

RURAL WATER DISTRICT NO. 3
KINGFISHER COUNTY, OKLAHOMA

AUDIT REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2012

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Rural Water District No. 3, Kingfisher County, Oklahoma
Board of Directors
Kingfisher, Oklahoma

Independent Auditor's Report

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of the Rural Water District No. 3, Kingfisher County, Oklahoma, as of and for the year ended September 30, 2012, which collectively comprise the Rural Water District No. 3, Kingfisher County, Oklahoma's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Rural Water District No. 3, Kingfisher County, 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 the 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.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the Rural Water District No. 3, Kingfisher County, Oklahoma, as of September 30, 2012, and the respective changes in financial position and, where applicable, 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 my report dated January 23, 2012, on my consideration of the Rural Water District No. 3, Kingfisher County, Oklahoma'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 Rural Water District No. 3, Kingfisher County, Oklahoma, 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.

Linda S. Woodruff, CPA, P.C.

Linda S. Woodruff CPA, PC

Oklahoma City, OK 73172
January 23, 2013

RURAL WATER DISTRICT NO. 3, KINGFISHER COUNTY, OKLAHOMA
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012

CURRENT ASSETS:

Operating Account	\$ 15,391	
Certificates of Deposit	87,403	
Accounts Receivable (net)	<u>1,435</u>	
TOTAL CURRENT ASSETS		\$ 104,230

CAPITAL ASSETS:

Capital Assets – Depreciable:

Water & Distribution System (Note 3)	157,566	
Water Well and Rights	14,396	
Less: Depreciation Reserve	<u>(165,567)</u>	

Capital Assets – Amortizable:

Easements	86,250	
Less: Amortization Reserve	<u>(7,594)</u>	

TOTAL CAPITAL ASSETS	85,051
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OTHER ASSETS:

Utility Deposits	<u>10</u>	
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TOTAL OTHER ASSETS	<u>10</u>
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TOTAL ASSETS	<u>\$ 189,291</u>
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SEE INDEPENDENT AUDITOR'S REPORT
THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE BASIC FINANCIAL STATEMENTS

RURAL WATER DISTRICT NO. 3, KINGFISHER COUNTY, OKLAHOMA
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012

CURRENT LIABILITIES:

Accounts Payable \$ 5,018

TOTAL CURRENT LIABILITIES \$ 5,018

LONG TERM LIABILITIES:

Meter Deposits 75

TOTAL LONG TERM LIABILITIES 75

TOTAL LIABILITIES \$ 5,093

NET ASSETS:

Unrestricted \$ 99,147
Invested Capital Assets (Net) 85,051

TOTAL NET ASSETS \$ 184,198

SEE INDEPENDENT AUDITOR'S REPORT
THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE BASIC FINANCIAL STATEMENTS

RURAL WATER DISTRICT NO. 3, KINGFISHER COUNTY, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
SEPTEMBER 30, 2012

REVENUES:

Water Sales	\$	41,919	
Late Fees		<u>1,591</u>	
TOTAL REVENUE	\$		43,510

EXPENSES:

Repairs/Maintenance		18,555	
Labor		10,380	
Utilities		7,113	
Professional Fees		2,440	
Insurance		1,382	
Director/Meeting		837	
Office Expense		632	
Dues and Fees		<u>317</u>	
TOTAL EXPENSES			<u>41,656</u>

OPERATING INCOME (LOSS) 1,854

OTHER INCOME (EXPENSE):

Interest Income		717	
Amortization		(2,156)	
Depreciation		<u>(4,892)</u>	
TOTAL OTHER INCOME (EXPENSE)			<u>(6,331)</u>

CHANGE IN NET ASSETS (4,477)

NET ASSETS AT BEGINNING OF YEAR 188,675

NET ASSETS AT END OF YEAR \$ 184,198

SEE INDEPENDENT AUDITOR'S REPORT
THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE BASIC FINANCIAL STATEMENTS

RURAL WATER DISTRICT NO. 3, KINGFISHER COUNTY, OKLAHOMA
STATEMENT OF CASH FLOW
SEPTEMBER 30, 2012

CASH FLOW FROM OPERATING ACTIVITIES:	
Cash Payments for Services	\$ 43,218
Cash Payments to Suppliers for Goods and Contractors and Other Services	(38,743)
Net Cash Provided by Operating Activities	<u>4,475</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Memberships	0
Acquisition & Construction of Capital Assets	0
Net Cash Used in Capital and Financial Activities	<u>0</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest Income	717
Net Cash Provided by Investing Activities	<u>717</u>
NET INCREASE (DECREASE) IN CASH	5,192
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>97,603</u>
CASH AND EQUIVALENTS AT END OF YEAR	<u><u>\$ 102,795</u></u>
 RECONCILIATION OF OPERATION INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating Income (Loss)	\$ (5,194)
 ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Depreciation	4,892
Amortization	2,156
Changes in Assets & Liabilities:	
(Increase) Decrease in Account Receivable	(293)
Increase (Decrease) in Accounts Payable	<u>2,914</u>
Total Adjustments	<u>9,669</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u><u>\$ 4,475</u></u>

SEE INDEPENDENT AUDITOR'S REPORT
THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE BASIC FINANCIAL STATEMENTS

RURAL WATER DISTRICT NO. 3, KINGFISHER COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

ORGANIZATION

Rural Water District No. 3, Kingfisher County, Oklahoma (the District) was organized under Oklahoma Statutes Title §82-1324.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

The government's significant accounting policies are described below.

Rural Water District No. 3, Kingfisher County, Oklahoma, is an independent, self-contained, reporting entity with no associated component units. It is operated in a manner similar to a private business enterprise where the cost (expenses, including depreciation) of providing water services is financed through user charges.

