

RURAL WATER, SEWER AND SOLID
WASTE MANAGEMENT DISTRICT #3,
ROGER MILLS COUNTY, OKLAHOMA

FINANCIAL STATEMENTS
AND AUDITOR'S REPORT

DECEMBER 31, 2011 AND 2010

**RURAL WATER, SEWER AND SOLID
WASTE MANAGEMENT DISTRICT #3,
ROGER MILLS COUNTY, OKLAHOMA
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DECEMBER 31, 2011 AND 2010**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rural Water, Sewer and Solid Waste Management
District # 3, Roger Mills County, Oklahoma
Reydon, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the Rural Water, Sewer and Solid Waste Management District # 3, Roger Mills County, Oklahoma, as of December 31, 2011 and 2010, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance

about whether the financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amount 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles 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 opinion.

Opinion

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 # 3, Roger Mills County, Oklahoma, as of December 31, 2011 and 2010, and the respective changes in financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

The District has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 25, 2016, on our consideration

of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements 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 in considering the District's internal control over financial reporting and compliance.

McCulley & McCulley

Weatherford, Oklahoma

February 25, 2016

**RURAL WATER, SEWER AND SOLID WASTE
MANAGEMENT DISTRICT #3, ROGER MILLS COUNTY, OKLAHOMA
BALANCE SHEETS
DECEMBER 31, 2011 AND 2010**

ASSETS	2011	2010
Current Assets		
Cash on Hand	\$ 100	\$ 100
Cash in Bank	31,348	31,593
Cash in Savings	24,281	23,691
Due from Town of Reydon	1,191	1,191
Prepaid Assets	1,217	
Accounts Receivable, Net of Allowance for Loss	<u>1,568</u>	<u>1,874</u>
Total Current Assets	<u>59,705</u>	<u>58,449</u>
Noncurrent Assets		
Restricted Cash	13,466	13,367
Capital Assets, Net of Accumulated Depreciation	<u>300,197</u>	<u>328,520</u>
Total Noncurrent Assets	<u>313,663</u>	<u>341,887</u>
TOTAL ASSETS	<u>\$ 373,368</u>	<u>\$ 400,336</u>
LIABILITIES AND NET POSITION		
LIABILITIES		
Current Liabilities		
Accounts Payable	\$ 4,150	\$ 4,444
Accrued and Withheld Payroll Taxes	380	250
Customer Deposits Payable	3,490	3,430
Current Portion of Long-Term Debt	<u>4,749</u>	<u>6,767</u>
Total Current Liabilities	<u>12,769</u>	<u>14,891</u>
Long-Term Liabilities		
Mortgage Payable - Rural Development	23,913	30,680
Less Current Portion of Mortgage Payable	<u>(4,749)</u>	<u>(6,767)</u>
Total Long-Term Liabilities	<u>19,164</u>	<u>23,913</u>
TOTAL LIABILITIES	<u>31,933</u>	<u>38,804</u>
NET POSITION		
Net Investment in Capital Assets	276,284	297,840
Restricted	13,466	9,937
Unrestricted	<u>51,685</u>	<u>53,755</u>
TOTAL NET POSITION	<u>341,435</u>	<u>361,532</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 373,368</u>	<u>\$ 400,336</u>

The accompanying notes are an integral part of these statements.

**RURAL WATER, SEWER AND SOLID WASTE
MANAGEMENT DISTRICT #3, ROGER MILLS COUNTY, OKLAHOMA
STATEMENT OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
Operating Revenues		
Water and Sewer Sales	\$ 51,342	\$ 47,784
Late Charges	1,425	1,120
Miscellaneous Income	<u>909</u>	<u>871</u>
Total Operating Revenues	<u>53,676</u>	<u>49,775</u>
Operating Expenses		
Salaries	18,030	19,094
Payroll Taxes	2,030	1,885
Utilities	2,777	3,482
Travel	1,731	1,408
Professional Fees	2,170	3,372
Insurance	2,201	2,132
Maintenance & Supplies	10,277	9,768
Dues and Registrations	179	340
Depreciation	31,042	30,778
Bad Debt Expense	1,429	2,256
Miscellaneous Expenses	<u>775</u>	<u>926</u>
Total Operating Expenses	<u>72,641</u>	<u>75,441</u>
(Loss) from Operations	<u>(18,965)</u>	<u>(25,666)</u>
Other Revenue (Expense)		
Contributed Memberships Received	35	45
Interest Income	213	316
Intergovernmental Revenue		
Loss on Disposition of Assets		
Interest Expense	<u>(1,380)</u>	<u>(1,710)</u>
Net Other Revenue (Expense)	<u>(1,132)</u>	<u>(1,349)</u>
Change in Net Position	(20,097)	(27,015)
Net Position - Beginning of Year	<u>361,532</u>	<u>388,547</u>
Net Position - End of Year	<u>\$ 341,435</u>	<u>\$ 361,532</u>

The accompanying notes are an integral part of these statements.

