

AUDIT REPORT

WASHINGTON COUNTY RURAL WATER DISTRICT #5
COPAN, OKLAHOMA

SEPTEMBER 30, 2012

KERSHAW CPA & ASSOCIATES, PC

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WASHINGTON COUNTY RURAL WATER DISTRICT #5
COPAN, OKLAHOMA
SEPTEMBER 30, 2012

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WASHINGTON COUNTY RURAL WATER DISTRICT #5
COPAN, OKLAHOMA
SEPTEMBER 30, 2012

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>	<u>TERM EXPIRATION</u>
RANDY FITZSIMMONS	CHAIRMAN	2013
DANNY LEMMONS	VICE CHAIRMAN	2014
BRUCE HINKLE	SECRETARY	2012
JERRY CUSTER	MEMBER	2012
PAT BALLARD	MEMBER	2014

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Washington County Rural Water District #5
Copan, Oklahoma

We have audited the accompanying financial statements of the Washington County Rural Water District #5, as of and for the fiscal year ended September 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Washington County Rural Water District #5's management. Our responsibility is to express an opinion 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, and in accordance with Oklahoma Statutes. 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Washington County Rural Water District #5, Washington County, Oklahoma, as of September 30, 2012, and the changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated January 30, 2013, on our consideration of the Washington County Rural Water 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be considered in assessing the results of our audit.

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Washington County Rural Water District #5 has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34. However the District has not presented the Management's Discussion and Analysis required by the Governmental Accounting Standards Board (GASB) that the GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The introductory and the other supplementary information sections listed in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the District. Such additional information has not been subjected to the auditing procedures applied in our audit of the basic financial statements, and accordingly, we do not express an opinion thereon.

Kershaw CPA & Associates, P.C.

Kershaw CPA & Associates, PC

January 30, 2013

WASHINGTON COUNTY RURAL WATER DISTRICT #5
COPAN, OKLAHOMA
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012

<u>ASSETS</u>	<u>2012</u>	<u>Memo Only 2011</u>
<u>Current Assets:</u>		
Cash and cash equivalents	\$ 191,201	\$ 49,857
Investments	20,000	108,875
Accounts receivable	29,696	24,053
Prepaid Insurance	3,262	3,269
Total Current Assets	<u>244,160</u>	<u>186,054</u>
<u>Capital Assets:</u>		
Land	9,744	9,744
Water Distribution System	1,510,374	1,483,439
Maintenance Facility	30,616	30,616
Equipment	-	8,731
Building	84,517	84,517
Less: Accumulated Depreciation	(968,580)	(932,272)
Total Capital Assets	<u>666,671</u>	<u>684,776</u>
<u>Other Assets:</u>		
Loan Costs	1,455	-
Less: Accumulated Amortization	(73)	-
Total Other Assets	<u>1,382</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 912,214</u>	<u>\$ 870,829</u>
<u>LIABILITIES & NET ASSETS</u>		
<u>Current Liabilities:</u>		
Accounts Payable	\$ 15,190	\$ -
Payroll Taxes Payable	-	-
Accrued Interest	1,601	1,580
Current Portion of Long-Term Debt	22,668	61,279
Total Current Liabilities	<u>39,459</u>	<u>62,859</u>
<u>Long-Term Liabilities:</u>		
Notes Payable	426,584	441,440
Less: Current Portion of Long-Term Debt	(22,668)	(61,279)
Total Long-Term Debt	<u>403,916</u>	<u>380,161</u>
TOTAL LIABILITIES	<u>443,375</u>	<u>443,020</u>
<u>NET ASSETS:</u>		
Invested in capital assets, net of related debt	240,087	243,335
Restricted for debt service	-	-
Unrestricted	228,752	184,473
TOTAL NET ASSETS	<u>468,839</u>	<u>427,809</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 912,214</u>	<u>\$ 870,829</u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

EXHIBIT B

WASHINGTON COUNTY RURAL WATER DISTRICT #5
COPAN, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET ASSETS
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2012

