ROGERS COUNTY
RURAL WATER DISTRICT NO. 3

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED OCTOBER 31, 2011

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WINGARD, RAGSDALE & LANGLEY
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INDEPENDENT AUDITOR'S REPORT

The Honorable Chairman and Board of Directors
Rogers County Rural Water District No3.
Rogers County, Oklahoma

We have audited the accompanying statement of net assets, statement of revenues, expenses, and changes in net assets and statement of cash flows, of the Rogers County Rural Water District No. 3 (the District) state of Oklahoma, as of and for the year ended October 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. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards 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 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, each major fund, and the aggregate remaining fund information for the District, 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 January 24, 2012 on our consideration of the District's internal control over financial reporting and 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.

Management has omitted the management discussion and analysis 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 our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of October 31, 2011, and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Sincerely,

Wingard, Ragsdale Langley, CPA's, PLLC

WINGARD, RAGSDALE & LANGLEY
CERTIFIED PUBLIC ACCOUNTANTS, PLLC
PRYOR, OKLAHOMA

January 24, 2012

ROGERS COUNTY RURAL WATER DISTRICT NO. 3
STATEMENT OF NET ASSETS
OCTOBER 31,

Assets

	2011
Current Assets	
Cash and cash equivalents	$ 2,798,886
Accounts Receivable	413,459
Grant Receivable	97,990
Prepaid Insurance	36,899
Inventory	57,622
Total Current Assets	3,404,856
Non Current Assets	
Cash Restricted	568,081
Capital Assets (Net)	15,453,746
Loan Costs (Net)	35,083
Total Restricted Assets	16,056,910
Total Assets	19,461,766

Liabilities and Net Assets

Current Liabilities	
Accounts Payable	229,719
Accrued Payroll and Liabilities	14,064
Notes Payable	323,947
Total Current Liabilities	567,730
Long Term Liabilities	
Long-term notes payable	5,251,213
Total Long Term Liabilities	5,251,213
Net Assets	
Investment in Capital Assets, Net of Debt	9,878,585
Restricted Net Assets - unspendable	224,796
Restricted Net Assets - spendable	441,275
Unrestricted Net Assets	3,098,167
Total Net Assets	13,642,823
Total Liabilities and Net Assets	$ 19,461,766

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

ROGERS COUNTY RURAL WATER DISTRICT NO. 3

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

OCTOBER 31,

	2011
Support and Revenue	
Water Income	$ 4,030,892
Miscellaneous Income	53,204
Late Fees and Penalties	45,906
Sewer Income	38,892
Grant Income	127,960
Total Support and Revenue	4,296,854
Expenses	
Water Purchases	1,453,760
Salaries and Benefits	871,142
Chemicals	79,165
Operating Supplies	51,946
Utilities	138,145
Repairs and Maintenance	201,146
Office Expense	27,784
Vehicle and Travel Expense	47,727
Insurance	53,156
Professional Fees	198,170
Postage	42,923
Bank and Trustee Fees	23,467
Service Charges	3,448
Miscellaneous	30,015
Depreciation/Amortization	527,655
Total Expenses	3,749,649
Total Operating Income	547,205
Non-Operating Revenue (Expense)	
Gain (Loss) on Sale of Assets	6,328
Interest Expense	(167,062)
Interest Income	45,165
Total Non-Operating Revenue	(115,569)
Increase (Decrease) in Net Assets before Capital Contribution	431,636
Capital Contributions	
Membership (Tap) Sales	99,839
Total Capital Contributions	99,839
Increase (Decrease) in Net Assets	531,475
Net Assets, beginning of year	12,343,922
Prior Period Adjustments (Note 11)	767,426
Net Assets, end of year	$13,642,823

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

ROGERS COUNTY RURAL WATER DISTRICT NO. 3
STATEMENT OF CASH FLOWS
October 31,

	2011
Cash Flows From Operating Activities	
Receipts From Customers And Users	$ 4,154,257
Receipts From Grantors	127,960
Receipts From Interest	45,165
Payments To Suppliers	(2,400,552)
Payments To Employees	(871,142)
Net Cash Provided By (Used In) Operating Activities	1,055,688
Cash Flows From Capital and Related Financing Activities	
Purchase Of Property And Equipment	(732,127)
Cash Paid for Interest	(167,062)
Borrowings From Promissory Notes	258,650
Payments On Promissory Notes	(352,550)
Net Cash Used In Investing Activities	(993,089)
Net Increase In Cash	62,599
Cash And Cash Equivalents, Beginning Of Year	3,304,368
Cash And Cash Equivalents, End Of Year	$ 3,366,967
Reconciliation Of Operating Income (Loss) To Net Cash Provided By (Used In) Operating Activities:	
Change in net assets	$ 531,474
Adjustments To Reconcile Change In Net Assets To Net Cash Used Operating Activities:	
Depreciation And Amortization Expense	527,655
Gain on sale of assets	(6,328)
Change In Operating Assets/Liabilities	
Increase Of Receivables	(62,983)
Increase In Prepaid Expenses	(2,510)
Decrease In Accounts Payable and Accrued Expenses	(98,682)
Interest paid for financing	167,062
Net Cash Provided By (Used In) Operating Activities	$ 1,055,688