**RURAL WATER, SEWER AND SOLID WASTE
MANAGEMENT DISTRICT #3, ROGER MILLS COUNTY, OKLAHOMA
STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities		
Cash Received from Customers	\$ 51,124	\$ 47,519
Cash Paid for Goods and Services	(20,192)	(19,069)
Cash Paid to Employees	(19,930)	(20,929)
Net Cash Provided by Operating Activities	<u>11,002</u>	<u>7,521</u>
Cash Flows from Noncapital Financing Activities		
Memberships Received	35	45
Customer Deposits Received (Refunded), Net	60	(1,220)
Net Cash Provided by (Used for) Noncapital Financing Activities	<u>95</u>	<u>(1,175)</u>
Cash Flows from Capital and Related Financing Activities		
Purchase of Capital Assets	(2,719)	(4,242)
Interest Paid on Mortgage Payable	(1,380)	(1,710)
Principal Paid on Mortgage Payable	(6,767)	(6,439)
Net Cash (Used for) Capital and Related Financing Activities	<u>(10,866)</u>	<u>(12,391)</u>
Cash Flows from Investing Activities		
Interest Received on Cash	213	316
Net Cash Provided by Investing Activities	<u>213</u>	<u>316</u>
(Decrease) in Cash and Cash Equivalents	444	(5,729)
Balance of Cash and Cash Equivalents		
Beginning of Year	<u>68,751</u>	<u>74,480</u>
End of Year	<u>\$ 69,195</u>	<u>\$ 68,751</u>
Reconciliation of Operating (Loss) to Net Cash Provided by Operating Activities:	69,195	68,751
Operating (Loss)	\$ (18,965)	\$ (25,666)
Adjustments to Reconcile Operating (Loss) to Net Cash Provided by Operating Activities		
Depreciation	31,042	30,778
Changes in Assets and Liabilities		
(Increase) in Due from Town of Reydon		(50)
(Increase) in Prepaid Assets	(1,217)	
Decrease in Accounts Receivable, Net	306	2,305
Increase (Decrease) in Accounts Payable	(294)	104
Increase in Payroll Taxes Payable	130	50
Total Adjustments	<u>29,967</u>	<u>33,187</u>
Net Cash Provided by Operating Activities	<u>\$ 11,002</u>	<u>\$ 7,521</u>

The accompanying notes are an integral part of these statements.

**RURAL WATER, SEWER AND SOLID
WASTE MANAGEMENT DISTRICT #3,
ROGER MILLS COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 2011 AND 2010**

Note 1 - Significant Accounting Policies.

A. The Reporting Entity.

Rural Water, Sewer and Solid Waste Management District # 3, Roger Mills County, Oklahoma, (the District) provides water and sewer services to its members within its geographic boundaries. The District is governed by a five member Board of Directors who are elected by the participating members. On September 9, 2011, the Board of Directors voted to amend the by-laws to reduce the Board to three members. The District was officially created when approved by the Board of County Commissioners of Roger Mills County, Oklahoma, on May 30, 2000. These financial statements include all of the funds under the control of the Board of Directors relevant to the operations of the District.

Membership in the District is necessary to purchase water and sewer services provided by the District and requires a membership fee. This initial membership fee is non-reimbursable and are considered donations to the District.

The accounting policies of the District conform to generally accepted accounting principles as applicable to government organizations in the United States. These standards are set by the Government Accounting Standards Board (GASB). Certain GASB pronouncements have been implemented early in order to conform to current financial statement presentations. The following is a summary of the more significant policies.

B. Basis of Presentation.

The accounts of governmental entities are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of accounts which are comprised of each fund's assets, liabilities, Net Position, revenues and expenses. The activities of the District are organized into a single fund, an enterprise fund (proprietary fund type).

Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or

**RURAL WATER, SEWER AND SOLID
WASTE MANAGEMENT DISTRICT #3,
ROGER MILLS COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 2011 AND 2010**

Note 1 - Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, accountability, or other purposes.

C. Basis of Accounting

Basis of accounting refers to revenues and expenses and when they are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement focus applied.

Enterprise funds use the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the obligation is incurred.

