

**RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT  
DISTRICT NO. 3, OSAGE COUNTY, OKLAHOMA**

**ANNUAL FINANCIAL STATEMENTS**

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

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT  
DISTRICT NO. 3, OSAGE COUNTY, OKLAHOMA  
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## Independent Auditor's Report

Board of Directors  
Rural Water, Sewer, and Solid Waste Management  
District No. 3, Osage County, Oklahoma

We have audited the accompanying financial statements of Rural Water, Sewer, and Solid Waste Management District No. 3, Osage County, Oklahoma as of December 31, 2011 and 2010 and 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.

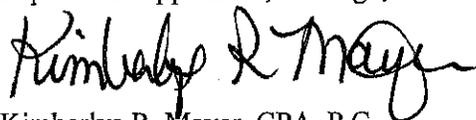
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 discussed in Note 1, Rural Water, Sewer, and Solid Waste Management, District No. 3, Osage County, Oklahoma prepared its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of Rural Water, Sewer, and Solid Waste Management District No. 3, Osage County, Oklahoma, as of December 31, 2011 and 2010 and the results of its operations and its cash flows for the years then ended in conformity with the modified cash basis of accounting.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 1, 2012 on our consideration of Rural Water, Sewer, and Solid Waste Management District No. 3, Osage County, Oklahoma's internal control over financial reporting and 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, Sewer, and Solid Waste Management District No. 3, Osage 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  
June 1, 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, Sewer, and Solid Waste Management  
District No. 3, Osage County, Oklahoma

We have audited the financial statements of Rural Water, Sewer, and Solid Waste Management District No. 3, Osage County, Oklahoma as of and for the year ended December 31, 2011, and have issued our report thereon dated June 1, 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, Sewer, and Solid Waste Management District No. 3, Osage 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Rural Water, Sewer, and Solid Waste Management District No. 3, Osage 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, Sewer, and Solid Waste Management District No. 3, Osage County, Oklahoma's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Rural Water, Sewer, and Solid Waste Management District No. 3, Osage County, Oklahoma's internal control over financial reporting.

Our 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 and responses, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

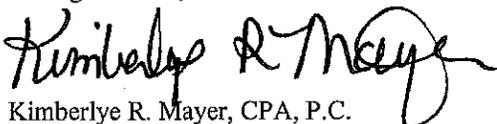
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of control deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Rural Water, Sewer, and Solid Waste Management District No. 3, Osage County, Oklahoma's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water, Sewer, and Solid Waste Management District No. 3, Osage County, Oklahoma's financial statements are free of material misstatement, 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*.

Rural Water, Sewer, and Solid Waste Management District No. 3, Osage County, Oklahoma's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the board of directors and others within the organization, 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  
June 1, 2012

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT  
DISTRICT NO. 3, OSAGE COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED DECEMBER 31, 2011

Material Weakness Communicated In Prior Year:

Material Weakness in Internal Control Over Financial Reporting: Inadequate Segregation of Duties:

Criteria: The segregation of duties and responsibilities between different individuals and the reconciliation of those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

Condition: Presently, the same individual is responsible for water service billings and receiving payments; making and recording deposits; maintaining billing registers; and reconciling the monthly bank bank statements. Only limited oversight is provided over this individual in the conduct of their daily functions.

Cause: The entity's limited size has made it difficult for management to fully segregate the duties.

Effect or Potential Effect: Without sufficient segregation of duties, the risk significantly increases that errors and/or fraud related to the water billing and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: The board should evaluate the risks associated with the lack of segregation of duties and consider implementing controls that could mitigate these risks.

Board's Response: The board has concluded that due to the limited number of personnel, an adequate segregation of duties is not achievable and that the cost of correcting the weakness would exceed the benefits that would be derived from it.

