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**RURAL WATER, SEWER, GAS
AND SOLID WASTE MANAGEMENT DISTRICT NUMBER 3,
CHOCTAW COUNTY, OKLAHOMA**

INDEPENDENT AUDITOR'S REPORT

AS OF AND FOR THE YEAR ENDED

JULY 31, 2011

**BROWN & DAVIS, LLP
CERTIFIED PUBLIC ACCOUNTANTS**

**RURAL WATER, SEWER, GAS
AND SOLID WASTE MANAGEMENT DISTRICT NUMBER 3,
CHOCTAW COUNTY, OKLAHOMA
INDEPENDENT AUDITOR'S REPORT
AS OF AND FOR THE YEAR ENDED JULY 31, 2011**

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BROWN & DAVIS, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Rural Water, Sewer, Gas and Solid Waste Management District Number 3
Choctaw County, Oklahoma

We have audited the accompanying financial statements of the business-type activities of Rural Water, Sewer, Gas and Solid Waste Management District Number 3, Choctaw County, Oklahoma (the District) as of and for the years ended July 31, 2011 and 2010, which collectively comprises the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Rural Water, Sewer, Gas and Solid Waste Management District Number 3, Choctaw County, Oklahoma, as of July 31, 2011 and 2010, and the respective changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2011 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 our audit.

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. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



Brown & Davis, LLP
Certified Public Accountants

November 30, 2011

**RURAL WATER, SEWER, GAS
AND SOLID WASTE MANAGEMENT DISTRICT NUMBER 3,
CHOCTAW COUNTY, OKLAHOMA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Rural Water, Sewer, Gas and Solid Waste Management District Number 3, Choctaw County, Oklahoma's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended July 31, 2011. Please read it in conjunction with the accompanying financial statements and disclosures.

Financial Highlights

Operating revenue increased from \$50,512 for last year to \$57,555 this year while operating expenses increased from \$70,579 last year to \$72,770 for this year. There was a net loss this year of \$15,215 compared to a net loss last year of \$20,067.

With these operating results, the net assets of the District decreased from \$517,087 to \$501,872.

Net cash provided by operating activities this year was \$6,596 compared to \$271 last year. The District invested in office furniture and equipment in the amount of \$1,972, compared to the previous year's investment in new lines and improvements in the amount of \$485. With these transactions as well as the repayment of USDA loan in the amount of \$2,167, the District's net change in cash was an increase of \$2,457 compared to an decrease in cash the previous year of \$2,125. Of the remaining cash on hand of \$22,084, \$6,972 is reserved as restricted cash set aside for the USDA loan's payment commitment for the next year.

Financial Analysis

A comparative summary of the current year and prior year financial information is provided in the financial statements.

Overview of the Financial Statements

Management's Discussion and Analysis introduces the District's basic financial statements. The basic financial statements includes the government-wide financial statements and the notes to the financial statements.

The District's annual report includes three government-wide financial statements. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the Statement of Net Assets. This is the District's statement of financial position presenting information that includes all of the District's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating.

The second statement is the Statement of Revenues, Expenses, and Changes in Net Assets which report water services provided by the District.

The third statement is the Statement of Cash Flows which shows where the cash came from and where the cash went with a reconciliation to the changes in assets and liabilities.

The notes to the financial statements provide information essential to a full understanding of the government-wide financial statements. The notes to the financial statement begin immediately following the basic financial statements.

Capital Assets

During the year, additions were made to office furniture and equipment in the amount of \$1,972, compared to investments in the water system and equipment last year amounting to \$485. Repairs to the system and office were \$2,860 compared to \$5,477 including \$3,523 paid by insurance.

Debt

Most of the debt of the District is to the United States Department of Agriculture Rural Development on a long term note. The note has been paid as agreed on a timely basis. The note to the USDA Rural Development has been paid down to a balance of \$105,574 from the original amount of \$126,500.

