

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

**INDEPENDENT AUDITOR'S REPORT**

**AS OF AND FOR THE YEAR ENDED**

**AUGUST 31, 2011**

**BROWN & DAVIS, LLP  
CERTIFIED PUBLIC ACCOUNTANTS**

**RURAL WATER AND SEWER DISTRICT NO. 5  
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AS OF AND FOR THE YEAR ENDED AUGUST 31, 2011**

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# BROWN & DAVIS, LLP

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Rural Water and Sewer District No. 5  
Bryan County, Oklahoma

We have audited the accompanying financial statements of the business-type activities of Rural Water and Sewer District No. 5, Bryan County, Oklahoma (the District) as of and for the year ended August 31, 2011, which comprises the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The prior year comparative information has been derived from the District's financial statements as of and for the year ended August 31, 2010, and in our report dated January 28, 2011, we expressed an unqualified opinion on those financial statements.

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 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 business-type activities of Rural Water and Sewer District No. 5, Bryan County, Oklahoma, as of August 31, 2011, and the respective changes in financial position and its 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 our report dated January 4, 2012 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of 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 and 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 4 and 5 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.



Brown & Davis, LLP  
Certified Public Accountants  
January 4, 2012

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED AUGUST 31, 2011**

This section of the Rural Water and Sewer District No. 5's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended August 31, 2011. Please read it in conjunction with the accompanying financial statements and disclosures.

Financial Highlights

Operating revenue increased from \$1,520,716 for last year to \$1,666,692 this year. After expenses net assets increased by \$310,090.

During the year, additions and improvements to the water system amounts to \$389,893 of which \$24,710 was expensed to repairs and the balance was added to the property to be capitalized and depreciated over the estimated life of the improvements. Two new pickup trucks were purchased for \$42,108 and a trailer for \$700. Three old pickup trucks were sold for \$21,211 with a remaining basis of \$3,447 for a gain of \$17,764. An HP printer and weedeater were added for \$974.

Operating expenses were 84% of operating revenue compared to 78% last year.

Cash accounts including reserves have increased by \$131,012 compared to a increase of \$149,677 for last year.

Financial Analysis

A comprehensive summary of the current year and prior year financial information is provided in the financial statements.

Overview of the Financial Statements

Management's Discussion and Analysis introduces the District's financial statements. The financial statements includes the government-wide financial statements and the notes to the financial statements.

The District's annual report includes three government-wide financial statements. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the Statement of Net Assets. This is the District's statement of financial position presenting information that includes all of the District's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as useful indicator of whether the financial position of the District as a whole is improving or deteriorating.

The second statement is the Statement of Revenues, Expenses, and Changes in Net Assets which reports water services provided by the District.

The third statement is the Statement of Cash Flows which shows where the cash came from and where the cash went with a reconciliation to the changes in assets and liabilities.

The notes to the financial statements provide information essential to a full understanding of the government-wide financial statements. The notes to the financial statement begin immediately following the basic financial statements.

Capital Assets

During the year \$365,183 was used to construct additional water lines and related equipment compared to \$187,554 for last year. Repairs to maintain the water system was \$24,710 compared to \$60,710 for last year. The District purchased two new trucks and a trailer at a cost of \$42,808. The District also purchased new office equipment at a cost of \$974.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
FOR THE YEAR ENDED AUGUST 31, 2011**

Debt

Most of the debt of the Water District is to the United States Department of Agriculture Rural Development on long term notes. All notes have been paid as agreed on a timely basis. Notes to the USDA have been paid down to a balance of \$700,110 from original amounts of \$1,733,864. More detailed information about the District's debt is presented in the Notes to the Financial Statements.

Economic Factors

Providing water service to businesses and residents of our Water District is why the Water District exists. The Water District acquires new water lines, pumps, and tanks with a combination of loans, grants, sale of water and installation fees charged to customers. An overall change in economic conditions may affect resources available.

Subsequent Events

The water district has obtained engineering and other professional services related to a loan from the United States Department of Agriculture - Rural Development to rebuild water lines and equipment needed to adequately service the expanding needs of the district.

Request for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. If you have questions about this report or would like to request additional information, contact the District Office at 22404 State Road 78 South, Durant, Oklahoma 74701.