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

Note 1 - Nature of Organization

The ROGERS COUNTY RURAL WATER DISTRICT NO. 3 (the District) is a non-profit governmental organization. Its purpose is to process and provide for the use and benefit of its members a water processing and distribution system, including physical facilities necessary for its operations and maintenance. The District was organized by the Board of County Commissioners of Rogers County, Oklahoma. District members fall within territorial boundaries within Rogers, Tulsa, and Mayes Counties as assigned by the Board of County Commissioners of Rogers County, Oklahoma.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting - The Districts fund is an enterprise fund. Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. The activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

The proprietary funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

All proprietary funds utilize the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. The District applies all Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, and the Accounting Principles Board (APB) of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date, and reported revenues and expenses during the reporting period. Estimates are used to determine depreciation expense, the allowance for doubtful accounts and certain claims and judgment liabilities, among other amounts. Actual results may differ from those estimates.

The District adopts annual operations and capital budgets. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. The current operating budget details the District's plans to earn and expend funds for charges incurred for operation, maintenance, certain interest and general functions, and other charges for the fiscal year. The capital budget details the plan to receive and expend cash basis capital contribution fees, special assessments, grants, borrowings and certain revenues for capital projects.

Note 2 - Summary of Significant Accounting Policies (continued)

All unexpensed and unencumbered appropriations in the operating budget lapse at the end of the fiscal year. No appropriation for a capital project in the capital budget lapses until the purpose for which the appropriation was made has been accomplished or abandoned.

The Board of Directors adopts a budget at the meeting prior to the beginning of the new fiscal year. Actual revenues and expenditures are monitored and compared with the budget during the year. Significant variations from budgeted amounts are researched and the board is informed of the results.

Cash and Cash Equivalents - Cash and cash equivalents, for purposes of the statement of cash flows, include restricted and unrestricted cash on hand or on deposit, interest in State Treasurer's Pool, certificates of deposit, repurchase agreements and investments with a maturity of three months or less.

Investments are reported at their fair market value. The District is permitted to invest in certificates of deposit and United States general obligations. Banks must guarantee all District funds they hold with specified securities the bank owns for cumulative amounts exceeding the $250,000 FDIC guarantee.

Restricted Assets - Restricted assets represent cash, investments and receivables maintained in accordance with bond resolutions, loan agreements, grant awards, and other resolutions and formal actions of the District or by agreement for the purpose of funding certain debt service payments, depreciation and contingency activities, and improvements and extensions to the water system.

Receivables and Payables - Customer receivables represent service fees earned, but not yet collected. Service billings at the end of the year are made and the revenues recorded through year-end.

Inventories - Inventories consist of construction materials, repair parts, and chemicals. Materials and supplies are stated at cost.

Capital Assets - Property, plant and equipment in service and construction in progress are recorded at cost, if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value, if applicable or at engineers' fair market value or cost to construct at the date of contribution. Internal engineering costs are capitalized to the extent of direct support and contribution to construct and expansion projects. Costs of studies that directly result in specific construction projects are capitalized.

Maintenance and repairs, which do not significantly extend the value or life of property, plant and equipment, are expensed as incurred.

Interest costs are capitalized on the construction of qualified assets, whether or not borrowings exist for such projects, to the extent of amounts funded by debt or operating results. Interest is not capitalized on project costs funded by contributed capital, such as grants and gifts. Interest costs of tax-exempt borrowings are capitalized net of related investment earnings or the proceeds.

Note 2 - Summary of Significant Accounting Policies (continued)

Assets are depreciated on the straight-line method. Depreciation is calculated using the following estimated useful lives:

	Years
Automatic Meters	20
Office Equipment	5-10
Vehicles and Automotive Equipment	5
Buildings and Equipment	10 - 30
Water System Pre-1995	50
Water System 1995-Present	40
Land	Not depreciated

Long Term Obligations - Long-term obligations are reported at face value, net of applicable premiums and discounts.

