

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

Financial Statements and Auditor's Reports

Year Ended December 31, 2015

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, 2015

BOARD OF DIRECTORS

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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, 2015

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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, 2015, 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

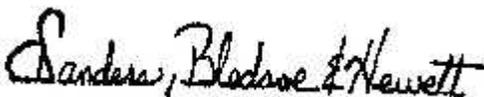
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of December 31, 2015, and the respective changes in financial position and cash flows thereof for the year then ended 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 22, 2016 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

January 22, 2016

RURAL WATER DISTRICT NO.5, WAGONER COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015

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, 2015. Please read it in conjunction with the District's financial statements that begin on page 13.

FINANCIAL HIGHLIGHTS:

- The District's total operating revenues exceeded total operating expenses by \$542,367, which was an increase over the prior year amount of \$257,963.
- The District's net assets increased by \$496,164 in the current fiscal year.
- The District refinanced two of their outstanding loans, and still had five outstanding notes at December 31, 2015.
- The District purchased three new vehicles in 2015.
- Professional fees decreased substantially in 2014, due to no 2015 activity on the lawsuit with the City of Coweta.

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 Position, the Statement of Revenues, Expenses and Changes in Net Position, 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, 2015, the District had \$12,552,864 invested in fixed assets, net of depreciation, including land, the water system, vehicles and equipment. Additional amounts were included in 2015 for some water plant improvements and three vehicles purchased.

Long-Term Debt

The District has two promissory notes with the Oklahoma Water Resources Board for \$4,735,000 (3.55%) and \$1,405,454 (3.66%). The current outstanding balances for these notes are \$3,032,330 and \$1,056,145, respectively.

The District has a 2015 note with BB&T for \$1,400,000 (2.83%) to replace the 2001 OWRB loan. The current outstanding balance for this note is \$1,400,000.

The District has a 2015 note with Co-Bank for \$825,000 (5.18%) to replace the Rural Development loan. The current outstanding balance for this note is \$823,120.

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. The current outstanding balance for this note is \$445,347.

Economic Factors and Next Year's Budget and Rates

For the upcoming fiscal year ending December 31, 2016, 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, 2015, 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 22, 2016.

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.

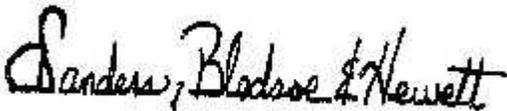
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination 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 22, 2016



SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

**Report On Compliance With Requirements Applicable To Each
Major Program And Internal Control Over Compliance In
Accordance With OMB Circular A-133**

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

Compliance

We have audited the compliance of Wagoner County Rural Water District No. 5, (the District) Coweta, Oklahoma, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2015. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2015.

Internal Control Over Compliance

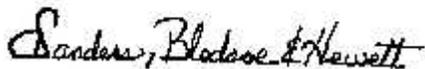
The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be detected or prevented by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information of the Board of Directors, management and the Federal Clearinghouse, 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 22, 2016

WAGONER COUNTY RURAL DISTRICT NO. 5
Disposition of Prior Year's Reportable Conditions
December 31, 2015

There were no prior year reportable conditions.

WAGONER COUNTY RURAL DISTRICT NO. 5
Schedule of Audit Results, Findings and Questioned Costs
December 31, 2015

Section 1 – Summary of Auditor’s Results:

1. An unqualified opinion was issued on the financial statements.
2. The audit disclosed no reportable conditions in the internal controls.
3. The audit disclosed no instances of noncompliance.
4. The audit disclosed no reportable conditions in the internal controls over major programs.
5. An unqualified opinion was issued on the compliance of major programs.
6. The audit disclosed no audit findings which are required to be reported under OMB Circular A-133 § 510(a).
7. The program determined to be major is the Refinancing of Federal Loans.
8. The dollar threshold used to determine between Type A and Type B programs was \$300,000.
9. The district was determined not to be a low-risk auditee.