**RURAL WATER AND SEWER DISTRICT NO. 5  
BRYAN COUNTY, OKLAHOMA  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
AUGUST 31, 2011 AND 2010**

		Business-Type Activities	
		<u>August 31, 2011</u>	<u>August 31, 2010</u>
<b>ASSETS</b>			
Current assets			
Cash in bank		\$ 740,213	\$ 611,402
Certificates of deposit		231,406	229,759
Accounts receivable		177,222	168,604
Less allowance for doubtful accounts		(8,269)	(8,029)
Prepaid Insurance		17,170	16,761
Total current assets		<u>1,157,742</u>	<u>1,018,497</u>
Restricted assets			
Certificates of deposit		118,238	117,684
Total restricted assets		<u>118,238</u>	<u>117,684</u>
Noncurrent assets			
Capital assets, net of depreciation		<u>3,056,618</u>	<u>2,841,493</u>
Total assets		<u>\$ 4,332,598</u>	<u>\$ 3,977,674</u>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable		\$ 107,709	\$ -
Payroll taxes payable		652	4,770
Accrued interest payable		2,272	1,290
Accrued compensated absences		2,977	1,539
Refundable meter deposits		51,200	45,600
Notes payable - current portion		70,192	66,676
Total current liabilities		<u>235,002</u>	<u>119,875</u>
Noncurrent liabilities			
Note payable		700,110	766,887
Less current portion		(70,192)	(66,676)
Total noncurrent liabilities		<u>629,918</u>	<u>700,211</u>
Total liabilities		864,920	820,086
<b>NET ASSETS</b>			
Restricted		118,238	117,684
Unrestricted		992,932	965,300
Invested in capital assets, net of related debt		<u>2,356,508</u>	<u>2,074,606</u>
Total net assets		<u>3,467,678</u>	<u>3,157,588</u>
Total liabilities and net assets		<u>\$ 4,332,598</u>	<u>\$ 3,977,674</u>

See accompanying notes to the basic financial statements.  
Brown & Davis, LLP, Certified Public Accountants

**RURAL WATER AND SEWER DISTRICT NO. 5  
BRYAN COUNTY, OKLAHOMA  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUND  
FOR THE YEARS ENDED AUGUST 31, 2011 AND 2010**

	Business-Type Activities	
	August 31, 2011	August 31, 2010
<b>OPERATING REVENUES:</b>		
Water sales	\$ 1,556,585	\$ 1,433,677
Installation and tap fees	96,456	76,262
Sewer and trash collection fees	13,651	10,777
	1,666,692	1,520,716
<b>OPERATING EXPENSES:</b>		
Advertising	1,959	1,177
Audit	4,880	4,775
Bank fees	23	-
Computer software and maintenance	1,338	4,645
Depreciation	190,393	181,592
Dues and fees	6,556	9,641
Employee benefits-health insurance	44,111	45,117
Flowers and gifts	4,500	882
Food and meeting expense	1,711	1,474
Insurance and bonds	28,372	32,032
Interest	35,678	39,092
Legal and professional	64,235	21,649
Medical and safety supplies	340	243
Mileage	1,179	1,441
Miscellaneous	445	175
Office supplies and expense	21,158	19,339
Payroll taxes	18,111	22,361
Pension plan expense	11,888	5,628
Postage	15,512	13,543
Purchase of water	578,841	405,171
Repairs and maintenance	24,710	60,710
Salaries and wages	258,739	233,013
Travel and education	406	1,896
Truck and tractor expense	39,771	23,972
Uncollectible accounts	9,371	24,028
Uniforms and laundry	2,273	3,564
Utilities and telephone	23,634	20,314
Water tests and lab fees	6,544	13,416
Total operating expenses	1,396,678	1,190,890
Net income (loss) from operating activities	270,014	329,826
Non-operating revenues (expenses)		
Interest income	4,508	6,422
Recovery of bad debts	11,953	7,850
Other income	1,276	1,002
Memberships	4,575	4,425
Gain (loss) on disposal of fixed assets	17,764	-
Total non-operating revenues (expenses)	40,076	19,699
Net income (loss)	310,090	349,525
Net assets - beginning of year	3,157,588	2,808,063
Net assets - end of year	\$ 3,467,678	\$ 3,157,588

**RURAL WATER AND SEWER DISTRICT NO. 5  
BRYAN COUNTY, OKLAHOMA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE YEARS ENDED AUGUST 31, 2011 AND 2010**

