

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

**ANNUAL FINANCIAL STATEMENTS**

**YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

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WOODS COUNTY, OKLAHOMA  
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## Independent Auditor's Report

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

We have audited the statements of assets, liabilities, and net assets— modified cash basis of Rural Water District No. 3, Woods County, Oklahoma as of September 30, 2011 and 2010, and the related statements of revenue 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 audit.

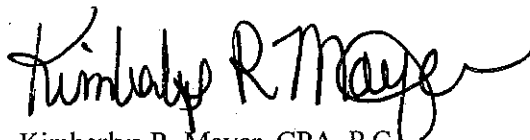
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan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

As described in Note 1, the District prepares its financial statements on the modified cash basis of accounting. This basis 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 statement of assets, liabilities, and net assets – modified cash basis of Rural Water District No. 3, Woods County, Oklahoma as of September 30, 2011 and 2010, and its revenues and expenses and changes in net assets and cash flows – modified cash basis, for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 19, 2011 on our consideration of Rural Water District No. 3, Woods County, Oklahoma'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 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, Woods 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  
October 19, 2011

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, Woods County, Oklahoma

We have audited the financial statements of Rural Water District No. 3, Woods County, Oklahoma as of and for the year ended September 30, 2011 and have issued our report there on dated October 19, 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. The financial statements were prepared using the modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. Rural Water District No. 3, Woods 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 District No. 3, Woods 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, Woods 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, Woods 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.

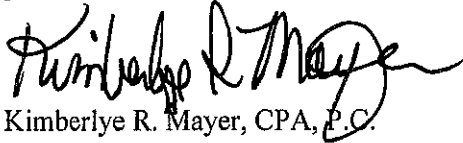
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of control deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity'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 District No. 3, Woods 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 District No. 3, Woods County Oklahoma's response to the findings 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, others within the District and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Kimberlye R. Mayer". The signature is fluid and cursive, with a large initial "K" and "M".

Kimberlye R. Mayer, CPA, P.C.  
Blackwell, Oklahoma  
October 19, 2011

RURAL WATER DISTRICT NO. 3  
WOODS COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED SEPTEMBER 30, 2011

**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 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 sales 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 DISTRICT NO. 3  
WOODS COUNTY, OKLAHOMA  
STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS  
MODIFIED CASH BASIS  
SEPTEMBER 30, 2011 AND 2010

ASSETS	<u>2011</u>	<u>2010</u>
Current Assets:		
Cash and cash equivalents	\$ 104,446	\$ 103,868
Certificates of deposit	<u>125,724</u>	<u>86,903</u>
Total Current Assets	230,170	190,771
Reserve certificates	3,000	3,000
Utility deposits	70	70
Capital assets (net of accumulated depreciation) (Note 2)	<u>473,750</u>	<u>466,285</u>
Total Assets	<u>\$ 706,990</u>	<u>\$ 660,126</u>

LIABILITIES AND NET ASSETS		
Liabilities:	\$	\$
Net Assets:		
Invested in capital assets	473,750	466,285
Restricted		
Unrestricted	<u>233,240</u>	<u>193,841</u>
Total Net Assets	<u>706,990</u>	<u>660,126</u>
Total Liabilities and Net Assets	<u>\$ 706,990</u>	<u>\$ 660,126</u>

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



RURAL WATER DISTRICT NO.3  
WOODS COUNTY, OKLAHOMA  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
MODIFIED CASH BASIS  
YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Operating Revenues:		
Water service	\$ 257,408	\$ 211,540
Other income	12,704	664
Total Operating Revenues	<u>270,112</u>	<u>212,204</u>
Operating Expenses:		
Water purchases	77,168	71,430
Wages	51,823	45,858
Payroll taxes	3,476	3,199
Employee benefits	1,952	102
Office supplies and postage	2,508	1,431
Insurance	6,866	6,533
Professional fees	1,765	2,305
Utilities	16,414	13,330
Telephone	1,139	1,782
Repairs and maintenance	16,899	37,064
Fuel, oil and tires	7,406	6,651
Meter reader fees	3,620	3,840
Meetings, travel and training	679	548
Depreciation	33,151	35,811
Memberships and fees	1,349	
Other expenses	722	1,281
Total Operating Expenses	<u>226,937</u>	<u>231,165</u>
Operating Revenues Over (Under) Expenses	43,175	(18,961)
Non-operating Revenues (Expenses):		
Interest income	1,589	2,486
Memberships	2,100	4,275
Total Non-operating Revenue (Expense)	<u>3,689</u>	<u>6,761</u>
Changes in Net Assets	46,864	(12,200)
Net Assets, beginning of year	660,126	673,269
Net Assets, end of year	<u>\$ 706,990</u>	<u>\$ 661,069</u>

