

**RURAL WATER, SEWER & SOLID WASTE  
MANAGEMENT DISTRICT #3**

**ROGER MILLS COUNTY, OKLAHOMA**

**INDEPENDENT AUDITOR'S REPORT**

**YEARS ENDED**

**DECEMBER 31, 2015 & 2014**

*WILLIAM K. GAUER  
CERTIFIED PUBLIC ACCOUNTANT  
WATONGA, OKLAHOMA*

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# **WILLIAM K. GAUER**

*CERTIFIED PUBLIC ACCOUNTANT*

121 S. NOBLE AVENUE~P.O. BOX 181  
PHONE 580-623-5071

WATONGA, OKLAHOMA 73772  
FAX 580-623-5072

*WGAUER@GAUERCPA.MYGBIZ.COM*

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## INDEPENDENT AUDITOR'S REPORT

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

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, 2015 and 2014, 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 the accrual basis of accounting as described in Note 1; this includes determining that the modified-cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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,<sup>6</sup> 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts 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 policies 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 assets, liabilities, and net assets of the Rural Water, Sewer and Solid Waste Management District #3, Roger Mills County, Oklahoma, as of December 31, 2015 and 2014, 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.

**Basis of Accounting**

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the accrual basis of accounting, which is a basis of accounting that is in conformity with accounting principles generally accepted in the United States of America.

**Other Matters**

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, which has been omitted, and budgetary comparison information be presented to supplement the basic financial statements, also omitted. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 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.

  
Watonga, Oklahoma  
May 31, 2017

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT DISTRICT #3  
 ROGER MILLS COUNTY, OKLAHOMA  
 STATEMENT OF ACTIVITIES  
 DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Operating Revenues		
Water & Sewer Revenues	\$ 43,247	\$ 45,015
Late Charges	1,105	1,335
Miscellaneous Income	4,991	617
Total Operating Revenue	<u>49,344</u>	<u>46,967</u>
Operating Expenses		
Salaries	18,840	19,210
Payroll Taxes	1,224	1,631
Utilities	4,042	4,069
Travel	1,219	937
Professional Fees	-	3,900
Insurance	3,345	1,845
Maintenance & Supplies	7,732	11,726
Dues & Registrations	2,556	-
Depreciation	38,436	38,442
Bad Debt Expense	-	139
Miscellaneous Expense	150	907
Total Operating Expenses	<u>77,545</u>	<u>82,806</u>
Income (Loss) from Operations	(28,201)	(35,839)
Other Revenue		
Contributed Memberships Received	20	30
Interest Income	127	189
Questioned Costs	-	(60)
Interest Expense	(878)	(912)
Net Other Revenue	<u>(731)</u>	<u>(753)</u>
Changes in Net Position	(28,932)	(36,592)
Net Position - Beginning of the Year	<u>343,525</u>	<u>380,117</u>
Net Position - End of Year	<u>\$ 314,593</u>	<u>\$ 343,525</u>

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT DISTRICT #3  
 ROGER MILLS COUNTY, OKLAHOMA  
 STATEMENT OF CASH FLOWS  
 DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Cash Flows From Operating Activities		
Cash Received from Customers	\$ 49,174	\$ 46,068
Cash Paid for Goods and Services	(30,411)	(23,042)
Cash Paid to Employees	<u>(20,064)</u>	<u>(21,109)</u>
Net Cash Provided (Used) by Operating Activities	<u>(1,301)</u>	<u>1,917</u>
Cash Flow from Noncapital Financing Activities		
Memberships Received	20	30
Questionable Cost not Deposited	-	(60)
Customer Deposits Received (Refunded), net	<u>3,740</u>	<u>(120)</u>
Net Cash Provided by Noncapital Financing Activities	<u>3,760</u>	<u>(150)</u>
Cash Flow from Capital and Related Financing Activities		
Interest paid on Mortgage	(878)	(912)
Principle paid on Mortgage	<u>(694)</u>	<u>(660)</u>
Net Cash (Used for) Capital and Related Financing Activities	<u>(1,572)</u>	<u>(1,572)</u>
Cash Flow from Investing Activities		
Cash Received from Investments	<u>127</u>	<u>189</u>
Net Cash Provided by Investing Activities	<u>127</u>	<u>189</u>
Increase (Decrease) in Cash and Cash Equivalents	1,014	384
Cash and Cash Equivalents at Beginning of the Year	<u>69,927</u>	<u>69,543</u>
Cash and Cash Equivalents at End of the Year	<u>\$ 70,941</u>	<u>\$ 69,927</u>
Reconciliation of Operating (Loss) to Net Cash		
Provided by Operating Activities	\$ (28,201)	\$ (35,839)
Adjustments to Reconcile Operating (Loss) to Net Cash		
Provided by Operating Activities:		
Depreciation	38,436	38,442
Changes in Assets and Liabilities		
(Increase) in Prepaid Assets	(22)	353
(Increase) in Accounts Receivable, Net	(170)	(1,225)
(Decrease) in Accounts Payable	(9,687)	454
(Decrease) in Payroll Taxes	<u>(1,657)</u>	<u>(268)</u>
Total Adjustments	<u>26,901</u>	<u>37,756</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (1,301)</u>	<u>\$ 1,917</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, 2015 AND 2014

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 three-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 is considered a donation 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 implanted early in order to conform to current financial statement presentations. The following is a summary of the 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 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,  
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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDING DECEMBER 31, 2015 AND 2014

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 \$9,444 and \$9,909 at December 31, 2014 and 2013, 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.

