

RURAL WATER DISTRICT NO. THREE
OKMULGEE COUNTY, OKLAHOMA
HENRYETTA, OKLAHOMA
ANNUAL FINANCIAL REPORT
DECEMBER 31, 2011 AND 2010

RALPH OSBORN
CERTIFIED PUBLIC ACCOUNTANT
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Rural Water District No. Three
Okmulgee County, Oklahoma,
Henryetta, Oklahoma

I have audited the accompanying financial statements of the business-type activities of Rural Water District No. Three, Okmulgee County, Oklahoma, Henryetta, Oklahoma as of and for the year ended December 31, 2011 and 2010, which collectively comprise Rural Water District No. Three, Okmulgee County, Oklahoma, Henryetta, Oklahoma's basic financial statements. These financial statements are the responsibility of Rural Water District No. Three, Okmulgee County, Oklahoma, Henryetta, Oklahoma'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. Those 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.

As discussed in Note A, Rural Water District No. Three, Okmulgee County, Oklahoma, Henryetta, Oklahoma prepares its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position-modified cash basis of the business-type activities of Rural Water District No. Three, Okmulgee County, Oklahoma, Henryetta, Oklahoma as of December 31, 2011 and 2010, and the respective changes in financial position-modified cash basis and cash flows thereof for the year ended, in conformity with the basis of accounting described in Note A.

Rural Water District No. Three, Okmulgee County, Oklahoma, Henryetta, Oklahoma has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statement.

In accordance with *Government Auditing Standards*, I have also issued my report dated September 11, 2014, on my consideration of Rural Water District No. Three, Okmulgee County, Oklahoma, Henryetta, Oklahoma's internal control over financial reporting and 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 our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.



Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
September 11, 2014

RURAL WATER DISTRICT NO. THREE
 OKMULGEE COUNTY, OKLAHOMA
 HENRYETTA, OKLAHOMA
 STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
 DECEMBER 31, 2011 AND 2010

ASSETS	<u>2011</u>	<u>2010</u>
Current assets:		
Cash and cash equivalents	\$ 89,546	\$ 88,975
Restricted assets:		
Investments	<u>33,812</u>	<u>33,451</u>
Total current assets	<u>123,358</u>	<u>122,426</u>
Non-current assets:		
Capital assets:		
Other capital assets, net of accumulated depreciation	<u>18,597</u>	<u>20,158</u>
Total non-current assets	<u>18,597</u>	<u>20,158</u>
Total assets	<u>141,955</u>	<u>142,584</u>
 NET ASSETS		
Nonspendable	18,597	20,158
Assigned	33,812	33,451
Unrestricted	<u>89,546</u>	<u>88,975</u>
Net assets	<u>\$ 141,955</u>	<u>\$ 142,584</u>

See accompanying notes to financial statements.

RURAL WATER DISTRICT NO. THREE
 OKMULGEE COUNTY, OKLAHOMA
 HENRYETTA, OKLAHOMA
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
 MODIFIED CASH BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>OPERATING REVENUES</u>		
Charges for services:		
Water Sales	\$ 37,199	\$ 34,442
Total operating revenues	<u>37,199</u>	<u>34,442</u>
<u>OPERATING EXPENSES</u>		
Water purchases	17,048	16,465
Contract Services	6,305	4,817
Bookkeeping	4,200	4,050
Office Supplies & Postage	511	571
Bank Charges	50	81
Insurance	889	811
Professional Fees	3,100	5,614
Membership Dues	98	98
Water Testing	662	671
Rent	600	600
Repairs & Maintenance	2,345	1,559
Travel	729	662
Box Rent	91	35
Depreciation	<u>1,561</u>	<u>1,561</u>
Total operating expenses	<u>38,189</u>	<u>37,595</u>
Operating income (loss)	<u>(990)</u>	<u>(3,153)</u>
<u>NON-OPERATING REVENUE (EXPENSES)</u>		
Investment income	<u>361</u>	<u>506</u>
Total non-operating revenue (expenses)	<u>361</u>	<u>506</u>
Net income (loss)	(629)	(2,647)
Total net assets, beginning	<u>142,584</u>	<u>145,231</u>
Total net assets, ending	<u>\$ 141,955</u>	<u>\$ 142,584</u>

See accompanying notes to financial statements.

