

AUDIT REPORT

NOWATA COUNTY RURAL WATER DISTRICT #3 NOWATA COUNTY, OKLAHOMA

DECEMBER 31, 2011



KERSHAW CPA & ASSOCIATES, PC

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NOWATA COUNTY RURAL WATER DISTRICT #3
NOWATA COUNTY, OKLAHOMA
DECEMBER 31, 2011

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NOWATA COUNTY RURAL WATER DISTRICT #3
NOWATA COUNTY, OKLAHOMA
DECEMBER 31, 2011

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>	<u>TERM EXPIRATION</u>
Ronnie Inman	Chairman	2014
Bill Shoemaker	Vice Chairman	2014
Edna Wood	Treasurer	2015
Carolyn Woodworth	Board Member	2015
Dan Marrs	Board Member	2012

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Nowata County Rural Water District #3
Nowata County, Oklahoma

I have audited the accompanying financial statements of the Nowata County Rural Water District #3, as of and for the fiscal year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the Nowata County Rural Water District #3'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, and in accordance with Oklahoma Statutes. 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 described in Note 1, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Nowata County Rural Water District #3, Nowata County, Oklahoma, as of December 31, 2011 and the changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, I have also issued my report dated February 20, 2012, on my consideration of the Nowata County Rural Water District #3'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 our testing of internal control over financial reporting and

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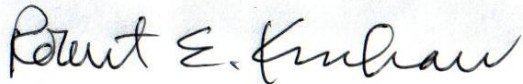
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compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be considered in assessing the results of my audit.

Nowata County Rural Water District #3 has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34. However the District has not presented the Management's Discussion and Analysis required by the Governmental Accounting Standards Board (GASB) that the GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The introductory and the other supplementary information sections listed in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the District. Such additional information has not been subjected to the auditing procedures applied in my audit of the basic financial statements, and accordingly, I do not express an opinion thereon.



Robert E. Kershaw
Certified Public Accountant

February 20, 2012

**NOWATA COUNTY RURAL WATER DISTRICT #3
NOWATA COUNTY, OKLAHOMA
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
DECEMBER 31, 2011**

	2011
<u>ASSETS</u>	
<u>CURRENT ASSETS:</u>	
Revenue Fund	\$ 85,690
Operation and Maintenance	2,528
Total Current Assets	88,218
 <u>CAPITAL ASSETS:</u>	
Property, Plant & Equipment	252,008
Less: Accumulated Depreciation	(97,556)
Net Capital Assets	154,452
 TOTAL ASSETS	 \$ 242,670
 <u>LIABILITIES & NET ASSETS</u>	
<u>LIABILITIES:</u>	
<u>CURRENT LIABILITIES:</u>	
Current Portion of Long-Term Debt	\$ -
Total Current Liabilities	-
 TOTAL LONG-TERM LIABILITIES	 -
 TOTAL LIABILITIES	 -
 <u>NET ASSETS:</u>	
Invested in capital assets, net of related debt	154,452
Restricted for debt service	-
Unrestricted	88,218
TOTAL NET ASSETS	242,670
 TOTAL LIABILITIES AND MEMBERS' EQUITY	 \$ 242,670

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**NOWATA COUNTY RURAL WATER DISTRICT #3
NOWATA COUNTY, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - MODIFIED CASH BASIS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2011**

	2011
<u>OPERATING REVENUES:</u>	
Water Sales	\$ 50,373
Meter Sales	14,000
Other Operating Income	-
TOTAL OPERATING REVENUES	64,373
 <u>OPERATING EXPENSES:</u>	
Water Purchased	21,228
Office Expense	1,001
Bookkeeping and Management	9,604
Professional Fees	1,621
Bank Fee & Bad Debt	14
Repairs & Maintenance	6,659
Insurance	1,634
Water Testing	276
Depreciation	4,959
Miscellaneous	-
Total Operating Expenses	46,996
NET OPERATING INCOME (LOSS)	17,377
 <u>OTHER REVENUES (EXPENSES):</u>	
Interest Revenue	172
Interest Expense	-
Total Other Revenues (Expenses)	172
NET INCOME (LOSS)	17,550
TOTAL NET ASSETS, Beginning of Year	225,121
TOTAL NET ASSETS, Prior Year Adjustment	-
TOTAL NET ASSETS, End of Year	\$ 242,670

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**NOWATA COUNTY RURAL WATER DISTRICT #3
 NOWATA COUNTY, OKLAHOMA
 STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
 FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2011**

