

Bryan County Rural Water & Sewer District #5

Independent Auditors Report

**As of and for the Years Ended
August 31, 2012 and 2011**

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Independent Auditors Report

To the Board of Directors
Bryan County Rural Water & Sewer District #5
Durant, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Bryan County Rural Water & Sewer District #5, as of and for the year ended August 31, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Bryan County Rural Water & Sewer District #5's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year comparative information has been derived from the District's 2011 financial statements and, in the audit report dated January 4, 2012, prepared by Brown & Davis, LLP. They expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 Bryan County Rural Water & Sewer District #5, as of August 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2012, on our consideration of the Bryan County Rural Water & Sewer District #5'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 and 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* and should be considered in assessing the results of our audit.

Management has not presented the management's discussion and analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.



Casey J. Russell CPA, Inc.
October 10, 2012

Bryan Co. Rural Water & Sewer Dist. #5
Statement of Net Assets
August 31, 2012 and 2011

	2012	2011
ASSETS		
Cash in bank-unrestricted	\$ 629,965.37	\$ 740,212.86
Certificate of Deposits-unrestricted	232,456.13	231,405.61
Certificate of Deposits-restricted	119,062.49	118,238.41
Accounts receivable, net	163,530.30	168,953.02
Prepaid Insurance	19,060.75	17,169.93
Total current assets	1,164,075.04	1,275,979.83
Capital assets, net	3,182,640.54	3,056,619.63
TOTAL ASSETS	\$ 4,346,715.58	\$ 4,332,599.46
 LIABILITIES AND NET ASSETS		
Accounts Payable	\$ 72,652.63	\$ 107,708.74
Payroll Taxes Payable	507.46	652.00
Accrued Interest Payable	1,971.82	2,271.82
Accrued Compensated Absences	4,429.00	2,977.00
Refundable Meter Deposits	54,700.00	51,200.00
Total current liabilities	134,260.91	164,809.56
Notes payable FMHA	629,814.88	700,110.56
Total Liabilities	764,075.79	864,920.12
 NET ASSETS		
Invested in capital assets, net of related debt	2,552,825.66	2,356,509.07
Restricted for debt service and maintenance	119,062.49	118,238.41
Unrestricted	910,751.64	992,931.86
Total Net Assets	3,582,639.79	3,467,679.34
TOTAL LIABILITIES AND NET ASSETS	\$ 4,346,715.58	\$ 4,332,599.46

The accompanying notes are an integral part of these financial statements.

Bryan Co. Rural Water & Sewer Dist. #5
Statement of Revenues Over Expenses and Changes in Net Assets
For the Year Ended August 31, 2012 and 2011

	2012	2011
OPERATING REVENUES		
Water sales	\$ 1,500,929.62	\$ 1,556,585.36
Installation and Tap Fees	45,804.46	96,456.20
Sewer and Trash Collection Fees	9,023.27	13,650.76
TOTAL OPERATING REVENUES	1,555,757.35	1,666,692.32
OPERATING EXPENSES		
Advertising	692.36	1,958.48
Audit	4,980.00	4,880.00
Bank Fees	0.55	23.00
Computer Software and Maintenance	1,613.00	1,338.00
Depreciation	203,217.67	190,392.47
Dues and Fees	25,216.76	6,555.52
Employee Benefits - Health Insurance	35,229.13	44,111.19
Flowers and Gifts	4,232.74	4,500.00
Food and Meeting Expense	1,141.33	1,710.85
Insurance and Bonds	31,083.52	28,372.31
Interest	32,292.32	35,678.30
Legal and Professional	148,855.00	64,235.14
Medical and Safety Supplies	1,193.41	339.71
Mileage	937.86	1,179.43
Miscellaneous	7,116.70	447.71
Office Supplies and Expense	24,068.63	21,157.82
Payroll Taxes	19,709.60	18,110.92
Pension Plan Expense	16,015.98	11,887.54
Postage	11,053.13	15,512.33
Purchase of Water	551,642.11	578,840.81
Repairs and Maintenance	56,150.08	24,710.09
Salaries and Wages	240,288.17	258,739.16
Travel and Education	-	406.00
Truck and Tractor Expense	34,082.01	39,770.63
Uncollectible Accounts	4,095.04	9,370.90
Uniforms and Laundry	1,217.40	2,272.51
Utilities and Telephone	21,263.96	23,634.28
Water Tests and Lab Fees	2,388.83	6,543.53
TOTAL OPERATING EXPENSES	1,479,777.29	1,396,678.63
OPERATING INCOME (LOSS)	75,980.06	270,013.69
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	2,784.19	4,508.18
Recovery of Bad Debts	11,553.37	11,953.34
Other Income	21,717.83	1,275.60
Memberships	2,925.00	4,575.00
Gain (Loss) on Disposal of Fixed Assets	-	17,764.13
TOTAL NON-OPERATING REVENUES (EXPENSES)	38,980.39	40,076.25
NET INCOME	114,960.45	310,089.94
Beginning Net Assets	3,467,679.34	3,157,589.40
Ending Net Assets	\$ 3,582,639.79	\$ 3,467,679.34

The accompanying notes are an integral part of these financial statements.

