

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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED JUNE 30, 2012

MAYES COUNTY RURAL WATER DISTRICT #3

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WINGARD, RAGSDALE & LANGLEY

CERTIFIED PUBLIC ACCOUNTANTS, PLLC

18 NORTH VANN STREET, PRYOR, OK 74361

918-825-6441 OFFICE 918-825-6443 FAX

INDEPENDENT AUDITOR'S REPORT

Honorable Chairman and Board of Directors
Mayes County Rural Water District No. 3
Disney, Ok 74340

We have audited the accompanying financial statements of Mayes County Rural Water District No. 3 as of and for the year ended June 30, 2012, which collectively comprise the Mayes County Rural Water District No. 3's financial statements as listed in the table of contents. These financial statements are the responsibility of the Mayes County Rural Water District No. 3'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 accordance with Government Auditing Standards, we have also issued our report dated August 15, 2012, on our consideration of Mayes County Rural Water District No. 3's internal control over financial reporting and on 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 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 not presented the Management Discussion and Analysis that governmental accounting principles generally accepted in the United States of America required 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 Mayes County Rural Water District No. 3 as of June 30, 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,



WINGARD, RAGSDALE & LANGLEY
CERTIFIED PUBLIC ACCOUNTANTS, PLLC

PRYOR, OKLAHOMA
August 15, 2012

MAYES COUNTY RURAL WATER DISTRICT NO. 3
STATEMENT OF NET ASSETS
 JUNE 30,

Assets	
	<u>2012</u>
Current Assets	
Cash and cash equivalents	\$ 237,137
Accounts Receivable	38,886
Inventory	<u>7,663</u>
Total Current Assets	<u>283,686</u>
Noncurrent Assets:	
Restricted Investments	111,347
Capital Assets (net)	3,111,705
Loan Costs, net	<u>27,586</u>
Total Restricted Assets	<u>3,250,638</u>
Total Assets	<u><u>3,534,324</u></u>
Liabilities and Net Assets	
Current Liabilities	
Accounts Payable	7,061
Current Notes Payable	48,243
Accrued Interest Payable	<u>5,813</u>
Total Current Liabilities	<u>61,117</u>
Long Term Liabilities	
Long Term Notes Payable	1,558,520
Customer Deposits	<u>46,265</u>
Total Current Liabilities	<u>1,604,785</u>
Net Assets	
Invested in capital assets, net of related debt	1,499,129
Restricted	111,347
Unrestricted	<u>257,946</u>
Total Net Assets	<u>1,868,422</u>
Total Liabilities and Net Assets	<u><u>\$ 3,534,324</u></u>

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

MAYES COUNTY RURAL WATER DISTRICT NO. 3
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
 JUNE 30,

	<u>2012</u>
Support and Revenue	
Water Income	<u>\$ 454,286</u>
Expenses	
Water Purchases	7,038
Depreciation	101,489
Salaries	175,943
Chemicals	12,526
Maintenance	36,017
Operating Supplies	10,123
Office Expense	11,588
Utilities	32,438
Directors Expense	4,320
Professional Fees	3,538
Vehicle Expense	8,188
Miscellaneous	1,953
Insurance	18,991
Workshop Training	1,122
Payroll Taxes	14,787
Lab Testing	10,027
Bad Debt	1,944
Employee pension Plan	22,164
Employee Health Insurance	<u>12,102</u>
Total Expenses	<u>486,298</u>
Operating Income	<u>(32,012)</u>
Non-Operating Revenue (Expense)	
Interest Expense	(30,151)
Loan Administration Fees	(5,239)
Late Charges	6,205
Interest Income	1,060
Gain on Sale of Asset	2,303
Miscellaneous	<u>5,685</u>
Total Support and Revenue	<u>(20,137)</u>
Increase (Decrease) in Net Assets, before Capital Contributions	<u>(52,149)</u>
Capital Contributions	
Tap Fees	<u>31,440</u>
Increase (Decrease) in Net Assets, before Capital Contributions	(20,709)
Net Assets, beginning of year	<u>1,889,131</u>
Net Assets, end of year	<u><u>\$ 1,868,422</u></u>

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

MAYES COUNTY RURAL WATER DISTRICT NO. 3
STATEMENT OF CASH FLOWS
 June 30,

	<u>2012</u>
Cash flows from operating activities	
Receipts from customers	\$ 456,662
Payments to suppliers	(209,082)
Payments to employees	<u>(175,943)</u>
Cash generated from operations	71,637
Interest expense, including capitalized interest	(34,224)
Late charges	6,205
Miscellaneous	5,685
Tap Fees	31,440
Customer deposits	<u>(40)</u>
Net cash provided (used) by operating activities	<u>80,703</u>
Cash flows from investing activities	
Interest income	1,060
Proceeds from the disposal of assets	2,303
Purchase of property and equipment	<u>(27,646)</u>
Net cash used in investing activities	<u>(24,283)</u>
Cash flows from financing activities	
Borrowings under long-term debt	7,915
Payments on line-of-credit	<u>(60,831)</u>
Net cash used by financing activities	<u>(52,916)</u>
Net increase in cash	3,504
Cash and cash equivalents, beginning of year	<u>344,980</u>
Cash and cash equivalents, end of year	<u>\$ 348,484</u>

	<u>2012</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating Income (loss)	\$ (32,012)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	101,489
Amortization of loan costs	1,166
Interest expense and loan admin fees	(35,389)
Late charges	6,205
Miscellaneous	5,685
Tap Fees	31,440
Change in assets and liabilities:	
Decrease in accounts receivable	2,376
Decrease in inventory	6,061
Decrease in accounts payable	(6,022)
Decrease in accrued interest	(256)
Decrease in customer deposits	<u>(40)</u>
Net cash provided by operating activities	<u>\$ 80,703</u>

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

Note 1 - Nature of Organization

The Mayes County Rural Water District No. 3 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 Mayes County, Oklahoma. District members fall within territorial boundaries within Delaware and Mayes County as assigned by the Board of County Commissioners of Mayes 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. 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 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:

	<u>Years</u>
Land and Buildings	10 - 30
Water System	10 - 75
Furniture and Fixtures	5-10
Equipment	3-10
Vehicles	10

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.

