

**Rogers County Rural Water District No. 4
Oologah, Oklahoma**

Financial Statements and Auditor's Reports

Year Ended November 30, 2011

Audited by

**SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP**

BROKEN ARROW, OK
SHAWNEE, OK

Rogers County Rural Water District No. 4
Oologah, Oklahoma
Board of Directors
November 30, 2011

BOARD OF DIRECTORS

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Allen Carter

Vice-Chairman

Edward Wofford Jr.

Secretary/Treasurer

Dusty Harper

Members

David Wester

Ken McMains

PLANT SUPERVISOR

Melvin Hart

BOOKKEEPER

Julie Hendrix

Rogers County Rural Water District No. 4
Oologah, Oklahoma
November 30, 2011

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SANDERS, BLEDSOE & HEWETT
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rogers County Rural Water District No. 4
Oologah, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Rogers County Rural Water District No. 4 (the District), Oologah, Oklahoma, as of and for the year ended November 30, 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 the 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 respective financial position of the business-type activities of the District as of November 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting generally accepted in the United States of America.

The Management Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 6, 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, grants 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole on the basis of accounting generally accepted in the United States of America.



Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

February 6, 2012

RURAL WATER DISTRICT NO. 4, ROGERS COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
NOVEMBER 30, 2011

Our discussion and analysis of the Rural Water District No. 4, Rogers County's financial performance provides an overview of the District's financial activities for the fiscal year ended November 30, 2011. Please read it in conjunction with the District's financial statements that begin on page 11.

FINANCIAL HIGHLIGHTS:

- The District's total operating revenues exceeded total operating expenses by \$221,105. Overall, the District's total net assets increased by \$151,808 in the current fiscal year.
- The District earned over \$7,700 in interest earnings during 2011, which is \$1,600 more than the prior year.

Using This Report

This report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the District's basis of accounting.

Basis of Accounting

The District has elected to present its financial statements in the accrual basis of accounting. According to the accrual basis, revenues are recorded when earned and expenses are recognized when incurred. This policy is in accordance with generally accepted accounting principles.

The Financial Statements

One of the most important questions asked about the District's finances is, "Is the District as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets, the Statement of Activities, and the Statement of Cash Flows report information about the District and about its activities in a way that helps answer this question.

These three statements report the District's net assets and the changes in them. You can think of the District's net assets – the difference between assets and liabilities – as one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in water rates paid or charged and the condition of the District's water system, to assess the overall health of the District.

The District has only one type of fund or activity, which is defined as *Business-type activities*. This is considered a proprietary fund. This means the District charges a fee to customers to help it cover all or most of the cost of certain services it provides.

Fixed Assets

At November 30, 2011 the District had \$5,301,966 invested in fixed assets, net of depreciation, including land, the water system, pump station and vehicles. Additional fixed assets of \$44,933 were added during the 2011 fiscal year.

Long-Term Debt

The District has two notes with the Oklahoma Water Resources Board, a 28 year, 1.32% interest, \$1,465,000 mortgage received in 1996 and a 20 year, 3.55% interest, \$2,105,000 mortgage received in 2006. The total outstanding loan balances decreased from \$2,886,687 to \$2,752,609 in 2011.

Economic Factors and Next Year's Budget and Rates

For the upcoming fiscal year ending November 30, 2012, the District's projected budget is fairly consistent with the 2011 fiscal year.

For the fiscal year 2012, the District may have to increase rates to users to meet the demands of the struggling economy. If demand is increased on existing lines and equipment, or additional memberships are substantially increased, it may be necessary for the District to incur some long-term debt to meet these demands.

Contacting the District

This report is designed to provide our customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the District Office at P.O. Box 198, Oologah, OK 74053, or call (918) 443-2542.



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**REPORT ON COMPLAINT AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Rogers County Rural Water District No. 4
Oologah, Oklahoma

We have audited the financial statements of the Rogers County Rural Water District No. 4 (the District), Oologah, Oklahoma, as of and for the year ended November 30, 2011, which omitted the management discussion and analysis, and have issued our report thereon dated February 6, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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 grants, noncompliance with which could have a direct and material effect on the determination of financial 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 that are required to be reported under auditing standards generally accepted in the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We noted no certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the district's ability to record, process summarize and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

This report is intended solely for the information of management and the Board of Directors, and is not intended to be, and should not be, used by anyone other than these specified parties.

