

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

FINANCIAL STATEMENTS
AND AUDITOR'S REPORT

DECEMBER 31, 2009 AND 2008

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

We have audited the accompanying basic financial statements of the Rural Water, Sewer and Solid Waste Management District # 3, Roger Mills County, Oklahoma, as of December 31, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these 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 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 audit provides a reasonable basis for our 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, 2009 and 2008, 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.

In accordance with Government Auditing Standards, we have also issued our report dated November 7, 2012, 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 and important for assessing results of our audit.

The District has not presented the management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

McCulley & McCulley

Weatherford, Oklahoma

November 7, 2012

**RURAL WATER, SEWER AND SOLID WASTE
MANAGEMENT DISTRICT #3, ROGER MILLS COUNTY, OKLAHOMA
BALANCE SHEET
DECEMBER 31, 2009 AND 2008**

ASSETS	2009	2008
Current Assets		
Cash on Hand	\$ 100	\$ 985
Cash in Bank	38,125	38,893
Cash in Savings	21,723	21,498
Due from Town of Reydon	1,141	
Accounts Receivable, Net of Allowance for Loss	<u>4,179</u>	<u>3,149</u>
Total Current Assets	<u>65,268</u>	<u>64,525</u>
Noncurrent Assets		
Restricted Cash	14,532	13,906
Capital Assets, Net of Accumulated Depreciation	<u>355,056</u>	<u>290,477</u>
Total Noncurrent Assets	<u>369,588</u>	<u>304,383</u>
TOTAL ASSETS	<u>\$ 434,856</u>	<u>\$ 368,908</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Current Liabilities		
Accounts Payable	\$ 4,340	\$ 463
Accrued and Withheld Payroll Taxes	200	234
Customer Deposits Payable	4,650	4,110
Current Portion of Long-Term Debt	<u>6,438</u>	<u>6,125</u>
Total Current Liabilities	<u>15,628</u>	<u>10,932</u>
Long-Term Liabilities		
Mortgage Payable - Rural Development	37,119	43,244
Less Current Portion of Mortgage Payable	<u>(6,438)</u>	<u>(6,125)</u>
Total Long-Term Liabilities	<u>30,681</u>	<u>37,119</u>
TOTAL LIABILITIES	<u>46,309</u>	<u>48,051</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	317,937	247,233
Restricted	9,882	9,796
Unrestricted	<u>60,728</u>	<u>63,828</u>
TOTAL NET ASSETS	<u>388,547</u>	<u>320,857</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 434,856</u>	<u>\$ 368,908</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 REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS
YEARS ENDED DECEMBER 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
Operating Revenues		
Water and Sewer Sales	\$ 51,063	\$ 46,148
Late Charges	1,258	840
Miscellaneous Income	914	887
	<u>53,235</u>	<u>47,875</u>
Operating Expenses		
Salaries	16,088	12,640
Payroll Taxes	1,366	1,073
Utilities	3,362	4,385
Travel	1,923	883
Professional Fees	3,242	1,875
Insurance	2,148	2,218
Maintenance & Supplies	12,443	6,693
Dues and Registrations	1,675	1,319
Depreciation	29,212	26,269
Bad Debt Expense	3,971	800
Miscellaneous Expenses	455	562
	<u>75,885</u>	<u>58,717</u>
(Loss) from Operations	<u>(22,650)</u>	<u>(10,842)</u>
Other Income (Expense)		
Contributed Memberships Received	30	65
Interest Income	532	949
Intergovernmental Revenue	91,975	
Loss on Disposition of Assets	(174)	
Interest Expense	(2,023)	(2,321)
	<u>90,340</u>	<u>(1,307)</u>
Net Other Income (Expense)	<u>90,340</u>	<u>(1,307)</u>
Net Incom (Loss)	67,690	(12,149)
Net Assets - Beginning of Year	<u>320,857</u>	<u>333,006</u>
Net Assets - End of Year	<u>\$ 388,547</u>	<u>\$ 320,857</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, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
Cash Flows from Operating Activities		
Cash Received from Customers	\$ 43,464	\$ 47,495
Cash Paid for Goods and Services	(17,742)	(17,018)
Cash Paid to Employees	(17,488)	(13,515)
Net Cash Provided by Operating Activities	<u>8,234</u>	<u>16,962</u>
Cash Flows from Noncapital Financing Activities		
Memberships Received	30	65
Customer Deposits Received (Refunded), Net	540	480
Net Cash Provided by Noncapital Financing Activities	<u>570</u>	<u>545</u>
Cash Flows from Capital and Related Financing Activities		
Intergovernmental Revenue Received	91,975	
Purchase of Capital Assets	(93,965)	
Interest Paid on Mortgage Payable	(2,023)	(2,321)
Principal Paid on Mortgage Payable	(6,125)	(5,827)
Net Cash (Used for) Capital and Related Financing Activities	<u>(10,138)</u>	<u>(8,148)</u>
Cash Flows from Investing Activities		
Interest Received on Cash	532	949
Net Cash Provided by Investing Activities	<u>532</u>	<u>949</u>
Increase (Decrease) in Cash and Cash Equivalents	(802)	10,308
Balance of Cash and Cash Equivalents		
Beginning of Year	<u>75,282</u>	<u>64,974</u>
End of Year	<u>\$ 74,480</u>	<u>\$ 75,282</u>
Reconciliation of Operating (Loss) to Net Cash Provided by Operating Activities:		
Operating (Loss)	\$ (22,650)	\$ (10,842)
Adjustments to Reconcile Operating (Loss) to Net Cash Provided by Operating Activities		
Depreciation	29,212	26,269
Changes in Assets and Liabilities		
(Increase) in Due from Town of Reydon	(1,141)	
(Increase) Decrease in Accounts Receivable, Net	(1,030)	1,220
Increase in Accounts Payable	3,877	117
Increase (Decrease) in Payroll Taxes Payable	(34)	198
Total Adjustments	<u>30,884</u>	<u>27,804</u>
Net Cash Provided by Operating Activities	<u>\$ 8,234</u>	<u>\$ 16,962</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 YEAR ENDING DECEMBER 31, 2009 AND 2008

