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ROGERS COUNTY
RURAL WATER DISTRICT NO. 6
AUDITED FINANCIAL STATEMENTS

FOR THE TWELVE MONTHS ENDED
AUGUST 31, 2011

JUSTIN W. COWAN
CERTIFIED PUBLIC ACCOUNTANT
P.O. BOX 284
LOCUST GROVE, OK 74352

**ROGERS COUNTY R.W.D. #6
P.O. BOX 307
INOLA, OK 74365-2367**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Rogers County R.W.D. #6's financial performance provides an overview of the District's financial activities for the fiscal year ended August 31, 2011. Please read it in conjunction with the Auditor's reports and financial statements.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets shows the net assets and liabilities of the District at year-end. The Statement of Activities and Changes in Net Assets shows the District's income and expenses for the current year. The Statement of Cash Flows shows the cash position of the District at year-end and reflects the change in cash balances from the beginning of the year to the year-end.

OPERATING INFORMATION

The district is in the process of finishing the construction project that will allow the purchase water directly from the producer.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Manager at 918-543-8749.

District Manager

JUSTIN W. COWAN
CERTIFIED PUBLIC ACCOUNTANT

Locust Grove, OK

PH: 918-479-6136

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rogers County Rural Water District No. 6

I have audited the accompanying financial statements of the business-type activities of Rogers County Rural Water District No. 6, as of and for the year ended August 31, 2011 which comprise the District's basic financial statements. These financial statements are the responsibility of the District's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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. These standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Rogers County Rural Water District No. 6 as of August 31, 2011, and the changes in financial position and cash flows 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*, I have also issued a report dated October 19, 2011 on my consideration of Rogers County Rural Water District No. 6's internal control over financial reporting and on my 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 my 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 my audit.

The Management's Discussion and Analysis on pages two through four is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplemental information. However, I did not audit the information and express no opinion on it.



Justin W. Cowan
Certified Public Accountant

October 19, 2011

Rogers County Rural Water District No. 6
Statement of Net Assets
For the Year Ended August 31, 2011

ASSETS

Current Assets

Cash in Bank & Certificate of Deposit	\$ 216294.57
Accounts Receivable	71421.36
Inventory	<u>21889.50</u>

Total Current Assets 309605.43

Fixed Assets

Water Distribution System	843943.29
Construction in Progress	2372557.40
Land	12700.00
Buildings & Equipment	101322.30
Less Accumulated Depreciation	<u>(265217.43)</u>

Total (Net) Fixed Assets 3065305.56

Other Assets

Deposits	22.00
Escrow Account (Loan)	<u>1615.05</u>

Total Other Assets 1637.05

TOTAL ASSETS \$3376548.04

LIABILITIES AND NET ASSETS

Current Liabilities

Unemployment & Withholding Payable	11330.63
Accounts Payable	<u>4778.55</u>

Total Current Liabilities 16109.18

Long Term Liabilities

Note Payable - OWRB	<u>2372557.40</u>
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Total Liabilities 2388666.58

Net Assets

Invested in Capital Assets, Net of Related Debt	692748.16
Restricted	0.00
Unrestricted	<u>295133.30</u>

Total Net Assets 987881.46

TOTAL LIABILITIES AND NET ASSETS \$3376548.04

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

**Rogers County Rural Water District No. 6
Statement of Activities
for the Year Ended August 31, 2011**

OPERATING REVENUE AND EXPENSES

Revenue	\$435142.52
Expenses	
Water Purchased	193790.21
Salaries	73999.64
Payroll & Other Taxes	8679.86
Other Misc. Expenses	0.00
Office Supplies & Postage	5666.05
Professional Fees	5220.00
Dues and Subscriptions	368.00
Utilities & Telephone	6389.33
Depreciation Expense	8000.00
Printing	585.00
Repair & Maintenance	11980.82
Outside Services	2905.80
Vehicle Expenses	23917.32
Insurance	<u>11699.00</u>
TOTAL OPERATING EXPENSES	353201.03
NET OPERATING INCOME (LOSS)	<u>81941.49</u>
NON-OPERATING REVENUE & EXPENSES	
Interest Income	1854.87
New Membership Income	8767.76
Interest Expense	0
Miscellaneous Income/(Expense)	<u>3132.00</u>
TOTAL NON-OPERATING REVENUE & EXPENSES	13754.63
NET INCOME (LOSS)	95696.12
Prior Period Adjustment	55395.31
Net Assets Beginning of Year	<u>836790.03</u>
NET ASSETS END OF YEAR	<u>\$987881.46</u>

* The accompanying notes are an integral part of the financial statements.