D. Accounts Receivable

Accounts receivable are recorded at their net realizable value. Accordingly, the District's management evaluates the receivable accounts periodically and establishes an allowance for uncollectible accounts for those deemed uncollectible. The allowance for uncollectible accounts was \$9,581 and \$8,152 at December 31, 2011 and 2010, respectively.

E. Capital Assets

All capital assets are valued at historical cost. Assets are depreciated on the straight-line basis over the estimated useful life of the asset. Depreciation is calculated utilizing the straight-line method over an estimated useful life of 10 to 50 years.

**RURAL WATER, SEWER AND SOLID
WASTE MANAGEMENT DISTRICT #3,
ROGER MILLS COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 2011 AND 2010**

Note 1 - Significant Accounting Policies (continued)

F. Cash and Cash Equivalents.

For the purposes of the Statement of Cash Flows, cash on hand, cash in bank and in savings (including restricted cash), are considered to be cash and cash equivalents. All but cash on hand is FDIC insured.

G. Net Position

Net position (formerly called net assets) is classified into three components:

1. Net investment in capital assets - Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any mortgages payable attributable to these assets.
2. Restricted - Consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Restricted assets have constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional revisions or enabling legislation. Restricted net position are assets restricted for debt service and includes the amount in excess of the actual requirement since the Board of Trustees has not transferred those amounts to its operating account.
3. Unrestricted - Net amount of the assets, deferred outflows or resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

Note 2 - Restricted Cash.

Restricted cash consists of customer deposits and a reserve fund for the repayment of the mortgage payable to Rural Economic & Community Development (RECD). The amount restricted for customer deposits is offset by a related liability payable.

**RURAL WATER, SEWER AND SOLID
WASTE MANAGEMENT DISTRICT #3,
ROGER MILLS COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 2011 AND 2010**

Note 2 - Restricted Cash (continued).

	DECEMBER 31,	
	2011	2010
Customer Deposits	\$ 3,490	\$ 3,430
RECD Reserve Fund	9,976	9,937
Total Restricted Cash	\$ 13,466	\$ 13,367

The RECD Reserve Fund requirement is \$8,148. The District's reserve account exceeds this requirement by \$1,828 and 1,789 at December 31, 2011 and 2010, respectively.

Note 3 - Capital Assets, Net.

The District's capital assets consisted of the following:

	DECEMBER 31,			
Capital Assets:	2010	Additions	Deletions	2011
Land	\$ 7,700	\$	\$	\$ 7,700
Water Distribution	302,245			300,245
Water Tower Improve.	64,666			64,666
Buildings	32,867			32,867
Equipment	31,249	2,719		33,968
Wastewater Treatment Facility	300,226			300,226
Total Capital Assets	736,953	2,719		739,672
Less Accumulated Depreciation:				
Water Distribution	128,882	11,873		140,755
Water Tower Improve.	46,986	4,514		51,500
Buildings	8,922	809		9,731
Equipment	24,493	1,837		26,330
Wastewater Treatment Facility	199,150	12,009		211,159
Total Acc. Deprec.	408,433	31,042		439,475
Capital Assets, Net	\$ 328,520	\$ (28,323)	\$ -0-	\$ 300,197

**RURAL WATER, SEWER AND SOLID
WASTE MANAGEMENT DISTRICT #3,
ROGER MILLS COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 2011 AND 2010**

Note 3 - Capital Assets, Net (continued).

Capital Assets:	DECEMBER 31,			2010
	2009	Additions	Deletions	
Land	\$ 7,700	\$	\$	\$ 7,700
Water Distribution	302,450		(2,205)	300,245
Water Tower Improve.	64,666			64,666
Buildings	32,867			32,867
Equipment	27,007	4,242		31,249
Wastewater Treatment Facility	300,226			300,226
Total Capital Assets	<u>734,916</u>	<u>4,242</u>	<u>(2,205)</u>	<u>736,953</u>
Less Accumulated Depreciation:				
Water Distribution	119,215	11,872	(2,205)	128,882
Water Tower Improve.	42,472	4,514		46,986
Buildings	8,113	809		8,922
Equipment	22,919	1,574		24,493
Wastewater Treatment Facility	187,141	12,009		199,150
Total Acc. Deprec.	<u>379,860</u>	<u>30,778</u>	<u>(2,205)</u>	<u>408,433</u>
Capital Assets, Net	<u>\$ 355,056</u>	<u>\$ (26,536)</u>	<u>\$ -0-</u>	<u>\$ 328,520</u>

Note 4 - Mortgages Payable.