**RURAL WATER, SEWER, GAS
AND SOLID WASTE MANAGEMENT DISTRICT NUMBER 3,
CHOCTAW COUNTY, OKLAHOMA**

MANAGEMENT'S DISCUSSION AND ANALYSIS, continued

Economic Factors

Providing water service to new businesses and residents of our District is why the district exists. The district acquires new water lines, pumps, and tanks with a combination of loans, grants, pledges and installation fees charged to customers. An overall change in the economic conditions may affect resources available.

Request for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. If you have questions about this report or would like to request additional information, contact the District Office at Sawyer, Oklahoma 74756.

**RURAL WATER, SEWER, GAS
AND SOLID WASTE MANAGEMENT DISTRICT NUMBER 3,
CHOCTAW COUNTY, OKLAHOMA
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JULY 31, 2011 AND 2010**

	Business-Type Activities	
	<u>July 31, 2011</u>	<u>July 31, 2010</u>
ASSETS		
Current assets		
Cash - operating account	\$ 14,664	\$ 11,213
Cash - construction account	-	1,120
Accounts receivable	3,844	5,242
Less allowance for doubtful accounts	(382)	(382)
Prepaid Insurance	1,723	1,470
Total current assets	<u>19,849</u>	<u>18,663</u>
Restricted assets		
Cash - CD/Reserve account	7,420	7,294
Total restricted assets	<u>7,420</u>	<u>7,294</u>
Noncurrent assets		
Capital assets, net of depreciation	<u>586,027</u>	<u>604,262</u>
Total assets	<u>\$ 613,296</u>	<u>\$ 630,219</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 2,044	\$ 1,461
Customer deposits	1,865	1,800
Payroll taxes payable	256	337
Accrued interest payable	377	385
Accrued salaries payable	1,308	1,408
Notes payable - current portion	2,253	2,168
Total current liabilities	<u>8,103</u>	<u>7,559</u>
Noncurrent liabilities		
Note payable	105,574	107,741
Less current portion	(2,253)	(2,168)
Total noncurrent liabilities	<u>103,321</u>	<u>105,573</u>
Total liabilities	111,424	113,132
NET ASSETS		
Restricted	6,972	6,972
Unrestricted	14,447	13,594
Invested in capital assets, net of related debt	<u>480,453</u>	<u>496,521</u>
Total net assets	<u>501,872</u>	<u>517,087</u>
Total liabilities and net assets	<u>\$ 613,296</u>	<u>\$ 630,219</u>

See accompanying notes to the basic financial statements.
Brown & Davis, LLP, Certified Public Accountants

**RURAL WATER, SEWER, GAS
AND SOLID WASTE MANAGEMENT DISTRICT NUMBER 3,
CHOCTAW COUNTY, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
FOR THE YEARS ENDED JULY 31, 2011 AND 2010**

Business-Type Activities

	<u>July 31, 2011</u>	<u>July 31, 2010</u>
OPERATING REVENUES:		
Water sales and installation	\$ 53,659	\$ 47,170
Reconnect and meter fees	3,685	2,420
Other income	88	479
Interest	123	443
	<u>57,555</u>	<u>50,512</u>
OPERATING EXPENSES:		
Advertising	232	146
Audit	1,640	1,590
Auto and truck expense	1,863	1,681
Contract labor	96	236
Depreciation	20,206	20,153
Dues and fees	485	608
Insurance and bonds	2,030	2,232
Interest	4,798	5,419
Office and misc expense	1,611	1,173
Postage	1,008	787
Purchase of water	11,701	9,828
Repairs and maintenance	2,860	5,477
Salaries and wages	16,468	16,866
Security	481	-
Taxes, licenses and permits	3,393	1,434
Telephone and internet	1,868	1,723
Travel and meetings	267	-
Utilities	1,051	792
Water tests and lab fees	712	434
Total operating expenses	<u>72,770</u>	<u>70,579</u>
Net income(loss) from operating activities	<u>\$ (15,215)</u>	<u>\$ (20,067)</u>
Changes in net assets	\$ (15,215)	\$ (20,067)
Net assets - beginning of year	<u>517,087</u>	<u>537,154</u>
Net assets - end of year	<u>\$ 501,872</u>	<u>\$ 517,087</u>

