

**RURAL WATER DISTRICT NO. 3
KAY COUNTY, OKLAHOMA**

ANNUAL FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

RURAL WATER DISTRICT NO. 3
KAY COUNTY, OKLAHOMA
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YEARS ENDED DECEMBER 31, 2012 AND 2011

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of Rural Water District No. 3, Kay County, Oklahoma as of December 31, 2012 and 2011 and for the years then ended. These financial statements are the responsibility of the District's management.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting as described in Note 1. This includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *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 whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such an opinion. An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

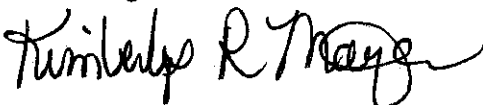
In our opinion, the financial statements referred to above, present fairly, in all material respects, the respective modified cash basis financial position of Rural Water District No. 3, Kay County, Oklahoma, as of December 31, 2012 and 2011; the respective changes in modified cash basis financial position; and, when applicable, cash flows thereof, for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated March 3, 2013 on our consideration of Rural Water District No. 3, Kay County, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain 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 read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink, reading "Kimberley R. Mayer". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

Kimberlye R. Mayer, CPA, P.C.
Blackwell, Oklahoma
March 3, 2013

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

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

We have audited the financial statements of Rural Water District No. 3, Kay County, Oklahoma as of and for the year ended December 31, 2012 and have issued our report thereon dated March 3, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements were prepared on the modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

Management of Rural Water District No. 3, Kay County, Oklahoma is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Rural Water District No. 3, Kay County, Oklahoma'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 Rural Water District No. 3, Kay County, Oklahoma's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Rural Water District No. 3, Kay County, 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 combination of deficiencies, in internal control such that there is reasonable possibility that a material misstatement of the entity's financial statements 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 weakness, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water District No. 3, Kay County, Oklahoma's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 management, the board of directors, and others within the District, and is not intended to be and should not be used by anyone other than these specified parties.



Kimberly R. Mayer, CPA, P.C.
Blackwell, Oklahoma
March 3, 2013

FINANCIAL STATEMENTS

AND

NOTES

RURAL WATER DISTRICT NO. 3
KAY COUNTY, OKLAHOMA
STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS
MODIFIED CASH BASIS
DECEMBER 31, 2012 AND 2011

ASSETS

	<u>2012</u>	<u>2011</u>
Current Assets:		
Cash and cash equivalents	\$ 82,130	\$ 197,258
Certificates of deposit	144,746	143,442
ORWAAG reserves	1,000	1,000
Utility deposit	<u>180</u>	<u>180</u>
Total Current Assets	228,056	341,880
Capital assets (net of accumulated depreciation) (Note 2)	<u>779,043</u>	<u>630,410</u>
Total Assets	<u><u>\$ 1,007,099</u></u>	<u><u>\$ 972,290</u></u>

LIABILITIES AND NET ASSETS

Liabilities:	\$	\$
Net Assets:		
Invested in capital assets	779,043	630,410
Unrestricted	<u>228,056</u>	<u>341,880</u>
Total Net Assets	<u>1,007,099</u>	<u>972,290</u>
Total Liabilities and Net Assets	<u><u>\$ 1,007,099</u></u>	<u><u>\$ 972,290</u></u>

The accompanying report and notes are an integral part of these financial statements.

RURAL WATER DISTRICT NO. 3
KAY COUNTY, OKLAHOMA
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
MODIFIED CASH BASIS
YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Operating Revenues:		
Water service	\$ 260,421	\$ 257,330
Late penalties	5,811	6,154
Miscellaneous income	11,372	11,927
Total Operating Revenues	<u>277,604</u>	<u>275,411</u>
Operating Expenses:		
Water purchases	116,560	106,357
Utilities	10,464	11,396
Repairs and maintenance	71,671	58,837
Mileage	2,195	2,157
Office supplies and postage	3,801	3,808
Insurance and bonds	4,777	5,272
Auditing, accounting and legal fees	915	915
Personnel costs	10,445	10,040
Depreciation	25,809	23,164
Dues, memberships & meetings	3,550	2,963
Telephone	815	796
Miscellaneous expense	616	683
Total Operating Expenses	<u>251,618</u>	<u>226,388</u>
Operating Income (Loss)	25,986	49,023
Nonoperating Revenue (Expenses):		
Interest income	1,589	2,276
New memberships	12,500	11,500
Members' meters sold	(5,266)	
Total Nonoperating Revenues	<u>8,823</u>	<u>13,776</u>
Change in Net Assets	34,809	62,799
Net Assets, beginning of year	<u>972,290</u>	<u>909,491</u>
Net Assets, end of year	<u><u>\$ 1,007,099</u></u>	<u><u>\$ 972,290</u></u>

The accompanying report and notes are an integral part of these financial statements.

