

**RURAL WATER AND SEWER DISTRICT NO. 5,
CANADIAN COUNTY, OKLAHOMA**

ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2012

RURAL WATER AND SEWER DISTRICT NO. 5,
CANADIAN COUNTY, OKLAHOMA
TABLE OF CONTENTS
FOR THE YEAR ENDED AUGUST 31, 2012

	Page
INTRODUCTORY SECTION:	
Table of Contents	i
FINANCIAL SECTION:	
Independent Auditor's Report	1
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>	2-4
Financial Statements:	5
Statement of Assets, Liabilities, and Net Assets – Cash Basis	6
Statement of Revenues, Expenses and Changes in Net Assets- Cash Basis	7
Notes to Financial Statements	8-10

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 and Sewer District No. 5,
Canadian County, Oklahoma

We have audited the accompanying financial statements of Rural Water and Sewer District No. 5, Canadian County, Oklahoma as of August 31, 2012 and 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 *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 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 statements presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, Rural Water and Sewer District No. 5, Canadian County, Oklahoma prepared its financial statements on the cash basis, which 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 financial position of Rural Water and Sewer District No. 5, Canadian County, Oklahoma as of August 31, 2012 and the results of its operations for the year then ended in conformity with the cash basis of accounting.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 19, 2013 on our consideration of Rural Water and Sewer District No. 5, Canadian 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
May 19, 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 and Sewer District No. 5,
Canadian County, Oklahoma

We have audited the financial statements of Rural Water and Sewer District No. 5, Canadian County, Oklahoma as of and for the year ended August 31, 2012 and have issued our report thereon dated May 19, 2013. 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 on the 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 and Sewer District No. 5, Canadian 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 and Sewer District No. 5, Canadian 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 and Sewer District No. 5, Canadian County, Oklahoma's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Rural Water and Sewer District No. 5, Canadian County, Oklahoma's internal control over financial reporting.

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.

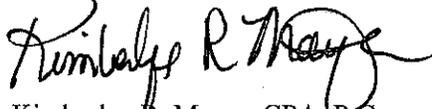
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water and Sewer District No. 5, Canadian 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*.

Rural Water and Sewer District No. 5, Canadian County, Oklahoma's response to the finding 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, and others within the District and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Kimberlye R. Mayer". The signature is written in a cursive style with a large, looping initial "K".

Kimberlye R. Mayer, CPA, P.C.
Blackwell, Oklahoma
May 19, 2013

RURAL WATER AND SEWER DISTRICT NO. 5,
CANADIAN COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED AUGUST 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 water billing 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 AND SEWER DISTRICT NO. 5
CANADIAN COUNTY, OKLAHOMA
STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS
CASH BASIS
AUGUST 31, 2012

ASSETS

Current Assets:		
Operating account		\$ 118,647
Certificate of deposit		<u>52,506</u>
Total Current Assets		<u>\$ 171,153</u>

LIABILITIES AND NET ASSETS

Liabilities:		\$
Net Assets:		
Unrestricted		<u>171,153</u>
Total Liabilities and Net Assets		<u>\$ 171,153</u>

RURAL WATER AND SEWER DISTRICT NO. 5
 CANADIAN COUNTY, OKLAHOMA
 STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN NET ASSETS - CASH BASIS
 FOR THE YEAR ENDED AUGUST 31, 2012

Operating Revenues:	
Water service	\$ 262,100
Operating Expenses:	
Payroll	37,100
Payroll taxes	2,562
Water purchases	113,299
Repairs, maintenance and supplies	40,930
Equipment purchases	7,800
Waterline improvements	3,271
Work in progress	2,397
DEQ fees	516
Insurance	5,267
Professional fees	1,100
Office and postage	2,995
Utilities	7,418
Telephone	2,402
Other expenses	118
Total Operating Expenses	<u>227,175</u>
Operating Income (Loss)	34,925
Nonoperating Revenue (Expenses):	
Security deposit	1,500
Interest income	1,576
Memberships	10,500
Total Nonoperating Revenues	<u>13,576</u>
Change in Net Assets	48,501
Net Assets, beginning of the year	<u>122,652</u>
Net Assets, end of the year	<u><u>\$ 171,153</u></u>

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

RURAL WATER AND SEWER DISTRICT NO. 5,
CANADIAN COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

Rural Water and Sewer District No. 5, Canadian County, Oklahoma was created on September 3, 2002. The District was created under the Rural Water, Sewer, Gas and Solid Waste Management District Act, Title 82, 1324.1 – 1324.35 of the Oklahoma State Statutes. The purpose of the District is to acquire water and water rights; to build and acquire pipelines 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 cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions. 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 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 is maintained in financial institutions which provide coverage to depositors through the Federal Deposit Insurance Corporation.

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.

RURAL WATER AND SEWER DISTRICT NO. 5
 CANADIAN COUNTY, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED AUGUST 31, 2012

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

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 2 - WATERLINE SYSTEM:

The District has not maintained supporting documentation for the original waterline and any extensions and additions to the system. The following schedule is based on estimates recorded from prior years and additions during the year ended August 31, 2012.

Waterline system	\$ 227,866
Meterphone software	1,600
Telemetry system	7,800
Office equipment	1,025
Total	<u>\$ 238,291</u>

NOTE 3- ESTIMATES.

The preparation of financial statements and notes in conformity with the 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 4 – RISK MANAGEMENT:

The District is exposed to various risks of loss related to torts; thefts of, damages to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchases commercial insurance for these and other risks of loss. Settled claims have not exceeded the commercial coverage in past years.

NOTE 5 – CONTINGENCIES:

As of August 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.

RURAL WATER AND SEWER DISTRICT NO. 5,
CANADIAN COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2012

NOTE 6 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through May 19, 2013, the date which the financial statements were available to be issued.