The District long-term debt consists of borrowed funds from the Rural Economic & Community Development as follows:

	DECEMBER 31,	
	2011	2010
Borrowed \$111,849 on December 1, 1974. Mortgage terms call for monthly payments of \$548 beginning January 1, 1975 to December 1, 2014. Interest is computed at 5%.	\$ 4,151	\$ 10,350

**RURAL WATER, SEWER AND SOLID
WASTE MANAGEMENT DISTRICT #3,
ROGER MILLS COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 2011 AND 2010**

Note 4 - Mortgages Payable (continued).

In January, 1994, the District borrowed an additional \$ 12,200 and \$ 14,500 from the Rural Economic & Community Development. Mortgage terms call for interest only payments at the end of the first year, and then monthly payments thereafter of \$60 and \$71, respectively. Interest rate for both loans is at 5%. Term is for 40 years.

	9,050	9,310
	10,712	11,020
Total Mortgages Payable	\$ 23,913	\$ 30,680

All of these mortgages are secured by a mortgage and security agreement on the system along with a pledge and assignment of revenues and receipts derived by the District from its water system and other revenue producing utility systems.

Changes in the District's long-term debt are as follows:

	DECEMBER 31,	
	2010	2010
Beginning Balance	\$ 30,680	\$ 37,119
Principal Reductions	(6,767)	(6,439)
Ending Balance	\$ 23,913	\$ 30,680

Annual requirements to amortize the mortgages payable at December 31, 2011, are as follows:

Year Ending December 31,	Principal	Interest	Total
2012 Due within 1 yr.	\$ 4,749	\$ 1,051	\$ 5,800
2013	628	944	1,572
2014	660	912	1,572
2015	694	878	1,572
2016	730	842	1,572
2017 - 2021	4,247	3,613	7,860
2022 - 2026	5,450	2,410	7,860
2027 - 2031	6,755	866	7,621
Total	\$ 23,913	\$ 11,516	\$ 35,429

**RURAL WATER, SEWER AND SOLID
 WASTE MANAGEMENT DISTRICT #3,
 ROGER MILLS COUNTY, OKLAHOMA
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEARS ENDING DECEMBER 31, 2011 AND 2010**

Note 5 - Contributed Capital.

As provided in the corporation's by-laws, non-reimbursed membership fees are considered donations to the District. As a result, the District's contributed capital changed as follows:

	DECEMBER 31,	
	2011	2010
Contributed Capital, Beginning	\$ 3,265	\$ 3,220
Membership Fees Collected	35	45
Contributed Capital, Ending	\$ 3,300	\$ 3,265

These are included in the District's unrestricted net position.

Note 6 - Risk Management.

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchases commercial insurance to manage these risks of loss and retains deductibles ranging from \$250 to \$1,000.



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**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF THE FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Rural Water, Sewer and Solid Waste Management
District # 3, Roger Mills County, Oklahoma
Reydon, Oklahoma

We have audited, 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 of the Rural Water, Sewer and Solid Waste Management District # 3, Roger Mills County, Oklahoma, as of and for the year ended December 31, 2011, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report dated February 25, 2016. The District has elected to omit the management discussion and analysis, which is required supplementary information under generally accepted accounting principles in the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances and 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 District's internal control over financial reporting.

Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, there can be no assurance that all material weaknesses or significant deficiencies have been identified. However, as discussed in the Schedule of Findings and Responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 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 deficiencies as items 1, 2, 3, and 4 described in the accompanying schedule of findings and responses to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies as item 5 described in the accompanying schedule of findings and responses to be a significant deficiency.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts, and grants agreements, 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. Accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance and other matters that are required to be reported under Government Auditing Standards. These are described as items 2, 6 and 7 in the accompanying schedule of findings and responses.

DISTRICT RESPONSE TO FINDINGS

The District'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.

PURPOSE OF THIS REPORT

This purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

McCulley & McCulley

Weatherford, Oklahoma

February 25, 2016

**RURAL WATER, SEWER AND SOLID
WASTE MANAGEMENT DISTRICT #3,
ROGER MILLS COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2011**

1. LACK OF SEGREGATION OF DUTIES.

CONDITION AND EFFECT - The District does not have adequate segregation of duties in that it has only one office person that does all the bookkeeping, reconciliations, paying bills, and payroll. The effect of the lack of segregation of duties could result in material errors and fraud occurring and not be detected in a timely manner.

RECOMMENDATION - Recommend the District segregate the duties to the extent possible in the future.

RESPONSE - The District will keep this recommendation in mind should circumstances change in the future and it is economically feasible. The District is aware of this weakness in its internal control structure but does not consider it to be economically feasible to hire additional personnel to achieve adequate segregation of duties.