FINANCIAL STATEMENTS

AND

NOTES

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT  
DISTRICT NO. 3, OSAGE COUNTY, OKLAHOMA  
STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS  
MODIFIED CASH BASIS  
DECEMBER 31, 2011 AND 2010

	ASSETS	
	2011	2010
Current Assets:		
Cash and cash equivalents	\$ 13,180	\$ 29,514
Restricted accounts:		
Reserve account (Note 4)	10,723	5,947
Property, plant and equipment (net of accumulated depreciation) (Note 2)	1,086,383	1,132,921
Work in progress		
Other assets:		
Deposits	190	190
Total Assets	\$ 1,110,476	\$ 1,168,572

LIABILITIES AND NET ASSETS

Current Liabilities:		
Deposits	\$ 1,000	\$ 1,000
Notes payable (current portion)	12,087	11,500
Notes payable, long-term (Note 3)	627,935	640,044
Total Liabilities	641,022	652,544
Net Assets:		
Invested in capital assets, net of related debt	446,361	481,377
Restricted for debt service	10,723	5,947
Unrestricted	12,370	28,704
Total Net Assets	469,454	516,028
Total Liabilities and Net Assets	\$ 1,110,476	\$ 1,168,572

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

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT  
DISTRICT NO. 3, OSAGE 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	\$ 202,672	\$ 191,185
Operating Expenses:		
Water purchases	87,385	83,795
Utilities	2,524	1,511
Telephone	1,205	1,151
Repairs and maintenance	26,407	23,320
Insurance	2,803	2,803
Office supplies and postage	2,226	1,125
Depreciation	46,538	46,427
Professional fees	5,415	3,365
Accounting and billing fees	7,612	7,587
Dues, fees and memberships	776	750
Contract labor	34,020	38,333
Miscellaneous expense	68	390
Total Operating Expenses	<u>216,979</u>	<u>210,557</u>
Operating Income (Loss)	(14,307)	(19,372)
Nonoperating Revenue (Expenses):		
Interest income	47	139
Interest expense	(32,314)	(32,875)
Refund of membership	(2,000)	
New memberships	2,000	
Total Nonoperating Revenues (Expenses)	<u>(32,267)</u>	<u>(32,736)</u>
Change in Net Assets	(46,574)	(52,108)
Net Assets, beginning of year	<u>516,028</u>	<u>568,136</u>
Net Assets, end of year	<u>\$ 469,454</u>	<u>\$ 516,028</u>

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

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT  
DISTRICT NO. 3, OSAGE 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	\$ 202,672	\$ 191,185
Cash payments to suppliers for goods and services	<u>(170,441)</u>	<u>(164,130)</u>
Net cash provided (used) by operating activities	32,231	27,055
 Cash flows from non-capital financing activities:		
 Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets		(12,018)
Principal paid on notes	(11,522)	(10,961)
Interest paid on notes and loans	(32,314)	(32,875)
Grants received (paid)		
System development fees		
Net cash provided (used) by financing activities	<u>(43,836)</u>	<u>(55,854)</u>
 Cash flows from investing activities:		
Interest income	47	139
(Increase) decrease in restricted accounts	<u>(4,776)</u>	<u>31,885</u>
Net cash provided (used) by investing activities	<u>(4,729)</u>	<u>32,024</u>
 Net increase (decrease) in cash and cash equivalents	(16,334)	3,225
Beginning cash and cash equivalents	<u>29,514</u>	<u>26,289</u>
Ending cash and cash equivalents	<u>\$ 13,180</u>	<u>\$ 29,514</u>
 Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income or loss	\$ (14,307)	\$ (19,372)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	46,538	46,427
Changes in assets and liabilities:		
Increase in deposits		
Net cash provided (used) by operating activities	<u>\$ 32,231</u>	<u>\$ 27,055</u>

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

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT  
DISTRICT NO. 3, OSAGE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

The Rural Water, Sewer, and Solid Waste Management District No. 3, Osage County, Oklahoma was incorporated on May 20, 1974 under Title 82, Section 1324.1 as amended, of the laws of the State of Oklahoma. The District is exempt from Federal and State income taxes under section 501(c)(12) of the United States Internal Revenue Code. The purpose of the District is to provide water services to the owners and occupants of property located within the District, and others as authorized by law.