Sanders, Bledsoe & Hewett

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

February 6, 2012

ROGERS COUNTY RURAL DISTRICT NO. 4
Disposition of Prior Year's Reportable Conditions
November 30, 2011

There were no prior year instances of noncompliance.

ROGERS COUNTY RURAL WATER DISTRICT NO. 4
Schedule of Audit Results
November 30, 2011

Section 1 – Summary of Auditor’s Results:

1. An unqualified opinion report was issued on the financial statements.
2. The audit disclosed no reportable conditions in the internal controls.
3. The audit disclosed no instances of noncompliance.

Section 2 – Findings relating to the financial statements required to be reported in accordance with GAGAS:

NONE

COMBINED FINANCIAL STATEMENTS

ROGERS COUNTY RURAL WATER DISTRICT NO. 4
Statement of Net Assets
November 30, 2011

ASSETS

Current assets:	
Cash	\$ 450,341
Current portion of receivables	81,803
Investments with fiscal agents	162,071
Inventory	33,017
Prepaid expenses	26,475
Total current assets	<u>753,707</u>
Noncurrent assets:	
Restricted assets-	
OWRB project funds	393,311
Fixed assets-	
Water system and improvements, net of depreciation	5,301,966
Total noncurrent assets	<u>5,695,277</u>
Other assets:	
Loan costs, net of amortization	<u>8,483</u>
 Total Assets	 <u>6,457,467</u>

LIABILITIES

Current liabilities:	
Accounts payable	10,715
Accrued interest	16,049
Current maturities of long-term debt	122,781
Total current liabilities	<u>149,545</u>
Noncurrent liabilities:	
Notes payable, net of current liabilities	<u>2,629,828</u>
 Total Liabilities	 <u>2,779,373</u>

NET ASSETS

Invested in capital assets, net of related debt	2,549,357
Unrestricted assets	1,128,737
 Total Net Assets	 <u>\$ 3,678,094</u>

The accompanying notes to the financial statements are an integral part of this statement

ROGERS COUNTY RURAL WATER DISTRICT NO. 4
Statement of Activities
For The Year Ended November 30, 2011

Operating Revenues:	
Water sales	\$ 1,210,318
Memberships	36,895
Refunds and reimbursements	84,549
Total revenues from operations	<u>1,331,762</u>
Operating Expenses:	
Water samples	11,936
Salaries and wages	326,035
Chemicals	115,795
Contracted service	32,559
Depreciation	176,091
Amortization	706
Utilities and telephone	85,019
Postage	10,878
Supplies and materials	52,598
Office	13,207
Insurance	166,637
Retirement	19,576
Repairs & maintenance	40,368
Bank and trustee fees	5,376
Professional fees	13,539
Vehicle and travel	26,196
Dues and fees	12,904
Miscellaneous	1,237
Total expenses from operations	<u>1,110,657</u>
Operating Income (Loss)	221,105
Non-Operating Revenues (Expenses):	
Interest income	7,722
Interest expense on debt	(77,019)
Total non-operating revenues (expenses)	<u>(69,297)</u>
Change in Net Assets	151,808
Total Net Assets, beginning of period	<u>3,526,286</u>
Total Net Assets, end of period	<u>\$ 3,678,094</u>

The accompanying notes to the financial statements are an integral part of this statement

ROGERS COUNTY RURAL WATER DISTRICT NO. 4
Statement of Cash Flows
For Year Ended November 30, 2011

Cash Flows from Operating Activities:

Receipts from customers	\$ 1,336,233
Payments to employees	(326,035)
Payments to vendors	(600,230)
Net Cash Provided by Operating Activities	409,968

Cash Flows from Financial Activities:

Capital assets purchased	(44,933)
Principal paid on debt	(134,078)
Interest paid on debt	(74,924)
Net cash provided by (used in) financial activities	(253,935)

Cash Flows from Investing Activities:

Interest revenue	7,722
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Net Increase (Decrease) in Cash and Equivalents	163,755
Cash and cash equivalents, beginning of period	841,968
Cash and cash equivalents, end of period	\$ 1,005,723

Reconciliation of operating income (loss) to net cash provided by operating activities:

Operating Income (loss)	\$ 221,105
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation and amortization expenses	176,797
(Increase) decrease in accounts receivable	4,471
(Increase) decrease in prepaid expenses	(916)
(Increase) decrease in inventory	(744)
Increase (decrease) in accounts payable	9,255
Net Cash Provided by Operating Activities	\$ 409,968

The accompanying notes to the financial statements are an integral part of this statement

ROGERS COUNTY RURAL WATER DISTRICT NO. 4
Notes to Financial Statements
November 30, 2011

Note A – Significant Accounting Policies

Basis of Accounting

The accrual basis of accounting is followed for all accounts. Revenues are recorded when earned and accrued liabilities are recognized when incurred. This policy is in accordance with generally accepted accounting principles.

