

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

Financial Statements and Auditor's Reports

Year Ended December 31, 2016

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, 2016

BOARD OF DIRECTORS

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Vice-Chair

Fred Allee

Secretary

Sam Keel

Treasurer

Junior Martin

Members

Louise Sarty

MANAGER

Arvil Morgan

BOOKKEEPER

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Wagoner County Rural Water District No. 5
Coweta, Oklahoma
December 31, 2016

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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, 2016, 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

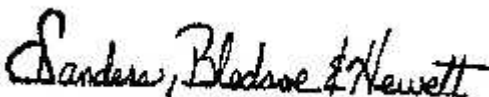
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of December 31, 2016, and the respective changes in financial position and cash flows thereof for the year then ended 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 5-8 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 25, 2017 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 25, 2017

RURAL WATER DISTRICT NO.5, WAGONER COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016

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, 2016. 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 \$419,962, which was a decrease over the prior year amount of \$542,367.
- The District's net assets increased by \$418,287 in the current fiscal year.
- The District began to receive loan proceeds on their new OWRB Note, and had six outstanding notes at December 31, 2016.
- The District used the loan proceeds to begin the \$4,270,000 water line and tank project.
- The District had a rate increase in 2016 to keep up with the increasing costs of delivering water to users.

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 position and the changes in them. You can think of the District's net position – 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 position 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.

Net Position, and Changes in Net Position

The District's Net Position were higher in 2015-16, increasing from \$7,559,187 to \$7,977,474. Last year net assets increased by \$496,164. Looking at the Net Position and Net Expenses of business-type activities separately, however, two different stories can emerge. Our analysis below focuses on the Net Position (Table 1) and Changes in Net Position (Table 2) of the District's business-type activities.

Table 1 – Net Position:

	2015-16	2014-15	Variances
Current and other assets	\$ 2,273,001	2,085,307	187,694
Capital assets, net	12,545,832	12,552,864	(7,032)
Total Assets	<u>\$ 14,818,833</u>	<u>14,638,171</u>	<u>180,662</u>
Current liabilities	\$ 742,366	804,315	61,949
Long-term liabilities	6,098,993	6,274,669	175,676
Total Liabilities	<u>\$ 6,841,359</u>	<u>7,078,984</u>	<u>237,625</u>
Invest. In capital assets, net			
of related debt	\$ 5,941,587	5,795,922	145,665
Restricted	94,209	81,611	12,598
Unrestricted	1,941,678	1,681,654	260,024
Total Net Position	<u>\$ 7,977,474</u>	<u>7,559,187</u>	<u>418,287</u>

Net Position of the District increased by 5.5 percent (\$7,977,474 compared to \$7,559,187). Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – increased from \$1,681,654 to \$1,941,678.

Table 2 – Changes in Net Position:

	2015-16	2014-15	Variances
Revenues:			
Charges for services	\$ 2,583,904	2,258,288	325,616
Sale of fixed assets	27,460	-	27,460
Memberships	125,352	76,250	49,102
Interest	2,046	2,865	(819)
Total Revenues	<u>\$ 2,738,762</u>	<u>2,337,403</u>	<u>401,359</u>
Expenses:			
Salaries, taxes and benefits	\$ 526,731	480,367	(46,364)
Maintenance and repairs	804,174	547,219	(256,955)
Other expenses	315,246	193,839	(121,407)
Depreciation	517,791	494,496	(23,295)
Interest on debt	156,533	125,318	(31,215)
Total Expenses	<u>\$ 2,320,475</u>	<u>1,841,239</u>	<u>(479,236)</u>
Changes in Net Position	418,287	496,164	(77,877)
Net Position, Beginning	<u>7,559,187</u>	<u>7,063,023</u>	<u>496,164</u>
Net Position, Ending	<u>\$ 7,977,474</u>	<u>7,559,187</u>	<u>418,287</u>

The District's total revenues increased by 17.2 percent (\$401,359). The total cost of all services increased by 26.1 percent (-\$479,236).

Fixed Assets

At December 31, 2016, the District had \$12,545,832 invested in fixed assets, net of depreciation, including land, the water system, vehicles and equipment. Additional amounts were included in 2016 for water plant improvements and storage tank expenses.

Long-Term Debt

The District has three promissory notes with the Oklahoma Water Resources Board for \$4,735,000 (3.55%), \$1,405,454 (3.66%) and \$4,270,000 (2.82%). The current outstanding balances for these notes are \$2,775,383, \$994,692 and \$330,536, 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 \$1,354,000.

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 \$811,486.

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 \$338,147.

Economic Factors and Next Year's Budget and Rates

For the upcoming fiscal year ending December 31, 2017, 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.

It appears likely that the lawsuit with City of Coweta will be totally resolved in 2017, and the results look favorable for the District.

