaries and benefits	320,459
Payroll taxes	25,716
Repairs and maintenance	51,600
Chemicals	258,038
Power plant costs	91,313
Employee insurance	127,677
Health reimbursement	3,058
Vehicle expense	20,835
Insurance	43,298
Supplies and materials	191,452
Office expenses	53,123
Depreciation	526,160
Amortization	6,483
Professional fees	131,434
Utilities and phone	15,221
Dues and fees	24,363
Total expenses from operations	<u>1,933,269</u>

Operating Income (Loss)	257,963
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Non-Operating Revenues (Expenses):

Interest income	2,755
Reimbursement from County	109,194
Capital contributions-	
Memberships	100,750
Interest paid on long-term debt	(112,914)
Total Non-Operating Revenues (Expenses)	<u>99,785</u>

Change in Net Assets	357,748
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Total Net Assets, beginning of period	<u>6,705,275</u>
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Total Net Assets, end of period	<u><u>\$ 7,063,023</u></u>
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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, 2014

Cash Flows from Operating Activities:

Receipts from customers	\$ 2,183,690
Payments to employees	(320,459)
Payments to vendors	<u>(1,064,531)</u>
Net Cash Provided by Operating Activities	<u>798,700</u>

Cash Flows from Financing Activities:

Sale (purchase) of fixed assets	(777,253)
Loan proceeds (BancFirst)	550,000
Principal paid on long-term debt	(349,695)
Interest paid on long-term debt	<u>(143,572)</u>
Net Cash Provided by (used in) Financing Activities	<u>(720,520)</u>

Cash Flows from Investing Activities:

Capital contributions - Memberships	100,750
Reimbursement from County - Econ Dev	109,194
Interest earned on investments	<u>2,755</u>
Net Cash Provided by (used in) Investing Activities	<u>212,699</u>

Net Increase (Decrease) in Cash 290,879

Cash and cash equivalents, beginning of period 1,456,806

Cash and cash equivalents, end of period \$ 1,747,685

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

Operating Income	\$ 257,963
Adjustments to reconcile net income to net cash provided (used) by operating activities:	
Depreciation Expense	526,160
Amortization Expense	6,483
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	10,861
(Increase) decrease in prepaid insurance	(4,060)
(Increase) decrease in inventory	4,286
Increase (decrease) in accounts payable	29,430
Increase (decrease) in accruals	<u>(32,423)</u>
Net cash provided by operating activities	<u><u>\$ 798,700</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, 2014

Note A – Significant Accounting Policies

Nature of Organization

The Wagoner 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 and equivalents

The District’s cash accounts at December 31th are detailed as follows:

	December 31,	
	2014	2013
Petty cash (on hand)	\$ 500	500
Bancfirst, Coweta, Ok-		
Revenue account	185,218	171,049
O&M account	10,920	3,535
Payroll account	5,131	8,621
Savings account	579,000	325,726
Less: (Outstanding checks)/DIT	192,840	190,491
Total Operating Cash	<u>\$ 973,609</u>	<u>699,922</u>
Bank of Oklahoma, Tulsa, Ok-		
OWRB-02 Debt Svc Reserve account	\$ 160,281	160,281
OWRB-02 Debt Service account	23,516	5
OWRB-08 Debt Svc account	33,890	33,890
Total Reserve Cash	<u>\$ 217,687</u>	<u>194,176</u>

WAGONER COUNTY RURAL WATER DISTRICT NO. 5

Coweta, Oklahoma

Notes to the Financial Statements

December 31, 2014

Note A – Significant Accounting Policies – cont'd

Investments

The District's investments at December 31, 2014 are detailed as follows:

First National Bank, Coweta, Ok-	
Certificate of deposit no. 20585	\$ 130,229
Certificate of deposit no. 20740	98,952
Certificate of deposit no. 21538	108,598
Certificate of deposit no. 21539	108,598
Certificate of deposit no. 21184 (reserve)	<u>87,348</u>
Total Investments	<u><u>\$ 533,725</u></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	\$ 444,176	259,431		703,607	894,098
Investments	<u>250,000</u>	<u>312,708</u>		<u>562,708</u>	<u>562,708</u>
Total	<u><u>\$ 694,176</u></u>	<u><u>572,139</u></u>	<u><u>0</u></u>	<u><u>1,266,315</u></u>	<u><u>1,456,806</u></u>

Accounts Receivable

Billings for accounts receivable at December 31, 2014 were \$190,985. An allowance for doubtful accounts was computed at \$6,334.

