

ADAIR COUNTY RURAL WATER DISTRICT NO. 5

PROCTOR, OKLAHOMA

FINANCIAL STATEMENTS AND AUDIT REPORT
For the year ended December 31, 2012



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MICHAEL W. GREEN

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Adair County Rural Water District No. 5
Proctor, Oklahoma

I have audited the accompanying financial statements of the Adair County Rural Water District # 5 (the District), as of and for the year ended December 31, 2012, and the related notes to the 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 in accordance with accounting principles generally accepted in the United States of America; this includes 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 entity'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 entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District, as of December 31, 2012, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Management has omitted the management discussion and analysis that 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 operations, economic, or historical context. My opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, I have also issued a report dated August 8, 2013 on my consideration of the District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting and compliance.



Michael Green
Certified Public Accountant

August 8, 2013

ADAIR COUNTY RURAL WATER DISTRICT NO. 5
BALANCE SHEET
DECEMBER 31, 2012

ASSETS

CURRENT ASSETS:

Cash in Bank O & M	\$	23,370
Cash in Bank Meter Deposits (Note A:2)		16,383
Bond Related Accounts (Note A:2)		545,973
Accounts Receivable (net of allowance)		80,285
Prepaid Insurance		3,643
Unamortized Bond Issuance Costs		91,181

TOTAL CURRENT ASSETS 760,835

FIXED ASSETS:

Land		6,429
Office Furniture and Equipment		28,068
Water System		4,143,851
<i>Accumulated Depreciation</i>		<i>(1,487,009)</i>

NET FIXED ASSETS 2,691,339

TOTAL ASSETS 3,452,174

LIABILITIES AND FUND EQUITY

CURRENT LIABILITIES

Accrued Interest Payable		53,854
Meter/Lease Deposits		13,760
Current Portion of Long-Term Debt		5,000
TOTAL CURRENT LIABILITIES		72,614

LONG TERM LIABILITIES

Bonds Payable (<i>Less Bond Discount</i>)		2,331,993
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TOTAL LONG TERM LIABILITIES 2,331,993

NET ASSETS

Net Assets Restricted by Security Deposits		13,760
Invested in Capital Assets Net of Related Debt		354,346
Restricted for Debt Reserve		545,973
Net Assets: Unrestricted		133,488

TOTAL NET ASSETS 1,047,567

TOTAL LIABILITIES AND NET ASSETS \$ 3,452,174

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

ADAIR COUNTY RURAL WATER DISTRICT NO. 5
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2012

REVENUE:	
Water Sales	\$ 424,736
Membership Fees	15,225
Late Charges	6,861
Other Operating Revenues	<u>6,603</u>
TOTAL OPERATING REVENUE	<u>453,425</u>
 EXPENDITURES:	
Operator Manager	91,900
Contract Services	13,523
Operating Materials and Supplies	44,046
System Repair and Maintenance	30,958
Water Testing	5,050
Water Treatment	9,179
Telephone/Utilities	59,411
Office Expense	5,871
Professional Fees	-
Insurance	6,799
Licenses/Subscriptions/Dues	8,398
Advertising	260
Bank Service Charges	7,034
Depreciation	<u>102,898</u>
TOTAL OPERATING EXPENDITURES	<u>385,327</u>
NET INCOME FROM OPERATIONS	<u>68,098</u>
 OTHER INCOME (EXPENDITURES):	
Interest Income	15
Dividend Income Bond Related	51
FEMA Reimbursement for Prior Years	8,746
Bond Related Expenses	(5,799)
Interest Expense	<u>(140,815)</u>
TOTAL OTHER INCOME AND (EXPENSE)	<u>(137,802)</u>
NET INCOME (LOSS)	(69,704)
NET ASSETS, BEGINNING OF THE YEAR	<u>1,117,271</u>
NET ASSETS, END OF THE YEAR	<u><u>\$ 1,047,567</u></u>

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

ADAIR COUNTY RURAL WATER DISTRICT NO. 5
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash Inflows:	
Net Income (Loss)	(69,704)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities	
Depreciation	102,898
Other Income and Expense	137,802
Increase in Accounts Receivable	(35,335)
Increase in Prepaid Insurance	(61)
Increase in accrued interest	10,320
Decrease in Meter/Lease Deposits	(150)
Net Cash Provided (Used) by Operating Activities	145,770

CASH FLOWS FROM FINANCING ACTIVITIES

Construction in Progress	(50,000)
Bond Related Expenses	(5,800)
FEMA Reimbursement	8,746
Decrease in Bond Discount	1,655
Decrease in Unammortized Bond Issuance Costs	3,144
Principal Reduction of Long-Term Debt	(5,000)
Interest Payments on Bonds	(140,815)
Net Cash Provided(Used) for Financing Activities	(188,070)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest Received from Investments	15
Dividend Income From Bonds	51
(Increase) Decrease in Bond Cash Accounts	2,582
Net Cash Provided (Used) for Investing Activities	2,648

NET CASH INFLOW (OUTFLOW) FROM ALL ACTIVITIES (39,652)

CASH AND CASH EQUIVALENTS BEGINNING OF THE YEAR **79,405**

CASH AND CASH EQUIVALENTS END OF THE YEAR **\$ 39,753**

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

ADAIR COUNTY RURAL WATER DISTRICT NO. 5
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Adair County Rural Water District No.5 was incorporated August 28, 1986 as a not-for-profit corporation under the laws of the State of Oklahoma for the purpose of obtaining and distributing potable water to rural residences within the district boundaries.

