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State Auditor & Inspector

RC: 010950

***Rural Water District No. 5  
Coal County, Oklahoma***

***Coalgate, Oklahoma***

***Report on Audit of Financial Statements***

***For The Year Ended September 30, 2011***

***SAUNDERS & ASSOCIATES, PLLC  
Certified Public Accountants***

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RURAL WATER DISTRICT NO. 5  
Coal County, Oklahoma

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September 30, 2011

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## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council  
Rural Water District No. 5, Coal County, Oklahoma  
Coalgate, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Rural Water District No. 5, Coal County, Oklahoma, as of and for the year ended September 30, 2011, which collectively comprise the Rural Water District No. 5, Coal County, Oklahoma's basic financial statements as listed in the table of contents. We also have audited the financial statements of each of the entity's nonmajor governmental, nonmajor enterprise, and fiduciary funds presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended September 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Rural Water District No. 5, Coal County, Oklahoma's management. Our responsibility is to express opinions on these financial statements based on our audit.

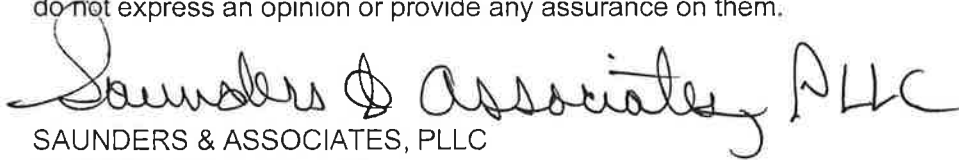
We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Rural Water District No. 5, Coal County, Oklahoma, as of September 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each nonmajor governmental, nonmajor enterprise, and fiduciary fund of the Rural Water District No. 5, Coal County, Oklahoma, as of September 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof 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 our report dated November 9, 2011 on our consideration of the Rural Water District No. 5, Coal County, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements 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 considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Rural Water District No. 5, Coal County, Oklahoma's financial statements as a whole. The introductory section, and statistical section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

  
SAUNDERS & ASSOCIATES, PLLC  
Certified Public Accountants

November 9, 2011

RURAL WATER DISTRICT NO. 5  
Coal County, Oklahoma

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

September 30, 2011

Unaudited

Our discussion and analysis of the Rural Water District No. 5, Coal County, Oklahoma's financial performance provides an overview of the District's financial activities for the fiscal year ended September 30, 2011. Please read it in conjunction with the District's financial statements, which begin on page 7.

FINANCIAL HIGHLIGHTS

- The District's net assets increased 2.01% (\$12,801) from \$634,366 at September 30, 2010 to \$647,167 at September 30, 2011.
- The District's total revenues increased 14.9% (\$18,426) from \$129,825 at September 30, 2010 to \$148,251 at September 30, 2011.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets (on pages 7 and 8) provide information about the activities of the District and present a longer-term view of the District's finances.

Reporting the District as a Whole

Our analysis of the District begins on page 4. One of the most important questions asked about the District's finances is, "*Is the District as a whole better off or worse off as a result of the year's activities?*" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the District and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net assets and changes in them. You can think of the District's net assets – the difference between assets and liabilities – as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the District's long-term debt and the condition of the District's water distribution system, to assess the overall health of the District.

In the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets, the District performs one type of activity:

- **Business-Type Activity** – The District charges a fee to customers to help it cover all or most of the cost of the service it provides. The District's water system is reported here.

Reporting the District's Most Significant Funds

Our analysis of the District's major fund begins on page 4. The District utilizes one type of fund.

- **Proprietary Fund** – When the District charges customers for the services it provides, these services are generally reported in proprietary funds. Generally, proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets.