RURAL WATER DISTRICT NO. THREE
OKMULGEE COUNTY, OKLAHOMA
HENRYETTA, OKLAHOMA
STATEMENT OF CASH FLOWS-MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Cash received from water sales	\$ 37,199	\$ 34,442
Cash payments to suppliers	(23,023)	(21,553)
Cash payments for services	<u>(13,605)</u>	<u>(14,481)</u>
Net cash provided (used) by operating activities	<u>571</u>	<u>(1,592)</u>
Cash flows from capital and related activities		
Increase in Reserve Fund	<u>(361)</u>	<u>(506)</u>
Net cash used for capital and related activities	<u>(361)</u>	<u>(506)</u>
Cash flows from investing activities		
Interest revenue	<u>361</u>	<u>506</u>
Net cash used for investing activities	<u>361</u>	<u>506</u>
Net increase (decrease) in cash and cash equivalents	571	(1,592)
Cash and cash equivalents, beginning	<u>88,975</u>	<u>90,567</u>
Cash and cash equivalents, ending	<u>\$ 89,546</u>	<u>\$ 88,975</u>
Reconciliation of operating income (loss) to net cash provided by (used) by operating activities		
Operating income (loss)	\$ (990)	\$ (3,153)
Adjustments to reconcile operating income to net cash used by operating activities:		
Changes in assets and liabilities:		
Depreciation	<u>1,561</u>	<u>1,561</u>
Net cash provided by operating activities	<u>\$ 571</u>	<u>\$ (1,592)</u>

See accompanying notes to financial statements.

RURAL WATER DISTRICT NO. THREE
OKMULGEE COUNTY, OKLAHOMA
HENRYETTA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rural Water District No. Three, Okmulgee County, Oklahoma, (the "District") was created March 28, 1966 by the Board of County Commissioners of Okmulgee County, Oklahoma under the provisions of the Rural Water District Act (Title 82 Oklahoma Statutes, Sections 1324.1 et. seq). The District is managed by a Board of Directors. Members of the board are elected by the membership of the District at its annual meeting. Membership in the District is attained by paying membership dues and receiving services from the District. The activities of the District constitute the entire reporting entity. There are no other component or oversight units. The District is a political subdivision of the state of Oklahoma.

Government-Wide and Fund Financial Statements

The District is a special purpose governmental entity engaged only in business type activities. The District prepares financial statements required for enterprise funds.

Measurement Focus and Basis of Accounting

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

Measurement Focus

In the financial statements business-like activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting. 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, financial, or non-financial) associated with their activities are reported. Fund equity is classified as net assets.

Basis of Accounting

In the financial statements, business-like activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are *not recorded* in these financial statements. If the District utilized the basis of accounting recognized as generally accepted, the financial statements would use the accrual basis of accounting.

RURAL WATER DISTRICT NO. THREE
OKMULGEE COUNTY, OKLAHOMA
HENRYETTA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FUND TYPES AND MAJOR FUNDS

The District reports all activity within a single fund.

Investments

The District follows Governmental Accounting Standards Board (GASB) Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which requires marketable securities to be carried at fair value. The District considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The investment reported is a certificate of deposit.

Capital Assets, Depreciation, and Amortization

The District's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost or at estimated historical cost for those items not previously reported. The District maintains infrastructure assets records consistent with all other capital assets. Donated assets are stated at fair value on the date donated. The cost of normal maintenance and repairs that do not add to the assets value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are moved from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follow:

Buildings	5-60
Improvements, other than buildings	2-50
Mobile equipment	3-40
Furniture , machinery, and equipment	3-30
Utility system	5-60

Compensated Absences

The District does not currently have any employees. Therefore, the District has not accrued any vacation, sick leave, or other compensated absences.

Reserves and Designations

Reserves represent those portions of fund balance not available for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

RURAL WATER DISTRICT NO. THREE
OKMULGEE COUNTY, OKLAHOMA
HENRYETTA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Custodial Credit Risk

Custodial credit risk is the risk that in the event of failure of counterparty, the District will not be able to recover the value of its deposits or investments. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Investment securities are exposed to custodial credit risk if they are uninsured, are not registered in the name of the District, and are held by counterparty or the counterparty's trust department but not in the name of the District. The District's policy requires that all deposits and investments in excess of amounts covered by federal deposit insurance be fully collateralized by the entity holding the deposits or investments. As of December 31, 2011, all of the Districts deposits and investments were either covered by federal deposit insurance or were fully collateralized.

Deposits

The District had deposits at financial institutions with a carrying amount of approximately \$123,358 at December 31, 2011. The bank balance of the deposits at December 31, 2011 was approximately \$123,598.

The District had deposits at financial institutions with a carrying amount of approximately \$122,426 at December 31, 2010. The bank balance of the deposits at December 31, 2010 was approximately \$125,626.