WAGONER COUNTY RURAL WATER DISTRICT NO. 5

Coweta, Oklahoma

Notes to the Financial Statements

December 31, 2014

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.

Subsequent Events

Management has evaluated subsequent events through January 23, 2015, 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.

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, 2014

Note A – Significant Accounting Policies – cont'd

The fixed asset information for the District is shown below:

	12/31/2013			12/31/2014
	Amount	Additions	Deletions	Amount
Land	\$ 154,199	-	-	154,199
Water dist. system	8,108,103	523,100	-	8,631,203
Water plant	8,233,124	252,673	-	8,485,797
Buildings and furn.	139,396	1,480	-	140,876
Vehicles	270,581	-	-	270,581
Office equipment	69,864	-	-	69,864
Total Fixed Assets	16,975,267	777,253	-	17,752,520
Less: Accumulated Depreciation	(4,685,629)	(495,501)	-	(5,181,130)
Total	<u>\$ 12,289,638</u>	<u>281,752</u>	<u>-</u>	<u>12,571,390</u>

Note B – Long-Term Debt

Long-Term Debt consists of five 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 1.56%. 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 was 3.55%, but was reduced to 0% in 2014. The water plant and future water revenues are used as security for this note.

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

WAGONER COUNTY RURAL WATER DISTRICT NO. 5

Coweta, Oklahoma

Notes to the Financial Statements

December 31, 2014

Note B – Notes Payable – cont'd

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 \$160,281 and \$23,516, respectively, on deposit with Bank of Oklahoma in a trustee account for use in retiring the notes. The reserve is not available for any other purposes.

The District has a 2014 promissory note in the amount of \$550,000 with BancFirst for a period of five years. Semi-annual principal and interest payments of \$58,832 are due each February and August. The fixed interest rate on this note is 2.45%. The water system and future water revenues are used as security for this note.

	December 31,	
	2014	2013
Oklahoma Water Resources Board note payable, issued for \$2,310,000, at 1.23% interest, due in quarter-annual installments, until paid;	\$ 1,688,400	1,737,450
Oklahoma Water Resources Board note payable, issued for \$4,735,000, at 0% interest, due in semi-annual installments, until paid;	3,288,227	3,518,595
Oklahoma Water Resources Board note payable, issued for \$1,405,454, at 3.66% interest, due in semi-annual installments, until paid;	1,114,292	1,172,541
Rural Development note payable, issued for \$879,000 at 4.125% interest, payable in monthly payments of \$3,745, until paid;	791,361	803,388
BancFirst note payable, issued for \$550,000 at 2.45% interest, payable in semi-annual payments of \$58,832, until paid;	550,000	-
Long-Term Debt Outstanding	7,432,280	7,231,974
Less: Current maturities of long-term debt	(453,160)	(337,453)
Total Long-Term Debt, Net	<u>\$ 6,979,120</u>	<u>6,894,521</u>

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

Notes to the Financial Statements

December 31, 2014

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)	BancFirst
2015	\$ 453,160	335,920	12,531	104,709
2016	466,700	346,352	13,058	107,290
2017	481,530	357,988	13,607	109,935
2018-22	2,277,413	1,972,235	77,112	228,066
2023-27	2,247,009	2,152,266	94,743	-
2028+	1,506,468	926,157	580,311	-
Total	<u>\$ 7,432,280</u>	<u>6,090,918</u>	<u>791,362</u>	<u>550,000</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 OWRB 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, 2014 are summarized below:

(A)	Net income from system (before debt service)	\$ 257,963		
	Membership fees	100,750		
	Interest income	2,755		
	Depreciation & Amortization expenses	532,643		
	Total Funds Available for Debt Service	<u>\$ 894,111</u>		
	125% of Maximum Annual Debt Service (\$628,097)	<u>\$ 785,121</u>		
(B)	Total Revenue from the water system	\$ 2,191,232		
	Operation and maintenance expenses	(1,400,626)		
	Net Operating Income	<u>\$ 790,606</u>		

As of December 31, 2014 the District had met the requirements of the rate covenant as described above.

WAGONER COUNTY RURAL WATER DISTRICT NO. 5

Coweta, Oklahoma

Notes to the Financial Statements

December 31, 2014

Note C – Pending Litigation

The District is currently in litigation against the City of Coweta, Oklahoma and the Coweta Public Works Authority (“Coweta”). The District filed suit against Coweta to enforce the District’s rights under federal law (7 U.S.C. Section 1926(b)), for injunctive relief and monetary damages. The jury awarded the District \$614,798 in money damages. The Judge had not yet ruled on the injunctive relief which includes transfer of infrastructure from Coweta to the District. Following entry of a final judgment, the district will make an application for attorney fees and litigation costs which will be added to the amount awarded by the jury. The District anticipates that Coweta will file an appeal following the entry of judgment by the judge.

