

ADAIR COUNTY RURAL WATER DISTRICT NO. 5

PROCTOR, OKLAHOMA

FINANCIAL STATEMENTS AND AUDIT REPORT
For the year ended December 31, 2011

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MICHAEL W. GREEN

Certified Public Accountant

827 W. Locust Street
STILWELL, OK. 74960
(918) 696-6298

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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

I have audited the accompanying financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the Adair County Rural Water District # 5 (the District), as of and for the year ended December 31, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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 I 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 the management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

The District did not include a Management Discussion and Analysis report that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities, each major fund, and the aggregate remaining fund information of the District as of December 31, 2011, and the respective changes in financial position 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, I have also issued a report dated January 21, 2013 on my consideration of the District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. 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 my audit.

A handwritten signature in black ink, appearing to read "Michael Green". The signature is stylized with a large, circular flourish at the end.

Michael Green
Certified Public Accountant

January 21, 2013

ADAIR COUNTY RURAL WATER DISTRICT NO. 5
BALANCE SHEET
DECEMBER 31, 2011

ASSETS

CURRENT ASSETS:

Cash in Bank O & M	\$ 79,405
Bond Related Accounts	548,555
Accounts Receivable (net of allowance)	44,953
Prepaid Insurance	3,582
Unamortized Bond Issuance Costs	94,326

TOTAL CURRENT ASSETS	770,821
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FIXED ASSETS:

Land	6,429
Office Furniture and Equipment	28,068
Water System	4,093,851
<i>Accumulated Depreciation</i>	<i>(1,384,111)</i>

NET FIXED ASSETS	2,744,237
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TOTAL ASSETS	3,515,058
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LIABILITIES AND FUND EQUITY

CURRENT LIABILITIES

Accrued Interest Payable	43,537
Meter Deposits	13,912
Current Portion of Long-Term Debt	5,000
TOTAL CURRENT LIABILITIES	62,449

LONG TERM LIABILITIES

Bonds Payable (<i>Less Bond Discount</i>)	2,335,337
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TOTAL LONG TERM LIABILITIES	2,335,337
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NET ASSETS

Invested in Capital Assets Net of Related Debt	403,899
Retained Earnings	713,373

TOTAL NET ASSETS	1,117,272
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TOTAL LIABILITIES AND NET ASSETS	\$ 3,515,058
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The accompanying notes are an integral part of these financial statements.

ADAIR COUNTY RURAL WATER DISTRICT NO. 5
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2011

REVENUE:	
Water Sales	\$ 403,434
Membership Fees	14,100
Late Charges	4,765
Other Operating Revenues	<u>3,347</u>
TOTAL OPERATING REVENUE	<u>425,646</u>
EXPENDITURES:	
Operator Manager	81,307
Contract Services	21,370
Operating Materials and Supplies	29,844
Water Testing	2,433
Water Treatment	7,777
Telephone/Utilities	51,500
Office Expense	11,560
Professional Fees	16,900
Insurance	8,241
Licenses/Subscriptions/Dues	5,825
Advertising	183
Bank Service Charges	6,435
Depreciation	<u>102,696</u>
TOTAL OPERATING EXPENDITURES	<u>346,071</u>
NET INCOME FROM OPERATIONS	<u>79,575</u>
OTHER INCOME (EXPENDITURES):	
Interest Income	8
Dividend Income Bond Related	55
Bond Related Expenses	(5,800)
Interest Expense	<u>(124,066)</u>
TOTAL OTHER INCOME AND (EXPENSE)	<u>(129,803)</u>
NET INCOME (LOSS)	(50,228)
NET ASSETS, BEGINNING OF THE YEAR	<u>1,167,500</u>
NET ASSETS, END OF THE YEAR	<u><u>\$ 1,117,272</u></u>

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

ADAIR COUNTY RURAL WATER DISTRICT NO. 5
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash Inflows:	
Net Income (Loss)	(50,228)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities	
Depreciation	102,696
Other Income and Expense	129,804
Increase in Accounts Receivable	(21,539)
Decrease in accounts payable	(3,643)
Decrease in accrued interest	(6,542)
Decrease in Meter/Lease Deposits	(235)
	150,312
Net Cash Provided (Used) by Operating Activities	150,312

CASH FLOWS FROM FINANCING ACTIVITIES

Construction in Progress	(7,696)
Bond Related Expenses	(5,800)
Decrease in Bond related cash Accounts	3,144
Principal Reduction of Long-Term Debt	1,655
Interest Payments on Bonds	(124,067)
	(132,764)
Net Cash Provided(Used) for Financing Activities	(132,764)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest Received from Investments	8
Dividend Income From Bonds	55
(Increase) Decrease in Bond Cash Accounts	11,140
	11,203
Net Cash Provided (Used) for Investing Activities	11,203

NET CASH INFLOW (OUTFLOW) FROM ALL ACTIVITIES	28,751
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CASH AND CASH EQUIVALENTS BEGINNING OF THE YEAR	50,654
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CASH AND CASH EQUIVALENTS END OF THE YEAR	\$ 79,405
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The accompanying notes are an integral part of these financial statements.