Bryan Co. Rural Water & Sewer Dist. #5
Statement of Cash Flows
For the Year Ending August 31, 2012 and 2011

	2012	2011
Cash Flows From Operating Activities		
Receipts from customers	\$ 1,561,180.07	\$ 1,658,313.95
Payments to suppliers	(966,471.35)	(724,859.24)
Payments to employees	(309,935.42)	(335,527.16)
Interest Paid	(32,592.32)	(34,696.96)
Net Cash Provided by Operating Activities	252,180.98	563,230.59
Cash Flows From Investing Activities		
Interest Received	2,784.19	4,508.18
Capital Asset Purchases	(329,238.58)	(405,518.69)
Proceeds from Sale of Assets	-	17,764.13
Net Cash Provided by Investing Activities	(326,454.39)	(383,246.38)
Cash Flows From Capital and Related Financing Activities		
Recovery of Bad Debts	11,553.37	11,953.34
Other Income	21,717.83	1,275.60
Membership Income	2,925.00	4,575.00
Principal paid on long term debt	(70,295.68)	(66,776.04)
Net Cash Flows From Capital and Related Financing Activities	(34,099.48)	(48,972.10)
Net Increase (Decrease) in Cash	(108,372.89)	131,012.11
Cash, Beginning of the Year	1,089,856.88	958,844.77
Cash, End of the Year	\$ 981,483.99	\$ 1,089,856.88
Cash and Equivalents - Unrestricted	862,421.50	971,618.47
Cash and Equivalents - Restricted	119,062.49	118,238.41
Total Cash and Equivalents	\$ 981,483.99	\$ 1,089,856.88
<i>Reconciliation of change in net assets to net cash provided by operations</i>		
Change in Net Assets	75,980.06	270,013.69
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	203,217.67	190,392.47
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	5,085.27	(8,618.36)
Increase (Decrease) in Doubtful Accounts	337.45	239.99
(Increase) Decrease in Prepaid Expenses	(1,890.82)	(408.93)
Increase (Decrease) in Accounts Payable	(35,056.11)	107,708.74
Increase (Decrease) in Payroll Taxes Payable	(144.54)	(4,117.43)
Increase (Decrease) in Accrued Interest Payable	(300.00)	981.34
Increase (Decrease) in Accrued Compensated Absences	1,452.00	1,439.08
Increase (Decrease) in Refundable Meter Deposits	3,500.00	5,600.00
Net cash provided by operating activities	\$ 252,180.98	\$ 563,230.59

The accompanying notes are an integral part of these financial statements.

RURAL WATER AND SEWER DISTRICT NO. 5
Notes to Basic Financial Statements
August 31, 2012

Note 1: Summary of Significant Accounting Policies

Financial Reporting Entity

Rural Water and Sewer District No. 5, Bryan County, Oklahoma (the District) was organized for the purpose of providing water to the rural residents and businesses located in a the southern portion of Bryan County, Oklahoma. The water district uses the accrual basis of accounting; consequently, all revenue is included when earned, and all expenses are recognized when the obligation is incurred.

Basis of Presentation, Measurement Focus, and Basis of Accounting

The District is financed and operated in a manner similar to a private business enterprise, where the intent of the governing body is that the costs of providing water to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The District uses one fund which is a proprietary fund of a business-type activity as described above. This fund is reported on the accrual basis of accounting; consequently, all revenue is included when earned, and all expenses are recognized when the obligation is incurred.

Proprietary fund equity is reported as restricted net assets (funds that are restricted to a particular use), unrestricted net assets, and investments in capital assets net of related debt.

Operating revenues and expenses for proprietary funds are those that result from providing water, sewer, and solid waste collection services.

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts in various funds. Actual results could differ from those estimates.

Note 2: Stewardship, Compliance and Accountability

Budget

The District prepares an annual estimated budget of cash receipts and disbursements for the purpose of adjusting water rates if necessary and as a forecast of cash receipts and disbursements required by the USDA Rural Development. This does not meet the definition of a legally required and adopted budget and accordingly is not presented.