**RURAL WATER, SEWER, GAS
AND SOLID WASTE MANAGEMENT DISTRICT NUMBER 3,
CHOCTAW COUNTY, OKLAHOMA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEARS ENDED JULY 31, 2011 AND 2010**

Business-Type Activities

	July 31, 2011	July 31, 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 58,830	\$ 50,151
Insurance reimbursement	-	3,523
Interest received	123	443
Cash paid to suppliers	(30,983)	(31,902)
Cash paid to employees	(16,568)	(16,882)
Interest paid	(4,806)	(5,062)
Net cash provided (used) by operating activities	6,596	271
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to office furniture and equipment	(1,972)	-
Additions to water system and equipment	-	(485)
Net cash provided (used) by investing activities	(1,972)	(485)
CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES		
Repayments to USDA	(2,167)	(1,911)
Net cash provided (used) by financing activities	(2,167)	(1,911)
Net increase (decrease) in cash	2,457	(2,125)
Cash and equivalents at beginning of the year	19,627	21,752
Cash and equivalents at end of the year	\$ 22,084	\$ 19,627
Cash and equivalents - unrestricted	15,112	12,655
Cash and equivalents - restricted	6,972	6,972
Total	\$ 22,084	\$ 19,627
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Net operating income (loss)	\$ (15,215)	\$ (20,067)
Adjustments to reconcile operating activities to net cash provided (used) by operating activities:		
Depreciation	20,206	20,153
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	1,398	282
(Increase) decrease in prepaid insurance	(253)	130
Increase (decrease) in accounts payable	583	(366)
Increase (decrease) in accrued interest payable	(8)	357
Increase (decrease) in accrued salaries	(100)	(16)
Increase (decrease) in payroll taxes payable	(80)	(2)
Increase (decrease) in customer deposits	65	(200)
Net cash provided (used) by operating activities	\$ 6,596	\$ 271

**RURAL WATER, SEWER, GAS
AND SOLID WASTE MANAGEMENT DISTRICT NUMBER 3,
CHOCTAW COUNTY OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JULY 31, 2011**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FINANCIAL REPORTING ENTITY

Rural Water, Sewer, Gas and Solid Waste Management District Number 3, Choctaw County, Oklahoma (the District) was organized for the purpose of providing water to the rural residents and businesses located in a portion of Choctaw County, Oklahoma.

BASIS OF PRESENTATION, MEASUREMENT FOCUS, AND BASIS OF ACCOUNTING

The District is financed and operated in a manner similar to a private business enterprise, where the intent of the governing body is that the costs of providing water to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The District uses one fund which is a proprietary fund of a business-type activity as described above. This fund is reported on the accrual basis of accounting; consequently, all revenue is included when earned, and all expenses are recognized when the obligation is incurred.

Proprietary fund equity is reported as restricted net assets (funds that are restricted to a particular use), unrestricted net assets, and investments in capital assets net of related debt.

Operating revenues and expenses for proprietary funds are those that result from providing water, sewer, gas and solid waste collection services.

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts in various funds. Actual results could differ from those estimates.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

BUDGET

The District prepares an annual estimated budget of cash receipts and disbursements for the purpose of adjusting water rates if necessary and as a forecast of cash receipts and disbursements required by the USDA Rural Development. This does not meet the definition of a legally required and adopted budget and accordingly is not presented.

RISK MANAGEMENT

The District's business activity is with customers located within a portion of Choctaw County, Oklahoma. As of July 31, 2011 the District's receivables were \$3,844. An overall decline in the economic condition of the area could affect the collection of those receivables.

The District is exposed to various risks of loss related to theft of and damage to assets, errors and omissions, injuries to employees, and natural disasters. The District purchases commercial insurance to cover these possible liabilities.