	2012	Memo Only 2011
<u>Operating Revenues:</u>		
Water sales	\$ 248,176	\$ 217,416
Penalties	4,697	3,482
Misc. other sales	2,320	1,245
Other income	23,272	1,387
Total Operating Revenues	<u>278,466</u>	<u>223,530</u>
<u>Operating Expenses:</u>		
Water purchases	77,442	87,747
Management fees	53,500	46,700
Depreciation Expense	40,285	39,256
Amortization Expense	73	-
Repairs and maintenance	15,545	19,549
Insurance	4,538	5,289
Professional fees	1,700	3,396
Utilities and telephone	4,555	5,650
Wages	-	1,223
Payroll Taxes	-	435
Licenses and fees	535	531
Office Expense	45	-
Operating supplies & materials	617	-
Bad Debt Expense	-	1,092
Miscellaneous expense	2,464	1,787
Total Operating Expenses	<u>201,298</u>	<u>212,654</u>
Net Operating Income (Loss)	<u>77,167</u>	<u>10,877</u>
<u>Non-operating Income (Expense):</u>		
Interest Income	112	106
Interest Expense	(23,662)	(23,820)
Membership Fees	9,572	7,500
Gain / (Loss) on Disposal of Assets	(4,754)	-
Total Non-operating Income (Expense)	<u>(18,732)</u>	<u>(16,214)</u>
Net Income (Loss)	58,435	(5,337)
Capital Contributions	-	-
Total Net Assets, Beginning of Year	427,809	433,146
Total Net Assets, Prior Year Adjustment	<u>(17,405)</u>	<u>-</u>
Total Net Assets, End of Year	<u>\$ 468,839</u>	<u>\$ 427,809</u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

WASHINGTON COUNTY RURAL WATER DISTRICT #5
COPAN, OKLAHOMA
STATEMENT OF CASH FLOWS
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2012

	<u>2012</u>	<u>Memo Only 2011</u>
<u>Net Cash Flows from Operating Activities:</u>		
Cash Receipts from Customers	\$ 272,822	\$ 218,980
Payments to Suppliers for Goods & Services	(163,149)	(180,369)
Net Cash Provided (Used) by Operating Activities	<u>109,673</u>	<u>38,612</u>
<u>Net Cash Flows from Capital & Related Financing Activities:</u>		
Additions to Capital Assets	(26,934)	(87,569)
Loan Fees	(1,455)	-
Loan Proceeds	198,890	76,625
Membership Fees	9,572	7,500
Principal paid on long-term debt	(213,746)	(21,723)
Interest paid on Debt	(23,641)	(23,661)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(57,315)</u>	<u>(48,828)</u>
<u>Net Cash Flows from Investing Activities:</u>		
(Increase)Decrease Investment	88,875	(31)
Interest Income	112	288
Net Cash Provided (Used) by Investing Activities	<u>88,987</u>	<u>257</u>
Net Increase (Decrease) in Cash and Cash Equivalents	141,344	(9,959)
Cash & Cash Equivalents, Beginning of Year	49,857	59,816
Cash & Cash Equivalents, Prior Year Adjustment	-	-
Cash & Cash Equivalents, End of Year	<u>\$ 191,201</u>	<u>\$ 49,857</u>
<u>Reconciliation of operating income (loss) to net cash provided operating activities:</u>		
Operating Income (Loss)	\$ 77,167	\$ 10,877
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation & Amortization	40,358	39,256
(Increase)Decrease in Accounts Receivable	(5,643)	(4,550)
(Increase)Decrease in Prepaid Insurance	6	386
Increase(Decrease) in Accounts Payable	(2,215)	(7,221)
Increase(Decrease) in Payroll Taxes Payable	-	(137)
Net Cash Provided (Used) by Operating Activities	<u>\$ 109,673</u>	<u>\$ 38,612</u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

WASHINGTON COUNTY RURAL WATER DISTRICT #5
COPAN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies employed by Washington County Rural Water District #5 (the District) are consistent with accounting principles generally accepted in the United States of America. Significant policies are described below.

In June 1999, the GASB issued Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. The statement established a new reporting model for governments that is substantially different from prior reporting standards. The District adopted the new reporting model September 30, 2004, which includes the following segments:

Management's Discussion & Analysis - provides introductory information on basic financial statements and an analytical overview of the District's financial activities. For the year ended September 30, 2012, management has not presented the Management's Discussion and Analysis as required by the Governmental Accounting Standards Board (GASB) and GASB has determined it necessary to supplement, although not required to be part of, the basic financial statements.

Fund financial statements - provide information about the District's proprietary fund. The proprietary fund utilizes the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of net income, financial position and cash flows. All assets and liabilities (whether current or non-current) associated with their activities are reported. Proprietary fund equity is classified as net assets.

A. The Reporting Entity:

The District, incorporated February 2, 1978, is a corporation organized as a not for profit corporation pursuant to Title 18 of Oklahoma Statute, for the purpose of providing water service for its customers in and around Washington County, Oklahoma. The District is managed by a board of directors elected by its members. Members of the board are elected by the membership of the District at its annual meetings. Membership in the District is attained by purchasing membership units. The activities of the District constitute the entire reporting entity. There are no other component or oversight units.

B. Basis of Accounting:

The financial statements are presented on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenditures are recorded when the liability is incurred.

