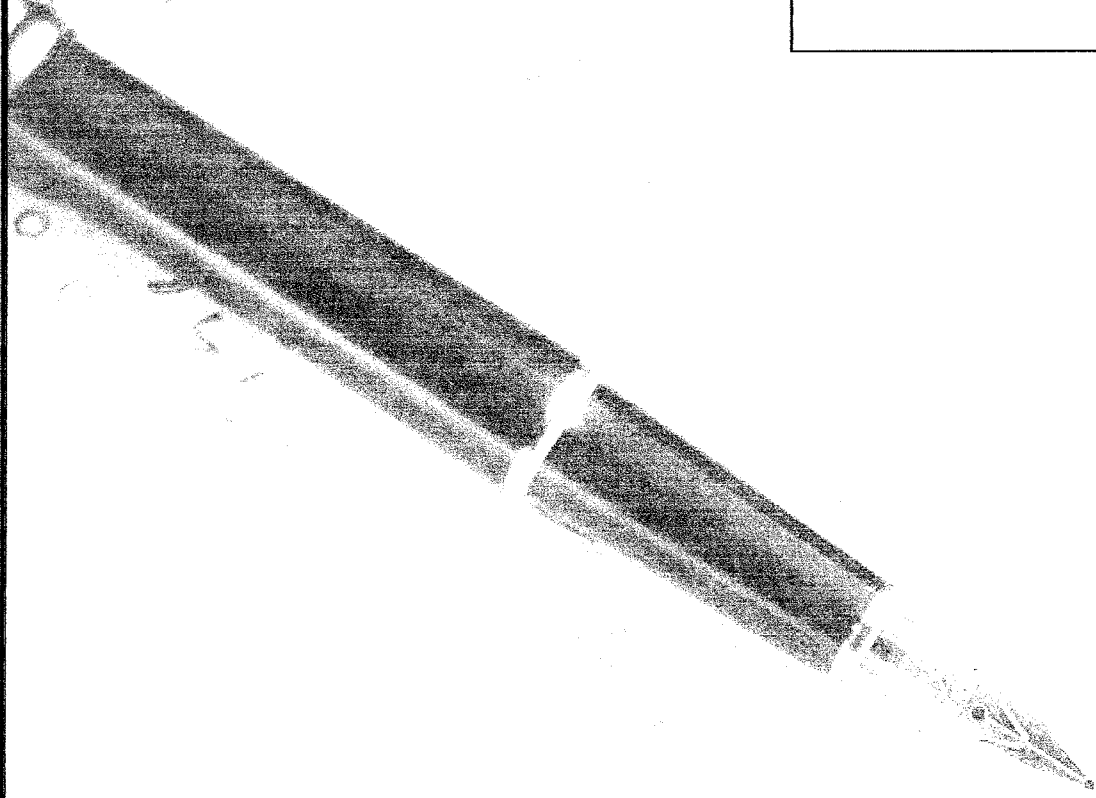


**Stephens County Rural
Water District #5**
Audit Report
For Year Ending September 30, 2012

P.W.
PW
275



Scott Northrip, CPA
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Independent Auditor's Report

To The Board of Directors of
Rural Water, Sewer, & Solid Waste Management Dist. #5
Stephens County, Oklahoma

I have audited the basic financial statements of Rural Water, Sewer, & Solid Waste Management District #5, Stephens County, Oklahoma(District), as of and for the years ended September 30, 2012 and 2011. 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 the 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 management, as well as evaluating the overall financial statement presentation. I believe that the audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rural Water, Sewer, & Solid Waste Management District #5, Stephens County, Oklahoma, as of September 30, 2012 and 2011, and the results of its operations, its cash flows and its changes in fund balance for the years 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 my report dated November 14, 2012, on my consideration of the District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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 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 the audit.

Independent Auditor's Report - continued

The audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying balance sheet for NE project and statements of revenue and cash flows of NE project are presented for the purpose of additional analysis as required by the Rural Development and is not a required part of the general purpose financial statements of the District. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, as fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Scott Northrip, CPA

Certified Public Accountant

November 14, 2012

Rural Water, Sewer, & Solid Waste Management District #5, Stephens County, Oklahoma