Business-Type Activities

	August 31, 2011	August 31, 2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 1,658,314	\$ 1,530,971
Cash paid to suppliers	(801,648)	(798,290)
Cash paid to employees	(258,739)	(232,386)
Interest paid	(34,696)	(39,453)
Net cash provided (used) by operating activities	563,231	460,842
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	4,508	6,610
Purchases of land	-	(16,575)
Addns to truck and tractors	(42,808)	(59,143)
Addns to office equipment	(974)	(4,345)
Proceeds from sale of assets	21,211	-
Addns to water system and equipment	(365,183)	(187,554)
Net cash provided (used) by investing activities	(383,246)	(261,007)
<b>CASH FLOWS FROM CAPITAL &amp; RELATED FINANCING ACTIVITIES</b>		
Pmts of principal - USDA	(66,777)	(63,435)
Net cash provided (used) by capital & related financing activities	(66,777)	(63,435)
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Recovery of bad debts	11,953	7,850
Other income	1,276	1,002
Membership income received	4,575	4,425
	17,804	13,277
Net increase (decrease) in cash	131,012	149,677
Cash and equivalents at beginning of the year	958,845	809,168
Cash and equivalents at end of the year	\$ 1,089,857	\$ 958,845
Cash and equivalents - unrestricted	971,619	841,161
Cash and equivalents - restricted	118,238	117,684
Total	\$ 1,089,857	\$ 958,845
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>		
Net operating income (loss)	\$ 270,014	\$ 329,826
Adjustments to reconcile operating activities to net cash provided (used) by operating activities:		
Depreciation	190,393	181,592
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(8,618)	10,255
Increase (decrease) in doubtful accounts	240	725
(Increase) decrease in prepaid expenses	(409)	1,596
Increase (decrease) in accounts payable	107,709	(66,181)
Increase (decrease) in payroll taxes payable	(4,118)	960
Increase (decrease) in retirement contributions payable	-	(1,697)
Increase (decrease) in accrued interest payable	982	(361)
Increase (decrease) in accrued compensated absences	1,438	627
Increase (decrease) in refundable water deposits	5,600	3,500
Net cash provided (used) by operating activities	\$ 563,231	\$ 460,842

See accompanying notes to the basic financial statements.  
Brown & Davis, LLP, Certified Public Accountants

**RURAL WATER AND SEWER DISTRICT NO. 5  
BRYAN COUNTY OKLAHOMA  
NOTES TO BASIC FINANCIAL STATEMENTS  
AUGUST 31, 2011**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**FINANCIAL REPORTING ENTITY**

Rural Water and Sewer District No. 5, Bryan County, Oklahoma (the District) was organized for the purpose of providing water to the rural residents and businesses located in the southern portion of Bryan County, Oklahoma. The water district uses the accrual basis of accounting; consequently, all revenue is included when earned, and all expenses are recognized when the obligation is incurred.

**BASIS OF PRESENTATION, MEASUREMENT FOCUS, AND BASIS OF ACCOUNTING**

The District is financed and operated in a manner similar to a private business enterprise, where the intent of the governing body is that the costs of providing water to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The District uses one fund which is a proprietary fund of a business-type activity as described above. This fund is reported on the accrual basis of accounting; consequently, all revenue is included when earned, and all expenses are recognized when the obligation is incurred.

Proprietary fund equity is reported as restricted net assets (funds that are restricted to a particular use), unrestricted net assets, and investments in capital assets net of related debt.

Operating revenues and expenses for proprietary funds are those that result from providing water, sewer, and solid waste collection services.

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts in various funds. Actual results could differ from those estimates.

**NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**BUDGET**

The District prepares an annual estimated budget of cash receipts and disbursements for the purpose of adjusting water rates if necessary and as a forecast of cash receipts and disbursements required by the USDA Rural Development. This does not meet the definition of a legally required and adopted budget and accordingly is not presented.

**RISK MANAGEMENT**

The District's business activity is with customers located within a portion of Bryan County, Oklahoma. As of August 31, 2011 the District's receivables were \$177,222. An overall decline in the economic condition of the area could affect the collection of those receivables.

The District is exposed to various risks of loss related to theft of and damage to assets, errors and omissions, injuries to employees, and natural disasters. The District purchases commercial insurance to cover these possible liabilities.

**COMMITMENTS AND CONTINGENCIES**

The District participates in state and federally assisted loan and grant programs. These programs are subject to program compliance audits by grantors or their representatives. Accordingly, the District's compliance with applicable loan and grant requirements will be established at some future date. The amount, if any, of expenses which may be disallowed by the granting agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

**RURAL WATER AND SEWER DISTRICT NO. 5  
BRYAN COUNTY OKLAHOMA  
NOTES TO BASIC FINANCIAL STATEMENTS  
AUGUST 31, 2011**

**NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES AND ACCOUNTS**

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/expenses.

**CASH AND EQUIVALENTS**

For the purpose of the Statement of Net Assets, "cash" includes all demand, savings accounts, and certificates of deposits of the District. For the purpose of the proprietary fund Statement of Cash Flows, "cash and equivalents" includes all demand and savings accounts, and certificates of deposit with an original maturity of three months or less.

