

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

ANNUAL FINANCIAL STATEMENTS

YEAR ENDED OCTOBER 31, 2011

RURAL WATER DISTRICT NO. 3,
GRADY COUNTY
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Kimberlye R. Mayer, CPA, P.C.

735 West Doolin

Blackwell, OK 74631

(580) 363-1453
Fax (580) 363-0068

Accountant's Compilation Report

Board of Directors
Rural Water District No. 3, Grady County

We have compiled the accompanying financial statements of the Rural Water District No. 3, Grady County as of and for the year ended October 31, 2011. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance about whether the financial statements are in accordance with 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.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified basis of accounting and for designing, implementing, and maintaining internal control relevant to the preparation and fair representation of the financial statements.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.



Kimberlye R. Mayer, CPA, P.C.
Blackwell, Oklahoma
November 22, 2011

RURAL WATER DISTRICT NO. 3, GRADY COUNTY
STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS
MODIFIED CASH BASIS
OCTOBER 31, 2011

ASSETS

Current Assets:	
Operating accounts	\$ 6,913
Savings account	12,719
Reserve account	<u>10,350</u>
Total Cash and Cash Equivalents (Note 1)	29,982
Waterline system (net of accumulated depreciation (Note 2))	51,212
Work in progress	<u>7,100</u>
Total Assets	<u><u>\$ 88,294</u></u>

LIABILITIES AND NET ASSETS

Liabilities:	
Current Liabilities:	
Meter deposits	\$ 1,670
Notes Payable (Note 3)	<u>5,910</u>
Total current liabilities	7,580
Net Assets:	
Invested in capital assets, net of related debt	52,402
Restricted	
Unrestricted	<u>28,312</u>
Total Net Assets	<u>80,714</u>
Total Liabilities and Net Assets	<u><u>\$ 88,294</u></u>

See accountant's compilation report.

RURAL WATER DISTRICT NO. 3, GRADY COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
MODIFIED CASH BASIS
YEAR ENDED OCTOBER 31, 2011

Operating Revenues:	
Water sales	\$ 47,745
Operating Expenses:	
Wages	13,456
Payroll taxes	1,047
Repairs and maintenance	8,293
Water costs	10,899
Depreciation expense	6,045
Insurance	2,928
Professional fees	610
Training	360
Licenses, fees and memberships	2,268
Office expense and postage	840
Telephone and utilities	3,694
Other expenses	175
Total Operating Expenses	<u>50,615</u>
Operating Income (Loss)	(2,870)
Non-operating Revenues (Expenses):	
Interest income	90
Interest expense	(220)
Total Non-operating Revenue (Expense)	<u>(130)</u>
Changes in Net Assets	(3,000)
Net Assets, beginning of year	<u>83,714</u>
Net Assets, end of year	<u><u>\$ 80,714</u></u>

See accountant's compilation report.

RURAL WATER DISTRICT NO. 3, GRADY COUNTY
STATEMENT OF CASH FLOWS
MODIFIED CASH BASIS
YEAR ENDED OCTOBER 31, 2011

Cash Flows From Operating Activities:

Cash received from customers	\$ 47,745
Cash payments to employees	(13,456)
Cash payments to suppliers for goods and services	<u>(31,114)</u>
Net cash provided (used) by operating activities	3,175

Cash flows from capital and related financing activities:

Interest paid on notes	(220)
Loan receipts	7,250
Debt repayment	(1,340)
Acquisition and construction of capital assets	<u>(5,100)</u>
Net cash provided (used) by financing activities	590

Cash flows from investing activities:

Interest income	<u>90</u>
Net cash provided (used) by investing activities	<u>90</u>

Net increase (decrease) in cash and cash equivalents

3,855

Beginning cash and cash equivalents

26,127

Ending cash and cash equivalents

\$ 29,982

Reconciliation of operating income (loss) to net cash provided (used) by operating activities:

Operating income (loss)	\$ (2,870)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	<u>6,045</u>
Net cash provided (used) by operating activities	<u><u>\$ 3,175</u></u>

See accountant's compilation report.

RURAL WATER DISTRICT NO. 3, GRADY COUNTY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED OCTOBER 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

Rural Water District No. 3, Grady County, was created under the Rural Water District Act, Title 82, as amended, of the laws of the State of Oklahoma. The District is exempt from Federal and State income taxes of the United States Internal Revenue code. The purpose of the District is to provide water and limited sewer services to the owners and occupants of land 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

The District considers all checking and savings accounts and deposits with a maturity of three months or less to be cash equivalents for purposes of the cash flow statement.

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.

RURAL WATER DISTRICT NO. 3, GRADY COUNTY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED OCTOBER 31, 2011

NOTE 2 – WATERLINE SYSTEM:

The original waterline system was recorded at cost. Waterline extensions and additions are capitalized and depreciated over their estimated useful lives. Annual depreciation is calculated on a straight-line basis. Total depreciation for the year ended October 31, 2011 was \$6,045. The balances for depreciable assets by major category at October 31, 2011 are as follows:

	Balance 10/31/10	(Additions)	Balance 10/31/11
Waterline system	\$ 155,034	\$	\$ 155,034
Machinery and equipment	29,102		29,102
Accumulated depreciation	(126,879)	(6,045)	(132,924)
Totals	\$ 57,257	\$ (6,045)	\$ 51,212

NOTE 3 – NOTES PAYABLE:

During the year ended October 31, 2011 the District borrowed \$7,250 from a financial institution for waterline engineering services. The deposit accounts are security for the note. The note is due on demand or in the absence of demand on December 17, 2012. The note carries a fixed interest rate of 4.00%. Payments of \$1,340 were made during the year ending October 31, 2011. The following is a summary of the Districts future debt requirements and the balance at October 31, 2011:

<u>Year Ending</u>	<u>Payment Due</u>
10/31/12	\$ 5,973
Less interest	(63)
Net	\$ 5,910

NOTE 4 – 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.

RURAL WATER DISTRICT NO. 3, GRADY COUNTY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED OCTOBER 31, 2011

NOTE 5 – 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 probable 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 October 31, 2011.

NOTE 6 – 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 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 7 – CONTINGENCIES:

As of October 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.