Risk Management

The District's business activity is with customers located within a portion of Bryan County, Oklahoma. As of August 31, 2012 the District's receivables were \$172,137 and \$177,222, respectively. An overall decline in the economic condition of the area could affect the collection of those receivables.

RURAL WATER AND SEWER DISTRICT NO. 5
Notes to Basic Financial Statements
August 31, 2012

The District is exposed to various risks of loss related to theft of and damage to assets, errors and omissions, injuries to employees, and natural disasters. The District purchases commercial insurance to cover these possible liabilities.

Commitments and Contingencies

The District participates in state and federally assisted loan and grant programs. These programs are subject to program compliance audits by grantors or their representatives. Accordingly, the District's compliance with applicable loan and grant requirements will be established at some future date. The amount, if any, of expenses which may be disallowed by the granting agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

Note 3: Detail Notes On Transaction Classes and Accounts

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/expenses.

Cash and Equivalents

For the purpose of the Statement of Net Assets, "cash" includes all demand, savings accounts, and certificates of deposits of the District. For the purpose of the proprietary fund Statement of Cash Flows, "cash and equivalents" includes all demand and savings accounts, and certificates of deposit with an original maturity of three months or less.

Deposits are classified into the following three categories: (1) Insurance or collateralized with securities held by the entity or by its agent or in the entity's name (Category 1); (2) Collateralized with securities held by the pledging financial institutions trust department or agent In the entity's name (Category 2); and (3) Uncollateralized, including any bank balance that is collateralized with securities held by the pledging institution, or by its trust department or agent but not in the entity's name (Category 3).

All of the District's cash accounts are considered Category 1. The Emergency Economic Stabilization Act of 2008 temporarily raised the basic limit on FDIC coverage to \$250,000 per depositor. This coverage limit will return to \$100,000 after December 31, 2013. The accounts are further collateralized by \$350,000 in letters of credit from the Federal Home Loan Bank of Topeka, KS. At August 31, 2011 all accounts were covered by either the federal depository insurance or other collateral.

Accounts Receivable

Accounts receivables consist of all revenues earned at year-end and not yet received. Allowances for doubtful accounts are based on 5% of the accounts receivable balance at the end of the accounting year.

RURAL WATER AND SEWER DISTRICT NO. 5
Notes to Basic Financial Statements
August 31, 2012

Capital Assets

Capital assets used in the District's operations are stated at cost less accumulated depreciation. Depreciation is provided on the straight-line method at various rates based on the estimated useful lives of the assets. Generally, estimated useful lives of five years for trucks and tractors, ten years for furniture, fixtures and equipment, and thirty years for the building and water system are used. Maintenance and repairs as well as renewals and betterments of small amounts are charged against Income as incurred whereas major renewals or betterments which extend the life or increase the value of property are capitalized.

Capital asset activity for the year ended August 31, 2012 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Water System	5,913,531	325,589	-	6,239,120
Land	32,575	-	-	32,575
Trucks & Tractors	354,002	-	-	354,002
Office Building	50,288	-	-	50,288
Office Furniture & Equipment	62,781	3,650	-	66,431
Total	6,413,177	329,239	-	6,742,416
Less: Accumulated Depreciation	(3,356,559)	(203,218)	-	(3,559,777)
Net Capital Assets	<u>\$ 3,056,618</u>			<u>\$ 3,182,640</u>

Capital asset activity for the year ended August 31, 2011 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Water System	5,548,348	365,183	-	5,913,531
Land	32,575	-	-	32,575
Trucks & Tractors	368,178	42,808	(56,984)	354,002
Office Building	50,288	-	-	50,288
Office Furniture & Equipment	61,807	974	-	62,781
Total	6,061,196	408,965	(56,984)	6,413,177
Less: Accumulated Depreciation	(3,219,703)	(190,393)	53,537	(3,356,559)
Net Capital Assets	<u>\$ 2,841,493</u>			<u>\$ 3,056,618</u>

Noncurrent Debt

Non-current debt includes the original note payable to the USDA Rural Development with monthly payments of \$5,683 per month including Interest at the rate of 5%. The original amount of the loan was \$1,158,864. As of August 31, 2012, that balance had been reduced to \$260,405 of which \$57,034 will be paid on the principal during the coming year of all payment are made timely.

RURAL WATER AND SEWER DISTRICT NO. 5
Notes to Basic Financial Statements
August 31, 2012

During 1985 an additional loan in the amount of \$150,000 was granted by the USDA Rural Development for the purpose of constructing water towers at Calera and Cartwright, Oklahoma. Monthly payments on that note are \$965 per month including interest at the rate of 6.75%. As of August 31, 2012, the original \$150,000 has been paid down to a balance of \$43,130 of which \$9,073 will be paid on the principal during the coming year if all payments are made timely.