Statement of Net Assets
As of September 30, 2012 and 2011

	2012	2011
ASSETS:		
Current Assets:		
Cash & Cash Equivalents (Note 9)	\$ 761,818	\$ 1,030,814
Accounts Receivable (Note 2)	113,426	142,051
Other Receivable	1,499	1,499
Interest Receivable	894	1,229
Prepaid Insurance	25,368	27,610
Inventory	22,138	17,402
Total Current Assets	\$ 925,143	\$ 1,220,605
Noncurrent Assets:		
Construction in Progress	\$ -	\$ -
Capital Assets: (Note 5)		
Land, Water Rights & Deposits	73,061	73,061
Other Capital Assets, net of depreciation	9,700,687	9,596,361
Total Noncurrent Assets	\$ 9,773,748	\$ 9,669,422
TOTAL ASSETS	\$ 10,698,891	\$ 10,890,027
LIABILITIES AND NET ASSETS:		
Current Liabilities:		
Accounts Payable	\$ 62,137	\$ 57,426
Interest Payable	5,807	5,199
Current Portion of Long-term Liabilities	279,332	262,356
Total Current Liabilities	\$ 347,276	\$ 324,981
Long-Term Liabilities:		
Notes Payable - net of current portion	\$ 4,028,340	\$ 4,391,845
Net Assets:		
Restricted Fund Balance (Note 9)	\$ 310,728	\$ 296,287
Unrestricted Fund Balance	(920,451)	(934,245)
Total Fund Balance	\$ (609,723)	\$ (637,958)
Member Investments	771,001	719,201
Member Investments - NE Expansion	288,835	275,835
Grants (Note 10)	5,182,912	5,182,912
Donated Assets (Note 6)	690,250	633,211
TOTAL NET ASSETS	\$ 6,323,275	\$ 6,173,201
TOTAL LIABILITIES AND NET ASSETS	\$ 10,698,891	\$ 10,890,027

See accompanying notes to the financial statements.

Rural Water, Sewer, & Solid Waste Management District #5, Stephens County, Oklahoma

Comparative Statement of Activities
For the Years Ended September 30, 2012 and 2011

	2012	2011
OPERATING REVENUES:		
Water Sales	\$ 1,159,065	\$ 1,202,635
Water Sales - NE Expansion	268,470	280,621
Sale of Supplies	1,260	6,002
Connection Charges & Road Bores	66,280	6,975
Damage Reimbursement	7,142	-
Miscellaneous Revenues	17,426	8,001
Total Operating Revenues	\$ 1,519,643	\$ 1,504,234
OPERATING EXPENSES:		
Salaries	\$ 280,920	\$ 264,431
Water Purchases	72,803	111,144
Depreciation Expense	386,514	366,717
Interest Expense	199,923	190,692
Utilities	69,378	70,792
System Repairs & Operating Supplies	71,862	139,145
Contract Trenching Expense	161,856	67,268
Insurance	34,379	35,072
Legal & Professional Fees	17,503	18,991
Vehicle & Travel Expense	53,351	70,890
Employee Benefits	58,952	60,603
Payroll Tax Expense	22,759	21,504
Rent Expense	3,601	3,858
Office Supplies, Security & Postage	32,147	25,388
Communication Expense	11,075	10,856
Director's Meetings & Fees	4,442	1,628
Test Hole Costs	-	-
Dues & Fees	33,843	11,386
Bad Debts	2,589	5,469
Advertising Expenses	788	2,858
Miscellaneous Expense	1,560	1,087
Total Operating Expenses	\$ 1,520,245	\$ 1,479,779
OPERATING INCOME (LOSS)	\$ (602)	\$ 24,455
OTHER REVENUES (EXPENSES):		
Investment Revenues	\$ 7,297	\$ 8,617
Reimburse line relocate	21,540	
Gain on Sale of Assets	-	-
Total Other Revenues(Expenses)	\$ 28,837	\$ 8,617
EXCESS REVENUES (EXPENSES)	\$ 28,235	\$ 33,072

See accompanying notes to the financial statements.

**Rural Water, Sewer, & Solid Waste Management
District #5, Stephens County, Oklahoma**

Comparative Statement of Changes in Net Assets
For the Years Ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Balance, October 1	<u>\$ 6,173,201</u>	<u>\$ 5,747,279</u>
Excess Revenues (Expenses)	28,235	33,072
Member Investments	64,800	56,700
Grants	-	300,000
Donated Assets	<u>57,039</u>	<u>36,150</u>
Total Changes in Net Assets	<u>\$ 150,074</u>	<u>\$ 425,922</u>
Balance, September 30	<u><u>\$ 6,323,275</u></u>	<u><u>\$ 6,173,201</u></u>

See accompanying notes to the financial statements.