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, 2016, 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 25, 2017.

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 25, 2017

WAGONER COUNTY RURAL DISTRICT NO. 5
Disposition of Prior Year's Significant Deficiencies
December 31, 2016

There were no prior year significant deficiencies.

WAGONER COUNTY RURAL DISTRICT NO. 5
Schedule of Audit Results, Findings and Questioned Costs
December 31, 2016

Section 1 – Summary of Auditor’s Results:

1. An unmodified opinion was issued on the financial statements.
2. The audit disclosed no significant deficiencies in the internal controls.
3. The audit disclosed no instances of noncompliance.

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 Position
December 31, 2016

ASSETS:

Current Assets:

Cash and cash equivalents	\$ 1,211,930
Investments	442,127
Current portion of receivables	211,836
Inventory on hand	197,755
Prepaid assets	26,016
Total current assets	<u>2,089,664</u>

Noncurrent Assets:

Reserve account	62,344
Project trust funds	31,865
Capital Assets-	
Land	155,699
Plant and equipment, net	12,390,133
Total noncurrent assets	<u>12,640,041</u>

Other Assets:

Loan costs, net	<u>89,128</u>
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Total Assets	<u>14,818,833</u>
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LIABILITIES:

Current Liabilities:

Accounts payable	180,332
Accrued interest	56,782
Current portion of long-term debt	505,252
Total current liabilities	<u>742,366</u>

Noncurrent Liabilities:

Long-term debt, less current maturities	<u>6,098,993</u>
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Total Liabilities	<u>6,841,359</u>
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NET POSITION:

Invested in capital assets, net of related debt	5,941,587
Restricted for debt service	94,209
Unrestricted assets	1,941,678
Total Net Position	<u>\$ 7,977,474</u>

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, 2016

Operating Revenues:

Water sales	\$ 2,492,461
Charges and late penalties	65,237
Service income	18,810
Other income	7,396
Total revenue from operations	<u>2,583,904</u>

Operating Expenses:

Water purchases	49,871
Salaries and benefits	380,785
Payroll taxes	30,659
Repairs and maintenance	60,004
Chemicals	396,153
Power plant costs	95,072
Testing fees	16,156
Employee insurance	115,287
Vehicle expense	21,801
Insurance	46,725
Supplies and materials	186,918
Office expenses	52,933
Depreciation	508,233
Amortization	9,558
Professional fees	152,775
Utilities and phone	17,249
Dues and fees	19,114
Miscellaneous	4,649
Total expenses from operations	<u>2,163,942</u>

Operating Income (Loss)	419,962
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Non-Operating Revenues (Expenses):

Interest income	2,046
Sale of equipment	27,460
Capital contributions-	
Memberships	125,352
Interest paid on long-term debt	(156,533)
Total Non-Operating Revenues (Expenses)	<u>(1,675)</u>

Change in Net Position	418,287
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Total Net Position, beginning of period	<u>7,559,187</u>
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Total Net Position, end of period	<u><u>\$ 7,977,474</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, 2016

Cash Flows from Operating Activities:

Receipts from customers	\$ 2,574,595
Payments to employees	(380,785)
Payments to vendors	(1,359,272)
Net Cash Provided by Operating Activities	<u>834,538</u>

Cash Flows from Financing Activities:

Sale (purchase) of fixed assets	(473,741)
Loan proceeds	330,536
Loan costs	(11,843)
Principal paid on long-term debt	(483,233)
Interest paid on long-term debt	(135,939)
Net Cash Provided by (used in) Financing Activities	<u>(774,220)</u>

Cash Flows from Investing Activities:

Capital contributions - Memberships	125,352
Liquidation of investments and reserve accounts	67,992
Interest earned on investments	2,046
Net Cash Provided by (used in) Investing Activities	<u>195,390</u>

Net Increase (Decrease) in Cash 255,708

Cash and cash equivalents, beginning of period 956,222

Cash and cash equivalents, end of period \$ 1,211,930

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

Operating Income	\$ 419,962
Adjustments to reconcile net income to net cash provided (used) by operating activities:	
Depreciation Expense	508,233
Amortization Expense	9,558
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	(22,780)
(Increase) decrease in prepaid insurance	(1,298)
(Increase) decrease in inventory	5,791
Increase (decrease) in accounts payable	(122,027)
Increase (decrease) in accruals	37,099
Net cash provided by operating activities	<u><u>\$ 834,538</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, 2016

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 3,500 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, 2016, the District held deposits of approximately \$1,747,767 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, 2016

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, 2016 are as follows:

	Wtd. Avg Maturity	Credit Rating	Market	Cost
Money market/checking	N/A	AAAm	\$ 1,243,294	1,243,294
Certificates of deposit	1.0 Yr	N/A	504,473	504,473
Total Deposits			<u>\$ 1,747,767</u>	<u>1,747,767</u>

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: 29% in Certificates of Deposit (\$504,473) and 71% in Money Market funds (\$1,243,294).