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

RURAL WATER DISTRICT NO. 3  
WOODS COUNTY, OKLAHOMA  
STATEMENTS OF CASH FLOWS  
MODIFIED CASH BASIS  
YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Cash Flows From Operating Activities:		
Cash received from customers	\$ 270,112	\$ 211,540
Other operating cash receipts		664
Cash payments to employees	(77,168)	(45,858)
Cash payments to suppliers for goods and services	<u>(116,618)</u>	<u>(150,439)</u>
Net cash provided (used) by operating activities	76,326	15,907
 Cash flows from non-capital financing activities:		
 Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(40,616)	
Membership fees	<u>2,100</u>	<u>4,275</u>
Net cash provided (used) by financing activities	(38,516)	4,275
 Cash flows from investing activities:		
Interest income	1,589	2,486
(Increase) decrease in certificates of deposit	<u>(38,821)</u>	<u>(1,281)</u>
Net cash provided (used) by investing activities	<u>(37,232)</u>	<u>1,205</u>
 Net increase (decrease) in cash and cash equivalents	578	21,387
Beginning cash and cash equivalents	<u>103,868</u>	<u>82,481</u>
Ending cash and cash equivalents	<u>\$ 104,446</u>	<u>\$ 103,868</u>
 Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 43,175	\$ (19,904)
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation	<u>33,151</u>	<u>35,811</u>
Net cash provided (used) by operating activities	<u>\$ 76,326</u>	<u>\$ 15,907</u>

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

RURAL WATER DISTRICT NO. 3  
WOODS COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2011 AND 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

Rural Water District No. 3, Woods County, Oklahoma was organized in January, 1977 under the Rural Water, Sewer, Gas and Solid Waste Management District Act, Title 82, 1324.3 et seq. of the laws of the State of Oklahoma. The District is exempt from federal and state income taxes. 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 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 recognizes 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 and deposits are maintained in financial institutions which provide coverage to depositors through the Federal Deposit Insurance Corporation.

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 Cash Equivalents

The District considers all checking accounts and deposits with a maturity of three months or less to be cash equivalents.

RURAL WATER DISTRICT NO. 3  
WOODS COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2011 AND 2010

NOTE 2 – PROPERTY AND EQUIPMENT:

Waterline extensions and additions are capitalized and depreciated over their estimated useful lives. 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. Total depreciation for the year ended September 30, 2011 and 2010 was \$33,151 and \$35,811 respectively. The balances for depreciable assets by major category are as follows:

	<u>9/30/10</u>	<u>Additions</u>	<u>Deletions</u>	<u>9/30/11</u>
Land and right of way	\$ 3,014	\$	\$	\$ 3,014
Waterline system	1,019,208			1,019,208
Buildings	73,686	28,616		102,302
Equipment	39,996			39,996
Office equipment	8,956			8,956
Vehicles		12,000		12,000
Accumulated depreciation	<u>(678,575)</u>	<u>(33,151)</u>		<u>(711,726)</u>
Net	<u>\$ 466,285</u>	<u>\$ 7,465</u>	<u>\$</u>	<u>\$ 473,750</u>

NOTE 3 – 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 4 – 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 September 30, 2011.

RURAL WATER DISTRICT NO. 3,  
WOODS COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2011 AND 2010

NOTE 5 – 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 6 – CONTINGENCIES:

As of September 30, 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 7 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through October 19, 2011, the date which the financial statements were available to be issued.