Revenues and Rate Structure - Revenues from water services are recognized on the accrual basis and as earned. Services are supplied to customers under a rate structure designed to produce revenues sufficient to provide for operating and maintenance costs, capital outlay, debt service, reserves and debt service coverage.

Capital Contributions - Contributions are recognized in the Statement of Revenues, Expenses and changes in Net Assets when earned. Contributions include tap fees, capital grants, and other supplemental support by federal, state and local grants in support of system improvements.

Net Assets - Net assets comprise the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net assets are classified in the following three components: invested in capital assets, net of related liabilities; Restricted for capital activity and debt service; and unrestricted net assets. Invested in capital assets, net of related debt, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from determination. Restricted for capital activity and debt service consists of net assets for which constraints are placed by external parties, such as lenders, grantors, contributors, laws, regulations, legislation, including self-imposed legal mandates, less any related liabilities. Unrestricted consists of all other assets not included in the above categories.

Note 3 - Deposits and Investments

Deposits include demand deposits and certificates of deposit in financial institutions. All bank balances are covered by federal depository insurance or by collateral held by the bank and pledged to the District.

		Credit Risk		
	Total	Category 1	Category 2	Category 3
Bank Accounts	819,115	819,115	-	-
Certificates of Deposits	2,223,421	2,223,421	-	-
Restricted Accounts	-	-	-	-
- Payroll Account	23,440	23,440		
- Debt Service Funds	300,991	126,806	-	174,185
Total Deposits And Investments	3,366,967	3,192,782	-	174,185

Category 1 – Investments that are insured by FDIC or collateralized with securities held by the District or it's agent in the District's name.

Category 2 – Uninsured and unregistered investments for which securities are held by the pledging financial institution's trust department or agent in the District's name

Category 3 – Uninsured and unregistered investments for which the securities are held by the counter party, or by its trust department or agent but not in the District's name.

The $174,185 in Category 3 represents the debt service and debt service reserve accounts administered by the Bond Trustee, Bank of New York Mellon Trust Company. The $174,185 is invested in money market accounts with the funds invested in the Federated Government Obligations Fund maintained by the Federated Investors, Inc., a U.S. mutual fund company. This mutual fund invests only in obligations which are unconditionally guaranteed by the United States of America. An investment account in the mutual fund is neither insured by the Federal Deposit Insurance Corporations or any other government agency. This type of investment is approved by the bond indenture for the debt service accounts.

Note 4 - Accounts Receivable

Accounts receivable are composed of unpaid billings for services rendered as of the end of the fiscal year. After six months of non-payments the right to service is forfeited, the meter is pulled, and the balance is written off. For service to be reconnected to the related property a new membership is required. This minimizes the loss the District may incur due to nonpayment of service billings.

Note 5 – Restricted Assets

The components of the restricted assets at year end were as follows:

	2011
Payroll Account	$ 23,440
RDA Debt Service	51,806
OWRB 1993 Debt Service/Reserve	165,452
OWRB 1998 Debt Reserve	75,000
RDA Construction loan	243,650
OWRB Debt Service	8,733
Grant Receivable	97,990
	$ 666,071

Note 6 - Capital Assets

Capital asset activity during the year was as follows:

	2010	Additions	Disposals	2011
Water Distribution System	$ 20,092,052	$ 8,485		$ 20,100,537
Automatic Read Meters	254,625	267,521		522,146
Office Equipment	125,943	3,809	(85,028)	44,724
Office Building & Equipment	265,531	-		265,531
Land	200,000	-		200,000
Vehicles and Equipment	214,379	-		214,379
Construction In Process	-	458,734	(82,434)	376,300
Total Property Plant and Equipment	21,152,530	738,549	(167,462)	21,723,617
Accumulated Depreciation	(5,910,887)	(526,446)	167,462	(6,269,871)
Total Capital Assets (net accum. depreciation)	15,241,643	212,103	-	$ 15,453,746

Note 7 - Long-Term Debt

Note 1

The Oklahoma Water Resources Board approved the ROGERS COUNTY RURAL WATER DISTRICT NO. 3 a 1993 Series A note in the amount of $1,600,000. This note requires principal and interest payments on March 15 and September 15 and has a variable interest rate. Monthly payments are made to the loan trustee, BNY Mellon in the amount of $2,725.92. The payments are invested in securities by the trustee. Semi-Annually, the debt service fund is used by the trustee to make the principal and interest payments. As of October 31, 2011, the balance on this note is $167,600.