RURAL WATER DISTRICT NO. 5  
Coal County, Oklahoma

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

September 30, 2011

Unaudited

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets increased 2.01% from \$634,366 to \$647,167. (See Table 1)

**TABLE 1 – NET ASSETS**

	<u>Business-Type Activity</u>		<u>% Change</u>
	<u>09/30/11</u>	<u>09/30/10</u>	
Capital Assets	\$ 399,306	\$ 424,120	-5.85%
Current and Other Assets	<u>253,636</u>	<u>214,539</u>	<u>18.22%</u>
Total Assets	<u>\$ 652,942</u>	<u>\$ 638,659</u>	<u>2.23%</u>
Current Liabilities	\$ 5,775	\$ 4,293	34.52%
Total Liabilities	<u>\$ 5,775</u>	<u>\$ 4,293</u>	<u>34.52%</u>
Net Assets:			
Invested in Capital Assets	\$ 399,306	\$ 424,120	-5.85%
Net of Related Debt – Unrestricted	<u>247,861</u>	<u>210,246</u>	<u>17.89%</u>
Total Net Assets	<u>\$ 647,167</u>	<u>\$ 634,366</u>	<u>2.01%</u>

Changes in Net Assets

The District's total revenues increased by 14.19% (\$18,426). (See Table 2)

**TABLE 2 – CHANGES IN NET ASSETS**

	<u>Business-Type Activity</u>		<u>% Change</u>
	<u>09/30/11</u>	<u>09/30/10</u>	
Operating Revenues:			
Water charges	\$ 143,946	\$ 123,522	16.53%
Water Taps	1,500	1,250	20.00%
General Revenues:			
Interest Revenue	1,393	2,139	-34.87%
Other	<u>1,412</u>	<u>2,914</u>	<u>-51.54%</u>
Total Revenues	<u>148,251</u>	<u>129,825</u>	<u>14.19%</u>

RURAL WATER DISTRICT NO. 5  
Coal County, Oklahoma

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

September 30, 2011

Unaudited

**TABLE 2 – CHANGES IN NET ASSETS, CONTINUED**

	<u>Business-Type Activity</u>		<u>% Change</u>
	<u>09/30/11</u>	<u>09/30/10</u>	
Operating Expenses:			
Operating Expenses	<u>135,450</u>	<u>165,717</u>	<u>-18.26%</u>
Total Expenses	<u>135,450</u>	<u>165,717</u>	<u>-18.26%</u>
Changes in Net Assets	<u>\$ 12,801</u>	<u>\$ ( 35,892)</u>	<u>135.67%</u>

Revenues of the District's business type activity increased by 14.19% (\$129,825 in 2010 compared to \$148,251 in 2011) and expenses decreased by -18.26% (\$165,717 in 2010 compared to \$135,450 in 2011).

The District had 251 customers at September 30, 2010 and 254 customers at September 30, 2011. An increase of 1.21%.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of September 30, 2011, the District had \$994,429 invested in capital assets, including water distribution systems and equipment. (See table below). There were no changes in capital assets during the current year.

	<u>Business-Type Activity</u>		<u>% Change</u>
	<u>09/30/10</u>	<u>09/30/11</u>	
Water Distribution System	\$ 992,564	\$ 992,564	0.0%
Equipment	<u>1,865</u>	<u>1,865</u>	<u>0.0%</u>
Total	<u>\$ 994,429</u>	<u>\$ 994,429</u>	<u>0.0%</u>

More detailed information about the District's capital assets is presented in Note 1 and Note 2 of the financial statements.

RURAL WATER DISTRICT NO. 5  
Coal County, Oklahoma

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

September 30, 2011

Unaudited

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact the Manager's Office at Route 1 Box 124 C, Coalgate, Oklahoma.

Frank Cometti  
Manager



BASIC FINANCIAL STATEMENTS

RURAL WATER DISTRICT NO. 5  
Coal County, Oklahoma

STATEMENT OF NET ASSETS

PROPRIETARY FUND

September 30, 2011

	<u>Water</u>
<u>ASSETS</u>	
Current Assets:	
Cash and Cash Equivalents	\$ 234,517
Accounts Receivable	<u>19,119</u>
Total Current Assets	<u>253,636</u>
Non-Current Assets:	
Property, Plant and Equipment:	
Water Distribution System	992,564
Equipment	1,865
Less: Accumulated Depreciation	<u>(595,123)</u>
Total Non-Current Assets	<u>399,306</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>652,942</u></b>
<u>LIABILITIES AND NET ASSETS</u>	
<u>Liabilities:</u>	
Accounts Payable	\$ <u>5,775</u>
Total Liabilities	<u>5,775</u>
<u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	399,306
Unrestricted	<u>247,861</u>
Total Net Assets	<u>647,167</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ <u>652,942</u></b>

\* The accompanying notes are an integral part of the financial statements.