During 1994 a third loan in the amount of \$325,000 was granted by the USDA Rural Development for the purpose of constructing additional water lines and a tower. Monthly payments on that note are \$1,476 including interest at the rate of 4.5%. As of August 31, 2012, the original \$325,000 loan had been paid down to a balance of \$245,509 of which \$7,290 will be paid on the principal during the coming year if all payments are made timely.

On August 13, 1997, an additional loan in the amount of \$100,000 was granted by the USDA Rural Development for reimbursement of overrun costs on the additional water lines constructed in 1995. Monthly payments on that note are \$450 including Interest at the rate of 4.5%. As of August 31, 2012, the original \$100,000 loan had been paid down to a balance of \$80,771 of which \$1,962 will be paid on the principal during the coming year if all payments are made timely.

All of the above notes are secured by the revenues and net assets of the organization.

Schedule of Notes Payable:	Current	Non-Current	Total
USDA-RD #9111	57,034	203,371	260,405
USDA-RD #9112	9,073	34,057	43,130
USDA-RD #9113	7,290	238,219	245,509
USDA-RD #9114	1,962	78,809	80,771
Totals	\$ 75,358	\$ 554,457	\$ 629,815

The annual requirements to amortize all debt outstanding to the USDA Rural Development as of August 31, 2011 including interest payments of \$305,887 will be as follows:

	Original Loan 5%	Additional Loan 6.75%	Additional Loan 4.50%	Additional Loan 4.50%	Totals
2012	68,196	11,580	17,712	5,400	102,888
2013	68,196	11,580	17,712	5,400	102,888
2014	68,196	11,580	17,712	5,400	102,888
2015	68,196	11,580	17,712	5,400	102,888
2016	68,196	11,580	17,712	5,400	102,888
2017/2021	16,078	3,477	88,560	27,000	135,115
2021/2026	-	-	88,560	27,000	115,560
2026/2031	-	-	88,560	27,000	115,560
2031/2036	-	-	57,197	27,000	84,197
2036/2039	-	-	-	4,814	4,814
Totals	\$ 357,058	\$ 61,377	\$ 411,437	\$ 139,814	\$ 969,686

RURAL WATER AND SEWER DISTRICT NO. 5
Notes to Basic Financial Statements
August 31, 2012

Retirement Plan

On January 10, 1997 the water district adopted the National Association of Counties Deferred Compensation Program for its full time employees through a joint contributory defined contribution plan. The water district's total payroll for the year was \$240,288 and the covered payroll was \$163,733. The water district's contributions for the year were \$11,461 and the employee's contributions were \$9,824. There were no related party transactions in the plan during the year. Employer contributions to the plan vest at the time contributions are made. The employee may elect the time at which distributions under the Plan are to commence by designating the month and year during which the first distribution is to be made. The earliest distribution commencement date that may be elected by the employee shall be the earlier of (a) the date on which the employee separates from services; or (b) the date on which the employee attains age 70 1/2 or terminates deferrals under this plan, whichever is later.

Restricted Assets

The USDA Rural Development requires an amount equal to the note payments for one year be set aside and controlled by them. On April 26, 1999 Rural Development approved a request by the Water District to withdraw \$50,000 from the set aside amount for the purchase of equipment. At August 31, 2012, the account had a balance of \$119,062 which exceeds the required \$102,888.

Subsequent Events

Subsequent events have been evaluated through October 10, 2012 which is the date the financial statements were issued.

Casey J. Russell CPA, Inc.

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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

To the Board of Directors
Bryan County Rural Water & Sewer District #5
Durant, Oklahoma

We have audited the financial statements of the business-type activities of Bryan County Rural Water & Sewer District #5, as of and for the year ended August 31, 2012, which collectively comprise the Bryan County Rural Water & Sewer District #5's basic financial statements and have issued our report thereon dated October 10, 2012. 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.

Internal Control Over Financial Reporting

Management of Bryan County Rural Water & Sewer District #5, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Bryan County Rural Water & Sewer District #5's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Bryan County Rural Water & Sewer District #5's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Bryan County Rural Water & Sewer District #5's internal control over financial reporting.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bryan County Rural Water & Sewer District #5's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under Government Auditing Standards.

Bryan County Rural Water & Sewer District #5's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Bryan County Rural Water & Sewer District #5's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Casey J. Russell CPA, Inc.

Casey J. Russell CPA, Inc.

October 10, 2012