C. Income Taxes:

The District is exempt from federal income tax under section 501(c)(12) of the Internal Revenue Code.

WASHINGTON COUNTY RURAL WATER DISTRICT #5
COPAN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

D. Estimates:

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

E. Cash and Cash Equivalents:

For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

F. Property, Plant and Equipment:

The District records capital assets at historical cost or estimated fair value on the date of donation of donated capital assets. Depreciation is recorded over the estimated useful life of the capital asset using the straight-line method, with one-half year's depreciation in the year of acquisition.

G. Capitalization Policy:

Purchases of capital items in excess of \$350.00 that increase the capacity or operation efficiency or extend the useful life of any asset are capitalized. Repairs and maintenance are expensed as incurred.

H. Equity Classification:

Equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
2. Restricted net assets—Consists of net assets with constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets—All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

I. Revenues, Expenditures & Expenses

Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

WASHINGTON COUNTY RURAL WATER DISTRICT #5
COPAN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

J. Compensated Absences

The District has not reported a liability for the estimated amounts of compensation for future absences. The amount is not known but it is not believed to be material.

K. Memorandum Totals

The "memorandum only" captions above the total columns mean that totals are presented for overview information purposes only.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

As a local government unit, the District is subject to various federal, state, and local laws and contractual regulations. In accordance with Government Auditing Standards, the auditor has issued a report on his consideration of the District's internal control over financial reporting and tested its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be read in conjunction with this report in considering the results of the audit.

Finance-related Legal & Contractual Provisions

The District does not have any long-term debt agreements which would have budgetary or reserve requirements.

Deficit Fund Balance or Retained Earnings

As indicated in the financial statements, there are no fund balance or retained earnings deficits for the District for this fiscal year.

NOTE 3 - CUSTODIAL CREDIT RISK RELATED TO DEPOSITS

Custodial Credit Risk

At September 30, 2012, the District held deposits of approximately \$211,201 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit are 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.

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.

WASHINGTON COUNTY RURAL WATER DISTRICT #5
COPAN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

Investment Credit Risk

The District has no policy that limits its investment choices other than the limitation 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.).

NOTE 4 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended September 30, 2012, was as follows:

	Balance at September 30, 2011	Additions	Deductions	Balance at September 30, 2012
Land	\$ 9,744	\$ -	\$ -	\$ 9,744
Water System	1,483,439	26,934	-	1,510,374
Equipment	30,616	-	-	30,616
Maintenance Facility	8,731	-	(8,731)	-
Building	84,517	-	-	84,517
Construction in Progress	-	-	-	-
Subtotal	<u>1,617,047</u>	<u>26,934</u>	<u>(8,731)</u>	<u>1,635,251</u>
Less: Accum. Depr.	(932,272)	(40,285)	3,977	(968,580)
Total Capital Assets (Net of Depreciation)	<u>\$ 684,776</u>	<u>\$ (13,351)</u>	<u>\$ (4,754)</u>	<u>\$ 666,671</u>

NOTE 5 - LONG-TERM DEBT

The District has a note, dated November 1, 1994, due to USDA Rural Development in the original amount of \$300,000 with a fixed interest rate of 5.625% with 480 monthly payments of principal and interest of \$1,575.00 maturing November 1, 2034. The note is for construction of a water line extension. Bartlesville water line extension serves as collateral.

WASHINGTON COUNTY RURAL WATER DISTRICT #5
COPAN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

The District has a note, dated November 3, 2005, due to Arvest Bank in the original amount of \$64,211. The original note was payable in 10 installments of \$535, including interest at 5.79%. The note was renewed on August 15, 2008, and every subsequent year after. The note includes a fixed interest rate of 2.25% with 11 payments of \$535 plus a final payment that includes unpaid principal plus interest due on September 15, 2012. The note is secured by Certificate of Deposit #32242 and Certificate of Deposit #118159. This note was paid in full in 2012.

The District has a note, dated April 10, 2009, due to Arvest Bank in the original amount of \$80,000, payable in monthly installments of \$690, including interest at 6.25%. Maturity is scheduled for April 10, 2014. The note is secured by the building. This note was paid in full in 2012.

The District has a note, dated August 12, 2010, due to Arvest Bank in the original amount of \$80,110.00, payable in monthly installments of \$870.00, including interest at 5.50%. Maturity is scheduled for August 15, 2015. The note is secured by the water system and CD #200656. This note was paid in full in 2012.

The District has a note, dated December 13, 2010, due to Arvest Bank in the original amount of \$20,100.00, payable in monthly installments of \$870.00, including interest at 5.50%. Maturity is scheduled for December 15, 2015. The note is secured by the accounts and equipment. This note was paid in full in 2012.