RURAL WATER DISTRICT NO. 5  
Coal County, Oklahoma

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS

PROPRIETARY FUND

For the Year Ended September 30, 2011

	<u>Water</u>
<u>Operating Revenues:</u>	
Water Charges	\$ 143,946
Water Taps	1,500
Other	<u>1,412</u>
Total Operating Revenues	<u>146,858</u>
<u>Operating Expenses:</u>	
Contractual Services	30,886
Repairs and Maintenance	10,653
Materials and Supplies	48,879
Other Services and Charges	20,218
Depreciation	<u>24,814</u>
Total Operating Expenses	<u>135,450</u>
Operating Income (Loss)	<u>11,408</u>
<u>Non-Operating Revenue (Expense):</u>	
Interest Revenue	<u>1,393</u>
Total Non-Operating Revenues (Expense)	<u>1,393</u>
Income (Loss) Before Contributions	<u>12,801</u>
<u>Other Financing Sources (Uses):</u>	
Capital Contributions	<u>0</u>
Total Other Financing Sources (Uses)	<u>0</u>
Change in Net Assets	12,801
Net Assets, September 30, 2010	<u>634,366</u>
NET ASSETS, SEPTEMBER 30, 2011	<u>\$ 647,167</u>

\* The accompanying notes are an integral part of the financial statements.

RURAL WATER DISTRICT NO. 5  
Coal County, Oklahoma

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

For the Year Ended September 30, 2011

	Water
<u>Cash Flows From Operating Activities:</u>	
Receipts from customers	\$ 142,010
Other Receipts	1,412
Payments to suppliers	(78,268)
Payments for labor	(30,886)
	34,268
 <u>Cash Flows From Non-Capital Financing Activities:</u>	
 Net Cash Provided (Used) by Non-Capital Financing Activities	 0
 <u>Cash Flows From Capital and Related Financing Activities:</u>	
Principal paid on capital debt	0
Interest paid on capital debt	0
	0
 Net Cash Provided (Used) by Capital and Related Financing Activities	 0
 <u>Cash Flows Provided by Investing Activities:</u>	
Interest earned	1,393
	1,393
 Net Cash Provided (Used) by Investing Activities	 1,393
 Net Increase (Decrease) in Cash and Cash Equivalents	 35,661
 Cash and Cash Equivalents, September 30, 2010	 198,856
 CASH AND CASH EQUIVALENTS, SEPTEMBER 30, 2011	 \$ 234,517

\* The accompanying notes are an integral part of the financial statements.

RURAL WATER DISTRICT NO. 5  
Coal County, Oklahoma

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

For the Year Ended September 30, 2011

	Water
<u>Cash Consists of:</u>	
Demand Deposits	\$ 91,722
Certificates of Deposit	142,795
 TOTAL CASH, END OF YEAR	 \$ 234,517
 <u>Reconciliation of operating income (loss) to net cash</u> <u>provided (used) by operating activities:</u>	
Operating income (loss)	\$ 11,408
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	24,814
Change in assets and liabilities:	
Receivables	(3,436)
Accounts payable	1,482
 Net Cash Provided by Operating Activities	 \$ 34,268

\* The accompanying notes are an integral part of the financial statements.

RURAL WATER DISTRICT NO. 5  
Coal County, Oklahoma

NOTES TO FINANCIAL STATEMENTS

September 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rural Water District No. 5, Coal County, Oklahoma operates under the Nontaxable Governmental Entity form of government. The District was formed in 1979, pursuant to the Oklahoma Rural Water, Sewer and Solid Waste Management District Act for the purpose of constructing and operating a water supply and distribution system serving the members of the district. The following is a summary of the more significant accounting policies of the District.