WAGONER COUNTY RURAL WATER DISTRICT NO. 5

Coweta, Oklahoma

Notes to the Financial Statements

December 31, 2016

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, 2016 were \$219,519. An allowance for doubtful accounts was computed at \$7,683.

Prior Year Information

Prior year financial statement information is included in the other supplementary information section for comparative purposes only.

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, 2016

Note A – Significant Accounting Policies – cont'd

Subsequent Events

Management has evaluated subsequent events through January 25, 2017, 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

Any items purchased or constructed in excess of \$1,000 and a useful life of over two years is considered a fixed asset by the District.

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:

	12/31/2015			12/31/2016
	<u>Amount</u>	<u>Additions</u>	<u>Deletions</u>	<u>Amount</u>
Land	\$ 154,199	1,500	-	155,699
Water dist. system	8,957,081	367,804	-	9,324,885
Water plant	8,513,729	47,108	-	8,560,837
Buildings and furn.	140,876	52,165	-	193,041
Vehicles	383,898	25,454	-	409,352
Office equipment	<u>69,864</u>	<u>4,170</u>	<u>-</u>	<u>74,034</u>
Total Fixed Assets	18,219,647	498,201	-	18,717,848
Less: Accumulated Depreciation	<u>(5,663,783)</u>	<u>(508,233)</u>	<u>-</u>	<u>(6,172,016)</u>
Total	<u>\$ 12,555,864</u>	<u>(10,032)</u>	<u>-</u>	<u>12,545,832</u>

WAGONER COUNTY RURAL WATER DISTRICT NO. 5

Coweta, Oklahoma

Notes to the Financial Statements

December 31, 2016

Note B – Notes Payable

Long-Term Debt consists of six 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.
6. The District has a 2016 promissory note in the estimated amount of \$4,270,000 with the Oklahoma Water Resources Board (OWRB) for a period of 30 years. The District will make monthly deposits into a trust account at Bank of Oklahoma. The trust account will then make the variable semi-annual payments of principal and interest to the OWRB. The fixed interest rate on this note is 2.82%. The water system 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, 2016

Note B – Notes Payable – cont'd

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.

	December 31,	
	2016	2015
Oklahoma Water Resources Board note payable, issued for \$4,735,000, at 0% interest, due in semi-annual installments, until paid;	\$ 2,775,383	3,032,330
Oklahoma Water Resources Board note payable, issued for \$1,405,454, at 3.66% interest, due in semi-annual installments, until paid;	994,692	1,056,145
BB&T note payable, 10 year note, issued for \$1,400,000, at 2.83% interest, due in semi-annual installments, until paid;	1,354,000	1,400,000
Co-Bank note payable, issued for \$825,000 at 5.18% interest, payable in monthly payments of \$4,561, until paid;	811,486	823,120
BancFirst note payable, issued for \$550,000 at 2.45% interest, payable in semi-annual payments of \$58,832, until paid;	338,148	445,347
Oklahoma Water Resources Board note payable, issued for \$4,270,000, at 2.82% interest, payments on principal will begin once construction is completed. Interest only payments will begin to be made on March 15, 2017. Payments will due in semi-annual installments, until paid;	330,536	-
Long-Term Debt Outstanding	6,604,245	6,756,942
Less: Current maturities of long-term debt	(505,252)	(482,273)
Total Long-Term Debt, Net	<u>\$ 6,098,993</u>	<u>6,274,669</u>

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

Notes to the Financial Statements

December 31, 2016

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)	BB&T	Co-Bank	BancFirst
2017	\$ 505,252	321,988	61,000	12,329	109,935
2018	514,192	325,556	63,000	12,992	112,644
2019	523,514	329,255	65,000	13,690	115,569
2020	528,292	332,980	181,000	14,312	-
2021	538,268	337,070	186,000	15,198	-
2022-26	2,637,379	1,750,330	798,000	89,049	-
2027-31	488,628	372,895	-	115,733	-
2032+	868,719	330,536	-	538,183	-
Total	<u>\$ 6,604,244</u>	<u>4,100,610</u>	<u>1,354,000</u>	<u>811,486</u>	<u>338,148</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, 2016 are summarized below:

(A)	Net income from system (before debt service)	\$ 419,962		
	Membership fees	125,352		
	Interest income	2,046		
	Depreciation & Amortization expenses & equip sale	545,251		
	Total Funds Available for Debt Service	<u>\$ 1,092,611</u>		
	125% of Maximum Annual Debt Service (\$569,112)	<u>\$ 796,373</u>		
(B)	Total Revenue from the water system	\$ 2,583,904		
	Operation and maintenance expenses	(1,646,151)		
	Net Operating Income	<u>\$ 937,753</u>		

As of December 31, 2016 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, 2016

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 \$614,798.00 in money damages, plus an interest award of \$245,106.51, with post-judgment interest. The Judge had not yet ruled on the injunctive relief which includes transfer of infrastructure from Coweta to the District. The District has also made an application for attorney fees and litigation costs, which would be added to the amount awarded by the jury. Coweta filed an appeal following the entry of judgment.

