

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

**ANNUAL FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2012**

RURAL WATER DISTRICT NO. 5,  
KAY COUNTY, OKLAHOMA  
TABLE OF CONTENTS  
YEAR ENDED DECEMBER 31, 2012

	Page
<b>INTRODUCTORY SECTION:</b>	
Table of Contents	i
<b>FINANCIAL SECTION:</b>	
Independent Auditor's Report	1-2
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards.</i>	3-4
Financial Statements:	5
Statement of Assets, Liabilities, and Net Assets – Modified Cash Basis	6
Statement of Revenues, Expenses and Changes in Net Assets- Modified Cash Basis	7
Statement of Cash Flows – Modified Cash Basis	8
Notes to Financial Statements	9-11

# Kimberlye R. Mayer, CPA, P.C.

735 West Doolin

Blackwell, OK 74631

(580) 363-1453  
Fax (580) 363-0068

## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of Rural Water District No. 5, Kay County, Oklahoma as of December 31, 2012 and for the year then ended. These financial statements are the responsibility of the District's management.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting as described in Note 1. This includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *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 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 an 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 audit opinions.

### Opinions

In our opinion, the financial statements referred to above, present fairly, in all material respects, the respective modified cash basis financial position of Rural Water District No. 5, Kay County, Oklahoma, as of December 31, 2012 ; the respective changes in modified cash basis financial position; and, when applicable, cash flows thereof, for the year then ended in conformity with the basis of accounting described in Note 1.

### **Basis of Accounting**

We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

### **Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued a report dated February 24, 2013 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 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 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 accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



Kimberlye R. Mayer, CPA, P/C

Blackwell, Oklahoma

February 24, 2013

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, 2012 and have issued our report thereon dated February 24, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements were prepared on the modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

Management of Rural Water District No. 5, Kay County, Oklahoma is responsible for establishing and maintaining effective 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 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. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness.

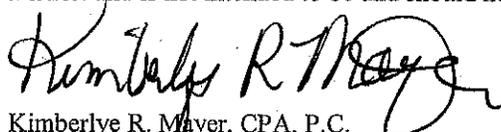
Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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 audits 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*.

Rural Water District No. 5, Kay County, Oklahoma's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the District's response and, accordingly, we express no opinion on it.

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 24, 2013

RURAL WATER DISTRICT NO. 5, KAY COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED DECEMBER 31, 2012

**Material Weakness in Internal Control Over Financial Reporting: Inadequate Segregation of Duties:**

Criteria: The segregation of duties and responsibilities between different individuals and the reconciliation of those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

Condition: Presently, the same individual is responsible for water service billings and receiving payments; making and recording deposits; maintaining billing registers; and reconciling the monthly bank statements. Only limited oversight is provided over this individual in the conduct of their daily functions.

Cause: The entity's limited size has made it difficult for management to fully segregate the duties.

Effect or Potential Effect: Without sufficient segregation of duties, the risk significantly increases that errors and/or fraud related to the sales and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: The board should evaluate the risks associated with the lack of segregation of duties and consider implementing controls that could mitigate these risks.

Board's Response: The board has concluded that due to the limited number of personnel, an adequate segregation of duties is not achievable and that the cost of correcting the weakness would exceed the benefits that would be derived from it.

FINANCIAL STATEMENTS

AND

NOTES

RURAL WATER DISTRICT NO. 5  
 KAY COUNTY, OKLAHOMA  
 STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS  
 MODIFIED CASH BASIS  
 DECEMBER 31, 2012

ASSETS

Current Assets:	
Cash and cash equivalents	\$ 148,895
Certificates of deposit	56,275
ORWAAG reserves	1,000
Utility deposit	30
Total Current Assets	206,200
Restricted Accounts:	
Debt service	421
Debt service reserve	14,979
Total Restricted Accounts	15,400
Capital assets (net of accumulated depreciation) (Note 2)	353,639
Total Assets	\$ 575,239