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. 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. 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 assets, 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 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.

RURAL WATER, SEWER AND SOLID
WASTE MANAGEMENT DISTRICT #3,
ROGER MILLS COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 2009 AND 2008

Note 1 - Significant Accounting Policies (continued).

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 \$5,897 and \$2,269 at December 31, 2009, and 2008, 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.

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.

RURAL WATER, SEWER AND SOLID
WASTE MANAGEMENT DISTRICT #3,
ROGER MILLS COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 2009 AND 2008

Note 1 - Significant Accounting Policies (continued).

G. Policy Regarding Use of Financial Accounting Standards Board (FASB) Statements.

The District applies all applicable Government Accounting Standards Board (GASB) pronouncements as well as the pronouncements issued on or before November 30, 1989, by the FASB or predecessor Boards, unless those pronouncements conflict with or contradict GASB pronouncements.

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.

	DECEMBER 31,	
	2009	2008
Customer Deposits	\$ 4,650	\$ 4,110
RECD Reserve Fund	9,882	9,796
Total Restricted Cash	\$ 14,532	\$ 13,906

The RECD Reserve Fund requirement is \$8,148. The District's reserve account exceeds this requirement by \$1,734 and 1,648 at December 31, 2009 and 2008, respectively.

RURAL WATER, SEWER AND SOLID
WASTE MANAGEMENT DISTRICT #3,
ROGER MILLS COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 2009 AND 2008

Note 3 - Capital Assets, Net.