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

NONE

Section 3 – Findings and Questioned Costs for Federal Awards:

NONE

WAGONER COUNTY RURAL WATER DISTRICT NO. 5
Statement of Net Position
December 31, 2015

ASSETS:

Current Assets:

Cash and cash equivalents	\$ 956,222
Investments	543,311
Current portion of receivables	189,056
Inventory on hand	203,546
Prepaid assets	24,718
Total current assets	1,916,853

Noncurrent Assets:

Reserve account	47,720
Project trust funds	33,891
Capital Assets-	
Land	154,199
Plant and equipment, net	12,398,665
Total noncurrent assets	12,634,475

Other Assets:

Loan costs, net	86,843

Total Assets	14,638,171
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LIABILITIES:

Current Liabilities:

Accounts payable	302,359
Accrued interest	19,683
Current portion of long-term debt	482,273
Total current liabilities	804,315

Noncurrent Liabilities:

Long-term debt, less current maturities	6,274,669

Total Liabilities	7,078,984
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NET POSITION:

Invested in capital assets, net of related debt	5,795,922
Restricted for debt service	81,611
Unrestricted assets	1,681,654
Total Net Position	\$ 7,559,187

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

WAGONER COUNTY RURAL WATER DISTRICT NO. 5
Statement of Revenues, Expenses and Changes in Net Position
For The Year Ended December 31, 2015

Operating Revenues:	
Water sales	\$ 2,143,333
Charges and late penalties	58,586
Service income	42,950
Other income	13,419
Total revenue from operations	<u>2,258,288</u>
Operating Expenses:	
Water purchases	55,763
Salaries and benefits	338,838
Payroll taxes	27,126
Repairs and maintenance	113,999
Chemicals	123,663
Power plant costs	94,502
Testing fees	15,983
Employee insurance	114,403
Vehicle expense	20,245
Insurance	48,784
Supplies and materials	143,309
Office expenses	50,768
Depreciation	482,653
Amortization	11,843
Professional fees	37,324
Utilities and phone	18,872
Dues and fees	17,846
Total expenses from operations	<u>1,715,921</u>
Operating Income (Loss)	542,367
Non-Operating Revenues (Expenses):	
Interest income	2,865
Capital contributions-	
Memberships	76,250
Interest paid on long-term debt	(125,318)
Total Non-Operating Revenues (Expenses)	<u>(46,203)</u>
Change in Net Position	496,164
Total Net Position, beginning of period	<u>7,063,023</u>
Total Net Position, end of period	<u>\$ 7,559,187</u>

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, 2015

Cash Flows from Operating Activities:

Receipts from customers	\$ 2,428,855
Payments to employees	(338,837)
Payments to vendors	(990,491)
	1,099,527
Net Cash Provided by Operating Activities	1,099,527

Cash Flows from Financing Activities:

Sale (purchase) of fixed assets	(464,127)
Loan reorganization costs	(175,638)
Loan costs	(80,400)
Principal paid on long-term debt	(499,700)
Interest paid on long-term debt	(138,689)
	(1,358,554)
Net Cash Provided by (used in) Financing Activities	(1,358,554)

Cash Flows from Investing Activities:

Capital contributions - Memberships	76,250
Liquidation of investments and reserve accounts	162,525
Interest earned on investments	2,865
	241,640
Net Cash Provided by (used in) Investing Activities	241,640

Net Increase (Decrease) in Cash	(17,387)
Cash and cash equivalents, beginning of period	973,609
Cash and cash equivalents, end of period	\$ 956,222

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

Operating Income	\$ 542,367
Adjustments to reconcile net income to net cash provided (used) by operating activities:	
Depreciation Expense	482,653
Amortization Expense	11,843
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	(14,405)
(Increase) decrease in prepaid insurance	275
(Increase) decrease in inventory	(127,903)
Increase (decrease) in accounts payable	197,919
Increase (decrease) in accruals	6,778
	6,778
Net cash provided by operating activities	\$ 1,099,527

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, 2015

Note A – Significant Accounting Policies

Organization

Wagoner County Rural Water District No. 5 (the District) is an Oklahoma water district organized under Title 82 of Oklahoma Statutes, Sections 1324.1-1324.26 inclusive, to provide water service to rural residents of Wagoner County, Oklahoma. The District is considered a subdivision of the State of Oklahoma. The District is exempt from federal and state income taxes. The membership consists of approximately 3,330 members.