Rural Water, Sewer, & Solid Waste Management District #5, Stephens County, Oklahoma

Comparative Statement of Cash Flows
For the Years Ended September 30, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 1,548,268	\$ 1,464,223
Payments to suppliers	(568,960)	(1,238,929)
Payments to employees & benefits	(362,631)	346,538
Net Cash Provided by Operating Activities	\$ 616,677	\$ 571,832
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of fixed assets	\$ (490,840)	\$ (981,071)
Payments for construction in progress	-	1,360
Donated Assets	57,039	36,150
Principal payments on notes payable	(346,529)	(160,990)
Interest paid on notes payable	(199,315)	(184,551)
Proceeds from Grants	-	300,000
Proceeds from Long-term notes	-	506,059
Proceeds from sale of assets	-	-
Net Cash Used In Capital & Related Financing Activities	\$ (979,645)	\$ (483,043)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment Receipts	\$ 7,632	\$ 8,139
Proceeds from memberships	64,800	56,700
Miscellaneous Receipts	21,540	-
Net Cash Provided from Investing Activities	\$ 93,972	\$ 64,839
INCREASE (DECREASE) IN CASH AND INVESTMENTS	\$ (268,996)	\$ 153,628
Cash and Investment Balance - Beginning	1,030,814	877,186
CASH AND INVESTMENT BALANCE - ENDING	\$ 761,818	\$ 1,030,814
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Excess Operating Revenues (Expenses)	\$ (602)	\$ 24,455
Adjustments to reconcile operating income to net cash provided (used) by Operating Activities:		
Interest Expense	199,923	190,692
Depreciation expense	386,514	366,717
Change in current assets and liabilities:		
Accounts Receivable	28,625	(38,512)
Other Receivable	-	(1,499)
Prepaid Insurance	2,242	(11,124)
Inventory	(4,736)	7,891
Accounts Payable	4,711	33,212
Net Cash Provided from Operating Activities	\$ 616,677	\$ 571,832

See accompanying notes to the financial statements.

Rural Water, Sewer, & Solid Waste Management District #5, Stephens County, Oklahoma

Notes to the Financial Statements
For the Years Ended September 30, 2012 and 2011

Note 1 - Significant Accounting Policies

Organization:

Rural Water, Sewer, & Solid Waste Management District #5, Stephens County, Oklahoma (District) is an Oklahoma non-profit corporation formed under the Oklahoma Rural Water Act for the purpose of supplying water to the rural areas in and around Stephens County, Oklahoma. The District is governed by a Board of Directors who have been elected from and by the members of the District at the annual membership meeting. The District served 3,035 meters at September 30, 2012 and sold 161.9 million gallons of water during the year.

Basis of Accounting:

The District is a proprietary fund type of entity and uses the accrual method of accounting which reports revenues when earned and expenses when incurred. The District is not legally required to adopt a budget or report on budget comparisons in this report.

Fixed Assets and Depreciation:

The District records its fixed assets at their historical cost or donated value. Depreciation is calculated on each individual asset using the straight-line method of depreciation at the asset's estimated useful life. The District estimates the useful lives of the assets based on the type of asset. The lives range from 5 to 40 years.

Income Tax:

The District is exempt from federal and state income taxes under IRS Code Section 115 (a) as an agency of Stephens County, Oklahoma.

Inventory:

The District carries an inventory of supply parts used to repair the water system. The inventory is reported at the market value as of September 30, 2012 and 2011.

Note 2 - Accounts Receivable

The accounts receivable represents the water usage and service revenues for September plus any unpaid balances from the previous months. The District uses the direct method to account for bad debts. The accounts receivable balances at September 30, 2012 and 2011 amounted to \$116,285 and \$144,910, respectively with the deduction of the allowance for bad debts of \$2,859 for both years. The meters are read by the District monthly.

Note 3 - Estimates

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

Note 4 - Contingencies

The District didn't have any contingencies as of the date of the audit.

Rural Water, Sewer, & Solid Waste Management District #5, Stephens County, Oklahoma

Notes to the Financial Statements
For the Years Ended September 30, 2012 and 2011

Note 5 - Fixed Assets

	Balance 10/1/2011	Additions	Disposed	Balance 9/30/2012
Water System Plant Assets	\$ 13,862,651	\$ 462,415	\$ -	\$ 14,325,066
Machinery & Equipment	23,477	-	-	23,477
Office Furniture & Fixtures	38,558	-	-	38,558
Vehicles	124,374	24,280	(21,735)	126,919
Office Buildings	187,873	4,145	-	192,018
Total Assets	\$ 14,236,933	\$ 490,840	\$ (21,735)	\$ 14,706,038
Less: Accumulated Depreciation	4,640,572	386,514	(21,735)	5,005,351
Net Fixed Assets	\$ 9,596,361	\$ 104,326	\$ -	\$ 9,700,687

Note 6 - Donated Assets

Donated assets is the estimated value of water lines installed by members from the existing water lines of the system to the member's meter. The value of the lines donated to the District for the years ending September 30, 2012 and 2011 were \$57,039 and \$36,150, respectively.