Reporting Standard

In June 1999, the GASB issued Statement No. 34 “Basic Financial Statements and Management’s Discussion and Analysis for State and Local Government.” This statement establishes new financial reporting requirements for state and local governments throughout the United States. It creates new information and restructures much of the information that governments have presented in the past. The District complied with this requirement.

Cash

The District’s accounts are with the Lakeside State Bank, Oologah, Oklahoma, and are detailed as follows:

	November 30,	
	2011	2010
Revenue Account	\$ 278,206	133,192
Employee Insurance Account	33,005	38,580
Improvement Account	9,739	9,701
Operation and Maint. Account	11,817	94,836
Impact Account	21,226	21,094
Impact II Account	49,964	44,610
Impact III Account	112,052	21,641
Add: Deposits in transit	28,673	5,096
Less: Outstanding checks	(94,341)	(86,012)
Total	\$ 450,341	282,738

Cash and Cash Equivalents

For the purposes of preparing the statement of cash flows, cash on hand, reconciled cash in savings and checking, and certificates of deposit that can be converted into cash (if necessary) are considered cash equivalents.

ROGERS COUNTY RURAL WATER DISTRICT NO. 4
Notes to Financial Statements
November 30, 2011

Note A – Significant Accounting Policies – cont'd

Investments

The District had the following outstanding investments:

	November 30,	
	2011	2010
Bank of the Lakes, Oologah, OK- Certificate of Deposit no. 60001850, dated 2/17/11, matures 2/17/12, at 1.50%	\$ 162,071	161,164

Accounts Receivable

Billings for accounts receivable at November 30, 2011 were \$81,803. Allowance for doubtful accounts was not computed on this balance because uncollectibles do not have a material effect on the balance sheet.

Collateral Pledged

All District funds were adequately insured by FDIC or other secured collateral as of November 30, 2011.

Fixed Assets

The fixed asset information for the District is shown below:

	11/30/2010 Amount	Additions	Deletions	11/30/2011 Amount
Land	\$ 20,803	-	-	20,803
Water system	8,240,007	44,933	-	8,284,940
Buildings	205,397	-	-	205,397
Equipment and autos	301,344	-	-	301,344
Total Fixed Assets	8,767,551	44,933	-	8,812,484
Less: Accumulated Depreciation	(3,334,427)	(176,091)	-	(3,510,518)
Total	\$ 5,433,124	(131,158)	-	5,301,966

ROGERS COUNTY RURAL WATER DISTRICT NO. 4
Notes to Financial Statements
November 30, 2011

Note A – Significant Accounting Policies – cont'd

Federal Income Tax

The District is exempt from Federal and State income taxes.

Accumulated Unpaid Vacation and Sick Pay

At November 30, 2011, no determination of the aggregate dollar value of vacation or sick pay had been made.

Prior Year Information

Prior year information is shown on the financial statements for comparative purposes only. No assurance is given on prior year amounts.

Note B – Long-Term Debt

Long-Term Debt consists of two notes:

The District has a promissory note in the amount of \$1,465,000 with the Oklahoma Water Resources Board (OWRB) for a period of 28 years. The District makes monthly deposits into the trust account at Bank of New York. The trust account then makes the variable semi-annual payments of principal and interest to the OWRB. The current interest rate on this note is 1.32%. The water system and future water revenues are used as security for this note.

The District has a promissory note in the amount of \$2,105,000 with the Oklahoma Water Resources Board (OWRB) in 2006 for continued improvements on their water system. The interest rate is 3.55%, and the District is required to make semi-annual payments of principal, interest and administrative fees of \$74,243. The water system and future water revenues are used as security for this note.

The District has an OWRB debt service reserve and debt service of \$131,864 and \$88, respectively, on deposit with Bank of New York in a trustee account for use in retiring the note. The reserve is not available for any other purposes. The District also has a project account with a balance of \$261,359 at November 30, 2011.