Principal payments are required as follows:

	Principal	Interest	Total
Year 1	$ 71,933	$ 578	$ 72,511
Year 2	95,667	-	95,667
Thereafter	-	-	-
Total	$ 167,600	$ 578	$ 168,178

Note 2

The Oklahoma Water Resources Board approved the ROGERS COUNTY RURAL WATER DISTRICT NO. 3 a 1998 note in the amount of $750,000. This note requires principal and interest payments on February 15 and August 15 and a variable interest rate. Monthly payments are made to the loan trustee, Bank of New York Mellon in the amount of $4366.73. The payments are invested in securities by the trustee. Semi-Annually, the debt service fund is used by the trustee to make the principal and interest payments. As of October 31, 2011, the balance on this note is $348,500.

Principal payments are required as follows:

	Principal	Interest	Total
Year 1	$ 74,500	$ 1,150	$ 75,650
Year 2	113,900	-	113,900
Year 3	132,100	-	132,100
Year 4	28,000	-	28,000
Thereafter	-	-	-
Total	$ 348,500	$ 1,150	$ 349,650

Note 7 - Long-Term Debt (Continued)

Note 3

The Oklahoma Water Resources Board approved the ROGERS COUNTY RURAL WATER DISTRICT NO. 3 a Series 2008 note in the amount of $4,500,000. This note requires principal and interest payments on March 15 and September 15 and an interest rate of 3.46%. Semi-Annual payments are wired to the Oklahoma Water Resources Board account at BancFirst. As of October 31, 2011, the balance on this note is $4,113,191.

Principal payments are required as follows:

	Principal	Interest	Total
Year 1	$ 166,968	$ 122,522	$ 289,490
Year 2	173,279	117,123	290,402
Year 3	179,411	111,877	291,288
Year 4	185,760	106,446	292,206
Year 5	192,000	101,106	293,106
Thereafter	3,215,773	698,637	3,914,410
Total	$ 4,113,191	$ 1,257,711	$ 5,370,902

Note 7 - Long-Term Debt (Continued)

Note 4
The Rural Development U.S. Department of Agriculture approved the ROGERS COUNTY RURAL WATER DISTRICT NO. 3 a note in the amount of $1,000,000. This note requires principal and interest payments on a monthly basis and an interest rate of 4.25%. As of October 31, 2011, the balance on this note is $945.869.

Principal payments are required as follows:

	Principal	Interest	Total
Year 1	$ 10,546	$ 41,488	$ 52,034
Year 2	11,003	41,031	52,034
Year 3	11,480	40,555	52,035
Year 4	11,977	40,057	52,034
Year 5	12,496	39,538	52,034
Thereafter	888,367	797,979	1,686,346
Total	$ 945,869	$ 1,000,648	$ 1,946,517

Note 8 – Grant Revenue

The Rogers County Board of County Commissioners has applied for and has been awarded a CDBG grant, Contract #14322 CDBG 10, in the amount of $159,950. All of which shall be provided directly to the District to apply toward the construction of the Owalla Road Waterline Extension Project. As of year ended October 31, 2011, the District had received $29,970 and has a receivable of $97,990 that was collected subsequent to year end, which comprise the $127,960 Grant revenue as reported. Remaining balance on grant is $31,990.

Note 9 – Board of Directors and Officers

Dick Haley - Chairman
Russell Bradshaw – Vice-Chairman
Brant Snap - Treasurer
Milford Harp - Secretary
Lee Gaston
Larry Mallory
Bob Morton
Brad Shelton
D.M. Sokolosky

Note 10 – Other Information – Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District purchases commercial insurance to cover these risks, including general and auto liability, property damage, and public officials liability. There were no significant reductions in insurance coverage from the prior year.

Note 11 – Prior Period Adjustments

During the current period, the following items were adjusted due to errors in previously reported financial statements.

	2010 As Presented	**Adjustments**	**2010 As Adjusted**
Inventory	1,362	56,259	57,621
Fixed Assets, net of accumulated depreciation	14,627,713	614,025	15,241,738
Accounts payable	316,645	(74,303)	242,342
Loan Costs	13,355	22,935	36,290
Net Assets	12,343,922	767,431	13,111,353

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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 Honorable Chairman and Board of Directors
Rogers County Rural Water District No. 3
Rogers County, Oklahoma

We have audited the statement of net assets, statement of revenues, expenses, and changes in net assets, and the statement of cash flow of the Rogers County Rural Water District No. 3 (District) for the year ended October 31, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 24, 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 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, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control. We consider item 2011-1 to be a material weakness in internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. No significant deficiencies or material weakness were identified.

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 management, the Council, others within the entity, 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.