The District's capital assets consisted of the following:

Capital Assets:	DECEMBER 31,			
	2008	Additions	Deletions	2009
Land	\$ 7,700	\$	\$	\$ 7,700
Water Distribution	210,966	91,484		302,450
Water Tower Improve.	64,666			64,666
Buildings	32,867			32,867
Equipment	25,542	2,481	(1,016)	27,007
Wastewater Treatment Facility	300,226			300,226
Total Capital Assets	641,967	93,965	(1,016)	734,916
Less Accumulated Depreciation:				
Water Distribution	110,392	8,823		119,215
Water Tower Improve.	37,958	4,514		42,472
Buildings	7,304	809		8,113
Equipment	20,704	3,057	(842)	22,919
Wastewater Treatment Facility	175,132	12,009		187,141
Total Acc. Deprec.	351,490	29,212	(842)	379,860
Capital Assets, Net	\$ 290,477	\$ 64,753	\$ (174)	\$ 355,056

Capital Assets:	DECEMBER 31,			
	2007	Additions	Deletions	2008
Land	\$ 7,700	\$	\$	\$ 7,700
Water Distribution	210,966			210,966
Water Tower Improve.	64,666			64,666
Buildings	32,867			32,867
Equipment	25,542			25,542
Wastewater Treatment Facility	300,226			300,226
Total Capital Assets	641,967	-0-	-0-	641,967
Less Accumulated Depreciation:				
Water Distribution	104,618	5,774		110,392
Water Tower Improve.	33,444	4,514		37,958
Buildings	6,495	809		7,304
Equipment	17,541	3,163		20,704
Wastewater Treatment Facility	163,123	12,009		175,132
Total Acc. Deprec.	325,221	26,269		351,490
Capital Assets, Net	\$ 316,746	\$ (26,269)	\$ -0-	\$ 290,477

RURAL WATER, SEWER AND SOLID
WASTE MANAGEMENT DISTRICT #3,
ROGER MILLS COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 2009 AND 2008

Note 4 - Mortgages Payable.

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

	DECEMBER 31,	
	2009	2008
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%.	\$ 16,248	\$ 21,859
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.	9,558 <u>11,313</u>	9,793 <u>11,592</u>
Total Mortgages Payable	<u>\$ 37,119</u>	<u>\$ 43,244</u>

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,	
	2009	2008
Beginning Balance	\$ 43,244	\$ 49,071
Principal Reductions	<u>(6,125)</u>	<u>(5,827)</u>
Ending Balance	<u>\$ 37,119</u>	<u>\$ 43,244</u>

RURAL WATER, SEWER AND SOLID
WASTE MANAGEMENT DISTRICT #3,
ROGER MILLS COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 2009 AND 2008

Note 4 - Mortgages Payable (continued).

Annual requirements to amortize the mortgages payable at December 31, 2009, are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010 Due within 1 yr.	\$ 6,438	\$ 1,710	\$ 8,148
2011	6,768	1,380	8,148
2012	4,749	1,051	5,800
2013	628	944	1,572
2014	660	912	1,572
2015 - 2019	3,844	4,016	7,860
2020 - 2024	4,933	2,927	7,860
2025 - 2029	6,330	1,530	7,860
2030 - 2031	<u>2,769</u>	<u>135</u>	<u>2,904</u>
Total	<u>\$ 37,119</u>	<u>\$ 14,605</u>	<u>\$ 51,724</u>

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:

	<u>DECEMBER 31,</u>	
	<u>2009</u>	<u>2008</u>
Contributed Capital, Beginning	\$ 3,190	\$ 3,125
Membership Fees Collected	<u>30</u>	<u>65</u>
Contributed Capital, Ending	<u>\$ 3,220</u>	<u>\$ 3,190</u>

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

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.

RURAL WATER, SEWER AND SOLID
WASTE MANAGEMENT DISTRICT #3,
ROGER MILLS COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 2009 AND 2008

Note 7 - Net Assets.

Restricted net assets 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.

Unrestricted net assets are net assets that are available to be used by management at its discretion.