The District is an independent, self-contained reporting entity with no associated component units. It is operated in a manner similar to a private business enterprise where the cost (expenses, including depreciation) of providing water services is financed through user charges.

Basis of Accounting

The accrual basis of accounting in accordance with Generally Accepted Accounting Principles (GAAP) promulgated in the United States of America 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 has also complied with GASB Statement No. 34 financial reporting requirements.

Deposits and Investments

Oklahoma Statutes authorize the District to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the District can invest in direct debt securities of the United States unless such an investment is expressly prohibited by law.

Bank deposits are held at several financial institutions and are carried at cost. For purposes of statements of cash flows, the District considers cash and all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Custodial Credit Risk - At December 31, 2015, the District held deposits of approximately \$1,499,035 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit, are entirely covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name.

WAGONER COUNTY RURAL WATER DISTRICT NO. 5

Coweta, Oklahoma

Notes to the Financial Statements

December 31, 2015

Note A – Significant Accounting Policies – cont’d

Investment Interest Rate Risk - The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk – The District has no policy that limits its investment choices other than the limitations of state law, as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a-d).

The investments held at December 31, 2015 are as follows:

	Wtd. Avg Maturity	Credit Rating	Market	Cost
Money market/checking	N/A	AAAm	\$ 955,723	955,723
Certificates of deposit	1.0 Yr	N/A	543,312	543,312
Total Deposits			\$ 1,499,035	1,499,035

Concentration of Investment Credit Risk – The District places no limit on the amount it may invest in any one issuer. The District has the following of credit risk: 36% in Certificates of Deposit (\$543,312) and 64% in Money Market funds (\$955,723).

WAGONER COUNTY RURAL WATER DISTRICT NO. 5

Coweta, Oklahoma

Notes to the Financial Statements

December 31, 2015

Note A – Significant Accounting Policies – cont'd

Fair Value of Financial Instruments – The District's financial instruments include cash and cash equivalents, accounts receivable, accounts payable and notes payable. The District's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of net position. The carrying amount of these financial instruments approximates fair values because of the short maturity of these instruments.

Inventories

Inventories consist primarily of materials and supplies for repairs and improvements of existing water lines, meters and all other capital assets. Inventory is valued at cost, principally on a first-in, first-out basis, but not in excess of market.

Accounts Receivable

Billings for accounts receivable at December 31, 2015 were \$195,913. An allowance for doubtful accounts was computed at \$6,857.

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.

WAGONER COUNTY RURAL WATER DISTRICT NO. 5

Coweta, Oklahoma

Notes to the Financial Statements

December 31, 2015

Note A – Significant Accounting Policies – cont'd

Subsequent Events

Management has evaluated subsequent events through January 22, 2016, 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

The fixed asset information for the District is shown below:

	12/31/2014			12/31/2015
	Amount	Additions	Deletions	Amount
Land	\$ 154,199	-	-	154,199
Water dist. system	8,631,203	325,878	-	8,957,081
Water plant	8,485,797	27,932	-	8,513,729
Buildings and furn.	140,876	-	-	140,876
Vehicles	270,581	113,317	-	383,898
Office equipment	69,864	-	-	69,864
Total Fixed Assets	17,752,520	467,127	-	18,219,647
Less: Accumulated Depreciation	(5,181,130)	(482,653)	-	(5,663,783)
Total	<u>\$ 12,571,390</u>	<u>(15,526)</u>	<u>-</u>	<u>12,555,864</u>

WAGONER COUNTY RURAL WATER DISTRICT NO. 5

Coweta, Oklahoma

Notes to the Financial Statements

December 31, 2015

Note B – Notes Payable

Long-Term Debt consists of five notes:

1. 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.
2. 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.
3. 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.
4. The District has a 2015 promissory note in the amount of \$1,400,000 with BB&T for a period of ten years. Semi-annual principal and interest payments for graduating amounts are due each March and September. The fixed interest rate on this note is 2.83%. The water system and future water revenues are used as security for this note.
5. The District has a 2015 promissory note in the amount of \$825,000 with Co-Bank for a period of 30 years. Monthly principal and interest payments of \$4,561 are paid. The fixed interest rate on this note is 5.18%. The water system and future water revenues are used as security for this note.

