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

**ANNUAL FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2011 AND 2010**

RURAL WATER DISTRICT NO. 3  
KAY COUNTY, OKLAHOMA  
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## Independent Auditor's Report

Board of Directors

Rural Water District No. 3, Kay County, Oklahoma

We have audited the statements of assets, liabilities, and net assets - modified cash basis of Rural Water District No. 3, Kay County, Oklahoma as of December 31, 2011 and 2010 and the related statements of revenues and expenses and changes in net assets and cash flows -- modified cash basis for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

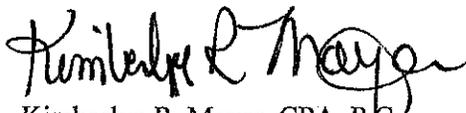
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and those standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance 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 statements presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1, Rural Water District No. 3, Kay County, Oklahoma prepares its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles in the United States of America.

In our opinion the financial statements referred to above, present fairly, in all material respects, the statements of assets, liabilities and net assets -- modified cash basis of Rural Water District No. 3, Kay County, Oklahoma as of December 31, 2011 and 2010 and its revenues and expenses and changes in net assets and cash flows -- modified cash basis, for the years then ended.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 15, 2012 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 read in conjunction with this report in considering the results of our audit.

Rural Water District No. 3, Kay County, Oklahoma has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board requires to supplement, although, not be a part of the basic financial statements.



Kimberlye R. Mayer, CPA, P.C.  
Blackwell, Oklahoma  
February 15, 2012

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, 2011 and have issued our report thereon dated February 15, 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. Rural Water District No. 3, Kay County, Oklahoma has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Boards requires to supplement, although, not be a part of the basic financial statements.

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.

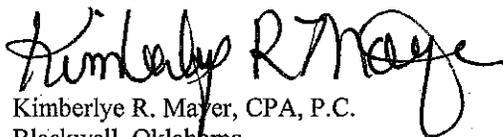
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination 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.



Kimberlye R. Mayer, CPA, P.C.  
Blackwell, Oklahoma  
February 15, 2012

FINANCIAL STATEMENTS

AND

NOTES

RURAL WATER DISTRICT NO. 3  
 KAY COUNTY, OKLAHOMA  
 STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS  
 MODIFIED CASH BASIS  
 DECEMBER 31, 2011 AND 2010

ASSETS

	<u>2011</u>	<u>2010</u>
Current Assets:		
Cash and cash equivalents	\$ 197,258	\$ 117,381
Investments (Note 1)	144,442	142,664
Utility deposit	<u>180</u>	<u>180</u>
Total Current Assets	341,880	260,225
Capital assets (net of accumulated depreciation) (Note 2)	<u>630,410</u>	<u>649,266</u>
Total Assets	<u>\$ 972,290</u>	<u>\$ 909,491</u>

LIABILITIES AND NET ASSETS

Liabilities:	\$	\$
Net Assets:		
Invested in capital assets	630,410	649,266
Unrestricted	<u>341,880</u>	<u>260,225</u>
Total Net Assets	972,290	909,491
Total Liabilities and Net Assets	<u>\$ 972,290</u>	<u>\$ 909,491</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, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Operating Revenues:		
Water service	\$ 257,330	\$ 237,715
Late penalties	6,154	5,753
Miscellaneous income	<u>11,927</u>	<u>9,838</u>
Total Operating Revenues	275,411	253,306
 Operating Expenses:		
Water purchases	106,357	90,333
Utilities	11,396	10,965
Repairs and maintenance	58,837	46,599
Mileage	2,157	2,163
Office supplies and postage	3,808	4,470
Insurance and bonds	5,272	4,021
Auditing, accounting and legal fees	915	810
Personnel costs	10,040	9,537
Depreciation	23,164	21,529
Dues and meetings	2,963	3,318
Telephone	796	724
Miscellaneous expense	<u>683</u>	<u>2,495</u>
Total Operating Expenses	<u>226,388</u>	<u>196,964</u>
 Operating Income (Loss)	49,023	56,342
 Nonoperating Revenue (Expenses):		
Interest income	2,276	3,486
Memberships	<u>11,500</u>	<u>9,000</u>
Total Nonoperating Revenues	<u>13,776</u>	<u>12,486</u>
 Change in Net Assets	62,799	68,828
 Net Assets, beginning of year	<u>909,491</u>	<u>840,663</u>
 Net Assets, end of year	<u>\$ 972,290</u>	<u>\$ 909,491</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, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Cash Flows From Operating Activities:		
Cash received from customers	\$ 263,484	\$ 243,468
Other operating cash receipts	11,927	9,838
Cash payments to employees	(9,350)	(8,800)
Cash payments to suppliers for goods and services	<u>(193,874)</u>	<u>(166,635)</u>
Net cash provided (used) by operating activities	72,187	77,871
 Cash flows from non-capital financing activities:		
 Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(4,308)	(113,936)
Membership fees	<u>11,500</u>	<u>9,000</u>
Net cash provided (used) by financing activities	7,192	(104,936)
 Cash flows from investing activities:		
Interest income	2,276	3,486
(Increase) decrease in investments	<u>(1,778)</u>	<u>(2,695)</u>
Net cash provided (used) by investing activities	498	791
 Net increase (decrease) in cash and cash equivalents	79,877	(26,274)
Beginning cash and cash equivalents	<u>117,381</u>	<u>143,655</u>
Ending cash and cash equivalents	<u>\$ 197,258</u>	<u>\$ 117,381</u>
 Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:		
Operating income or loss	\$ 49,023	\$ 56,342
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation	<u>23,164</u>	<u>21,529</u>
Net cash provided (used) by operating activities	<u>\$ 72,187</u>	<u>\$ 77,871</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, 2011 AND 2010

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, 2011 and 2010 was \$23,164 and \$21,529 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. The following is a detailed schedule of the cash and deposits at December 31, 2011 and 2010:

	2011	2010
Certificates of deposit	\$ 141,664	\$ 143,442
ORWA Assurance Fund	1,000	1,000
Total deposits	\$ 144,442	\$ 142,664

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, 2011 AND 2010

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:

	<u>12/31/10</u>	<u>Additions</u>	<u>12/31/11</u>
Land	\$ 4,200	\$	\$ 4,200
Waterline system	1,349,625	4,308	1,353,933
Office building	77,475		77,475
Office equipment and tools	4,490		4,490
	<u>1,435,790</u>	<u>4,308</u>	<u>1,440,098</u>
Accumulated depreciation	<u>(786,524)</u>	<u>(23,164)</u>	<u>(809,688)</u>
Net	<u>\$ 649,266</u>	<u>\$ (18,856)</u>	<u>\$ 630,410</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, 2011.

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, 2011 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, 2011 AND 2010

NOTE 6 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through February 15, 2012, the date which the financial statements were available to be issued.