G. Net Position.

Net position 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



RURAL WATER, SEWER AND SOLID  
WASTE MANAGEMENT DISTRICT #3,  
ROGER MILLS COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDING DECEMBER 31, 2015 AND 2014

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.

	December 31,	
	2015	2014
Customer Deposits	\$ 6,990	\$ 3,250
RECD Reserve Fund	10,137	10,097
Total Restricted Cash	\$ 17,127	\$ 13,347

The RECD Reserve Fund requirement is \$1,572. The District’s reserve account exceeds this requirement by \$8,565 and 8,525 at December 31, 2015 and 2014, 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, 2015 AND 2014

Note 3 – Capital Assets, Net.

The District's capital assets consisted of the following:

	DECEMBER 31,			
	2014	Additions	Deletions	2015
Capital Assets:				
Land	\$ 7,700	\$	\$	\$ 7,700
Water Distribution	300,245			300,245
Water Tower Improve.	64,666			64,666
Buildings	32,867			32,867
Equipment	60,968			60,968
Wastewater Treatment Facility	379,906			379,906
Total Capital Assets	846,352	0	0	846,352
Less Accumulated Depreciation:				
Water Distribution	176,373	12,010		188,383
Water Tower Improve.	64,666	4,311		68,977
Buildings	12,158	822		12,980
Equipment	37,331	6,097		43,428
Wastewater Treatment Facility	250,728	15,196		265,924
Total Acc. Deprec.	541,256	38,436	0	579,692
Capital Assets, Net	\$ 305,096	\$ -38,436	\$ 0	\$ 266,660

RURAL WATER, SEWER AND SOLID  
WASTE MANAGEMENT DISTRICT #3,  
ROGER MILLS COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDING DECEMBER 31, 2015 AND 2014

Note 3 – Capital Assets, Net. (continued).

	DECEMBER 31,			
	2013	Additions	Deletions	2014
Capital Assets:				
Land	\$ 7,700	\$	\$	\$ 7,700
Water Distribution	300,245			300,245
Water Tower Improve.	64,666			64,666
Buildings	32,867			32,867
Equipment	33,968	27,000		60,968
Wastewater Treatment Facility	300,226	79,680		379,906
<b>Total Capital Assets</b>	<b>739,672</b>	<b>106,680</b>	<b>0</b>	<b>846,352</b>
Less Accumulated Depreciation:				
Water Distribution	164,363	12,010		176,373
Water Tower Improve.	60,355	4,311		64,666
Buildings	11,336	822		12,158
Equipment	31,234	6,097		37,331
Wastewater Treatment Facility	235,532	15,196		250,728
<b>Total Acc. Deprec.</b>	<b>502,820</b>	<b>38,436</b>	<b>0</b>	<b>541,256</b>
<b>Capital Assets, Net</b>	<b>\$ 236,852</b>	<b>\$ 68,244</b>	<b>\$ 0</b>	<b>\$ 305,096</b>

Note 4 – Mortgages Payable.

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

RURAL WATER, SEWER AND SOLID  
WASTE MANAGEMENT DISTRICT #3,  
ROGER MILLS COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDING DECEMBER 31, 2015 AND 2014

Note 4 – Mortgages Payable (continued).

	DECEMBER 31,	
	2015	2014
<p>In January, 1994, the District borrowed an additional \$12,200 and \$14,500 from the Rural Economic &amp; Community Development. Mortgage terms call for interest only payments at the end of the first year, and then monthly payments there-after of \$60 and \$71, respectively. Interest rate for both loans is at 5%. Term is for 40 years.</p>	7,867	8,185
	9,314	9,690
Total Mortgages Payable	\$ 17,181	\$ 17,875

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,	
	2015	2014
Beginning Balance	17,875	18,535
Principal Reductions	(694)	(660)
Ending Balance	\$ 17,181	\$ 17,875

Annual Requirements to amortize the mortgages payable at December 31, 2014, are as follows:

<u>Year Ending</u> <u>December 31,</u>	Principal	Interest	Total
2016 Due within 1 yr.	\$ 730	\$ 842	\$ 1,572
2017	767	805	1,572
2018	806	766	1,572
2019	847	725	1,572
2020	890	682	1,572
2021-2024	4,933	2,927	7,860
2025-2029	6,330	1,530	7,860
2030-2031	1,878	1,266	3,144
Total	\$ 17,181	\$ 9,543	\$ 26,724

RURAL WATER, SEWER AND SOLID  
WASTE MANAGEMENT DISTRICT #3,  
ROGER MILLS COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDING DECEMBER 31, 2015 AND 2014

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,	
	2015	2014
Contributed Capital, Beginning	\$ 3,365	\$ 3,335
Membership Fees Collected	20	30
Contributed Capital, Ending	\$ 3,385	\$ 3,365

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 a deductible. The District increased its deductible from \$250 to \$1000 for its property coverage.

# **WILLIAM K. GAUER**

*CERTIFIED PUBLIC ACCOUNTANT*

121 SOUTH NOBLE ~ P.O. BOX 181  
PHONE 580-623-5071

WATONGA, OKLAHOMA 73772  
FAX 580-623-5072

*WGAUER@GAUERCPA.MYGBIZ.COM*

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

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

We have audited, in accordance with the 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 governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Circuit Engineering District, No. 8, State of Oklahoma, as of and for the year ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 31, 2017.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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 a 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. A significant deficiency is a deficiency, or a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these


limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant 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, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

**Purpose of this Report**

The 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

  
Watonga, Oklahoma  
May 31, 2017