

**RURAL WATER DISTRICT NO. 5,  
KAY COUNTY, OKLAHOMA**

**ANNUAL FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2011**

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KAY COUNTY, OKLAHOMA  
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## Independent Auditor's Report

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

We have audited the statements of assets, liabilities, and net assets— modified cash basis of Rural Water District No. 5, Kay County, Oklahoma as of December 31, 2011, and the related statements of revenue and expenses and changes in net assets and cash flows – modified cash basis for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

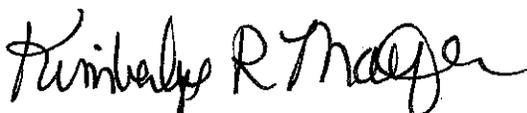
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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.

As described in Note 1, the District prepares its financial statements on the modified cash basis of accounting. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the financial statements referred to above, present fairly, in all material respects, the statement of assets, liabilities, and net assets – modified cash basis of Rural Water District No. 5, Kay County, Oklahoma as of December 31, 2011, and its revenues and expenses and changes in net assets and cash flows – modified cash basis, for the year then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 17, 2012 on our consideration of Rural Water District No. 5, Kay County, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 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 accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Rural Water District No. 5, Kay County, Oklahoma has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board requires to supplement, although, not be a part of the basic financial statements.



Kimberlye R. Mayer, CPA, P.C.  
Blackwell, Oklahoma  
February 17, 2012

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  
Rural Water District No. 5, Kay County, Oklahoma

We have audited the financial statements of Rural Water District No. 5, Kay County, Oklahoma as of and for the year ended December 31, 2011 and have issued my report there on dated February 17, 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. The financial statements were prepared using the modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. Rural Water District No. 5, Kay County, Oklahoma has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board requires to supplement, although, not be a part of the basic financial statements.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Rural Water District No. 5, Kay County Oklahoma'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 Rural Water District No. 5, Kay County Oklahoma's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Rural Water District No. 5, Kay County Oklahoma's internal control over financial reporting.

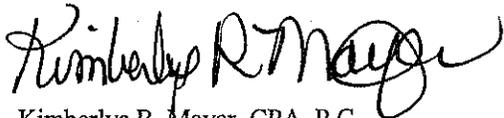
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is 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 weakness, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water District No. 5, Kay County Oklahoma'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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the board of directors, others within the District and is not intended to be and should not be used by anyone other than these specified parties.



Kimberlye R. Mayer, CPA, P.C.  
Blackwell, Oklahoma  
February 17, 2012

FINANCIAL STATEMENTS

AND

NOTES

RURAL WATER DISTRICT NO. 5  
 KAY COUNTY, OKLAHOMA  
 STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS  
 MODIFIED CASH BASIS  
 DECEMBER 31, 2011

ASSETS

Current Assets:	
Cash and cash equivalents	\$ 122,041
Investments (Note 1)	56,957
Utility deposit	30
Total Current Assets	<u>179,028</u>
Restricted Accounts:	
Debt service	1
Debt service reserve	15,399
Total Restricted Accounts	<u>15,400</u>
Capital assets (net of accumulated depreciation) (Note 2)	<u>371,839</u>
Total Assets	<u><u>\$ 566,267</u></u>

LIABILITIES AND NET ASSETS

Liabilities:	
Current Liabilities:	
OWRB notes payable (current portion) (Note 3)	\$ 3,400
Noncurrent Liabilities:	
OWRB notes payable (long-term portion) (Note 3)	98,150
Total Current Liabilities	<u>101,550</u>
Net Assets:	
Invested in capital assets	371,839
Restricted	15,400
Unrestricted	77,478
Total Net Assets	<u>464,717</u>
Total Liabilities and Net Assets	<u><u>\$ 566,267</u></u>

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

RURAL WATER DISTRICT NO. 5  
 KAY COUNTY, OKLAHOMA  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 MODIFIED CASH BASIS  
 YEAR ENDED DECEMBER 31, 2011

Operating Revenues:	
Water service	\$ 150,377
Other income	543
Total Operating Revenues	150,920
Operating Expenses:	
Water purchases	56,748
Electricity	7,737
Repairs and maintenance	22,607
Office supplies and postage	1,885
Insurance and bonds	2,338
Professional fees	10,215
Trustee fees	750
Depreciation	17,891
Dues, meetings and memberships	1,417
Director fees	1,020
Miscellaneous expenses	221
Total Operating Expenses	122,829
Operating Revenues Over (Under) Expenses	28,091
Non-operating Revenues (Expenses):	
Interest income	623
Memberships	4,600
Interest expense	(2,077)
Total Non-operating Revenue (Expense)	3,146
Changes in Net Assets	31,237
Net Assets, beginning of year	433,480
Net Assets, end of year	\$ 464,717

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

RURAL WATER DISTRICT NO. 5  
 KAY COUNTY, OKLAHOMA  
 STATEMENT OF CASH FLOWS  
 MODIFIED CASH BASIS  
 YEAR ENDED DECEMBER 31, 2011