	2011
<u>Net Cash Flows from Operating Activities:</u>	
Cash Receipts from Customers	\$ 64,373
Payments to Suppliers & Laborers for Goods & Services	(42,036)
Net Cash Provided (Used) by Operating Activities	22,337
<u>Net Cash Flows from Capital & Related Financing Activities:</u>	
Additions to Capital Assets	-
Gain on Conversion/Sale of Fixed Assets	-
Principal paid on Long-Term Debt	-
Interest paid on Debt	-
Net Cash Provided (Used) by Capital & Related Financing Activities	-
Net Cash Flows from Investing Activities:	
Interest Income	172
Net Cash Provided (Used) by Investing Activities	172
Net Increase (Decrease) in Cash and Cash Equivalents	22,509
Cash & Cash Equivalents, Beginning of Year	65,709
Cash & Cash Equivalents, Prior Year Adjustment	-
Cash & Cash Equivalents, End of Year	\$ 88,218
<u>Reconciliation of operating income (loss) to net cash provided</u>	
<u>operating activities:</u>	
Operating Income (Loss)	\$ 17,377
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation	4,959
(Increase)Decrease in Accounts Receivable	-
Increase(Decrease) in Accounts Payable	-
Net Cash Provided (Used) by Operating Activities	\$ 22,337

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

NOWATA COUNTY RURAL WATER DISTRICT #3
NOWATA COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Rural Water District No. 3, Nowata County, Oklahoma, a corporation, was organized to sell water to its members. It is not a component unit, as defined by Governmental Accounting Standards Board Statement No. 14.

Basis of Presentation

The Enterprise Fund is used to account for the operations of the District that are financed and operated in a manner similar to private business enterprises where the intent is that costs or providing goods or services be recovered in whole or in part through user fees or charges.

Basis of Accounting

The District utilizes the modified cash basis of accounting. Such basis is not in accordance with U.S. generally accepted accounting principles. Under the modified cash basis of accounting, revenues are recorded when received and expenditures are recorded when paid. In accordance with generally accepted accounting principles, the District would utilize the accrual method, which recognizes revenues when earned, and expenditures when incurred.

Assets, Liabilities, & Equity

Cash & Cash Equivalents

For the purpose of these financial statements, the District considers cash and cash equivalents to be currency on hand and demand deposits with banks. There were no non-monetary transactions.

Inventory

The District does not maintain inventory records of parts or supplies, but charges these purchases to maintenance or supplies as they are received.

Capital Assets

Asset acquisitions are recorded and depreciated at historical cost. Depreciation on fixed assets is calculated using the straight-line method of depreciation with useful lives averaging 50 years for major asset purchases. Other asset purchases are depreciated over a period of 5 years. The District has set the capitalization amount at \$500.00 for new assets purchased.

NOWATA COUNTY RURAL WATER DISTRICT #3
NOWATA COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

Long-Term Debt

Long-term debt is reported at face value, net of applicable discounts and deferred loss on refunding. Costs related to the issuance of debt are deferred and amortized over the lives of various debt issues.

Equity Classification

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

1. 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 bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
2. Restricted net assets—Consists of net assets with constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets—All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Revenues, expenditures & expenses

Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

Governmental Accounting Standards Board Statement No. 34

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Certain of the significant changes in the Statement include the following:

1. For the first time the financial statement should include:
 - a. A Management Discussion and Analysis (MD&A) section providing analysis of the District's overall financial position and results of operations. However, the District has chosen not to present the required MD&A for the current year.

NOWATA COUNTY RURAL WATER DISTRICT #3
NOWATA COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

- b. Financial statements prepared using full accrual accounting for all of the District's activities, except for including the General capital assets or infrastructure (lines, pump stations, etc.). However, the District utilizes the modified cash basis of accounting.
2. A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The District has elected to implement the general provisions of the Statement and report infrastructure acquired after December 31, 2003 as provided by GASB standards.

Income Taxes

The District is organized as a not-for-profit entity and is exempt from paying Federal and State Income Taxes.

Compensated Absences

The District does not have salaried employees.

Memorandum Only

The "Memorandum Only" captions above the total columns mean that totals are presented for overview information purposes only.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

As a local government unit, the District is subject to various federal, state, and local laws and contractual regulations. In accordance with Government Auditing Standards, the auditor has issued a report on his consideration of the District's internal control over financial reporting and tested its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be read in conjunction with this report in considering the results of the audit.

Finance-related Legal & Contractual Provisions

The District has no long-term debt and therefore has no reserve requirements.

Deficit Fund Balance or Retained Earnings

As indicated in the financial statements, there are no fund balance or retained earnings deficits for the District for this fiscal year.