Deposits are classified into the following three categories: (1) Insurance or collateralized with securities held by the entity or by its agent or in the entity's name (Category 1); (2) Collateralized with securities held by the pledging financial institutions trust department or agent in the entity's name (Category 2); and (3) Uncollateralized, including any bank balance that is collateralized with securities held by the pledging institution, or by its trust department or agent but not in the entity's name (Category 3).

All of the District's cash accounts are considered Category 1. The Emergency Economic Stabilization Act of 2008 temporarily raised the basic limit on FDIC coverage to \$250,000 per depositor. This coverage limit will return to \$100,000 after December 31, 2013. The accounts are further collateralized by \$350,000 in letters of credit from the Federal Home Loan Bank of Topeka, KS. At August 31, 2011 all accounts were covered by either the federal depository insurance or other collateral.

**ACCOUNTS RECEIVABLE**

Accounts receivables consist of all revenues earned at year-end and not yet received. Allowances for doubtful accounts is based on 5% of the accounts receivable balance at the end of the accounting year.

**CAPITAL ASSETS**

Capital assets used in the District's operations are stated at cost less accumulated depreciation. Depreciation is provided on the straight-line method at various rates based on the estimated useful lives of the assets. Generally, estimated useful lives of five years for trucks and tractors, ten years for furniture, fixtures and equipment, and thirty years for the building and water system are used. Maintenance and repairs as well as renewals and betterments of small amounts are charged against income as incurred whereas major renewals or betterments which extend the life or increase the value of property are capitalized.

Capital asset activity for the year ended August 31, 2011 is as follows:

	<b>Balance</b>			<b>Balance</b>
	<b>8/31/2010</b>	<b>Additions</b>	<b>Reductions</b>	<b>8/31/2011</b>
Water system	5,548,348	365,183	-	5,913,531
Land	32,575	-	-	32,575
Trucks and tractors	368,178	42,808	(56,984)	354,002
Office building	50,288	-	-	50,288
Office furniture and equipment	61,807	974	-	62,781
<b>Totals</b>	<b>\$ 6,061,196</b>	<b>\$ 408,965</b>	<b>\$ (56,984)</b>	<b>\$ 6,413,177</b>
Less accumulated depreciation				
Water system	(2,902,573)	(143,940)	-	(3,046,513)
Trucks and tractors	(246,201)	(40,507)	53,537	(233,171)
Office building	(28,629)	(1,680)	-	(30,309)
Office furniture & equipment	(42,300)	(4,266)	-	(46,566)
<b>Totals</b>	<b>(3,219,703)</b>	<b>(190,393)</b>	<b>53,537</b>	<b>(3,356,559)</b>
<b>Net capital assets</b>	<b>\$ 2,841,493</b>	<b>\$ 218,572</b>	<b>\$ (3,447)</b>	<b>\$ 3,056,618</b>

**RURAL WATER AND SEWER DISTRICT NO. 5  
BRYAN COUNTY OKLAHOMA  
NOTES TO BASIC FINANCIAL STATEMENTS  
AUGUST 31, 2011**

**CAPITAL ASSETS, cont.**

Capital asset activity for the year ended August 31, 2010 is as follows:

	<u>Balance</u> <u>8/31/2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>8/31/2010</u>
Water system	5,360,794	187,554	-	5,548,348
Land	16,000	16,575	-	32,575
Trucks and tractors	309,035	59,143	-	368,178
Office building	50,288	-	-	50,288
Office furniture and equipment	57,462	4,345	-	61,807
Totals	<u>\$ 5,793,579</u>	<u>\$ 267,617</u>	<u>\$</u>	<u>- \$ 6,061,196</u>
Less accumulated depreciation				
Water system	(2,762,914)	(139,659)	-	(2,902,573)
Trucks and tractors	(210,262)	(35,939)	-	(246,201)
Office building	(26,949)	(1,680)	-	(28,629)
Office furniture & equipment	(37,987)	(4,313)	-	(42,300)
Totals	<u>(3,038,112)</u>	<u>(181,591)</u>	<u>-</u>	<u>(3,219,703)</u>
Net capital assets	<u>\$ 2,755,467</u>	<u>\$ 86,026</u>	<u>\$</u>	<u>- \$ 2,841,493</u>

**NONCURRENT DEBT**

Non-current debt includes the original note payable to the USDA Rural Development with monthly payments of \$5,683 per month including interest at the rate of 5%. The original amount of the loan was \$1,158,864. As of August 31, 2011, that balance had been reduced to \$314,114 of which \$53,738 will be paid on the principal during the coming year if all payments are made timely.