2. Customer Deposits Payable.

CONDITION AND EFFECT - The District did not balance the customer meter deposits payable subsidiary ledgers to the cash account. The computer generated list of customer deposits did not include both active and inactive accounts. **This has been a repeat comment since the 2001 audit report.** The District has also applied the customer meter deposit to the customer's final bill, but have not transferred the actual cash from the savings account to the checking account, nor were accounting entries made in the general ledger for these transactions. Noted some billing customers had their meter deposits applied twice to their billing account in prior years. In 2011, the District did not actually pay to the customer a refund of their deposit. This is a violation of state statutes (Sec. 11-35-107) which state that a refund must be paid within 30 days of termination of service.

RECOMMENDATION - Recommend the District update its listing of customer meter deposits and correct any errors, if any. This list (both active and inactive accounts) should be printed at the end of each month and balanced monthly to the cash account to ensure accuracy. Any reconciling items or discrepancies should be documented and thoroughly investigated and corrections made as necessary. Applying the customer meter deposit to the customer's final bill should only be done when the customer meter deposit cash is transferred to the checking account and the account is closed or made inactive at the same time.

**RURAL WATER, SEWER AND SOLID
WASTE MANAGEMENT DISTRICT #3,
ROGER MILLS COUNTY, OKLAHOMA
SCHEDULE OF FINDING AND RESPONSES
DECEMBER 31, 2011**

2. Customer Deposits Payable (continued).

Accounting entries should be made for all customer deposit transactions on the same date the utility records are changed.

The District needs to comply with state statutes concerning refunding of deposits to customers.

Recommend the Board of Directors take an active interest in ensuring this comment is corrected since it has not been corrected since the 2001 audit.

RESPONSE - The District hired a new bookkeeper on December 16, 2015. The new bookkeeper has been training on her responsibilities and working hard to catch up on all the things that were not done before being hired.

3. Accounts Receivable and Billing Records.

CONDITION AND EFFECT - When a utility billing account is finalized, and the customer meter deposit is taken, the transactions are shown on the deposit disposition reports and shown on the final bill, but are not recorded in the billing account receivable records nor posted to the general ledger control account resulting in differences in the records. The reason for the differences in the billing statements and accounts receivable balances is not known. The District did a better job of posting the adjustments (bill reversals) and the monthly billings to the billing accounts and to the general ledger accounting records. The billing system totals for December, 2010, were not printed and retained in the billing records. An end of the month aging accounts receivable print-out was printed but the total due was not compared and/or reconciled to the general ledger control account. Thus the ending accounts receivable per the general ledger did not agree to the ending accounts receivable per the billing records. The end of month aging print-out did include both the active and inactive accounts. **This has been a repeat comment since the 2001 audit report.** The effect of the lack of controls over accounts receivable and utility billing could result in material errors and fraud occurring and not be detected in a timely manner.

RECOMMENDATION - All transactions that adjust the balance of account receivable utility billing transactions should be posted to the general ledger control account. Deposit dispositions

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3. Accounts Receivable and Billing Records (continued).

should be done when the cash is transferred to finalize the bills. The District should contact their software support personnel to find out why the system apparently is not recording these properly within the billing system. At the end of each month, an ending accounts receivable aging report should be printed showing all accounts (active and inactive) and the amounts due. The total of this report should agree to the general ledger accounts receivable balance. If any differences exist, then these amounts should be reconciled and documented. Adjusting entries should be made as necessary.

Recommend the Board of Directors take an active interest in ensuring this comment is corrected since it has not been corrected since the 2001 audit. Also recommend the bookkeeper take appropriate training on using the system to ensure the transactions are recorded properly. If no training is available, then the District should consider hiring a consultant to help in correcting these problems.

RESPONSE - The District has printed the aging report with the active and inactive accounts at the end of the month but did not reconcile to the general ledger. The District hired a new bookkeeper on December 16, 2015. The new bookkeeper has been training on her responsibilities and working hard to catch up on all the things that were not done before being hired.

4. Reconciling Accounting Records to the Bank Statements.

CONDITION AND EFFECT - The District has not been reconciling its bank general ledger accounts to the respective bank statements. Some adjusting entries were made. It appeared the checking account was being posted from the bank statement versus the source documents since a few reconciling items were not posted in the proper year. Some savings accounts did not have transactions for the year posted in the accounting records. The effect of not reconciling the accounting records to the bank statements could result in material errors and possible fraud occurring and not be detected in a timely manner.

