

**OSAGE COUNTY RURAL WATER DISTRICT NO. 5**

**ANNUAL FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2011**

OSAGE COUNTY RURAL WATER DISTRICT NO. 5  
TABLE OF CONTENTS  
YEAR ENDED JUNE 30, 2011

	Page
<b>INTRODUCTORY SECTION:</b>	
Table of Contents	i
<b>FINANCIAL SECTION:</b>	
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:	
Statement of Net Assets	5
Statement of Revenues and Expenses and Changes in Net Assets	6
Statement of Cash Flows	7
Notes to Financial statements	8-11

# 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  
Osage County Rural Water District No. 5

We have audited the accompanying financial statements of the of Osage County Rural Water District No. 5 as of June 30, 2011. 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 for 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 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Osage County Rural Water District No. 5, as of June 30, 2011, and the changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 3, 2011 on our consideration of Osage County Rural Water District No. 5's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

Osage County Rural Water District No. 5 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  
November 3, 2011

INDEPENDENT AUDITOR'S 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*

The Board of Directors  
Osage County Rural Water District No. 5

We have audited the financial statements of the Osage County Rural Water District No. 5 as of and for the year ended June 30, 2011, and have issued our report thereon dated November 3, 2011. 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 Osage County Rural Water District No. 5 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 Osage County Rural Water District No. 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 Osage County Rural Water District No. 5's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Osage County Rural Water District No. 5'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 the Osage County Rural Water District No. 5'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 were required to be reported under *Government Auditing Standards*.

Osage County Rural Water District No. 5'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, 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.

A handwritten signature in black ink that reads "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  
November 3, 2011

OSAGE COUNTY RURAL WATER DISTRICT NO. 5  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2011

Material Weakness Communicated In Prior Year:

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; and maintaining billing registers. 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.

OSAGE COUNTY RURAL WATER DISTRICT NO. 5  
STATEMENT OF NET ASSETS  
JUNE 30, 2011

ASSETS

Current Assets:

Cash and cash equivalents (Note 1)	\$ 145,560
Certificates of deposit	32,400
Accounts receivable (less allowance for doubtful accounts of \$3,069) (Note 3)	15,435
Prepaid insurance	1,904
Total Current Assets	<u>195,299</u>

Other Assets:

Meter deposits	55
Restricted funds (Note 4)	13,380

Non-current Assets:

Property and equipment (net of accumulated depreciation) (Note 2)	273,269
Construction in progress	7,325
	<u>7,325</u>

Total Assets	<u><u>\$ 489,328</u></u>
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LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable	\$ 9,139
Notes payable (current portion) (Note 5)	8,350
Total Current Liabilities	<u>17,489</u>

Non-current Liabilities:

Notes payable, long term (Note 5)	<u>92,250</u>
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Total Liabilities	109,739
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Net Assets:

Invested in capital assets, net of related debt	179,994
Restricted for debt service	13,380
Unrestricted	186,215
Total Net Assets	<u>379,589</u>

Total Liabilities and Net Assets	<u><u>\$ 489,328</u></u>
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The accompanying report and notes are an integral part of these financial statements.

OSAGE COUNTY RURAL WATER DISTRICT NO. 5  
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN NET ASSETS  
YEAR ENDED JUNE 30, 2011

Operating Revenue:	
Water service	\$ 134,640
Late penalties	2,791
Total Operating Revenue	137,431
Operating Expense:	
Water costs	73,931
Contract labor	14,530
Bank charges	61
Dues and fees	209
Repairs and maintenance	14,512
Insurance	2,447
Professional fees	975
Office supplies and postage	1,713
Telephone and mobiles	1,978
Utilities	3,214
Depreciation	20,162
Other expenses	795
Total Operating Expense	134,527
Income (Loss) From Operations	2,904
Non-operating Revenue (Expense):	
Interest income	1,045
Membership fees	2,075
Capital improvement income	2,201
Interest expense	(5,318)
Total Non-operating Revenue (Expense)	3
Change in Net Assets	2,907
Net Assets, beginning of year	376,682
Net Assets, end of year	\$ 379,589