Rogers County Rural Water District No. 6
Statement of Cash Flows
For the Year Ended August 31, 2011

Cash Provided by Operating Activities

Cash Inflows:	
Payments Received from Customers	\$421162.61
Cash Outflows:	
Payments to Suppliers for Goods & Services	<u>(334647.53)</u>
Net Cash Provided (Used) by Operating Activities	<u>86515.08</u>

Cash Flows from Non-capital Financing Activities

Principal Reduction of Long-Term Debt	(0.00)
Interest Payments on Notes	(0.00)
Loan Proceeds (Net)	2372557.40
Donations Received	<u>0.00</u>
Net Cash Provided (Used) for Capital and Related Financing Activities	2372557.40

Cash Flows from Capital and Related Financing Activities

Purchase of Capital Assets	(2372557.40)
Other Misc. Income	3132.00
Membership Fees	<u>8767.76</u>
Net Cash Provided (Used) for Capital and Related Financing Activities	(2360657.64)

Cash Flows from Investing Activities

Interest Received from Investments	<u>1857.87</u>
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Net Cash Inflow (Outflow) from All Activities

100272.71

Prior Period Adjustment	55395.31
Cash and Cash Equivalents at Beginning of Year	<u>60629.55</u>
Cash and Cash Equivalents at End of Year	<u>\$216294.57</u>

Cash and Cash Equivalents

Unrestricted Cash and Cash Equivalents	217931.62
Restricted Cash and Cash Equivalents	<u>0.00</u>
	<u>216294.57</u>

Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:

Operating Income (Loss)	81941.49
Depreciation	8000.00
(Increase) Decrease in Accounts Receivable	(13979.91)
(Increase) Decrease in Prepaid Expenses	0.00
(Increase) Decrease in Inventory	0.00
Increase (Decrease) in Current Liabilities	<u>10553.50</u>

Net Cash Provided (Used) by Operating Activities	<u>86515.08</u>
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* The accompanying notes are an integral part of the financial statements.

Rogers County Rural Water District No. 6
Notes To Financial Statements
For the Year Ended August 31, 2011

The following notes to the financial statements are an integral part of the Rogers County Rural Water District No 6's financial statements.

I. Summary of Significant Accounting Policies

Rogers County Rural Water District No. 6 was formed as a nonprofit governmental organization by the Board of Commissioners of Rogers County, Oklahoma. It is exempt from federal income tax under section 115 of the Internal Revenue Code. Its purpose is to provide for the use of and benefit of its members, a water treatment and distribution system, operations and maintenance.

The accounting policies of the District conform to generally accepted accounting principles applicable to governmental units. The District complies with generally accepted accounting principles and applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. In addition, the District applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The District has elected not to follow FASB pronouncements issued since that date.

The District adopted the provisions of GASB Statement No 34 "Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments" in fiscal year 2005. Statement 34 established standards for external financial reporting for all state and local governmental entities which includes a management's discussion and analysis section, a statement of net assets, a statement of activities and changes in net assets and a statement of cash flows. It requires the classification of net assets into three components—invested in capital assets, net of related debt; restricted; and unrestricted.

The adoption of Statement 34 had no effect on the basic financial statements except for the classification of net assets, the reflection of capital contributions as a change in net assets and the inclusion of a management's Discussion and Analysis (MD&A) section providing an analysis of the District's overall financial position and results of operations.

A. Financial Reporting Entity

The District complies with GASB Statement No 14, "The Financial Reporting Entity." This statement establishes standards for defining and reporting on the financial reporting entity. It defines component units as legally separate organizations for which the elected officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The District considered all potential component units in determining what organizations should be included in the financial statements. Based on these criteria, there are no component units to include in the District's financial statements.

B. Basis of Presentation

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. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

I. Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied.

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 non-current) 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 an economic asset is used.

Proprietary funds distinguish operating revenues and expenses from non-operating 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 capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Assets, Liabilities, and Net Assets

1. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the District considers all cash on hand, demand deposits, and highly liquid investments, with a maturity of six months or less when purchased, to be cash and cash equivalents.

2. Investments

Investments consist of cash deposits, certificates of deposit and savings accounts.

3. Fair Value of Financial Instruments

The District’s financial statements include cash and investments. The District’s estimates of fair value of all financial instruments do not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

4. Inventory

Inventory is not material and consists primarily of distribution repair supplies.

I. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, and Net Assets (continued)

5. Accounts Receivable

Accounts receivable consists primarily of charges for water sales. Management has not established a provision for uncollectible accounts. Such amounts are written off the month in which management determines they are uncollectible.

6. Restricted Assets

The District had no restricted assets as of 08/31/2011.