WAGONER COUNTY RURAL WATER DISTRICT NO. 5

Balance Sheet
December 31, 2014

<u>ASSETS</u>	DECEMBER 31,	
	2014	(memo only) 2013
Current Assets:		
Cash and cash equivalents	\$ 973,609	699,922
Investments	556,389	562,708
Accounts receivable	174,651	185,512
Prepaid insurance	24,993	20,933
Inventory	75,643	79,929
Total current assets	<u>1,805,285</u>	<u>1,549,004</u>
Restricted Assets:		
Reserve account	160,281	160,281
Project trust funds	57,406	33,895
Total restricted assets	<u>217,687</u>	<u>194,176</u>
Fixed Assets:		
Land	154,199	154,199
Water distribution system	8,631,203	8,108,103
Water plant	8,485,797	8,233,124
Vehicles and equipment	340,445	340,445
Buildings and furnishings	140,876	139,396
Total fixed assets	<u>17,752,520</u>	<u>16,975,267</u>
Less: accumulated depreciation	<u>(5,181,130)</u>	<u>(4,685,629)</u>
Total fixed assets (net)	<u>12,571,390</u>	<u>12,289,638</u>
Other Assets:		
Deferred loan costs	50,701	50,701
Less: Accumulated amortization	<u>(32,415)</u>	<u>(25,932)</u>
Total other assets	<u>18,286</u>	<u>24,769</u>
Total Assets	<u>\$ 14,612,648</u>	<u>14,057,587</u>
 <u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 104,440	75,010
Accrued interest on long-term debt	12,905	45,328
Current maturities of long-term debt	453,160	337,453
Total current liabilities	<u>570,505</u>	<u>457,791</u>
Long-Term Debt, less current maturities:		
Notes payable	<u>6,979,120</u>	<u>6,894,521</u>
Total Liabilities	<u>7,549,625</u>	<u>7,352,312</u>
Fund Equity:		
Members capital	2,425,265	2,324,515
Contributed capital	801,973	801,973
Retained earnings	3,835,785	3,578,787
Total fund equity	<u>7,063,023</u>	<u>6,705,275</u>
Total Liabilities and Fund Equity	<u>\$ 14,612,648</u>	<u>14,057,587</u>

WAGONER COUNTY RURAL WATER DISTRICT NO. 5
Statement of Revenue, Expenses and Changes in Retained Earnings
For The Year Ended December 31, 2014

	2014	(memo only) 2013
Revenue from Operations:		
Water sales	\$ 2,086,525	2,372,726
Charges and late penalties	60,376	62,801
Service income	33,750	14,968
Other income	10,581	7,361
Total revenue from operations	<u>2,191,232</u>	<u>2,457,856</u>
Expenses from Operations:		
Water purchases	43,039	54,548
Salaries and benefits	320,459	328,708
Payroll taxes	25,716	26,874
Repairs and maintenance	51,600	42,086
Chemicals	258,038	247,134
Power plant costs	91,313	93,255
Contract wages	0	6,938
Employee insurance	127,677	137,448
Health reimbursement	3,058	7,867
Vehicle expense	20,835	22,399
Insurance	43,298	37,720
Supplies and materials	191,452	194,824
Office expenses	53,123	57,763
Depreciation	526,160	496,305
Amortization	6,483	6,483
Professional fees	131,434	268,668
Utilities and phone	15,221	16,257
Dues and fees	24,363	26,651
Total expenses from operations	<u>1,933,269</u>	<u>2,071,928</u>
Net Income (Loss) from Operations	257,963	385,928
Non-operating revenues:		
Reimbursements from County	109,194	26,287
Interest earnings	2,755	2,821
Total non-operating revenues	<u>111,949</u>	<u>29,108</u>
Non-operating expenses:		
Interest on long-term debt	<u>(112,914)</u>	<u>(204,298)</u>
Net Income (Loss)	256,998	210,738
Retained earnings, beginning of period	<u>3,578,787</u>	<u>3,368,049</u>
Retained earnings, end of period	<u><u>\$ 3,835,785</u></u>	<u><u>3,578,787</u></u>