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

OSAGE COUNTY RURAL WATER DISTRICT NO. 5  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2011

Cash Flows From Operating Activities:	
Cash received from customers	\$ 136,955
Cash payments to suppliers for goods and services	(113,413)
Net cash provided (used) by operating activities	<u>23,542</u>
Cash flows from non-capital financing activities:	
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	
Principal paid on notes and loans	8,062
Interest paid on notes and loans	(5,318)
System development fees	2,075
Net cash provided (used) by financing activities	<u>4,819</u>
Cash flows from investing activities:	
Interest on cash and investments	1,045
(Increase) decrease in certificates of deposit	(25,445)
(Increase) decrease in restricted accounts	
Net cash provided (used) by investing activities	<u>(24,400)</u>
Net increase (decrease) in cash and cash equivalents	(9,962)
Beginning cash and cash equivalents	155,522
Ending cash and cash equivalents	<u>\$ 145,560</u>
Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:	
Income (Loss) from operations	\$ 2,904
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:	
Depreciation	20,162
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(476)
(Increase) decrease in prepaids	89
Increase (decrease) in payables	863
Net cash provided (used) by operating activities	<u>\$ 23,542</u>

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

OSAGE COUNTY RURAL WATER DISTRICT NO. 5  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

Osage County Rural Water District No. 5 was incorporated under the Rural Water District Act, as amended, Title 82, Section 1301-1321 of the Oklahoma State Statues. 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 owner 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 accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred.

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.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the District considers demand accounts, subject to withdrawal by check, and certificates of deposit with a maturity of three months or less to be cash equivalents.

OSAGE COUNTY RURAL WATER DISTRICT NO. 5  
 NOTES TO FINANCIAL STATEMENTS  
 YEAR ENDED JUNE 30, 2011

NOTE 2 – PROPERTY, PLANT AND EQUIPMENT:

Waterline extensions and additions are capitalized and depreciated over their estimated useful lives. Depreciation is calculated on a straight-line basis. Total depreciation for the year ended June 30, 2011 was \$20,162. The balances for depreciable assets by major category are as follows:

	Balance 6/30/10	(Additions)	Balance 6/30/11
Water distribution system	\$ 786,137	\$	\$ 786,137
Office furniture & equipment	3,307	_____	3,307
	789,444	_____	789,444
Less accumulated depreciation	(496,013)	(20,162)	(516,175)
Net	\$ 293,431	\$ (20,162)	\$ 273,269

NOTE 3 – ACCOUNTS RECEIVABLE:

The accounts receivable at June 30, 2011 consist of amounts due from customers for water services.

NOTE 4 – RESTRICTED FUNDS:

Restricted funds consist of a certificate of deposit that represent amounts required by debt covenant to be segregated for debt payments and accrued interest on the notes.

NOTE 5 – NOTES PAYABLE:

The note agreement is collateralized by the water system and carries an interest rate of 5%. The monthly payments are \$1,115. The note matures 3/1/21.

Balance at June 30, 2010	\$ 108,662
Principle payments	(8,062)
Balance at June 30, 2011	\$ 100,600

OSAGE COUNTY RURAL WATER DISTRICT NO. 5  
 NOTES TO FINANCIAL STATEMENTS  
 YEAR ENDED JUNE 30, 2011

NOTE 5 – NOTES PAYABLE (continued):

The following is a summary of future debt requirements.

Year Ending	Payments
6/30/12	\$ 13,380
6/30/13	13,380
6/30/14	13,380
6/30/15	13,380
6/30/16	13,380
6/30/2017 - 6/30/2021	63,555
	\$ 130,455
Less interest	(29,855)
Net	\$ 100,600

NOTE 6 - ESTIMATES:

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of management estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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 7 – 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 probable 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.

NOTE 8 – CONTINGENCIES:

As of June 30, 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.

OSAGE COUNTY RURAL WATER DISTRICT NO. 5  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2011

NOTE 9 -- 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 10 -- EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through November 3, 2011, the date which the financial statements were available to be issued.