

**ROGERS COUNTY
RURAL WATER DISTRICT NO. 3**

Financial Statements
And
Independent Auditor's Report
For the Year Ended October 31, 2012

**ROGERS COUNTY
RURAL WATER DISTRICT NO. 3
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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, 2012, 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, 2013 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, 2012, 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,

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

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

January 24, 2013

**ROGERS COUNTY
RURAL WATER DISTRICT NO. 3
STATEMENT OF NET ASSETS
FOR THE YEAR ENDING OCTOBER 31, 2012**

Assets

Current assets

Cash and cash equivalents	\$ 2,525,998
Accounts receivable	301,609
Grant receivable	180,000
Prepaid insurance	41,157
Inventory	<u>32,334</u>

Total current assets 3,081,098

Non-current assets

Cash restricted	214,110
Capital assets (net)	16,749,250
Loan costs (net)	<u>33,875</u>

Total restricted assets 16,997,235

Total assets \$20,078,333

Liabilities and Net Assets

Current liabilities

Accounts payable	626,198
Accrued payroll and liabilities	19,541
Notes payable	<u>237,786</u>

Total current liabilities 883,525

Long-term liabilities

Long-term notes payable	<u>4,939,360</u>
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Total long-term liabilities 4,939,360

Net assets

Investment in capital assets, net of debt	11,572,104
Restricted net assets	394,110
Unrestricted net assets	<u>2,289,234</u>

Total net assets 14,255,448

Total liabilities and net assets \$20,078,333

**ROGERS COUNTY
RURAL WATER DISTRICT NO. 3
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
FOR THE YEAR ENDING OCTOBER 31, 2012**

Support and Revenue	
Water income	\$ 4,154,903
Miscellaneous income	37,862
Late fees and penalties	52,734
Sewer income	39,994
Grant income	<u>211,990</u>
Total support and revenue	<u>4,497,483</u>
Expenses	
Water purchases	1,409,541
Salaries and benefits	942,901
Chemicals	148,133
Operating supplies	88,558
Utilities	140,894
Repairs and maintenance	199,516
Office expense	23,472
Vehicle and travel expense	37,544
Insurance	61,353
Professional fees	214,097
Postage	40,880
Bank and trustee fees	19,489
Service charges	3,043
Miscellaneous	20,154
Depreciation/amortization	<u>558,864</u>
Total expenses	<u>3,908,439</u>
Total operating income	<u>589,044</u>
Non-operating revenue (expense)	
Interest expense	(158,602)
Interest income	<u>43,552</u>
Total non-operating revenue	<u>(115,050)</u>
Increase (decrease) in net assets before capital contribution	<u>473,994</u>
Capital contributions	
Membership (tap) sales	<u>138,631</u>
Increase (decrease) in net assets	612,625
Net assets, beginning of year	<u>13,642,823</u>
Net assets, end of year	<u>\$14,255,448</u>

**ROGERS COUNTY
RURAL WATER DISTRICT NO. 3
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDING OCTOBER 31, 2012**

Cash flows from operating activities	
Receipts from customers and users	\$ 4,535,974
Receipts from grantors	129,980
Receipts from interest	43,552
Payments to suppliers	(1,989,166)
Payments to employees	<u>(937,424)</u>
Net cash provided by (used in) operating activities	<u>1,782,916</u>
Cash flows from capital and related financing activities	
Purchase of property and equipment	(1,853,159)
Cash paid for interest	(158,602)
Payments on promissory notes	<u>(398,014)</u>
Net cash used in investing activities	(2,409,775)
Net increase in cash	(626,859)
Cash and cash equivalents, beginning of year	<u>3,366,967</u>
Cash and cash equivalents, end of year	<u>\$2,740,108</u>
Reconciliation of operating income (loss) to net cash provided (used in) operating activities:	
Change in net assets	612,625
Adjustments to reconcile change in net assets to net cash used In operating activities:	
Depreciation and amortization expense	558,864
Change in operating assets/liabilities	
Decrease in receivables	25,287
Decrease in inventory	29,840
Increase in prepaid expenses	(4,258)
Increase in accounts payable and accrued expenses	401,956
Interest paid for financing	<u>158,602</u>
Net cash provided by (used in) operating activities	<u>\$ 1,782,916</u>

ROGERS COUNTY RURAL WATER DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENT
OCTOBER 31, 2012

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 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 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.

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.

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

	<u>Years</u>
Automatic meters	20
Office equipment	5 – 10
Vehicles and automotive equipment	5
Buildings and equipment	10 – 30
Water System prior to 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 improvements 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.

	<i>Total</i>	<i>Category 1</i>	<i>Credit Risk Category 2</i>	<i>Category 3</i>
Bank accounts	\$ 488,033	\$ 488,033	--	--
Certificates of deposits	<u>2,252,075</u>	<u>2,252,075</u>	--	--
	<u>\$2,740,108</u>	<u>\$2,740,108</u>		

Category 1 – Investments that are insured by FDIC or collateralized with securities held by the District or its 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 but not in the District's name.