RECOMMENDATION - The District should make sure all its accounting transactions are posted in the proper accounting period. Checks and deposits should be posted on the day they are written or prepared for deposit. The accounting records should be prepared from the source documents (check

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**4. Reconciling Accounting Records to the Bank Statements
(continued).**

register/deposit slips) and reconciled to the bank statements monthly. Reconciling items should be documented, and adjustments (if any) should be made as needed. All bank accounts should be reconciled with the books. Noted the software program has a bank reconciliation menu item on it that the District is not using. **The District should consider utilizing the software program to do its bank reconciliations. The bookkeeper should also attend training classes on how to better use the software.**

RESPONSE - The District hired a new bookkeeper on December 16, 2015. The new bookkeeper has been training on her responsibilities and working hard to catch up on all the things that were not done before being hired. The bookkeeper did not know the software had a bank reconciliation menu item in it. She will get with the software company about how to use it.

5. Delinquent Utility Account Receivable Accounts.

CONDITION AND EFFECT - The District delinquent utility account receivable accounts have been increasing and some are seriously delinquent and have balances that exceed the respective customer meter deposit. Many are still receiving services. The District's Board of Directors review the delinquent accounts every month at their monthly meeting. These delinquent accounts include two board of director accounts as of December 31, 2011. At February 25, 2016, one of these delinquent director account was current and the other one was seriously delinquent and the delinquent balances was increasing. Noted no written deferral agreements in the District's files in accordance with the District rules and procedures guide. The effect of not following their rules and regulations increases the possibility of the District incurring losses and results in noncompliance with the established policy. It also could have negative consequences in the public's view about the management of the District.

RECOMMENDATION - The District should comply with its rules and regulations. Customers should bring their accounts current. This can be done by utilizing the deferral agreements and having them pay at least the current bill plus an extra amount on the delinquent bills. Employees and Directors accounts should not be delinquent. These should be brought current as soon as

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5. Delinquent Utility Account Receivable Accounts (continued).

possible. With the District allowing the one Director to be seriously delinquent and the balances increasing, then this action (or lack of action) could potentially expose the other Directors to some personal liability.

RESPONSE - The Board will review the policies and procedures.

6. Annual Meeting of Members.

CONDITION AND EFFECT - The District does not appear to have had any annual meeting of the members for 2009 to the present in accordance with their bylaws. Members are defined as those who subscribe or have a membership certificate and signed an agreement for the purchase of water and sewer services from the District. Bylaws state that an annual meeting of the members should occur on the first Monday in January of each year and it states the items that should be on the agenda. One item is the election of directors. No annual meeting minutes were located. The District is not in compliance with its bylaws.

RECOMMENDATION - The District should comply with its bylaws and have the annual meetings of its members. Proper notification of the meeting and the agenda should be followed as stipulated in the by-laws. Documentation of the notifications and meetings should be retained. The separate agenda and minutes should be kept of the annual meetings.

RESPONSE - The former clerk believed the monthly board meeting satisfied this requirement. The Board did have its regular meeting and some of the agenda items may have taken place there. The Board will review the by-laws and resume these meetings.

7. Documenting Decisions of the Board in the Minutes.

CONDITION AND EFFECT - Noted a leak adjustment was given to a customer in the billing records in October, 2009. The hand written note stated the leak adjustment was approved by the Board at its October 9, 2009, meeting. Upon review of the minutes, this leak adjustment was not mentioned in the minutes. Since these minutes were approved by the Board, then it is the official record of the meeting. Consequently, no leak adjustment should have been given. The minutes do not reflect that the Board ever approved this leak adjustment.

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**7. Documenting Decisions of the Board in the Minutes
(continued).**

RECOMMENDATION - Board decisions should be documented in the minutes of the meeting. If an item is omitted or in error, then the minutes should be amended to correct them. If the Board had in fact approved this leak adjustment, then the Board should approve an amendment to the minutes and state that fact at its next Board meeting. It should document the amendment in the minutes of the meeting it was approved and also write in the amendment to the original meeting minutes stating what was amended and when it was amended.

RESPONSE - The District hired a new bookkeeper on December 16, 2015. The new bookkeeper has been training on her responsibilities and working hard to catch up on all the things that were not done before being hired. She will put it on the next meeting agenda.

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1. Lack of Segregation of Duties.

CONDITION AND EFFECT - The District does not have adequate segregation of duties in that it has only one office person that does all the bookkeeping, reconciliations, paying bills, and payroll. The effect of the lack of segregation of duties could result in material errors and fraud occurring and not be detected in a timely manner.

RECOMMENDATION - Recommend the District segregate the duties to the extent possible in the future.