The District has trustee accounts held with the Bank of Oklahoma for the OWRB 2008 note and the 2015 BB&T note. These accounts are used to facilitate payments of these notes, and hold funds in account to cover costs. The balances in these accounts at December 31, 2015 were \$33,891 (2008 note) and \$19,920 (2015). Also, a CD with BancFirst is held as a reserve for the 2015 BB&T note in the amount of \$27,800.

WAGONER COUNTY RURAL WATER DISTRICT NO. 5

Coweta, Oklahoma

Notes to the Financial Statements

December 31, 2015

Note B – Notes Payable – cont'd

	December 31,	
	2015	2014
Oklahoma Water Resources Board note payable, issued for \$4,735,000, at 0% interest, due in semi-annual installments, until paid;	\$ 3,032,330	3,288,227
Oklahoma Water Resources Board note payable, issued for \$1,405,454, at 3.66% interest, due in semi-annual installments, until paid;	1,056,145	1,114,292
BB&T note payable, 10 year note, issued for \$1,400,000, at 2.83% interest, due in semi-annual installments, until paid;	1,400,000	1,114,292
Co-Bank note payable, issued for \$825,000 at 5.18% interest, payable in monthly payments of \$4,561, until paid;	823,120	791,361
BancFirst note payable, issued for \$550,000 at 2.45% interest, payable in semi-annual payments of \$58,832, until paid;	445,347	550,000
Long-Term Debt Outstanding	6,756,942	6,858,172
Less: Current maturities of long-term debt	(482,273)	(453,160)
Total Long-Term Debt, Net	\$ 6,274,669	6,405,012

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

Year	Total	ORWB (2)	BB&T	Co-Bank	BancFirst
2016	\$ 482,273	318,401	46,000	10,582	107,290
2017	505,252	321,988	61,000	12,329	109,935
2018	514,192	325,556	63,000	12,992	112,644
2019	523,423	329,255	65,000	13,690	115,478
2020	528,292	332,980	181,000	14,312	-
2021-25	2,796,613	1,728,109	984,000	84,504	-
2026-30	842,011	732,187	-	109,824	-
2031+	564,887	-	-	564,887	-
Total	\$ 6,756,943	4,088,476	1,400,000	823,120	445,347

WAGONER COUNTY RURAL WATER DISTRICT NO. 5

Coweta, Oklahoma

Notes to the Financial Statements

December 31, 2015

Note B – Notes Payable – cont'd

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 changes 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, 2015 are summarized below:

(A)	Net income from system (before debt service)	\$	542,367		
	Membership fees		76,250		
	Interest income		2,865		
	Depreciation & Amortization expenses		494,496		
	Total Funds Available for Debt Service	\$	<u>1,115,978</u>		
	125% of Maximum Annual Debt Service (\$569,112)	\$	<u>711,390</u>		
(B)	Total Revenue from the water system	\$	2,258,288		
	Operation and maintenance expenses		<u>(1,221,425)</u>		
	Net Operating Income	\$	<u>1,036,863</u>		

As of December 31, 2015 the District had met the requirements of the rate covenant as described above.

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. No activity occurred on this issue in 2015.