COMMITMENTS AND CONTINGENCIES

The District participates in state and federally assisted grant programs. These programs are subject to program compliance audits by grantors or their representatives. Accordingly, the District's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenses which may be disallowed by the granting agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

**RURAL WATER, SEWER, GAS
AND SOLID WASTE MANAGEMENT DISTRICT NUMBER 3,
CHOCTAW COUNTY OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JULY 31, 2011**

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES AND ACCOUNTS

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/expenses.

CASH AND EQUIVALENTS

For the purpose of the Statement of Net Assets, "cash" includes all demand, savings accounts, and certificates of deposits of the District. For the purpose of the proprietary fund Statement of Cash Flows, "cash and equivalents" includes all demand and savings accounts, and certificates of deposit with an original maturity of three months or less.

Deposits are classified into the following three categories: (1) Insured or collateralized with securities held by the entity or by its agent or in the entity's name (Category 1); (2) Collateralized with securities held by the pledging financial institutions trust department or agent in the entity's name (Category 2); and (3) Uncollateralized, including any bank balance that is collateralized with securities held by the pledging institution, or by its trust department or agent but not in the entity's name (Category 3).

All of the District's cash accounts are considered Category 1. The Emergency Economic Stabilization Act of 2008 temporarily raised the basic limit on FDIC coverage to \$250,000 per depositor. This coverage limit will return to \$100,000 after December 31, 2013. At July 31, 2011 all accounts were covered by federal depository insurance.

ACCOUNTS RECEIVABLE

Accounts receivables consist of all revenues earned at year-end and not yet received. Allowances for doubtful accounts is based on 5% of the accounts receivable balance at the end of the accounting year.

CAPITAL ASSETS

Capital assets used in the District's operations are stated at cost less accumulated depreciation. Depreciation is provided on the straight-line method at various rates based on the estimated useful lives of the assets. Generally, estimated useful lives of five to ten years for trucks and tractors, five to ten years for furniture, fixtures and equipment, and forty years for the building and water system are used. Maintenance and repairs as well as renewals and betterments of small amounts are charged against income as incurred whereas major renewals or betterments which extend the life or increase the value of property are capitalized.

Capital asset activity for the year ended July 31, 2011 is as follows:

	<u>Balance</u> <u>7/31/2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>7/31/2011</u>
Water system	\$ 692,150	\$ -	\$ -	\$ 692,150
Tools and equipment	3,749	-	-	3,749
Trucks and tractors	14,000	-	-	14,000
Office building	37,250	-	-	37,250
Office furniture and equipment	2,815	1,972	-	4,787
Totals	<u>749,964</u>	<u>1,972</u>	<u>-</u>	<u>751,936</u>
Less accumulated depreciation				
Water system	(127,424)	(17,304)	-	(144,728)
Tools and equipment	(1,718)	(300)	-	(2,018)
Trucks and tractors	(8,517)	(1,400)	-	(9,917)
Office building	(5,408)	(931)	-	(6,339)
Office furniture & equipment	(2,636)	(271)	-	(2,907)
Totals	<u>(145,703)</u>	<u>(20,206)</u>	<u>-</u>	<u>(165,909)</u>
Net capital assets	<u>\$ 604,261</u>	<u>\$ (18,234)</u>	<u>\$ -</u>	<u>\$ 586,027</u>

**RURAL WATER, SEWER, GAS
AND SOLID WASTE MANAGEMENT DISTRICT NUMBER 3,
CHOCTAW COUNTY OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JULY 31, 2011**

Capital asset activity for the year ended July 31, 2010 is as follows:

