

RURAL WATER DISTRICT NO 16
ROGERS COUNTY, OKLAHOMA
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED DECEMBER 31, 2011

RURAL WATER DISTRICT NO 16, ROGERS COUNTY, OKLAHOMA

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WINGARD, RAGSDALE & LANGLEY

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INDEPENDENT AUDITOR'S REPORT

Honorable Chairman and Board of Directors
Rural Water District No 16, Rogers County, Oklahoma
Rogers County, Oklahoma

We have audited the statement of net assets, statement of revenues, expenses and changes in net assets and statement of cash flows, which collectively comprise the basic financial statements of the Rural Water District No 16, Rogers County, Oklahoma as of December 31, 2011. These financial statements are the responsibility of the Rural Water District No 16, Rogers County, Oklahoma'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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Rural Water District No 16, Rogers County, Oklahoma as of December 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.

Management has not presented the management's discussion and analysis that governmental 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 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 accordance with Government Auditing Standards, we have issued our report dated August 15, 2012, on our consideration of the Rural Water District No 16, Rogers County, Oklahoma's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 important for assessing the results of our audit.

As disclosed in Note 7, the District is heavily reliant on the acquisition of certain contracts to continue as a going concern.

Sincerely,

A handwritten signature in black ink that reads "Wingard, Ragsdale & Langley, CPAs, PLLC". The signature is written in a cursive, flowing style.

WINGARD, RAGSDALE & LANGLEY

CERTIFIED PUBLIC ACCOUNTANTS, PLLC

PRYOR, OKLAHOMA

AUGUST 15, 2012

RURAL WATER DISTRICT NO 16, ROGERS COUNTY, OKLAHOMA
STATEMENT OF NET ASSETS
 DECEMBER 31,

Assets		2011
Current Assets		
Cash and Cash Equivalents	\$	1,915
Accounts Receivable		6,100
Total Current Assets		8,015
Restricted Assets		
Cash and Cash Equivalents		1,350
Total Assets		9,365
Liabilities and Net Assets		
Current Liabilities		
Deferred Revenue - Capital Contributions		1,350
Net Assets		
Invested in capital assets, net of related debt		-
Restricted		1,350
Unrestricted		6,665
Total Net Assets		8,015
Total Liabilities and Net Assets	\$	9,365

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

RURAL WATER DISTRICT NO 16, ROGERS COUNTY, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
DECEMBER 31,

	<u>2011</u>
Support and Revenue	
Memberships	\$ 12,150
Total Support and Revenue	<u>12,150</u>
Expenses	
Legal Services	2,455
Engineering Services	1,500
Office Supplies	108
Dues & Memberships	26
Postage	46
Total Expenses	<u>4,135</u>
Net Operating Income (Loss)	<u>8,015</u>
Increase (Decrease) in Net Assets	8,015
Net Assets, beginning of year	<u>-</u>
Net Assets, end of year	<u><u>\$ 8,015</u></u>

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

RURAL WATER DISTRICT NO 16, ROGERS COUNTY, OKLAHOMA
STATEMENT OF CASH FLOWS
December 31,

	<u>2011</u>
Cash flows from operating activities	
Receipts from customers	\$ 7,400
Payments to employees	-
Payments to suppliers	<u>(4,135)</u>
Net cash provided by operating activities	<u>3,265</u>
Net increase (decrease) in cash and cash equivalents	<u>3,265</u>
Cash and cash equivalents, beginning of year	<u>-</u>
Cash and cash equivalents, end of year	<u>\$ 3,265</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income (loss)	8,015
Change in assets and liabilities	
Receivables, net	(6,100)
Increase in deferred revenues	<u>1,350</u>
Net cash provided by operating activities	<u>\$ 3,265</u>

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

Note 1 - Nature of Organization

The Rural Water District No 16, Rogers County, Oklahoma (the District) is a non-profit governmental organization. The purpose of the District is to provide a direct source of water for the use and benefit of its members. This will be accomplished by installing a water distribution system which will tie directly to Rogers County Rural Water District No 3's existing water system. Water will be 100% provided by Rogers County, Rural Water District No 3. The District was organized by the Board of County Commissioners of Rogers County, Oklahoma in March of 2011. District members fall within territorial boundaries within Rogers County as assigned by the Board of County Commissioners of Rogers County, Oklahoma. At December 31, 2011, the District does not maintain an operating facility, rather is in process of obtaining funding to further its future purpose discussed previously.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting - The District's 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. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. The District also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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 effect 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 - 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 - Customer receivables represent membership revenues earned, but not yet collected.

Deferred Revenues - Deferred revenues represents member payments received by the District in exchange for water meters. Rural Water District No 16, Rogers, County, Oklahoma has just begun operations and is still in the engineering and planning phase and not yet in the construction phase. As such, water meters have not been purchased by the district or supplied to the members.

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.

Note 4 - Accounts Receivable

Accounts receivable are composed of unpaid membership dues as of the end of the fiscal year.

Note 5 – Restricted Assets

Restricted assets represents amounts provided by customers for the purchase of water taps in future periods.

Note 6 – Subsequent Events

Subsequent events have been evaluated through the date of the auditor's report.

Note 7 – Going Concern

As of December 31, 2011 the District is in process of obtaining funding through economic development grants and loans for the installation of a water distribution system. The continuation of the District to operate as a going concern is heavily reliant on the realization of those items.

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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*

Honorable Chairman and Board of Directors
Rural Water District No 16, Rogers County, Oklahoma
Rogers County, Oklahoma

We have audited the statement of net assets, statement of revenues, expenses and changes in net assets and statement of cash flows, which collectively comprise the basic financial statements of the Rural Water District No 16, Rogers County, Oklahoma as of December 31, 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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Rural Water District No 16, Rogers County, Oklahoma, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Rural Water District No 16, Rogers County, Oklahoma'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 Rural Water District No 16, Rogers County, Oklahoma's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Rural Water District No 16, Rogers 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 combination of deficiencies, in internal controls such 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 preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. 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 Rural Water District No 16, Rogers 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*.

This report is intended solely for the information and use of management, the Board of Directors, 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.

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.

Handwritten signature in cursive script that reads "Wingard, Ragsdale & Langley, CPAs, PLLC".

WINGARD, RAGSDALE & LANGLEY

CERTIFIED PUBLIC ACCOUNTANTS, PLLC

AUGUST 15, 2012