WAGONER COUNTY RURAL WATER DISTRICT NO. 5

Balance Sheet December 31, 2016

<u>ASSETS</u>	DECEMBER 31,	
	2016	(memo only) 2015
Current Assets:		
Cash and cash equivalents	\$ 1,211,930	956,222
Investments	442,127	543,311
Accounts receivable	211,836	189,056
Prepaid insurance	26,016	24,718
Inventory	197,755	203,546
Total current assets	<u>2,089,664</u>	<u>1,916,853</u>
Restricted Assets:		
Reserve account	62,344	47,720
Project trust funds	31,865	33,891
Total restricted assets	<u>94,209</u>	<u>81,611</u>
Fixed Assets:		
Land	155,699	154,199
Water distribution system	9,324,886	8,957,081
Water plant	8,560,837	8,513,729
Vehicles and equipment	483,385	450,762
Buildings and furnishings	193,041	140,876
Total fixed assets	<u>18,717,848</u>	<u>18,216,647</u>
Less: accumulated depreciation	<u>(6,172,016)</u>	<u>(5,663,783)</u>
Total fixed assets (net)	<u>12,545,832</u>	<u>12,552,864</u>
Other Assets:		
Deferred loan costs	142,944	131,101
Less: Accumulated amortization	<u>(53,816)</u>	<u>(44,258)</u>
Total other assets	<u>89,128</u>	<u>86,843</u>
Total Assets	<u><u>\$ 14,818,833</u></u>	<u><u>14,638,171</u></u>
 <u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 180,332	302,359
Accrued interest on long-term debt	56,782	19,683
Current maturities of long-term debt	505,252	482,273
Total current liabilities	<u>742,366</u>	<u>804,315</u>
Long-Term Debt, less current maturities:		
Notes payable	<u>6,098,993</u>	<u>6,274,669</u>
Total Liabilities	<u>6,841,359</u>	<u>7,078,984</u>
Fund Equity:		
Members capital	2,626,867	2,501,515
Contributed capital	801,973	801,973
Retained earnings	4,548,634	4,255,699
Total fund equity	<u>7,977,474</u>	<u>7,559,187</u>
Total Liabilities and Fund Equity	<u><u>\$ 14,818,833</u></u>	<u><u>14,638,171</u></u>

WAGONER COUNTY RURAL WATER DISTRICT NO. 5
Statement of Revenue, Expenses and Changes in Retained Earnings
For The Year Ended December 31, 2016

	2016	(memo only) 2015
Revenue from Operations:		
Water sales	\$ 2,492,461	2,143,333
Charges and late penalties	65,237	58,586
Service income	18,810	42,950
Other income	7,396	13,419
Total revenue from operations	<u>2,583,904</u>	<u>2,258,288</u>
Expenses from Operations:		
Water purchases	49,871	55,763
Salaries and benefits	380,785	338,838
Payroll taxes	30,659	27,126
Repairs and maintenance	60,004	113,999
Chemicals	396,153	123,663
Power plant costs	95,072	94,502
Testing fees	16,156	15,983
Employee insurance	115,287	114,403
Vehicle expense	21,801	20,245
Insurance	46,725	48,784
Supplies and materials	186,918	143,309
Office expenses	52,933	50,768
Depreciation	508,233	482,653
Amortization	9,558	11,843
Professional fees (engineer)	152,775	37,324
Utilities and phone	17,249	18,872
Dues and fees	19,114	12,502
Miscellaneous	4,649	5,344
Total expenses from operations	<u>2,163,942</u>	<u>1,715,921</u>
Net Income (Loss) from Operations	419,962	542,367
Non-operating revenues:		
Sale of equipment	27,460	0
Interest earnings	2,046	2,865
Total non-operating revenues	<u>29,506</u>	<u>2,865</u>
Non-operating expenses:		
Interest on long-term debt	<u>(156,533)</u>	<u>(125,318)</u>
Net Income (Loss)	292,935	419,914
Retained earnings, beginning of period	<u>4,255,699</u>	<u>3,835,785</u>
Retained earnings, end of period	<u><u>\$ 4,548,634</u></u>	<u><u>4,255,699</u></u>