	<u>Balance</u> <u>7/31/2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>7/31/2010</u>
Water system	\$ 691,665	\$ 485	\$ -	\$ 692,150
Tools and equipment	3,749	-	-	3,749
Trucks and tractors	14,000	-	-	14,000
Office building	37,250	-	-	37,250
Office furniture and equipment	2,815	-	-	2,815
Totals	749,479	485	-	749,964
Less accumulated depreciation				
Water system	(110,120)	(17,304)	-	(127,424)
Tools and equipment	(1,394)	(324)	-	(1,718)
Trucks and tractors	(7,117)	(1,400)	-	(8,517)
Office building	(4,477)	(931)	-	(5,408)
Office furniture & equipment	(2,442)	(194)	-	(2,636)
Totals	(125,550)	(20,153)	-	(145,703)
Net capital assets	\$ 623,929	\$ (19,668)	\$ -	\$ 604,261

NONCURRENT DEBT

Non-current debt is a promissory note dated September 4, 1997 in the amount of \$126,500 payable to the United States of America, acting through USDA Rural Development, formerly known as Farmers Home Administration. The note is secured by certain real property and all other net assets of the District. Interest only was required for the years ended September 4, 1998 and 1999 at the rate of 4.5%. Thereafter, the note payments are \$581 monthly including interest of 4.5% for 40 years or until paid. The note balance at July 31, 2011 was \$105,574.

The annual requirements to amortize all debt outstanding as of July 31, 2011 are as follows:

<u>Fiscal year ended:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
July 31, 2012	2,253	4,719	6,972
July 31, 2013	2,370	4,602	6,972
July 31, 2014	2,480	4,492	6,972
July 31, 2015	2,593	4,379	6,972
July 31, 2016	2,701	4,271	6,972
<u>Five fiscal years ended:</u>			
July 31, 2021	15,537	19,323	34,860
July 31, 2026	19,450	15,410	34,860
July 31, 2031	24,350	10,510	34,860
July 31, 2036	30,483	4,377	34,860
July 31, 2037	3,357	42	3,399
Totals	\$105,574	\$72,125	\$177,699

RESTRICTED ASSETS

The USDA Rural Development requires an amount equal to the note payments for one year be set aside and controlled by them. That amount has been invested in a certificate of deposit and is included in restricted assets.

BROWN & DAVIS, LLP
CERTIFIED PUBLIC ACCOUNTANTS
MEMBERS OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

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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 COMPLIANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of
Rural Water, Sewer, Gas and Solid Waste Management District Number 3
Choctaw County, Oklahoma

We have audited the financial statements of the business-type activities of Rural Water, Sewer, Gas and Solid Waste Management District Number 3, Choctaw County, Oklahoma (the District) as of and for the year ended July 31, 2011, and have issued our report thereon dated November 30, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District'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 will not be prevented, or detected and corrected on a timely basis.

Our 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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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*.

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


Brown & Davis, LLP
Certified Public Accountants

November 30, 2011

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November 30, 2011

Board of Directors
Rural Water, Sewer, Gas, and
Solid Waste Management District No. 3
Sawyer, OK

We have audited the financial statements of the Rural Water, Sewer, Gas, and Solid Waste Management District No. 3 for the year ended July 31, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated September 30, 2011.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting principles. The significant accounting policies used by the Rural Water, Sewer, Gas, and Solid Waste Management District No. 3 are described in the notes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was the depreciation expense.

Management's estimate of the depreciation expense is based on estimated useful lives of the assets. We evaluated the key factors and assumptions used to develop the depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreement arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 30, 2011.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the government unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

You must send a copy of the audit report to the following:

District Director
United States Department of Agriculture
Rural Development
PO Box 529
Atoka, OK 74525

Also, in compliance with an Oklahoma statute, we are required to file a copy of our audit report with the Oklahoma State Auditor and Inspector together with a \$100.00 filing fee. The purpose is to ensure compliance with the statutory provisions and *Government Auditing Standards*. We will include the filing fee in our billing for the audit.

This information is intended solely for the use of the Board of Directors and management of the Rural Water, Sewer, Gas, and Solid Waste Management District No. 3 and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the opportunity to be of service. If you have any questions, please let us know.

Sincerely yours,



Brown & Davis, LLP