RESPONSE - The District will keep this recommendation in mind should circumstances change in the future and it is economically feasible. The District is aware of this weakness in its internal control structure but does not consider it to be economically feasible to hire additional personnel to achieve adequate segregation of duties.

UPDATED COMMENT - This situation remains the same. Comment repeated.

2. Customer Deposits Payable.

CONDITION AND EFFECT - The District did not balance the customer meter deposits payable subsidiary ledgers to the cash account. The computer generated list of customer deposits did not include both active and inactive accounts. **This has been a repeat comment since the 2001 audit report.** The District has also applied the customer meter deposit to the customer's final bill, but have not transferred the actual cash from the savings account to the checking account, nor were accounting entries made in the general ledger for these transactions. Noted some billing customers had their meter deposits applied twice to their billing account.

RECOMMENDATION - Recommend the District update its listing of customer meter deposits and correct any errors, if any. This list (both active and inactive accounts) should be printed at the end of each month and balanced monthly to the cash account to ensure accuracy. Any reconciling items or discrepancies should be documented and thoroughly investigated and corrections made as necessary. Applying the customer meter deposit to the customer's final bill should only be done when the customer meter deposit cash is transferred to the checking account and the account is closed or made inactive at the same time.

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2. Customer Deposits Payable (continued).

Accounting entries should be made for all customer deposit transactions.

Recommend the Board of Directors take an active interest in ensuring this comment is corrected since it has not been corrected since the 2001 audit.

RESPONSE - The District will start printing both the active and inactive deposit listing at the end of the month and will reconcile to the cash account monthly and document any discrepancies. This will begin in August 2014 as the clerk has a better understanding of the accounting system.

UPDATED COMMENT - Comment revised to add the District did not refund to the customers their deposits in 2011. The District did not implement this recommendation in 2014 like they said they would.

3. Accounts Receivable and Billing Records.

CONDITION AND EFFECT - When a utility billing account is finalized, and the customer meter deposit is taken, the transactions are shown on the deposit disposition reports and shown on the final bill, but are not recorded in the billing account receivable records nor posted to the general ledger control account resulting in differences in the records. The reason for the differences in the billing statements and accounts receivable balances is not known. The District did a better job of posting the adjustments (bill reversals) and the monthly billings to the billing accounts and to the general ledger accounting records. The billing system totals for December, 2010, were not printed and retained in the billing records. An end of the month aging accounts receivable print-out was printed but the total due was not compared and/or reconciled to the general ledger control account. Thus the ending accounts receivable per the general ledger did not agree to the ending accounts receivable per the billing records. The end of month aging print-out did include both active and inactive accounts. **This has been a repeat comment since the 2001 audit report.** The effect of the lack of controls over accounts receivable and utility billing could result in material errors and fraud occurring and not be detected in a timely manner.

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3. Accounts Receivable and Billing Records (continued).

RECOMMENDATION - All transactions that adjust the balance of account receivable utility billing transactions should be posted to the general ledger control account. Deposit dispositions should be done when the cash is transferred to finalize the bills. The District should contact their software support personnel to find out why the system apparently is not recording these properly within the billing system. At the end of each month, an ending accounts receivable aging report should be printed showing all accounts (active and inactive) and the amounts due.

The total of this report should agree to the general ledger accounts receivable balance. If any differences exist, then these amounts should be reconciled and documented. Adjusting entries should be made as necessary. **Recommend the Board of Directors take an active interest in ensuring this comment is corrected since it has not been corrected since the 2001 audit. Also recommend the bookkeeper take appropriate training on using the system to ensure the transactions are recorded properly. If no training is available, then the District should consider hiring a consultant to help in correcting these problems.**

RESPONSE - The District has printed the aging report with the active and inactive accounts at the end of the month but did not reconcile to the general ledger. Adjustments will be made as necessary. The bookkeeper will check with the software company to resolve the final billing positing errors within the billing system. Beginning in July, 2014, the District will ensure the accounts receivable aging reports are reconciled to the general ledger control account and make any corrections that are necessary. Monthly reconciliations will follow.

UPDATED COMMENT - Comment revised. The District did a much better job of posting the billings done each month and the adjustments. It did not implement reconciling the accounts receivable to the general ledger nor were the deposit dispositions properly recorded in the billings system or general ledger. The District did not implement this recommendation in 2014 like they said they would.

4. Reconciling Accounting Records to the Bank Statements.

CONDITION AND EFFECT - The District has not been reconciling its bank general ledger accounts to the respective bank statements.