The operations of the District constitute an enterprise fund, a proprietary fund type. Enterprise funds are used to account for operations that are financed and operated in a manner similar to a private business enterprise. The District's fund is accounted for on the flow of economic resources measurement focus and uses the accrual method of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Depreciation expense is provided for capital assets based upon estimated useful lives.

ESTIMATES

The preparation of financial statements in conformity with 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. Accordingly, actual results could differ from those estimates.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPALS – CONTINUED

Cash Equivalents and Investments

1. Deposits and Investments

Oklahoma Statutes authorize the District to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the District can invest in direct debt securities of the United States unless law expressly prohibits such an investment.

For financial statement presentation and for purposes of the statement of cash flows, the District's cash and cash equivalents are considered to be cash on hand, demand deposits and certificates of deposit with a maturity date of three months or less.

2. Fair Value of Financial Instruments

The District's financial instruments include cash and cash equivalents, certificates of deposits, and accounts receivable. The District's estimates of the fair value of all financial instruments do not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of net assets. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

NOTE 2 – INCOME TAX

As a special district of a state government, the district is exempt from State and Federal income taxes.

NOTE 3 – PROPERTY AND EQUIPMENT

Depreciation has been calculated on each class of depreciable property using the straight-line method. Easements and water rights are amortized over their useful life. Estimated useful lives are as follows:

Water System	40 years
Easement	40 years
Water Rights	40 years

Capital asset activity for the year is as follows:

	Balance 09/30/2011	Addition	Disposals	Balance 09/30/2012
Depreciable Assets:				
Water System	\$ 157,567	\$ -	\$ -	\$ 157,567
Water Well	14,396	-	-	14,396
Total	<u>171,963</u>	-	-	<u>171,963</u>
Accumulated Depreciation:				
Water System	150,118	3,932	-	154,050
Water Well	10,557	960	-	11,517
Total	<u>160,675</u>	<u>4,892</u>	-	<u>165,567</u>
Net Depreciable Assets:	\$ 11,288	\$ (4,892)	\$ -	\$ 6,396
Amortizable Assets:				
Easement	\$ 1,250	\$ -	\$ -	\$ 1,250
Water Rights	85,000	-	-	85,000
Total	<u>86,250</u>	-	-	<u>86,250</u>
Accumulated Depreciation:				
Easement	1,188	31	-	1,219
Water Rights	4,250	2,125	-	6,375
Total	<u>5,438</u>	<u>2,156</u>	-	<u>7,594</u>
Net Amortizable Assets:	\$ 80,812	\$ (2,156)	\$ -	\$ 78,656
Net Capital Assets:	\$ 92,100	\$ (7,048)	\$ -	\$ 85,052

NOTE 4 – DEBT

The District had no outstanding debt on September 30, 2012.

Rural Water District No. 3, Kingfisher County, Oklahoma
Board of Directors
Kingfisher, Oklahoma

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*

I have audited the accompanying financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the Rural Water District No. 3, Kingfisher County, Oklahoma, as of and for the year ended September 30, 2012, which collectively comprises the Rural Water District No. 3, Kingfisher County, Oklahoma's basic financial statements and have issued my report thereon dated January 23, 2012. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in the *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 the Rural Water District No. 3, Kingfisher County, Oklahoma's internal control over financial reporting as a basis of designing my audit procedures for the purpose of expressing my opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Rural Water District No. 3, Kingfisher County, Oklahoma's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Rural Water District No. 3, Kingfisher County, Oklahoma's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings, I identified certain deficiencies in internal control over financial reporting that I consider to be a material weakness and other deficiencies that I 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 normal course of performing their assigned function, 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 statement will not be prevented, or detected and corrected on a timely basis. I consider the deficiencies described in the accompanying schedule of findings to be a material weaknesses: 12-01.


A *significant deficiency* is a deficiency, or a combination or deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiencies described in the accompanying schedule of findings to be significant deficiencies: 12-02.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Rural Water District No. 3, Kingfisher County, Oklahoma's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contract 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 *Governmental Auditing Standards*.

The Rural Water District No. 3, Kingfisher County, Oklahoma's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. I did not audit the Rural Water District No. 3, Kingfisher County, Oklahoma's responses and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of management, District Board, others within the entity, 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.


Linda S. Woodruff CPA, PC

Oklahoma City, OK 73172
January 23, 2013

RURAL WATER DISTRICT NO. 3, KINGFISHER COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

12-01. Internal Control

Condition: An adequate internal control structure does not exist because of the small size of the entity nor is there adequate segregation of duties.

Criteria: Internal controls should be in place that provide reasonable assurance that any one individual or family does not have control over several of the financial functions of the District.

Effect: Because of the inadequate segregation of duties, an opportunity exists for an employee to alter record keeping.

Recommendation: I recommend that the District strive to implement more segregation of duties where possible and utilize compensating procedures where applicable.

Response: The Rural Water District No. 3, Kingfisher County, Oklahoma Board concurs with the recommendation although, the cost to correct this might exceed the benefit.

11-02. Internal Control – Budget

Condition: Adequate internal control does not exist since no annual budget is prepared.

Criteria: Preparing a budget allows management to utilize it as a tool for measurement of actual performance compared to anticipated results.

Effect: Budgets are required for governmental entities for assistance in setting performance goals. Without budgeting, no goals are being set for future planning.

Recommendations: Prepare an annual budget prior to the beginning of the next fiscal year. Track actual revenue and expenditures monthly through a spreadsheet, then compare to the budgeted amounts and investigate the reason for the variances.

Response: The Board will set a budget prior to October 1, 2013.