WAGONER COUNTY RURAL WATER DISTRICT NO. 5

Balance Sheet
December 31, 2015

<u>ASSETS</u>	DECEMBER 31,	
	2015	(memo only) 2014
Current Assets:		
Cash and cash equivalents	\$ 956,222	973,609
Investments	543,311	556,389
Accounts receivable	189,056	174,651
Prepaid insurance	24,718	24,993
Inventory	203,546	75,643
Total current assets	<u>1,916,853</u>	<u>1,805,285</u>
Restricted Assets:		
Reserve account	47,720	160,281
Project trust funds	33,891	57,406
Total restricted assets	<u>81,611</u>	<u>217,687</u>
Fixed Assets:		
Land	154,199	154,199
Water distribution system	8,957,081	8,631,203
Water plant	8,513,729	8,485,797
Vehicles and equipment	450,762	340,445
Buildings and furnishings	140,876	140,876
Total fixed assets	<u>18,216,647</u>	<u>17,752,520</u>
Less: accumulated depreciation	(5,663,783)	(5,181,130)
Total fixed assets (net)	<u>12,552,864</u>	<u>12,571,390</u>
Other Assets:		
Deferred loan costs	131,101	50,701
Less: Accumulated amortization	(44,258)	(32,415)
Total other assets	<u>86,843</u>	<u>18,286</u>
Total Assets	<u>\$ 14,638,171</u>	<u>14,612,648</u>
 <u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 302,359	104,440
Accrued interest on long-term debt	19,683	12,905
Current maturities of long-term debt	482,273	453,160
Total current liabilities	<u>804,315</u>	<u>570,505</u>
Long-Term Debt, less current maturities:		
Notes payable	6,274,669	6,979,120
Total Liabilities	<u>7,078,984</u>	<u>7,549,625</u>
Fund Equity:		
Members capital	2,501,515	2,425,265
Contributed capital	801,973	801,973
Retained earnings	4,255,699	3,835,785
Total fund equity	<u>7,559,187</u>	<u>7,063,023</u>
Total Liabilities and Fund Equity	<u>\$ 14,638,171</u>	<u>14,612,648</u>

WAGONER COUNTY RURAL WATER DISTRICT NO. 5
Statement of Revenue, Expenses and Changes in Retained Earnings
For The Year Ended December 31, 2015

	2015	(memo only) 2014
	<u>2015</u>	<u>2014</u>
Revenue from Operations:		
Water sales	\$ 2,143,333	2,086,525
Charges and late penalties	58,586	60,376
Service income	42,950	33,750
Other income	13,419	10,581
Total revenue from operations	<u>2,258,288</u>	<u>2,191,232</u>
Expenses from Operations:		
Water purchases	55,763	43,039
Salaries and benefits	338,838	320,459
Payroll taxes	27,126	25,716
Repairs and maintenance	113,999	51,600
Chemicals	123,663	258,038
Power plant costs	94,502	91,313
Testing fees	15,983	0
Employee insurance	114,403	127,677
Health reimbursement	0	3,058
Vehicle expense	20,245	20,835
Insurance	48,784	43,298
Supplies and materials	143,309	191,452
Office expenses	50,768	53,123
Depreciation	482,653	526,160
Amortization	11,843	6,483
Professional fees	37,324	131,434
Utilities and phone	18,872	15,221
Dues and fees	17,846	24,363
Total expenses from operations	<u>1,715,921</u>	<u>1,933,269</u>
Net Income (Loss) from Operations	542,367	257,963
Non-operating revenues:		
Reimbursements from County	0	109,194
Interest earnings	2,865	2,755
Total non-operating revenues	<u>2,865</u>	<u>111,949</u>
Non-operating expenses:		
Interest on long-term debt	<u>(125,318)</u>	<u>(112,914)</u>
Net Income (Loss)	419,914	256,998
Retained earnings, beginning of period	<u>3,835,785</u>	<u>3,578,787</u>
Retained earnings, end of period	<u>\$ 4,255,699</u>	<u>3,835,785</u>

WAGONER COUNTY RURAL WATER DISTRICT NO. 5
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2015

<u>Federal Grantor / Pass Through Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Grantor's/ Pass-through No.</u>	<u>Program or Award Amount</u>	<u>Balance at 1/1/15</u>	<u>Revenue Collected</u>	<u>Total Expenditures</u>	<u>Balance at 12/31/15</u>
<u>United States Dept. of Agriculture-</u>							
<u>Passed Through the Okla. Office of Rural Development:</u>							
Rural Development Loan - Refinancing	10.n/a	91-01	\$ 2,225,000	0	2,225,000	2,225,000	0