7. Capital Assets

The water storage and delivery system and furniture and equipment are recorded at cost. Donated capital assets are reported at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

All reported assets are depreciated on the straight-line basis over their estimated useful lives ranging from five to fifty years.

All assets acquired with a value of over \$1000 that benefit more than one period will be depreciated.

8. Equity Classifications

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets—Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of their governments; or (2) law through constitutional provisions or enabling legislation, or (3) elected restrictions by management concerning cash to be used for capital improvements.
- c. Unrestricted net assets—All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

9. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. Detailed Notes Concerning the Funds

A. Deposits and Investments

State statutes govern the District's investment policy. Permissible investments include direct obligations of the United States Government and Agencies; certificates of deposit of savings and loan associations, and bank and trust companies; and savings accounts or savings certificates of savings and loan associations and trust companies. Collateral is required for demand deposits and certificates of deposit for all amounts not covered by federal deposit insurance. Investments are stated at cost. The District has met this requirement.

B. Accounts Receivable

Following is an aged schedule of accounts receivable as of August 31, 2011:

<u>Current</u>	<u>1-30 Days</u>	<u>31-60 Days</u>	<u>Over 60 Days</u>	<u>Total</u>
64,475.36	4,950.50	1375.00	620.50	71421.36

C. Changes in Capital Assets

Capital asset activity for the year was as follows:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Capital Assets				
Distribution System	843,943.29			843,943.29
Land	12,700.00			12,700.00
Buildings & Equipment	<u>101,322.30</u>	<u>0</u>	<u>0</u>	<u>101,322.30</u>
Total Capital Assets	957,965.59	0	0	957,965.59
Less: Accumulated Depreciation	<u>257,217.43</u>	<u>8,000.00</u>	<u>0</u>	<u>265,217.43</u>
Net Book Value	<u>700,748.16</u>			<u>692,748.16</u>

D. Long-Term Debt

The District entered into a note / loan agreement with OWRB on October 10, 2010 to borrow \$3,000,000 for the purpose of constructing new water lines. The Note shall bear interest at a rate of 2.70% per annum plus an administrative fee at a rate of 0.5% per annum on the outstanding balance of disbursed loan proceeds. Interest and the administrative fee shall be computed on the basis of a year of 360 days and the number of actual days elapsed. The interest and administrative fee payments shall be made on a semi-annual basis, commencing on March 15, 2011 and continuing each March 15 and September 15 thereafter for the term of the loan. The District will commence repayment of principal on the earlier of (i) the March 15 or September 15 next following the date construction of the project is Completed, as certified to the OWRB by the District, or (ii) September 15, 2012, and shall continue to repay principal semiannually for the term of the loan according to the amortization table to be provided by the OWRB. The District has entered into a Trust Agreement with RCB Bank Claremore, Oklahoma (Trustee) to have the Trustee bank collect payments each month from the District in amounts that will amortize the loan payments that are to be paid semi-annually. The District also agrees to impose rates and fees from the operation of the system, as defined in the loan agreement, which shall be sufficient to provide funds which will provide Net Revenues available for debt service equal to at least 125% of the maximum annual amount required for debt service on all obligations. The District has pledged all revenue from operations and all District assets as collateral on the note.

III. Other Information

A. Risk Management

The District is exposed to various risk of loss related to torts; theft of, damage to, 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. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

B. Arbitrage Agreement

The District should monitor their obligation related to the arbitrage agreement signed, if any, when they obtained their loan from the OWRB. The arbitrage calculations are normally due every five years.

JUSTIN W. COWAN
CERTIFIED PUBLIC ACCOUNTANT

Locust Grove, OK

PH: 918-479-6136

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED
BY GOVERNMENT AUDITING STANDARDS**

Board of Directors
Rogers County Rural Water District No. 6

I have audited the financial statements of the business-type activities of the Rogers County Rural Water District No. 6 as of and for the year ended August 31, 2011 which comprise the District's basic financial statements, and have issued my report thereon dated October 19, 2011. I conducted my audit in accordance with generally accepted auditing standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States of America. The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion in it.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Rogers County Rural Water District No. 6's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rogers County Rural Water District No. 6's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Rogers County Rural Water District No. 6's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

My consideration of the 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. I did not identify any deficiencies in internal control over financial reporting that I 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. 6's financial

statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my 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 the Board of Directors, management, and the Oklahoma State Auditor and is not intended to be and should not be used by anyone other than these specified parties

A handwritten signature in black ink, appearing to read "Justin W. Cowan". The signature is fluid and cursive, with the first name "Justin" being the most prominent.

Justin W. Cowan
Certified Public Accountant

October 19, 2011