Note 4 - Accounts Receivable

Accounts receivable are composed of unpaid billings for services rendered as of the end of the fiscal year. The uncollectible accounts are written off to bad debts after 90 days. After a members overdue bill is determined uncollectible and written off the associated customer deposit is applied to the overdue bill and the associated membership is cancelled. For service to be reconnected to the related property a new membership and customer deposit is required. This minimizes the loss the District may incur due to nonpayment of service billings.

MAYES COUNTY RURAL WATER DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENT
 June 30, 2012

Note 5 – Restricted Assets

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

	2012
Debt Service Fund 2	\$ 1,440
Debt Service Fund 4	10,236
Debt Service Fund Reserve 2	41,840
Debt Service Fund Reserve 3	57,831
Total Restricted Assets	<u>\$ 111,347</u>

All restricted funds are invested in securities issued by the United States Government.

Note 6 - Capital Assets

Capital asset activity during the year was as follows:

	2011	Additions	Disposals	2012
Land and Buildings	\$ 180,164	\$ -	\$ -	\$ 180,164
Water System	3,875,657	17,806	-	3,893,463
Furniture and Fixtures	9,363	-	-	9,363
Equipment	162,025	9,840	-	171,865
Vehicles	117,588	-	(24,601)	92,987
Total Property Plant and Equipment	4,344,797	27,646	(24,601)	4,347,842
Accumulated Depreciation	(1,159,249)	(101,489)	24,601	(1,236,137)
Total Capital Assets (net accum. depreciation)	<u>\$ 3,185,548</u>	<u>\$ (73,843)</u>	<u>\$ -</u>	<u>\$ 3,111,705</u>

Note 7 - Long-Term Debt

Note 1

The Oklahoma Water Resources Board provided the MAYES COUNTY RURAL WATER DISTRICT NO. 3 with a note in the amount of \$ 465,000.00 on June 17, 1998. This note requires quarterly principal and interest payments on February 15, May 15, August 15, and November 15. Monthly payments are made to the loan trustee, The Bank of New York Trust Company, N.A. The monthly payments are invested in securities by the trustee. Quarterly, the monthly payments and earnings are used by the trustee to make the principal and interest payments. The note also required an amount be kept in reserve of \$ 41,840. This is to be used to make principal and interest payments in case the District is not able to make such payments. As of June 30, 2012, the balance on this note is \$331,350.

Note 7 - Long-Term Debt continued

Note 2

The Oklahoma Water Resources Board provided the MAYES COUNTY RURAL WATER DISTRICT NO. 3 a note in the amount of \$845,000.00 on December 17, 2003. This note requires quarterly principal and interest payments on March 15, June 15, September 15, and December 15. Monthly payments are made to the loan trustee, The Bank of New York Trust Company, NA. The monthly payments are invested in securities by the trustee. Quarterly, the monthly payments and earnings are used by the trustee to make the principal and interest payments. The note also required an amount be kept in reserve of \$57,832.00. This is to be used to make principal and interest payments in case the District is not able to make such payments. As of June 30, 2012, the balance on this note is \$702,550.

Note 3

The Oklahoma Water Resources Board provided the MAYES COUNTY RURAL WATER DISTRICT NO. 3 with a \$900,000 note on December 15, 2009 to expand its water system. This note requires semi-annual interest only payments until the construction is complete and will require semi-annual principal and interest payments on March 15 and September 15 of each year starting no later than March 15, 2011.

The rate of interest currently charged on this variable rate loan is 3.06%. As of June 30, 2012 the balance on this is \$572,863.

Principal payments on the notes are required as follows:

	Note 1	Note 2	Note 3
Year 1	\$ 10,350	\$ 14,550	\$ 23,343
Year 2	14,700	20,400	24,073
Year 3	15,900	21,500	24,826
Year 4	17,300	22,700	25,561
Year 5	18,700	24,000	26,401
Thereafter	254,400	599,400	448,659
Total	<u>\$ 331,350</u>	<u>\$ 702,550</u>	<u>\$ 572,863</u>

Note 8 – Subsequent Events

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

WINGARD, RAGSDALE & LANGLEY

CERTIFIED PUBLIC ACCOUNTANTS, PLLC

18 NORTH VANN STREET, PRYOR, OK 74361

918-825-6441 OFFICE 918-825-6443 FAX

mail@wandrcpas.net

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
Mayes County Rural Water District No. 3
Disney, Ok 74340

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 Mayes County Rural Water District #3 as of June 30, 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

Management of Mayes County Rural Water District No. 3 is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Mayes County Rural Water District #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 the Mayes County Rural Water District #3's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Mayes County Rural Water District #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 misstatements on a timely basis. A material weakness is a significant deficiency or combination of significant 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 detect and corrected on a timely basis.

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

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Mayes County Rural Water District #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, the Board of Directors, other 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

CERTIFIED PUBLIC ACCOUNTANTS, PLLC

AUGUST 15, 2012