NOWATA COUNTY RURAL WATER DISTRICT #3
NOWATA COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 3 - CASH AND INVESTMENTS

Custodial Credit Risk

At December 31, 2011, the District held deposits of approximately \$88,218 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name.

Investment Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The District has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

NOTE 4 - RESTRICTED ASSETS

As of December 31, 2011, the District has no long term debt and no restricted assets.

NOWATA COUNTY RURAL WATER DISTRICT #3
 NOWATA COUNTY, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2011

NOTE 5 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended December 31, 2011, was as follows:

	Balance at Dec. 31, 2010	Additions	Deductions	Balance at Dec. 31, 2011
Water System	\$ 180,521	\$ -	\$ -	\$ 180,521
System Improvements	67,447	-	-	67,447
Office Equipment	4,039	-	-	4,039
Subtotal	252,008	-	-	252,008
Less: Accum. Depr.	(92,596)	(4,959)	-	(97,556)
Total Capital Assets (Net of Depreciation)	<u>\$ 159,412</u>	<u>\$ (4,959)</u>	<u>\$ -</u>	<u>\$ 154,452</u>

NOTE 6 - LONG-TERM DEBT

The District has no long-term debt.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended December 31, 2011:

	Balance at December 31, 2010	Additions	Deductions	Balance at December 31, 2011
Notes Payable	\$ -	\$ -	\$ -	\$ -
Total Long-Term Debt	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Debt Services Requirements to Maturity

The annual debt service requirements to maturity, including principal and interest, for long-term debt, as of December 31, 2011, are as follows:

Year Ending December 31,	Principal	Interest	Total
2012	\$ -	\$ -	\$ -
2013	-	-	-
2014	-	-	-
2015	-	-	-
2016	-	-	-
2017-2021	-	-	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 7 - FUND EQUITY

As described in Note 1 above, equity is classified as net assets and displayed in three components:

NOWATA COUNTY RURAL WATER DISTRICT #3
NOWATA COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

1. Invested in capital assets, net of related debt
2. Restricted net assets
3. Unrestricted net assets

NOTE 8 - CONTINGENCIES

Litigation

According to management there were no known contingent liabilities at December 31, 2011, which would have a material effect on the financial statements.

Federally Assisted Programs

In the normal course of operations, the District participates in various federal or state/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

NOTE 9 - WATER PURCHASES

The District purchases its water from the City of Nowata.

NOTE 10 - SUBSEQUENT EVENTS

The District did not have any subsequent events through February 20, 2012, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending December 31, 2011.

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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
Nowata County Rural Water District #3
Nowata County, Oklahoma

I have audited the financial statements of the Nowata County Rural Water District #3, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles, as of December 31, 2011, and have issued my report thereon dated February 20, 2012. The Nowata County Rural Water District #3 has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, except that the District did not present the required MD&A. I conducted my audit in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and in accordance with Oklahoma Statutes.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Nowata County Rural Water District #3 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 the Nowata County Rural Water District #3's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Nowata 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or 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 weakness, as defined above.

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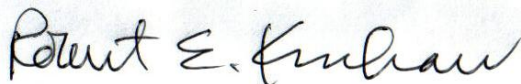
However, I identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings that I consider to be significant deficiencies in internal control over financial reporting. Those deficiencies are listed as Items 11-01. A significant deficiency 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Nowata County Rural Water District #3's financial statements are free of material misstatement, I performed tests of 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*.

The District's response to the findings identified in my audit is described in the accompanying Schedule of Findings. I did not audit the District's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of the board of directors and management of the Nowata County Rural Water District #3, Nowata County, Oklahoma and is not intended to be and should not be used by anyone other than these specified parties.



Robert E. Kershaw, CPA

February 20, 2012

NOWATA COUNTY RURAL WATER DISTRICT #3
NOWATA COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS
DECEMBER 31, 2011

Item 11-01: Segregation of Duties

Criteria: A good system of internal control requires a proper segregation of duties to prevent one person from being in a position to authorize, execute, and record the same transaction.

Condition: Due to the size of the District's major areas of internal control, that would be prevalent in a larger District, such segregation of duties is not available for this size operation. Duties are concentrated in the hands of a few individuals, who are responsible for all phases of the accounting functions. Because of this lack of division of responsibility, internal control is determined to be weak, and in some instances, non-existent.

Cause/Effect: Due to the limited number of personnel, a breach of internal controls could occur and not be detected in the normal course of operations.

Recommendation: The Board should continue to be actively involved in the operations of the organization.

Response: The Board is actively involved in the operations of the organization.