

Rogers County Rural Water District Number 12
Audited Financial Statements
As of and for the Year Ended December 31, 2011



Rogers County Rural Water District Number 12
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Tax, Accounting & Financial Services

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Rogers County Rural Water District Number 12
Owasso, Oklahoma

We have audited the accompanying statements of net assets, of Rogers County Rural Water District Number 12, as of December 31, 2011, and the related statements of revenue, expenses, and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Rogers County Rural Water District Number 12's management. Our responsibility is to express opinions 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 Rogers County Rural Water District Number 12, Owasso, Oklahoma, as of December 31, 2011, 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 *Governmental Auditing Standards*, we have also issued a report dated June 29, 2012, (pages 11-14) on our consideration of Rogers County Rural Water District Number 12's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Management has elected to omit the Management Discussion and Analysis which is required supplementary information under accounting principals generally accepted in the United States of America. Although this is required supplementary information, it is not part of the basic financial statements which are presented in this report.

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Muret CPA, PLLC
Tulsa, Oklahoma
June 29, 2012

Rogers County Rural Water District Number 12
Statement of Net Assets
As of December 31, 2011

ASSETS

Current Assets

Cash & Equivalents	\$ 150,986
Accounts Receivable	6,702
Total Current Assets	<u>157,687</u>

Fixed Assets

Water Taps	59,595
Water System	305,804
Total Accumulated Depreciation	(210,105)
Total Fixed Assets	<u>155,294</u>

TOTAL ASSETS	<u><u>312,981</u></u>
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LIABILITIES & NET ASSETS

LIABILITIES

Current Liabilities

Accounts Payable	4,811
Accrued Expenses	13,496
Total Current Liabilities	<u>18,307</u>

Total Liabilities	<u>18,307</u>
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Net Assets

Net Assets Invested in Capital Assets	155,294
Unrestricted Net Assets	139,381
Total Net Assets	<u>294,675</u>

TOTAL LIABILITIES & NET ASSETS	<u><u>\$ 312,981</u></u>
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See Accompanying Independent Auditor's Report & Notes to Financial Statements

Rogers County Rural Water District Number 12
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ending December 31, 2011

Revenue from Operations

Water Sales, Taps & Maintenance Fees	\$ 115,358
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Maintenance & Operations Expense

Water Purchased	98,605
Depreciation Expense	9,135
Repairs & Maintenance	4,455
Dues & Fees	523
Bookkeeping & Accounting	6,400
Office Expense	62
Miscellaneous	50

Total Expenses from Maintenance & Operations	<u>119,229</u>
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Utility Operating Income	<u>(3,871)</u>
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Other Income

Interest Income	<u>263</u>
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Change in Net Assets	(3,608)
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Net Assets, Beginning of Period	<u>298,283</u>
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Net Assets, End of Period	<u>\$ 294,675</u>
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See Accompanying Independent Auditor's Report & Notes to Financial Statements

Rogers County Rural Water District Number 12
Statement of Cash Flows
For the Year Ending December 31, 2011

Operating Activities

Operating Cash Receipts from Customers	\$ 117,860
Cash Payments to Vendors for Goods and Services	(93,098)

Net Cash from Operating Activities 24,762

Investing Activities

Interest Income	263
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Net Cash from Investing Activities 263

Net Change in Cash and Cash Equivalents \$ 25,025

Cash & Cash Equivalents at Beginning of Year 125,961

Cash & Cash Equivalents at End of Year \$ 150,986

**Reconciliation of Change in Net Assets to Net Cash Provided
by Operating Activities**

Change in Net Assets	\$ (3,608)
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**Adjustments to Reconcile Net Income to Net Cash
Provided by Operating Activities**

Depreciation	9,135
Changes in Certain Assets and Liabilities:	
Accounts Receivable	2,501
Accounts Payable	3,500
Accrued Expenses	13,496
Interest Income	(263)

Net Cash Provided by Operating Activities \$ 24,762

Supplemental Disclosures:

Cash Consists of:	
Cash In Bank	\$ 67,556
Savings in Bank	83,430
Cash at End of Year	<u><u>\$ 150,986</u></u>

Interest Paid During the Year	-
Income Tax Paid During the Year	-

See Accompanying Independent Auditor's Report & Notes to Financial Statements

Rogers County Rural Water District Number 12

Notes to Financial Statements

For the Year Ended December 31, 2011

Note 1 - Summary of Significant Accounting Policies

Organization and Nature of Operations

Rural Water District Number 12, Inc. (hereinafter the "District"), is an Oklahoma Corporation incorporated on November 8, 1988. The District is a corporate body for public purposes created under Title 82 of the Oklahoma Statutes and accordingly is a separate entity for operating and financial reporting purposes. The general operating authority for the Rural Water District is contained in Title 82, Oklahoma Statutes. The District commonly goes by Rogers County Rural Water District Number 12.

Reporting Entity

For financial reporting purposes, a reporting entity's financial statements should include all component units over which another component unit (oversight unit) exercises financial accountability. Financial accountability includes such aspects as appointment of governing body members, designation of management, the ability to significantly influence operations and accountability for fiscal matters.

Based upon the above criteria, there are no component units to be included within the District as a reporting entity.

Basis of Accounting

The District uses the accrual basis of accounting. Revenues are recorded when earned and expenses are recognized when incurred. This policy is in accordance with General Accepted Accounting Principals.