RURAL WATER DISTRICT NO. 3
KAY COUNTY, OKLAHOMA
STATEMENTS OF CASH FLOWS
MODIFIED CASH BASIS
YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Cash Flows From Operating Activities:		
Cash received from customers	\$ 266,232	\$ 263,484
Other operating cash receipts	11,372	11,927
Cash payments to employees	(9,800)	(9,350)
Cash payments to suppliers for goods and services	<u>(216,009)</u>	<u>(193,874)</u>
Net cash provided (used) by operating activities	51,795	72,187
 Cash flows from non-capital financing activities:		
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(174,442)	(4,308)
Members' meters sold	(5,266)	
Membership fees	<u>12,500</u>	<u>11,500</u>
Net cash provided (used) by financing activities	(167,208)	7,192
 Cash flows from investing activities:		
Interest income	1,589	2,276
(Increase) decrease in certificates of deposit	<u>(1,304)</u>	<u>(1,778)</u>
Net cash provided (used) by investing activities	<u>285</u>	<u>498</u>
 Net increase (decrease) in cash and cash equivalents	(115,128)	79,877
Beginning cash and cash equivalents	<u>197,258</u>	<u>117,381</u>
Ending cash and cash equivalents	<u>\$ 82,130</u>	<u>\$ 197,258</u>
 Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:		
Operating income or loss	\$ 25,986	\$ 49,023
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation	<u>25,809</u>	<u>23,164</u>
Net cash provided (used) by operating activities	<u>\$ 51,795</u>	<u>\$ 72,187</u>

The accompanying report and notes are an integral part of these financial statements.

RURAL WATER DISTRICT NO. 3
KAY COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

Rural Water District No. 3, Kay County, Oklahoma was incorporated on April 3, 1967 under the Rural Water District Act of the Oklahoma State Statutes, Title 82, 1301-1321, as amended. The District is exempt from federal and state income taxes as a 501(c)(12) organization. The purpose of the District is to acquire water and water rights; to build and acquire waterlines and other facilities; and to operate the same for the purpose of furnishing water to serve the needs of owners and occupants of land located within the District, and others as authorized by the By-Laws.

The District is a governed entity by a Board of Directors that acts as the authoritative and legislative body of the entity. The Board of Directors is comprised of elected board members.

Basis of Accounting

The District maintains its records and prepares its financial statements on the modified cash basis of accounting. Under the modified cash basis, revenues are recognized when received, rather than when earned, and expenditures are recognized when paid, rather than when incurred. Fixed assets are recorded at cost when purchased. Annual depreciation is calculated on a straight-line basis. Total depreciation for the years ended December 31, 2012 and 2011 was \$25,809 and \$23,164 respectively.

Cash and Deposits

The State of Oklahoma allows government entities to invest in the following: direct obligations of the United States Government, its agencies or instrumentalities; collateralized or insured certificates of deposit; insured savings accounts or savings certificates or county, municipal or school district direct debt.

Cash and deposits are maintained in financial institutions which provide coverage to depositors through the Federal Deposit Insurance Corporation.

Statement of Cash Flows

For the purposes of the Statement of Cash Flows, the District considers all accounts, (excluding restricted reserves), with a maturity of three months or less to be cash equivalents.

Budget

The District is not legally required to adopt a budget.

RURAL WATER DISTRICT NO. 3
KAY COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 2 – PROPERTY AND EQUIPMENT:

Depreciable assets are recorded at cost when purchased or constructed. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are expendable. Annual depreciation is calculated on a straight-line basis. The balances for depreciable assets by major category are as follows:

	12/31/11	Additions	12/31/12
Land	\$ 4,200	\$	\$ 4,200
Waterline system	1,353,933	173,367	1,527,300
Office building	77,475		77,475
Office equipment and tools	4,490	1,075	5,565
	1,440,098	174,442	1,614,540
Accumulated depreciation	(809,688)	(25,809)	(835,497)
Net	<u>\$ 630,410</u>	<u>\$ 148,633</u>	<u>\$ 779,043</u>

NOTE 3 – RISK MANAGEMENT:

The District is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District manages this risk through the purchase of commercial insurance policies. Claims are recognized when it is probably that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. There were no claims during the year ended December 31, 2012.

NOTE 4 – ESTIMATES:

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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 5 – CONTINGENCIES:

As of December 31, 2012 the District did not have any pending litigation or potential non-disclosed liabilities that management believes would have a material effect on the financial statements.

RURAL WATER DISTRICT NO. 3
KAY COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 6 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through March 3, 2013, the date which the financial statements were available to be issued.