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:

RDA Required Equipment Reserve	\$ 77,490
RDA Debt Service	52,436
OWRB 1998 Debt Reserve	75,000
OWRB Debt Service	9,184
Grant Receivable	<u>180,000</u>
	<u>\$394,110</u>

Note 6 – Capital Assets

Capital asset activity during the year was as follows:

	<u>2011</u>	<u>Additions</u>	<u>Disposals</u>	<u>2012</u>
Water Distribution System	\$20,100,537	\$ 1,329,119	\$ --	\$21,429,656
Automatic Read Meters	522,146	232,448		754,594
Office Equipment	44,724	--	--	44,724
Office Building and Equipment	265,531	--	--	265,531
Land	200,000	--	--	200,000
Vehicles and Equipment	131,945	--	--	131,945
Construction in Process	<u>458,734</u>	<u>750,326</u>	<u>(458,734)</u>	<u>750,326</u>
Total Property Plant and Equipment	21,723,617	2,311,893	(458,734)	23,576,776
Accumulated Depreciation	<u>(6,269,871)</u>	<u>(557,655)</u>	<u>--</u>	<u>(6,827,526)</u>
Total Capital Assets (net of Accumulated depreciation)	<u>\$15,453,746</u>	<u>\$ 1,754,238</u>	<u>\$(458,734)</u>	<u>\$16,749,250</u>

Note 7 – Long Term Debt

The Oklahoma Water Resources Board approved the District's 1998 note in the amount of \$750,000. This note requires principal and interest payments quarterly and a variable interest rate. Monthly payments are made to the loan trustee, Bank of New York Mellon in the amount of \$4,592.20. The payments are invested in securities by the trustee. The debt service fund is used by the trustee to make the principal and interest payments. As of October 31, 2012, the balance on this note is \$299,800.

Payments are required as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year 1	\$ 51,822	\$ 3,284	\$ 55,106
Year 2	52,432	2,674	55,106
Year 3	53,049	2,057	55,106
Year 4	53,673	1,433	55,106
Year 5	54,304	802	55,106
Thereafter	<u>34,520</u>	<u>183</u>	<u>34,703</u>
Total	<u>\$299,800</u>	<u>\$10,433</u>	<u>\$325,233</u>

The Oklahoma Water Resources Board approved the District's Series 2008 note in the amount of \$4,500,000. This note requires principal and interest payments on March 15 and September 15 at an interest rate of 3.46%. Semi-annual payments are wired to the Oklahoma Water Resources Board account at Banc First. As of October 31, 2012, the balance on this note is \$3,946,223.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year 1	\$ 173,279	\$ 117,123	\$ 290,402
Year 2	179,411	111,877	291,288
Year 3	185,760	106,446	292,206
Year 4	192,000	101,106	293,106
Year 5	199,128	95,009	294,137
Thereafter	<u>3,016,645</u>	<u>603,628</u>	<u>3,620,273</u>
Total	<u>\$3,946,223</u>	<u>\$1,135,189</u>	<u>\$5,081,412</u>

The Rural Water Development, a U.S. Department of Agriculture approved 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, 2012, the balance on this note is \$931,123.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year 1	\$ 12,685	\$ 39,395	\$ 52,080
Year 2	13,236	38,844	52,080
Year 3	13,811	38,269	52,080
Year 4	14,304	37,776	52,080
Year 5	15,031	37,049	52,080
Thereafter	<u>862,056</u>	<u>633,636</u>	<u>1,495,692</u>
Total	<u>\$931,123</u>	<u>\$824,969</u>	<u>\$1,756,092</u>

Note 8 – Board of Directors and Officers

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

Note 9 – 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.

WINGARD, RAGSDALE & LANGLEY

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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, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 24, 2013. 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 Rogers County Rural Water District No. 3'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 Rogers County Rural Water District No. 3's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Rogers County Rural Water District No. 3's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rogers County Rural Water District No. 3'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, 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.

The accompanying Schedule of Findings and Responses provides updated information in relation to internal control related findings as reported in the Rogers County Rural Water District No. 3's 2011 audited financial reports.

Wingard, Ragsdale & Langley, CPAs, PLLC

WINGARD, RAGSDALE & LANGLEY
CERTIFIED PUBLIC ACCOUNTANTS, PLLC

JANUARY 24, 2013

WINGARD, RAGSDALE & LANGLEY

CERTIFIED PUBLIC ACCOUNTANTS, PLLC

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SCHEDULE OF FINDINGS AND RESPONSES

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.

Update: Current audit procedures noted the bookkeeper did attend continuing education and the client has hired an outside CPA to aid in bookkeeping and year end processes.