1. Basis of Accounting

The financial statements of the Adair County Rural Water District No. 5 have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

2. Cash and Equivalents

For the purpose of the statement of cash flows, the organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. Restricted cash consists of cash held for customer deposits and cash reserved for debt service.

3. Income Taxes

The Adair County Rural Water District No. 5 is exempt from Federal Income Taxes.

4. Property and Equipment

The District values its property and equipment at historical cost or estimated fair value at the date of receipt. Depreciation is computed using the straight-line method over the estimated useful life of the individual assets. The district policy is to capitalize fixed assets when cost exceeds \$500.00.

NOTE B: CASH

Unrestricted Cash consists of the following:

Bank of Commerce - O & M Account	1,296
Bank of Commerce - Meter Deposit Account	16,384
Arvest Bank Checking - O & M Account	<u>22,074</u>
TOTAL UNRESTRICTED CASH	<u><u>39,754</u></u>

NOTE C: ACCOUNTS RECEIVABLE

Accounts Receivable consists of trade receivables. An aging of accounts receivable is presented below. An allowance for doubtful accounts has been established at this time for the accounts that are sixty days overdue.

Current	\$	29,144
1-30 Days		32,539
30-60 Days		6,149
Over 60 Days		16,453
Allowance for Doubtful Accounts		<u>(4,000)</u>
Total Accounts Receivables		<u><u>80,285</u></u>

NOTE D: INVENTORY

Expendable items are recorded as expenditures when purchased. Merchandise on hand at December 31, 2012, was determined as not material; therefore no inventories have been reflected in the financial statements.

NOTE E: LONG TERM DEBT

The District had the following Bonds payable at December 31, 2012:

<u>Payable to</u>	<u>Date Bonds Mature</u>	<u>Collateral Pledged</u>	<u>Rate of Interest</u>	<u>Balance at 12/31/2012</u>	<u>Current Bonds Due Within One Year</u>
RCB Bond:	2/1/2043	Assets/Revenues	5.50%	\$2,385,000	\$ 5,000
Unamortized Discount				<u>(48,007)</u>	
				\$2,336,993	

The scheduled maturities of Bonds is as follows:

Years ending December 31,:

	Principal	Interest
2013	\$ 5,000	\$ 130,900
2014	10,000	130,350
2015	15,000	129,525
2016	20,000	128,425
2017	25,000	127,050
Thereafter	<u>2,310,000</u>	

The above bonds are secured by a first mortgage on all the District's assets and revenues. The bonds began to mature in February 2012 and continue until February 2043. The bonds are Refunding Revenue Bonds Series 2007.

NOTE F: MANagements USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principals requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE G: COMMITMENTS AND CONTINGENCIES

Adair County Rural Water District No. 5 currently participates in various grant programs. These grants are subject to audit by the grantor agency or their representatives. Such audits could lead to requests for reimbursement to the grantor agency for services disallowed under the terms of the contract. Presently Adair County Rural Water District No. 5 is not aware of any pending requests, and in the opinion of management, any such amounts would not be considered material.

NOTE H: Subsequent Events

Subsequent events have been evaluated through August 8, 2013, which is the date the financial statements were available to be issued.

MICHAEL W. GREEN
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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*

Board of Directors
Adair County Rural Water District No. 5
Proctor, Oklahoma

I have audited the financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the Adair County Rural Water District No. 5, as of and for the year ended December 31, 2012, which collectively comprise the Water District's basic financial statements and have issued my report thereon dated August 8, 2013. I conducted my 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

In planning and performing my audit, I considered the Adair County Rural Water District No. 5's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Water District's internal control.

My consideration of internal control 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. However, as described in the accompanying schedule of findings and Responses, I identified certain deficiencies in internal control that I consider 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 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. I consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness. (12-1)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Adair County Rural Water District No. 5's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item (12-2).

Adair County Rural Water District No. 5's Response to Findings

Adair County Rural Water District No. 5's response to the findings identified in my audit is described in the accompanying schedule of findings and responses. Adair County Rural Water District No. 5's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Michael Green, CPA
August 8, 2013

SCHEDULE OF FINDINGS AND RESPONSES

12-1 SEGREGATION OF DUTIES

Due to the lack of sufficient personnel there is not adequate segregation of duties.

Response: A much larger staff would be necessary in order to assure adequate segregation of duties. The board will need to be actively involved in the day to day activities of the water district.

12-2 ANNUAL BUDGET

According to the Rural Water, Sewer, Gas and Solid Waste Management District Act of Oklahoma, the District Board should annually prepare an estimated budget for the coming year. The district is in violation of this requirement.

Response: This district has hired a CPA to help with the accounting and other items such as correcting this violation.