Credit Risk

Fixed-income securities are subject to credit risk. However, the District did not have fixed income securities at December 31, 2011.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board of Directors monitor's the investment performance on an ongoing basis to limit the District's interest rate risk. As of December 31, 2011, the District's deposits consisted of demand deposits and certificates of deposit with a maturity of 12 months or less.

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 HENRYETTA, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2011 AND 2010

NOTE C - RESTRICTED CASH AND CASH EQUIVALENTS

At December 31, 2011, restricted cash consisted of one certificate of deposit held at First National Bank, Henryetta in the amount of \$33,812. The restricted cash consists of money reserved for repairs of the system.

At December 31, 2010, restricted cash consisted of one certificate of deposit held at First National Bank, Henryetta in the amount of \$33,451. The restricted cash consists of money reserved for repairs of the system.

NOTE D - CAPITAL ASSETS

The following table provides a summary of changes in capital assets in 2011:

	<u>CAPITAL ASSETS, DEPRECIATED</u>			
	<u>Buildings</u>	<u>Infrastructure & Improvements Other Than Buildings</u>	<u>Furniture, Machinery, And Equipment</u>	<u>Totals</u>
PRIMARY GOVERNMENT				
Business-type activities				
Balance, Dec. 31, 2010	\$ -	\$ 63,664	\$ 3,124	\$ 66,788
Increases	-	-	-	-
Decreases	-	-	-	-
Balance, Dec. 31, 2011	<u>-</u>	<u>63,664</u>	<u>3,124</u>	<u>66,788</u>
Accumulated Depreciation				
Balance, Dec. 31, 2010	-	43,801	2,829	46,630
Increase	-	1,506	55	1,561
Decreases	-	-	-	-
Balance, Dec. 31, 2011	<u>-</u>	<u>45,307</u>	<u>2,884</u>	<u>48,191</u>
Business-type Activities				
Capital Assets, Net	<u>\$ -</u>	<u>\$ 18,357</u>	<u>\$ 240</u>	<u>\$ 18,597</u>

The following table provides a summary of changes in capital assets in 2010:

	<u>CAPITAL ASSETS, DEPRECIATED</u>			
	<u>Buildings</u>	<u>Infrastructure & Improvements Other Than Buildings</u>	<u>Furniture, Machinery, And Equipment</u>	<u>Totals</u>
PRIMARY GOVERNMENT				
Business-type activities				
Balance, Dec. 31, 2009	\$ -	\$ 63,664	\$ 3,124	\$ 66,788
Increases	-	-	-	-
Decreases	-	-	-	-
Balance, Dec. 31, 2010	<u>-</u>	<u>63,664</u>	<u>3,124</u>	<u>66,788</u>
Accumulated Depreciation				
Balance, Dec. 31, 2009	-	42,295	2,774	45,069
Increase	-	1,506	55	1,561
Decreases	-	-	-	-
Balance, Dec. 31, 2010	<u>-</u>	<u>43,801</u>	<u>2,829</u>	<u>46,630</u>
Business-type Activities				
Capital Assets, Net	<u>\$ -</u>	<u>\$ 19,863</u>	<u>\$ 295</u>	<u>\$ 20,158</u>

RURAL WATER DISTRICT NO. THREE
OKMULGEE COUNTY, OKLAHOMA
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE E - NOTES PAYABLE PROPRIETARY FUND

The District does not have outstanding Long Term Debt.

NOTE F - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District carries commercial insurance for risk of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE G - EVALUATION OF SUBSEQUENT EVENTS

The District has evaluated subsequent events through September 11, 2014, the date which the financial statements were available to be issued. The District does not believe there are any events requiring disclosure.

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

To the Board of Directors
Rural Water District No. Three
Okmulgee County, Oklahoma,
Henryetta, Oklahoma

I have audited the financial statements-modified cash basis of the business-type activities of Rural Water District No. Three, Okmulgee County, Oklahoma, Henryetta, Oklahoma as of and for the year ended December 31, 2011 and 2010, and have issued my report thereon dated September 11, 2014 which did not include Management's Discussion and Analysis. 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.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Rural Water District No. Three, Okmulgee County, Oklahoma, Henryetta, Oklahoma'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 Rural Water District No. Three, Okmulgee County, Oklahoma, Henryetta, Oklahoma's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Rural Water District No. Three, Okmulgee County, Oklahoma, Henryetta, Oklahoma's internal control over financial reporting.

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

My 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. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above. A *significant 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water District No. Three, Okmulgee County, Oklahoma, Henryetta, Oklahoma'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 management, Board of Directors, 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.

Sincerely,



Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
September 11, 2014