Note 7 - Long-Term Liabilities

The District has long-term notes payable with Berkadia Mortgage, Rural Development, City National Bank, and the Oklahoma Water Resources Board. All notes are fixed interest notes except the OWRB which is adjusted semi-annually. The notes are secured by the assets of the District.

	Interest Rate	9/30/2012	9/30/2011	Monthly Payment
Berkadia Mortgage	5.00%	\$ 1,210,029	\$ 1,323,153	14,730
OWRB	1.23%	253,900	275,200	2,066
Rural Dev. #9101	4.25%	1,709,592	1,733,537	8,096
Rural Dev. #9103	4.50%	805,505	816,252	3,938
City National Bank	4.25%	328,646	506,059	9,574
Total		\$ 4,307,672	\$ 4,654,201	\$ 38,404
Less: Current Portion		(279,332)	(262,356)	
Long-term Portion		\$ 4,028,340	\$ 4,391,845	

Current Portion:		Berkadia	OWRB	RD-01	RD-03	City Nat'l
Year Ending	9/30/2013	119,183	22,500	24,962	11,258	101,429
Year Ending	9/30/2014	125,298	23,700	26,044	11,776	105,796
Year Ending	9/30/2015	131,720	25,100	27,192	12,317	108,058
Year Ending	9/30/2016	138,460	26,400	28,390	12,883	13,363
Year Ending	9/30/2016	145,541	28,000	29,641	13,475	-

Note 8 - Retirement Plan

The District provides a money purchase retirement plan for its full time employees. The plan is administered by Edward Jones. The District contributes 9% of the employees wages.

Rural Water, Sewer, & Solid Waste Management District #5, Stephens County, Oklahoma

Notes to the Financial Statements
For the Years Ended September 30, 2012 and 2011

Note 9 - Components of Cash and Equivalents

	Date of Maturity	Interest Rate	Balance
Petty Cash	-	0.00%	\$ 300
Checking - Bancfirst	-	0.10%	178,668
Savings - Bancfirst	-	0.15%	59,233
Savings - Bancfirst	-	0.15%	19,000
Savings - Bancfirst	-	0.15%	257,105
Savings - Bancfirst	-	0.00%	1,238
CD - Ft. Sill National Bank	8/5/2016	3.00%	102,109
CD - Ft. Sill National Bank	8/13/2015	3.00%	107,447
OWRB loan reserve - Bancfirst	-	0.10%	35,718
Reserve Certificates - ORWAAG	-	1.42%	1,000
Total Cash and Equivalents			\$ 761,818

Reserved:

Tower Maintenance	\$ 19,000
Water Rights	41,328
System Improvement	107,447
Well Construction	102,109
	\$ 269,884

Restricted:

OWRB Loan	\$ 35,718
Rural Development Loan	98,250
Capmark Loan	176,760
	\$ 310,728

Note 10 - Grants

The District received a CDBG grant during the years ending September 30, 2011 in the amount of \$300,000 for improvements to the water system.

SCOTT NORTHRIP, CPA

P.O. Box 642, Hobart, Oklahoma 73651

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND INTERNAL CONTROL OF THE FINANCIAL STATEMENTS IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
Rural Water, Sewer, and Solid Waste Management Dist. #5
Stephens County, Oklahoma

I have audited the basic financial statements of Rural Water, Sewer, and Solid Waste Management District #5, Stephens County, Oklahoma (District), as of and for the year ending September 30, 2012, and have issued my report thereon dated November 14, 2012. I conducted the 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, I performed test of its compliance with certain 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 such provisions was not an objective of our audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that require to be reported under *Government Auditing Standards*.

Internal Control

In planning and performing the audit, I considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing my 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, I 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.

Report on Compliance and Internal Controls-Continued

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.

My consideration of the 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.