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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 the basic 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, 2009, and have issued our report dated November 7, 2012. 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. 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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District'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 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 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. Therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses 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, not important enough to merit attention by those charged with governance. We consider the deficiencies as items 4 and 5 described in the accompanying schedule of findings and responses to be significant deficiencies.

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 6 and 7 in the accompanying schedule of findings and responses.

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.

This report is intended solely for the information and use of the District's management, Board of Directors, and grant awarding agencies. It is not intended to be and should not be used by anyone other than these specified parties.

McCulley + McCulley

Weatherford, Oklahoma

November 7, 2012

RURAL WATER, SEWER AND SOLID
WASTE MANAGEMENT DISTRICT #3,
ROGER MILLS COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2009

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.

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. 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.**

RURAL WATER, SEWER AND SOLID
WASTE MANAGEMENT DISTRICT #3,
ROGER MILLS COUNTY, OKLAHOMA
SCHEDULE OF FINDING AND RESPONSES
DECEMBER 31, 2009

2. Customer Deposits Payable (continued).

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.

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 recorded in the billing records are not always posted to the general ledger control account resulting in differences in the two records. Adjustments posted to the billing accounts are not always posted to the general ledger accounting records. The District also did not post the billings from August to December, 2008, and for January, 2009. The billing system totals for January, 2009, were not printed and retained in the billing records. The billing records did not contain all the adjustments made to the billing accounts and bill reversals printouts were not printed and retained. An end of the month aging accounts receivable print-out was not always printed and the total due 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. It had a book balance of \$(13,288.23) and \$(11,597.20) (credit) for the years ending December 31, 2008 and 2009, respectively, indicating the District owed money to its customers versus the customers owing the District money. The end of month aging print-out should 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.

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

RURAL WATER, SEWER AND SOLID
WASTE MANAGEMENT DISTRICT #3,
ROGER MILLS COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2009

3. Accounts Receivable and Billing Records (continued).

RESPONSE - The District will print the aging report with the active and inactive accounts at the end of the month and reconcile to the general ledger. Adjustments will be made as necessary. The bookkeeper will make sure all entries are posted to the general ledger.

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. Numerous adjusting entries were made as a result of transactions being posted to the accounting records in the wrong accounting fiscal 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 reconciled to the bank statements monthly. Reconciling items should be documented, and adjustments (if any) should be made as needed.

RESPONSE - The District had updated its software program to a windows version. The bookkeeper did not know all the steps to use the program properly resulting in the transactions not being posted in the proper period. When the proper steps were taken, the transactions previously posted were posted as if it happened on the day the proper steps were performed.

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 an employee and several board of director accounts as of December 31, 2009. As of October, 2012, the employee account has been brought current. Noted no written deferral agreements in

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5. Delinquent Utility Account Receivable Accounts (continued).

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. Employees and Directors accounts should not be delinquent.

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. No annual minutes were located. 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.

RESPONSE - The clerk was not aware of the 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.

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.

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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.

RESPONSE - The clerk will present this finding to the Board. She will do a better job on the minutes.

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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.

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. Accounting entries should be made for all customer deposit transactions. **Recommend the Board of Directors take an active interest in ensuring this**

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2. Customer Deposits Payable (continued).

comment is corrected since it has not been corrected since the 2001 audit.

RESPONSE - The District has had turnover in the bookkeeper position. 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.

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

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 recorded in the billing records are not always posted to the general ledger control account resulting in differences in the two records. Adjustments posted to the billing accounts are not always posted to the general ledger accounting records. The District also did not post the billings from August to December, 2008. An end of the month aging accounts receivable print-out was not always printed and the total due 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. It had a balance of \$(13,288.23) (credit), indicating the District owed money versus the customers owing the District money. The end of month aging print-out should 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.

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

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3. Accounts Receivable and Billing Records (continued).

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

RESPONSE - The District has had turnover in the bookkeeper position. The District will print the aging report with the active and inactive accounts at the end of the month and reconcile to the general ledger. Adjustments will be made as necessary.

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