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 is classified as an Enterprise Fund. The costs of providing the water services to the public are financed mainly through user charges. The financial statements of the District have been prepared using the modified cash basis of accounting. This basis recognized assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements:

Cash and Deposits

Cash is maintained in financial institutions, which provide coverage to depositors through the Federal Deposit Insurance Corporation.

Cash and Cash Equivalents

All bank accounts are maintained in financial institutions which provide coverage to depositors through the Federal Deposit Insurance Corporation. All operating and savings accounts are considered cash equivalents for purposes of the cash flow statement.

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT  
DISTRICT NO. 3, OSAGE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Investments

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.

NOTE 2 – PROPERTY, PLANT AND EQUIPMENT:

Depreciable assets are recorded at cost when purchased or constructed. Depreciation is calculated on a straight-line basis over the estimated useful lives of the depreciable assets. The water system is depreciated over 40 years and the office equipment over 5 years. Total depreciation for the year ended December 31, 2011 and 2010 was \$46,538 and \$46,427 respectively. The balances for depreciable assets by major category at December 31, 2011 are:

	12/31/2010	Additions	12/31/2011
Waterline system	\$ 1,806,609	\$	\$ 1,806,609
Office equipment	2,510		2,510
	<u>1,809,119</u>	<u></u>	<u>1,809,119</u>
Less accumulated depreciation	(685,921)	(46,538)	(732,459)
Net depreciable assets	<u>1,123,198</u>	<u>(46,538)</u>	<u>1,076,660</u>
Land	9,723		9,723
Total	<u>\$ 1,132,921</u>	<u>\$ (46,538)</u>	<u>\$ 1,086,383</u>

NOTE 3 – NOTES PAYABLE:

The District entered into a note agreement with USDA-Rural Development to borrow up to \$750,000 to construct a pipeline. The term of this loan is 40 years and carries an interest rate of 5%. Principle payments made during 2011 were \$11,522. Monthly payments are \$3,653. The following is a schedule of note payments:

Year ended	Amount	Principle	Interest
12/31/2012	\$ 43,836	\$ 12,087	\$ 31,749
12/31/2013	43,836	12,706	31,130
12/31/2014	43,836	13,356	30,480
12/31/2015	43,836	14,040	29,796
12/31/2016	43,836	14,757	29,079
12/31/17 - 12/31/21	219,180	85,917	133,263
12/31/22 - 12/31/26	219,180	110,262	108,918
12/31/27 - 12/31/31	219,180	141,506	77,674
12/31/32 - 12/31/36	219,180	181,603	37,577
12/31/37 - 12/31/38	82,672	53,788	28,884
Total	<u>\$ 1,178,572</u>	<u>\$ 640,022</u>	<u>\$ 538,550</u>

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT  
DISTRICT NO. 3, OSAGE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 4 – RESTRICTED ACCOUNTS:

The District maintains restricted bank accounts. The funds in the deposit, waterline account and the construction account are for improvement projects.

USDA – Rural Development requires the District to maintain a loan reserve account. Monthly funds are to be deposited to this account until the balance is \$43,836. At December 31, 2011 and 2010 the balances in this reserve account were \$10,723 and \$5,947 respectively.

NOTE 5 – JOINT ACCOUNT:

Rural Water, Sewer, and Solid Waste Management No. 3, Osage County, Oklahoma has a project in construction with another water district. A joint bank account has been opened for the construction costs. At December 31, 2011 this account had a balance of \$1,059.

NOTE 6 – NET ASSETS:

Net assets present the difference between assets and liabilities in the statement of net assets. Net assets invested in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by District legislation or external restrictions by creditors, grantors, laws or regulations of other governments.

NOTE 7 – ESTIMATES:

The preparation of financial statements in conformity with the modified cash basis of accounting requires the use of 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 8 – RISK MANAGEMENT:

The District is exposed to various risks or 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 non have been reports, are considered. There were no claims during the year ended December 31, 2011.

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT  
DISTRICT NO. 3, OSAGE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 9 – 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.

NOTE 10 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through June 1, 2012, the date which the financial statements were available to be issued.