During 1985 an additional loan in the amount of \$150,000 was granted by the USDA Rural Development for the purpose of constructing water towers at Calera and Cartwright, Oklahoma. Monthly payments on that note are \$965 per month including interest at the rate of 6.75%. As of August 31, 2011, the original \$150,000 has been paid down to a balance of \$51,489 of which \$8,361 will be paid on the principal during the coming year if all payments are made timely.

During 1994 a third loan in the amount of \$325,000 was granted by the USDA Rural Development for the purpose of constructing additional water lines and a tower. Monthly payments on that note are \$1,476 including interest at the rate of 4.5%. As of August 31, 2011, the original \$325,000 loan had been paid down to a balance of \$252,013 of which \$6,370 will be paid on the principal during the coming year if all payments are made timely.

On August 13, 1997, an additional loan in the amount of \$100,000 was granted by the USDA Rural Development for reimbursement of overrun costs on the additional water lines constructed in 1995. Monthly payments on that note are \$450 including interest at the rate of 4.5%. As of August 31, 2011, the original \$100,000 loan had been paid down to a balance of \$82,494 of which \$1,723 will be paid on the principal during the coming year if all payments are made timely.

All of the above notes are secured by the revenues and net assets of the organization.

Schedule of notes payable:

	<u>Current</u>	<u>Non-current</u>	<u>Total</u>
USDA-RD	53,738	260,376	314,114
USDA-RD	8,361	43,128	51,489
USDA-RD	6,370	245,643	252,013
USDA-RD	1,723	80,771	82,494
Totals	<u>\$ 70,192</u>	<u>\$ 629,918</u>	<u>\$ 700,110</u>

**RURAL WATER AND SEWER DISTRICT NO. 5  
BRYAN COUNTY OKLAHOMA  
NOTES TO BASIC FINANCIAL STATEMENTS  
AUGUST 31, 2011**

**NONCURRENT DEBT, cont.**

The annual requirements to amortize all debt outstanding to the USDA Rural Development as of August 31, 2011 including interest payments of \$305,687 will be as follows:

Fiscal year Ending 31-Aug	Original Loan 5.00%	Additional Loan 6.75%	Additional Loan 4.50%	Additional Loan 4.50%	Totals
2012	68,196	11,580	17,712	5,400	102,888
2013	68,196	11,580	17,712	5,400	102,888
2014	68,196	11,580	17,712	5,400	102,888
2015	68,196	11,580	17,712	5,400	102,888
2016	68,196	11,580	17,712	5,400	102,888
2017-2021	16,078	3,477	88,560	27,000	135,115
2022-2026	-	-	88,560	27,000	115,560
2027-2031	-	-	88,560	27,000	115,560
2032-2036	-	-	57,197	27,000	84,197
2036-2039	-	-	-	4,814	4,814
<b>Total</b>	<b>\$ 357,058</b>	<b>\$ 61,377</b>	<b>\$ 411,437</b>	<b>\$ 139,814</b>	<b>\$ 969,686</b>

**RETIREMENT PLAN**

On January 10, 1997 the water district adopted the National Association of Counties Deferred Compensation Program for its full time employees through a joint contributory defined contribution plan. The water district's total payroll for the year was \$258,739 and the covered payroll was \$177,540. The water district's contributions for the year were \$11,888 and the employee's contributions were \$10,431. There were no related party transactions in the plan during the year. Employer contributions to the plan vest at the time contributions are made. The employee may elect the time at which distributions under the Plan are to commence by designating the month and year during which the first distribution is to be made. The earliest distribution commencement date that may be elected by the employee shall be the earlier of (a) the date on which the employee separates from services; or (b) the date on which the employee attains age 70 1/2 or terminates deferrals under this plan, whichever is later.

**RESTRICTED ASSETS**

The USDA Rural Development requires an amount equal to the note payments for one year be set aside and controlled by them. On April 26, 1999 Rural Development approved a request by the Water District to withdraw \$50,000 from the set aside amount for the purchase of equipment. At August 31, 2011, the account had a balance of \$118,238 which exceeds the required \$102,888.

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**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**

To the Board of Directors of  
Rural Water and Sewer District No. 5  
Bryan County, Oklahoma

We have audited the accompanying financial statements of the business-type activities of Rural Water and Sewer No. 5, Bryan County, Oklahoma (the District) as of and for the year ended August 31, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 4, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District'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 District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District'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.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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*.

This report is intended solely for the information and use of the audit committee, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Brown & Davis, LLP  
Certified Public Accountants  
January 4, 2012