Cash Flows From Operating Activities:	
Cash received from customers	\$ 150,377
Other operating cash receipts	543
Cash payments to suppliers for goods and services	(104,938)
Net cash provided (used) by operating activities	<u>45,982</u>
Cash flows from non-capital financing activities:	
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(23,135)
Membership fees	4,600
Interest paid on notes	(2,077)
(Increase) decrease in reserve accounts	10,015
Principle payments	(13,350)
Net cash provided (used) by financing activities	<u>(23,947)</u>
Cash flows from investing activities:	
Interest income	623
(Increase) decrease in investments	(512)
Net cash provided (used) by investing activities	<u>111</u>
Net increase (decrease) in cash and cash equivalents	22,146
Beginning cash and cash equivalents	99,895
Ending cash and cash equivalents	<u>\$ 122,041</u>
Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:	
Operating income (loss)	\$ 28,091
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:	
Depreciation	<u>17,891</u>
Net cash provided (used) by operating activities	<u>\$ 45,982</u>

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

RURAL WATER DISTRICT NO. 5  
 KAY COUNTY, OKLAHOMA  
 NOTES TO FINANCIAL STATEMENTS  
 YEARS ENDED DECEMBER 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

The Dale Water Corporation was organized in February, 1980 under the Nonprofit Corporation Act of 1968. During the year ended December 31, 1999, Dale Water Corporation was reorganized into a rural water district under the Rural Water, Sewer, Gas and Solid Waste Management District Act, Title 82, 1324.3 et seq. of the laws of the State of Oklahoma. During their reorganization, all assets and liabilities were transferred from Dale Water Corporation to Rural Water District No. 5, Kay County, Oklahoma. The District is exempt from federal and state income taxes. The purpose of the District is to acquire water and water rights; to build and acquire waterlines and other facilities; and to operate the same for the purpose of furnishing water to serve the needs of owners and occupants of land located within the District, and others as authorized by the By-laws.

The District is a governed entity by a Board of Directors that acts as the authoritative and legislative body of the entity. The Board of Directors is comprised of elected board members.

Basis of Accounting

The District is classified as an Enterprise Fund. The costs of providing the water services to the public are financed mainly through user charges. The financial statements of the District have been prepared using the modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

Cash and Deposits

Cash and deposits are maintained in financial institutions which provide coverage to depositors through the Federal Deposit Insurance Corporation. The following is a detailed schedule of the cash and deposits at December 31, 2011.

Cash and cash equivalents:		Investments:	
Checking account	\$ 91,196	Certificates of deposit	\$ 55,957
Money market	30,845	ORWA Assurance Fund	1,000
Total	<u>\$122,041</u>	Total investments	<u>\$ 56,957</u>

RURAL WATER DISTRICT NO. 5  
 KAY COUNTY, OKLAHOMA  
 NOTES TO FINANCIAL STATEMENTS  
 YEAR ENDED DECEMBER 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

The State of Oklahoma allows government entities to invest in the following: direct obligations of the United States Government, its agencies or instrumentalities; collateralized or insured certificates of deposit; insured savings accounts or savings certificates; or county, municipal or school district direct debt.

NOTE 2 – PROPERTY AND EQUIPMENT:

Waterline extensions and additions are capitalized and depreciated over their estimated useful lives. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are expendable. Annual depreciation is calculated on a straight-line basis. Total depreciation for the year ended December 31, 2011 was \$17,891. The balances for depreciable assets by major category are as follows:

	12/31/10	Additions	12/31/11
Land	\$ 1,000	\$	\$ 1,000
Waterline system	926,373	23,135	949,508
Accumulated depreciation	(560,778)	(17,891)	(578,669)
Net	\$ 366,595	\$ 5,244	\$ 371,839

NOTE 3 – NOTES PAYABLE:

During the year ended December 31, 2006 the District borrowed \$180,000 from the Oklahoma Water Resources Board for waterline system improvements. The security for the note includes a pledge and assignment of its revenues and receipts. The note matures on September 15, 2035 and carries a variable interest rate which is adjusted every six months. The current interest rate is 2.215%. Principle payments of \$13,350 were made during the year ending December 31, 2011. The following is a summary of the Districts future debt requirements and the balance at December 31, 2011:

Year Ending	Payment Due
12/31/2012	\$ 5,649
12/31/2013	5,774
12/31/2014	5,900
12/31/2015	6,025
12/31/2016	6,250
12/31/2017 - 12/31/2021	33,825
12/31/2022 - 12/31/2026	39,550
12/31/2027 - 12/31/2030	28,500
	131,473
Less interest	(29,923)
Net	\$ 101,550

RURAL WATER DISTRICT NO. 5,  
KAY COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2011

NOTE 4 – CASH AND CASH EQUIVALENTS:

The District considers all checking and savings accounts and deposits with a maturity of three months or less to be cash equivalents.

NOTE 5 – NET ASSETS:

Net assets present the difference between assets and liabilities in the statement of net assets. Net assets invested in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by District legislation or external restrictions by creditors, grantors, laws or regulations of other governments.

NOTE 6 – RISK MANAGEMENT:

The District is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District manages this risk through the purchase of commercial insurance policies. Claims are recognized when it is probably that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. There were no claims during the year ended December 31, 2011.

NOTE 7 – ESTIMATES:

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

NOTE 8 – CONTINGENCIES:

As of December 31, 2011 the District did not have any pending litigation or potential non-disclosed liabilities that management believes would have a material effect on the financial statements.

NOTE 9 – EVALUATION OF SUBSEQUENT EVENTS:

The Corporation has evaluated subsequent events through February 17, 2012, the date which the financial statements were available to be issued.