The District has a note, dated May 4, 2012, due to Armstrong Bank in the original amount of \$198,890.00, payable in monthly installments of \$2,013.66, including a variable interest initially set at 4.00% with the first scheduled rate change on May 4, 2017. Maturity is scheduled for May 4, 20122. The note is secured by the water system and was used to consolidate the Arvest Bank loans.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended September 30, 2012:

	Balance at September 30, 2011	Additions	Deductions	Balance at September 30, 2012
Note Payable - USDA RD	\$ 238,737	\$ -	\$ (5,616)	\$ 233,121
Note Payable - Arvest Bank #1	\$ 43,277	\$ -	\$ (43,277)	\$ -
Note Payable - Arvest Bank #2 (Bldg)	\$ 70,693	\$ -	\$ (70,693)	\$ -
Note Payable - Arvest Bank #3	\$ 69,786	\$ -	\$ (69,786)	\$ -
Note Payable - Arvest Bank #4	\$ 18,948	\$ -	\$ (18,948)	\$ -
Note Payable - Armstrong Bank	\$ -	\$ 198,890	\$ (5,428)	\$ 193,462
Total Long-Term Debt	<u>\$ 441,440</u>	<u>\$ 198,890</u>	<u>\$ (213,746)</u>	<u>\$ 426,584</u>

Debt Services Requirements to Maturity

The annual debt service requirements to maturity, including principal and interest, for long-term debt, as of September 30, 2012, are as follows:

WASHINGTON COUNTY RURAL WATER DISTRICT #5
COPAN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

Note Payable - USDA RD

Year Ending Sept 30,	Principal	Interest	Total
2013	\$ 5,938	\$ 12,962	\$ 18,900
2014	6,281	12,619	18,900
2015	6,644	12,256	18,900
2016	7,027	11,873	18,900
2017	7,433	11,467	18,900
2018-2022	44,116	50,384	94,500
2023-2027	58,406	36,094	94,500
2028-2032	77,324	17,176	94,500
2033-2034	19,953	666	20,619
Total	<u>\$ 233,121</u>	<u>\$ 165,497</u>	<u>\$ 398,619</u>

Note Payable - Armstrong Bank

Year Ending Sept 30,	Principal	Interest	Total
2013	\$ 16,730	\$ 7,434	\$ 24,164
2014	17,412	6,752	24,164
2015	18,121	6,043	24,164
2016	18,859	5,305	24,164
2017	19,628	4,536	24,164
2018-2022	102,713	10,056	112,769
Total	<u>\$ 193,462</u>	<u>\$ 40,126</u>	<u>\$ 233,589</u>

NOTE 6 - FUND EQUITY

As described in Note 1 above, equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt
2. Restricted net assets
3. Unrestricted net assets

NOTE 7 - CONTINGENCIES

Litigation

According to the District's management, there is no pending litigation.

Federally Assisted Programs

In the normal course of operations, the District participates in various federal or state/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

WASHINGTON COUNTY RURAL WATER DISTRICT #5
COPAN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 8 - ECONOMIC DEPENDENCE

Washington County Rural Water District #5 is dependent upon the City of Bartlesville, Oklahoma, and the City of Dewey, Oklahoma for the District's water supply. The District has entered into water purchase contracts with the Cities. The District purchases water for resale to customers.

NOTE 9 - NET WORKING CAPITAL

The net working capital of the District is defined as current assets (assets used to settle current liabilities) less current liabilities (liabilities that will be settled within one year).

	2012	2011
Current assets	\$ 244,160	\$ 186,054
Current liabilities	39,459	62,859
Net working capital	\$ 204,701	\$ 123,195

NOTE 10 - PRIOR YEAR ADJUSTMENT

A prior year adjustment of \$17,405.27 was made to accrue Accounts Payable that were not accrued in the previous year.

NOTE 11 - SUBSEQUENT EVENTS

The District did not have any subsequent events through January 30, 2013, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending September 30, 2012.

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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
Washington County Rural Water District #5
Copan, Oklahoma

We have audited the financial statements of the Washington County Rural Water District #5, as of September 30, 2012, and have issued our report thereon dated January 30, 2013. The District has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, except that the District did not present the required MD&A. Except as discussed in the preceding sentence, we conducted our audit in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and in accordance with Oklahoma Statutes.

Internal Control Over Financial Reporting

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

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financial reporting that we consider to be material weakness, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Washington County Rural Water 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*.

This report is intended solely for the information and use of the board of directors and management of the Washington County Rural Water District #5, Copan, Oklahoma, others within the entity and the Oklahoma State Auditor and Inspector and is not intended to be and should not be used by anyone other than these specified parties.

Kershaw CPA & Associates, P.C.

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January 30, 2013