LIABILITIES AND NET ASSETS

Liabilities:	
Current Liabilities:	
OWRB notes payable (current portion) (Note 3)	\$ 3,600
Noncurrent Liabilities:	
OWRB notes payable (long-term portion) (Note 3)	89,400
Total Current Liabilities	93,000
Net Assets:	
Invested in capital assets	260,639
Restricted	15,400
Unrestricted	206,200
Total Net Assets	482,239
Total Liabilities and Net Assets	\$ 575,239

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, 2012

Operating Revenues:	
Water service	\$ 144,545
Other income	569
Total Operating Revenues	145,114
Operating Expenses:	
Water purchases	58,452
Electricity	10,689
Repairs and maintenance	27,118
Office supplies and postage	1,775
Insurance and bonds	2,097
Professional fees	8,780
Trustee fees	750
Depreciation	18,200
Dues, meetings and memberships	2,055
Director fees	1,040
Miscellaneous expenses	26
Total Operating Expenses	130,982
Operating Revenues Over (Under) Expenses	14,132
Non-operating Revenues (Expenses):	
Interest income	443
Memberships	4,500
Interest expense	(1,553)
Total Non-operating Revenue (Expense)	3,390
Changes in Net Assets	17,522
Net Assets, beginning of year	464,717
Net Assets, end of year	\$ 482,239

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, 2012

Cash Flows From Operating Activities:

Cash received from customers	\$ 144,545
Other operating cash receipts	569
Cash payments to suppliers for goods and services	<u>(112,782)</u>
Net cash provided (used) by operating activities	<u>32,332</u>

Cash flows from non-capital financing activities:

Cash flows from capital and related financing activities:

Acquisition and construction of capital assets	
Membership fees	4,500
Interest paid on notes	(1,553)
(Increase) decrease in reserve accounts	
Principle payments	<u>(8,550)</u>
Net cash provided (used) by financing activities	<u>(5,603)</u>

Cash flows from investing activities:

Interest income	443
(Increase) decrease in investments	<u>(318)</u>
Net cash provided (used) by investing activities	<u>125</u>

Net increase (decrease) in cash and cash equivalents	26,854
Beginning cash and cash equivalents	<u>122,041</u>
Ending cash and cash equivalents	<u>\$ 148,895</u>

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

Operating income (loss)	\$ 14,132
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:	
Depreciation	<u>18,200</u>
Net cash provided (used) by operating activities	<u>\$ 32,332</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, 2012

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.

RURAL WATER DISTRICT NO. 5  
 KAY COUNTY, OKLAHOMA  
 NOTES TO FINANCIAL STATEMENTS  
 YEAR ENDED DECEMBER 31, 2012

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, 2012 was \$18,200. The balances for depreciable assets by major category are as follows:

	<u>12/31/11</u>	<u>Additions</u>	<u>12/31/12</u>
Land	\$ 1,000	\$	\$ 1,000
Waterline system	949,508		949,508
Accumulated depreciation	(578,669)	(18,200)	(596,869)
Net	<u>\$ 371,839</u>	<u>\$ (18,200)</u>	<u>\$ 353,639</u>

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 1.5%. Principle payments of \$8,550 were made during the year ending December 31, 2012. The following is a summary of the Districts future debt requirements and the balance at December 31, 2012:

<u>Year Ending</u>	<u>Principle</u>	<u>Interest</u>
12/31/2013	\$ 3,600	\$ 1,395
12/31/2014	3,800	1,341
12/31/2015	4,000	1,284
12/31/2016	4,300	1,224
12/31/2017	4,600	1,161
12/31/2018 - 12/31/2022	26,500	4,740
12/31/2023 - 12/31/2027	34,600	2,690
12/31/2028 - 12/31/2030	11,600	474
	<u>\$ 93,000</u>	<u>\$ 14,309</u>

RURAL WATER DISTRICT NO. 5,  
KAY COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2012

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, 2012.

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, 2012 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 24, 2013, the date which the financial statements were available to be issued.