ROGERS COUNTY RURAL WATER DISTRICT NO. 4
Notes to the Financial Statements
November 30, 2011

Note B – Notes Payable – cont'd

	November 30,	
	2011	2010
Oklahoma Water Resources Board note payable, issued for \$1,465,000, at 1.32% interest, due in monthly installments, until paid;	\$ 1,000,650	1,051,650
Oklahoma Water Resources Board note payable, issued for \$2,105,000, at 3.05% interest, due in semi-annual installments, until paid;	1,751,959	1,835,037
Long-Term Debt Outstanding	2,752,609	2,886,687
Less: Current maturities of long-term debt	(122,781)	(128,996)
Total Long-Term Debt, Net	\$ 2,629,828	2,757,691

The scheduled maturities for the next five (5) years, and in total thereafter, are detailed as follows:

Year	Total	OWRB-96	OWRB-06
2012	\$ 122,781	36,750	86,031
2013	142,031	52,700	89,331
2014	149,475	56,900	92,575
2015	157,537	61,600	95,937
2016	165,982	66,700	99,282
2016-21	977,934	424,100	553,834
2021-26	1,036,869	301,900	734,969
Total	\$ 2,752,609	1,000,650	1,751,959

Note C – Insurance and Surety Bond Coverage

The District appears to have had adequate insurance to cover all major perils at November 30, 2011.

OTHER SUPPLEMENTARY INFORMATION

ROGERS COUNTY RURAL WATER DISTRICT NO. 4
Balance Sheet
November 30, 2011

	NOVEMBER 30,	
<u>ASSETS</u>	2011	(memo only) 2010
Current Assets:		
Cash in bank	\$ 450,341	282,737
Investments	162,071	161,164
Accounts receivable	81,803	86,274
Inventory	33,017	32,273
Prepaid insurance	26,475	25,559
Total current assets	753,707	588,007
Restricted Assets:		
OWRB Project trust funds-		
Project account	261,358	261,358
Debt service account	89	4,845
Debt service reserve account	131,864	131,864
Total restricted assets	393,311	398,067
Fixed Assets:		
Land	20,803	20,803
Water system and improvements	8,284,940	8,240,007
Buildings and improvements	205,397	205,397
Equipment and automobiles	301,344	301,344
Total fixed assets	8,812,484	8,767,551
Less: accumulated depreciation	(3,510,518)	(3,334,427)
Total fixed assets (net)	5,301,966	5,433,124
Other Assets:		
Loan costs, net of amortization	8,483	9,189
Total Assets	\$ 6,457,467	6,428,387
<u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 10,715	1,460
Accrued interest	16,049	13,954
Current maturities of long-term debt	122,781	128,996
Total current liabilities	149,545	144,410
Long-Term Debt, less current maturities-		
Notes payable	2,629,828	2,757,691
Total Liabilities	2,779,373	2,902,101
Fund Equity:		
Retained earnings	3,678,094	3,526,286
Total Liabilities and Fund Equity	\$ 6,457,467	6,428,387

ROGERS COUNTY RURAL WATER DISTRICT NO. 4
Statement of Revenue, Expenses and Changes in Retained Earnings
For Years Ended November 30, 2011

	2010-11	(memo only) 2009-10
Revenue from Operations:		
Water sales	\$ 1,180,581	1,093,455
Late charges	29,737	24,382
Memberships	36,895	44,441
Collection and reconnect fees	59,923	54,457
Other income and fees	24,626	23,890
Total revenue from operations	1,331,762	1,240,625
Expenses from Operations:		
Water samples	11,936	8,918
Salaries and wages	326,035	319,662
Chemicals	115,795	103,958
Contracted service	32,559	29,480
Depreciation	176,091	172,845
Amortization	706	706
Utilities and telephone	85,019	85,382
Postage	10,878	10,335
Supplies and materials	52,598	50,840
Office	13,207	13,093
Insurance	166,637	148,276
Retirement	19,576	18,914
Repairs & maintenance	40,368	65,773
Bank and trustee fees	5,376	7,333
Professional fees	13,539	20,479
Vehicle and travel	26,196	23,721
Dues and fees	12,904	15,053
Miscellaneous	1,237	4,034
Total expenses from operations	1,110,657	1,098,802
Net Income (Loss) from Operations	221,105	141,823
Other Income:		
Interest earnings	7,722	6,089
Other Expenses:		
Interest on debt	(77,019)	(82,204)
Net Income (Loss)	151,808	65,708
Retained earnings, beginning of period	3,526,286	3,460,578
Retained earnings, end of period	\$ 3,678,094	3,526,286