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (*Statements and Interpretations*). Governments are also required to follow the pronouncements of the *Financial Accounting Standards Board (FASB)* issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the District has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the District has chosen not to do so. The more significant accounting policies in GAAP and used by the District are discussed in subsequent sections.

Reporting Entity - For financial reporting purposes, the District complies with *Governmental Accounting Standards Board (GASB) Cod. Sec. 2100*, in defining the District's financial reporting entity. All of the officials and activities described above are included in the District's reporting entity.

Basic Financial Statements - Fund Financial Statements - The financial transactions of the District are reported in an individual fund in the fund financial statements. The fund is accounted for by providing a set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses.

The following fund type is used by the District:

**Proprietary Fund**—The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the proprietary fund of the District.

**Enterprise Funds** are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues. (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs.

Basis of Accounting - Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

**Accrual** - Business-type activity in the proprietary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

RURAL WATER DISTRICT NO. 5

Coal County, Oklahoma

NOTES TO FINANCIAL STATEMENTS

September 30, 2011

NOTE 3: LITIGATION

At September 30, 2011 the District was not involved in any pending or threatened litigation, which would have a material impact on these financial statements.

NOTE 4: WATER CONTRACT

The District and the City of Coalgate have jointly negotiated a contract whereby the District agrees to purchase its water needs from the City of Coalgate. The current price is \$2.00 per 1,000 gallons used, with a minimum charge of \$20.

NOTE 5: ACCOUNTS RECEIVABLE

Accounts receivable of \$19,119 represents amounts billed to customers for water use and not received as of September 30, 2011.

NOTE 6: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended September 30, 2011, the District carried insurance through various commercial carriers to cover all risks of losses. The District has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

NOTE 7: SUBSEQUENT EVENTS

Management of Rural Water District No. 5, Coal County Oklahoma has evaluated subsequent events through November 9, 2011, which is the date the financial statements were available to be issued.

# Saunders & Associates, PLLC

Certified Public Accountants

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Website: [www.saunderscpas.com](http://www.saunderscpas.com)

## 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

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

We have audited the financial statements of Rural Water District No. 5, Coal County, Oklahoma as of and for the year ended September 30, 2011, and have issued our report thereon dated November 9, 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 of America.

### Internal Control Over Financial Reporting

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

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 weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses as 07-1 that we consider to be a significant deficiency in internal control over financial reporting. 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 Rural Water District No. 5, Coal County, Oklahoma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 DISTRICT NO. 5  
Coal County, Oklahoma

STATUS OF PRIOR AUDIT FINDINGS

September 30, 2011

07-1 SEGREGATION OF DUTIES

Condition: Due to the limited number of personnel involved in the operating of the fiscal office, most of those aspects of internal accounting control, which rely upon an adequate segregation of duties, are, for all practical purposes, missing in the organization. However, we recognize that the organization's administration is not large enough to make the employment of additional persons, for the purpose of segregating duties practical from a cost-benefit standpoint.

Current Status: See current audit findings.

\* The accompanying notes are an integral part of the financial statements.

RURAL WATER DISTRICT NO. 5  
Coal County, Oklahoma

SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended September 30, 2011

07-1 SEGREGATION OF DUTIES

Condition: Due to the limited number of personnel involved in the operating of the fiscal office, most of those aspects of internal accounting control, which rely upon an adequate segregation of duties, are, for all practical purposes, missing in the organization. However, we recognize that the organization's administration is not large enough to make the employment of additional persons, for the purpose of segregating duties practical from a cost-benefit standpoint.

Recommendation: SAUNDERS & ASSOCIATES, PLLC recommends increased oversight by the Board over all financial activities.

Response: Management will work closely with the Board to mitigate weaknesses noted within internal control functions.

\* The accompanying notes are an integral part of the financial statements.