Fixed Assets and Depreciation

The District's fixed assets are valued at cost. Fixed Assets are capitalized if their cost exceeds \$5,000. The District's fixed assets are depreciated using the straight-line method for financial reporting purposes. The useful life is forty years for the water system and water taps. Depreciation amounts to \$9,135 for fiscal year 2011.

At each balance sheet date, the District reviews the carrying value of its property and equipment to determine if facts and circumstances suggest that they may be impaired or that the depreciation period may need to be changed. The District considers external factors relating to each asset, including contract changes, local market developments, and other publicly available information. The District does not believe there are any indicators requiring an adjustment to the carrying value of the property and equipment or their remaining useful lives as of December 31, 2011.

Income Taxes

The District is exempt from Federal and State income taxes.

Credit Risk

The District's receivables consist primarily of uncollateralized customer obligations for water consumed. If these customers were to leave the District prior to paying off their account, collectability could be difficult.

Accounting Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions which effect the amounts reported in the accompanying financial statements and related footnotes. Management bases its estimates and assumptions on historical experience, observance of industry trends, and various other sources of information and factors, the results of which form the basis for making judgments regarding the carrying value of assets and liabilities not readily apparent from other sources. Actual results could differ from these estimates.

Cash and Cash Equivalents

District considers all cash on hand; cash in banks and liquid investments with original maturities of three months or less to be cash and cash equivalents.

Business and Credit Risk

The District provides water service on account to its customers which are all located in Rogers County, Oklahoma.

Note 2 - Accounts Receivable

Accounts receivables consist of amounts billed to residents within the District's area of operation for water used, but are not yet paid.

Note 3 - Current Liabilities

Accounts payable consists of amounts payable to vendors for supplies related to operations in the amount of \$4,811. Accrued expenses of \$13,496 relates to under billed amounts by supplier for water in 2010 and 2011.

Note 4 - Deposit and Investment Risk

As of December 31, 2011, all deposits were covered by FDIC insurance. From time to time, the District will have amounts on deposit that are not covered by FDIC insurance. It is of the opinion of management that the solvency of the financial institution is not of particular concern at this time.

Note 5 - Fair Value

The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.

Note 6 - Commitments

The District is committed to purchase water from Rural Water District #3, Rogers County, Oklahoma.

Note 7 - Subsequent Events

Subsequent events have been evaluated through the financial statement release date of June 29, 2012, with no items noted for reporting.



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**INDEPENDENT AUDITOR'S 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**

Board of Directors
Rogers County Rural Water District Number 12
Owasso, Oklahoma

We have audited the financial statements of **Rogers County Rural Water District Number 12**, as of and for the year ended December 31, 2011, and have issued our report thereon dated June 29, 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. The district did not present the Management Discussion and Analysis which is required supplementary information under accounting principals generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered **Rogers County Rural Water District Number 12's**, internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of **Rogers County Rural Water District Number 12's** internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily disclose all matters in the internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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. We

consider the deficiencies 11-1 and 11-2 described in the accompanying schedule of findings to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency 11-3 described in the accompany schedule of findings to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Rogers County Rural Water District Number 12'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*.

Rogers County Rural Water District Number 12's responses to the findings identified in our audit are disclosed in the accompanying schedule of findings and responses. We did not audit **Rogers County Rural Water District Number 12's** response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the board of directors, others within the entity, 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 'Muret CPA', with a long horizontal flourish extending to the right.

Muret CPA, PLLC
June 29, 2012
Tulsa, Oklahoma

Rogers County Rural Water District Number 12

Schedule of Findings

For the Year Ended December 31, 2010

Control Deficiencies

Material Weakness

11-1. Segregation of Duties

Condition: The District has a limited number of office personnel and, accordingly, does not have adequate internal accounting controls in certain areas because of a lack of segregation of duties.

Criteria: A good system of internal accounting control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Effect: Inadequate segregation of duties could adversely affect the District's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Recommendation: While we recognize that your office staff may not be large enough to permit an adequate segregation of duties in all respects for an effective system of internal control, it is important that you be aware of this condition. In situations like this, management's close supervision and review of accounting information is the best means of preventing and detecting errors and irregularities.

Response: At the present time, the District has segregated the duties of in the most efficient manner possible, given its limited staff. Due to cost constraints, there will be no further administrative employees added.

11-2. Significant Journal Entries

Condition: During the course of our engagement, we proposed material audit adjustments that would not have been identified as a result of the Districts existing internal controls, and therefore could have resulted in a material misstatement of the District's financial statements.

Criteria: A good system of internal accounting control contemplates an adequate system for recording and processing entries material to the financial statements.

Effect: Inadequate controls could adversely affect the District's ability to detect misstatements in amounts that would be material in relation to the financial statements.

Schedule of Findings - Page 2

Recommendation: While we recognize that your office staff is limited, it is important that you be aware of this condition. In situations like this, management's close supervision and review of accounting information is the best means of preventing and detecting errors and irregularities.

Response: Due to the limited office staff, the District is aware of the deficiency in internal control. The District accepts the risk and due to cost constraints, there will be no further administrative employees added.

Significant Deficiency

11-3. Preparation of Financial Statements

Condition: The Organization does not have an internal control system designed to provide for the preparations of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

Criteria: A good system of internal accounting control contemplates an adequate system for recording and processing entries material to the financial statements.

Effect: This control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

Recommendation: This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other consideration.

Response: The District is aware of the deficiency in internal control. The District accepts the risk and will not add additional administrative employees due to cost constraints.