ADAIR COUNTY RURAL WATER DISTRICT NO. 5
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Adair County Rural Water District No.5 was incorporated August 28, 1986 as a not-for-profit corporation under the laws of the State of Oklahoma for the purpose of obtaining and distributing potable water to rural residences within the district boundaries.

1. Basis of Accounting

The financial statements of the Adair County Rural Water District No. 5 have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

2. Cash and Equivalents

For the purpose of the statement of cash flows, the organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. Restricted cash consists of cash held for customer deposits and cash reserved for debt service.

3. Income Taxes

The Adair County Rural Water District No. 5 is exempt from Federal Income Taxes.

4. Property and Equipment

The District values its property and equipment at historical cost or estimated fair value at the date of receipt. Depreciation is computed using the straight-line method over the estimated useful life of the individual assets. The district policy is to capitalize fixed assets when cost exceeds \$500.00.

NOTE B: CASH AND CASH EQUIVALENTS

Unrestricted Cash consists of the following:

Bank of Commerce - O & M Account	1,296
Bank of Commerce - Meter Deposit Account	13,554
Arvest Bank Checking - O & M Account	<u>64,555</u>
 TOTAL UNRESTRICTED CASH	 <u><u>79,405</u></u>

NOTE C: ACCOUNTS RECEIVABLE

Accounts Receivable consists of trade receivables. An aging of accounts receivable is presented below. An allowance for doubtful accounts has been established at this time for the accounts that are sixty days overdue.

Current	\$	32,557
1-30 Days		6,347
30-60 Days		3,143
Over 60 Days		6,905
Allowance for Doubtful Accounts		<u>(4,000)</u>
 Total Accounts Receivables		 <u><u>44,952</u></u>

NOTE D: INVENTORY

Expendable items are recorded as expenditures when purchased. Merchandise on hand at December 31, 2011, was determined as not material; therefore no inventories have been reflected in the financial statements.

NOTE E: LONG TERM DEBT

The District had the following Bonds payable at December 31, 2011:

	Date Bonds		Rate of	Balance at	Current
Payable to	Mature	Collateral Pledged	Interest	12/31/2011	Bonds Due
					Within One
					Year
RCB Bonds	2/1/2043	Assets/Revenues	5.50%	\$2,390,000	\$ 5,000
Unamortized Discount				<u>(49,663)</u>	
				\$2,340,337	

The scheduled maturities of Bonds is as follows:
Years ending December 31,:

	Principal	Interest
2012	\$ 5,000	\$ 131,450
2013	5,000	131,175
2014	10,000	130,900
2015	15,000	130,350
2016	25,000	129,525
Thereafter	<u>2,330,000</u>	

The above bonds are secured by a first mortgage on all the District's assets and revenues. The bonds begin to mature in February 2012 and continue until February 2043. The bonds are Refunding Revenue Bonds Series 2007.

NOTE F: MANAGERMENTS USE OF ESTIMATES

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

NOTE G: COMMITMENTS AND CONTINGENCIES

Adair County Rural Water District No. 5 currently participates in various grant programs. These grants are subject to audit by the grantor agency or their representatives. Such audits could lead to requests for reimbursement to the grantor agency for services disallowed under the terms of the contract. Presently Adair County Rural Water District No. 5 is not aware of any pending requests, and in the opinion of management, any such amounts would not be considered material.

MICHAEL W. GREEN

Certified Public Accountant

827 W. Locust Street

Stilwell, Ok. 74960

(918) 696-6298

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
Adair County Rural Water District No. 5
Proctor, Oklahoma

I have audited the financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the Adair County Rural Water District No. 5, as of and for the year ended December 31, 2011, which collectively comprise the Water District's basic financial statements and have issued my report thereon dated January 21, 2013. I conducted my 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.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Adair County Rural Water District No. 5's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Water District's internal control over financial reporting.

My 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 questioned costs, I identified certain deficiencies in internal control over financial reporting that I consider to be material weaknesses.

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 a 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. I consider the deficiencies described in the accompanying schedule of findings costs to be material weaknesses. (11-1, 11-2)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Adair County Rural Water District No. 5's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as item 11-3.

This report is intended for the information of the audit committee, management and federal and state awarding agencies and is not intended to be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Michael Green". The signature is fluid and cursive, with the first name "Michael" written in a smaller, more compact script and the last name "Green" written in a larger, more prominent cursive style.

Michael Green, CPA
January 21, 2013

SCHEDULE OF FINDINGS

11-1 SEGREGATION OF DUTIES

Due to the lack of sufficient personnel there is not adequate segregation of duties.

11-2 INADEQUATE ACCOUNTING

Although the final trial balance was auditable due to the fact that a CPA was brought in to compile it, the trial balance and accounting throughout the year did not appear to be accurate. I recommend that the district hire a professional to review the monthly accounting during the year.

11-3 ANNUAL BUDGET

According to the Rural Water, Sewer, Gas and Solid Waste Management District Act of Oklahoma, the District Board should annually prepare an estimated budget for the coming year. The district is in violation of this requirement.