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**4. Reconciling Accounting Records to the Bank Statements
(continued).**

Some adjusting entries were made. It appeared the checking account was being posted from the bank statement versus the source documents since a few reconciling items were not posted in the proper year. Some savings accounts did not have transactions for the year posted in the accounting records. The effect of not reconciling the accounting records to the bank statements could result in material errors and possible fraud occurring and not be detected in a timely manner.

RECOMMENDATION - The District should make sure all its accounting transactions are posted in the proper accounting period. Checks and deposits should be posted on the day they are written or prepared for deposit. The accounting records should be prepared from the source documents (check register/deposit slips) and reconciled to the bank statements monthly. Reconciling items should be documented, and adjustments (if any) should be made as needed. All bank accounts should be reconciled with the books. Noted the software program has a bank reconciliation menu item on it that the District is not using. **The District should consider utilizing the software program to do its bank reconciliations. The bookkeeper should also attend training classes on how to better use the software.**

RESPONSE - The bookkeeper did not know the software had a bank reconciliation menu item in it. She will get with the software company about how to use it. Savings accounts will be posted up in 2014.

UPDATED COMMENT - Comment revised. The District only partially implemented this recommendation in that the checks were mostly posted in the proper year. The checking account appears to have been posted from the bank statement instead of the source documents. The savings accounts did not have interest posted for the year except for the customer meter deposits.

5. Delinquent Utility Account Receivable Accounts.

CONDITION AND EFFECT - The District delinquent utility account receivable accounts have been increasing and some are seriously delinquent and have balances that exceed the respective customer meter deposit. Many are still receiving services. The District's Board of Directors review the delinquent accounts

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5. Delinquent Utility Account Receivable Accounts (continued).

every month at their monthly meeting. These delinquent accounts include an employee and several board of director accounts as of December 31, 2010. As of October, 2012, the employee account has been brought current. At August 20, 2014, all but one seriously delinquent director account were current or only one month delinquent. Noted no written deferral agreements in the District's files in accordance with the District rules and procedures guide. The effect of not following their rules and regulations increases the possibility of the District incurring losses and results in noncompliance with the established policy. It also could have negative consequences in the public's view about the management of the District.

RECOMMENDATION - The District should comply with its rules and regulations. Customers should bring their accounts current. This can be done by utilizing the deferral agreements and having them pay at least the current bill plus an extra amount on the delinquent bills. Employees and Directors accounts should not be delinquent.

RESPONSE - The Board will review the policies and procedures.

UPDATED COMMENT - Comment repeated. The District did not implement this recommendation.

6. Annual Meeting of Members.

CONDITION AND EFFECT - The District does not appear to have had any annual meeting of the members for 2009 to the present in accordance with their bylaws. Members are defined as those who subscribe or have a membership certificate and signed an agreement for the purchase of water and sewer services from the District. Bylaws state that an annual meeting of the members should occur on the first Monday in January of each year and it states the items that should be on the agenda. One item is the election of directors. The District is not in compliance with its bylaws.

RECOMMENDATION - The District should comply with its bylaws and have the annual meetings of its members. Proper notification of the meeting and the agenda should be followed. Documentation of the notifications and meetings should be retained. The separate agenda and minutes should be kept of the annual meetings.

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6. Annual Meeting of Members (continued).

RESPONSE - The clerk believed the monthly board meeting satisfied this requirement. The Board did have its regular meeting and some of the agenda items may have taken place there. Most members do not attend the meetings anyway. She will review these requirements with the Board.

UPDATED COMMENT - Comment repeated. The District did not implement this recommendation.

7. Documenting Decisions of the Board in the Minutes.

CONDITION AND EFFECT - Noted a leak adjustment was given to a customer in the billing records. The hand written note stated the leak adjustment was approved by the Board at its October 9, 2009, meeting. Upon review of the minutes, this leak adjustment was not mentioned in the minutes. Since these minutes were approved by the Board, then it is the official record of the meeting. Consequently, no leak adjustment should have been given. The minutes do not reflect that the Board ever approved this leak adjustment.

RECOMMENDATION - Board decisions should be documented in the minutes of the meeting. If an item is omitted or in error, then the minutes should be amended to correct them. If the Board had in fact approved this leak adjustment, then the Board should approve an amendment to the minutes and state that fact at its next Board meeting. It should document the amendment in the minutes of the meeting it was approved and also write in the amendment to the original meeting minutes stating it was amended and when it was amended.

RESPONSE - The clerk will present this finding to the Board. She will do a better job on the minutes. She will put it on the next meeting agenda.

UPDATED COMMENT - Comment repeated. The District did not implement this recommendation. There is no mention of this leak adjustment ever being approved in the minutes.