Wingard, Ragsdale, Langley, CPAs, PLLC

WINGARD, RAGSDALE & LANGLEY
CERTIFIED PUBLIC ACCOUNTANTS, PLLC

JANUARY 24, 2012

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SCHEDULE OF FINDINGS AND RESPONSES

PRIOR YEAR FINDINGS

2010 -1: SAS 115
Finding:
The District changed auditors in the current year. As part of the transition, the current/auditor obtained schedules supporting the financial statements from the prior year auditor. One key schedule/obtained was the schedule of fixed assets and depreciation. To substantiate our beginning of the year balances, we attempted to agree the detailed schedule to the financial statements. A difference $1,485,715 in total asset costs and $616,760 in the accumulated depreciation was noted for a net difference of $868,955. Due to the significance of the un-reconciled difference, this will be noted in the report. The District has an inventory of pipe and other miscellaneous repair parts and construction items on hand at any one time. Currently, no physical inventory is taken. The inventory at year end is estimated and represents inventory items received in the last month of the fiscal year (October). The cost of the inventory received in October (paid in October or November) is recorded in the financial statements as cost of the inventory on hand. Because inventory is not tracked, we made estimates at year end to record inventory.

Accounts receivable consists primarily of charges for water sales. The District does not currently read water meters. Therefore, accounts receivable are not recorded. At year end, accounts receivable are estimated based upon the payments received in the month following year end (November). Because accounts receivable are not recorded on an on-going basis, management has: not established a provision for uncollectible accounts. When the District completes its improvements which will allow for the recording of receivables, the need for a provision for uncollectible accounts will be warranted because accounts receivable are not recorded, we made estimates at year end to record accounts receivable.

Management's Response
-During the audit of year ending October 31, 2011, a complete asset listing and depreciation schedule was constructed and management intends to maintain that schedule in the future. Management employed a consultant to address this finding, the results of which proved the 2010 finding, as report above, to be inaccurate.

- During audit of year ended October 31, 2011, it was noted that management performed physical inventory for year ended October 31, 2011.

- During audit of year ended October 31, 2011, it was noted that accounts receivable as reported consists of the billings representing the last month of the fiscal year. Management believes, the controls surrounding the billing cycle, including the use of self reading meters, to be sufficient to accurately report accounts receivable. Audit procedures conducted in the current year supports management's assertions as to their ability to report materially correct receivables for services provided.

2010 - 2: Vehicle Use Check

Finding:
We noted Roger's County Rural Water District writes checks made out to Rick Stull each month for $1,350 to cover the costs of the director's personal vehicle for company use. According to the District, this is a long-standing practice approved by the Board of Directors many years ago. During the audit, we did not see documentation to substantiate the Board's approval. However, checks of this nature should be made out to the employee rather than the bank so that any income tax impact can be accounted for, appropriately.

Management Response:
During audit procedures performed during the audit of fiscal year ended October 31, 2011, it was noted that management has changed their procedures for processing reimbursement of the director’s personal vehicle use by making the reimbursement to the employee through the processing of payroll.

CURRENT YEAR FINDINGS

2011-1 Accounting Policies and Procedures

Criteria or specific requirement: Government auditing and accounting standards require the District to report, independently, financial information in accordance with Generally Accepted Accounting Principles (GAAP). If the District cannot comply with these standards, a third party consulting accountant would be necessary to compile the District's financial information to be audited by an outside auditor, such that the auditor's independence is not impaired.

Condition: Audit procedures conducted for the period ending October 31, 2011 required numerous material adjustments to properly report the District's financial activity. The adjustments were not limited to current year activities, as previously reported information was also materially adjusted. Material adjustments included the recording of grant revenue and receivables, accounts receivable, depreciation, and accounts payable. Additionally, adjustments were made to reclassify loan payments to the right accounts, correct errors regarding sale of assets, adjust prepaid expense accounts, and relieve expenses of liabilities previously accrued.

Context: The District lacks the knowledge necessary to prepare GAAP-based financial statements.

Effect: Financial information is inaccurately reported.

Cause: During past audits, sufficient communication did not exist between the auditor(s) and the District staff explaining the adjusting entries that reason why the adjusting entry was being made.

Recommendation: The District's current bookkeeper is both willing and able to implement quarterly and year end processes required to obtain a full accrual GAAP based financial statement. We recommend the District establish and document policies and procedures surrounding these activities and any other accounting or financial reporting matters where established policies and procedure do not exist. Schedules, entries, and other applicable information as required when adjusting the current year financial statements have been provided to assist with this process. Additionally, we believe the bookkeeper would benefit from continuing education in bookkeeping and basic accounting focusing on double-entry bookkeeping, depreciation, inventory, internal controls, and year-end adjustments.

Views of responsible officials and planned corrective actions: We are committed and desire to establish policies and procedures surrounding the District's accounting and financial reporting, including continuing education in bookkeeping and basic accounting practices.