This report is intended for the information of the Board of Directors, Berkadia Mortgage, Oklahoma Water Resources Board, Rural Development, and the State of Oklahoma. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Scott Northrip, CPA

Certified Public Accountant

November 14, 2012

RURAL WATER, SEWER, & SOLID WASTE MANAGEMENT
DISTRICT #5, STEPHENS COUNTY, OKLAHOMA
 SUPPLEMENTAL BALANCE SHEET FOR NE PROJECT
 AS OF SEPTEMBER 30, 2012

ASSETS:

Current Assets:

Cash - Operating	\$ -	
Cash - RD Reserve	98,250	
Accounts Receivable	23,934	
TOTAL CURRENT ASSETS		\$ 122,184

Fixed Assets:

System Assets	\$ 6,183,079	
Construction in Progress	-	
Accumulated Depreciation	(1,001,246)	
NET FIXED ASSETS		\$ 5,181,833

TOTAL ASSETS

\$ 5,304,017

LIABILITIES & EQUITY:

Current Liabilities:

Accrued Interest Payable	\$ 2,088	
Transfers from Stephens 5	466,698	
Current Portion of LT Liabilities	36,220	
TOTAL CURRENT LIABILITIES		\$ 505,006

Long-Term Liabilities:

Notes Payable - Rural Development	\$ 2,515,097	
Less: Current Portion	(36,220)	
TOTAL LONG TERM LIABILITIES		\$ 2,478,877

EQUITY:

Memberships	\$ 288,835	
Grants	2,884,000	
Fund Balance	(852,701)	
TOTAL EQUITY		\$ 2,320,134

TOTAL LIABILITIES & EQUITY

\$ 5,304,017

RURAL WATER, SEWER, & SOLID WASTE MANAGEMENT
DISTRICT #5, STEPHENS COUNTY, OKLAHOMA
 SUPPLEMENTAL STATEMENT OF REVENUES FOR NE PROJECT
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

	NE Expansion	Original	TOTAL
REVENUES:			
Water Revenues	\$ 268,470	\$ 1,159,065	\$ 1,427,535
Sale of Supplies	-	1,260	1,260
Connection Charges & Road Bores	25	66,255	66,280
Miscellaneous	-	24,568	24,568
TOTAL REVENUES	\$ 268,495	\$ 1,251,148	\$ 1,519,643
EXPENDITURES:			
Salaries	\$ 33,948	\$ 246,972	\$ 280,920
Interest Expense	109,688	90,235	199,923
Depreciation	154,577	231,937	386,514
Water Purchases	6,916	65,887	72,803
Utilities	6,591	62,787	69,378
Insurance Expense	5,011	29,368	34,379
Transportation Expense	10,670	42,681	53,351
Trencher Expense	8,093	153,763	161,856
Employee Benefits	-	58,952	58,952
Professional Fees	750	16,753	17,503
Repairs & Maintenance	14,372	57,490	71,862
Office Supplies	2,800	29,347	32,147
Payroll Tax Expense	2,749	20,010	22,759
Rent Expense	-	3,601	3,601
Miscellaneous Expense	-	1,560	1,560
Dues	3,384	30,459	33,843
Communication	1,052	10,023	11,075
Director's Meetings	-	4,442	4,442
Test Hole Expense	-	-	-
Bad Debts	467	2,122	2,589
Advertising Expenses	-	788	788
TOTAL EXPENDITURES	\$ 361,068	\$ 1,159,177	\$ 1,520,245
NET REVENUES FROM OPERATIONS	\$ (92,573)	\$ 91,971	\$ (602)

**RURAL WATER, SEWER, & SOLID WASTE MANAGEMENT
DISTRICT #5, STEPHENS COUNTY, OKLAHOMA
SUPPLEMENTAL CASH FLOWS FOR NE PROJECT
AS OF SEPTEMBER 30, 2012**

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash Receipts from Customers	\$ 273,182	
Cash Payments for Goods & Services	(60,107)	
Cash Payments for Employees & Benefits	(36,697)	
CASH PROVIDED FOR OPERATING ACTIVITIES	\$ 176,378	

CASH FLOWS FROM CAPITAL & FINANCING ACTIVITIES:

Proceeds from Long-term Liabilities	\$ -	
Proceeds from Grants	-	
Proceeds from Memberships	13,000	
Transfer from Stephens 5	(30,529)	
Construction Costs	-	
Principal Payments	(34,692)	
Interest Payments	(109,716)	
CASH USED IN CAPITAL & FINANCING ACTIVITIES	\$ (161,937)	

NET INCREASE IN CASH		\$ 14,441
Cash - Beginning		83,809
Cash - Ending		\$ 98,250