

**CRAIG COUNTY RURAL WATER
DISTRICT NO. 3**

**ANNUAL FINANCIAL STATEMENTS
AND ACCOMPANYING
INDEPENDENT AUDITOR'S REPORTS**

For the Year Ended December 31, 2014

**LANGLEY-LITTLEFIELD-OBER
CERTIFIED PUBLIC ACCOUNTANTS, PLLC
124 South Main Street
Miami, Oklahoma 74354**

CRAIG COUNTY RURAL WATER DISTRICT NO. 3

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CRAIG COUNTY RURAL WATER DISTRICT NO. 3
Water Board Officials
December 31, 2014

Board of Directors

Ted Ingram	Chairman
Brandon Johnson	Vice Chairman
Steve Davis	Treasurer
Leland Mayfield	Secretary
Jarrold Chaney	Member

CRAIG COUNTY RURAL WATER DISTRICT NO. 3
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2014

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2014. Please read it in conjunction with the District's financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at December 31, 2014 by \$1,276,333.84, representing an increase in net position of \$19,551.68 for the year.
- Total operating revenues were \$336,589.46 this year while operating expenses and other net expenses were \$317,037.78, resulting in the increase in net position of \$19,551.68.
- The District has \$1,356,535.54 (net of accumulated depreciation) invested in capital assets as of December 31, 2014.

DISTRICT HIGHLIGHTS

- During the year the District made \$43,871.03 in capital improvements and did not incur any additional long-term debt associated with these improvements.

USING THIS ANNUAL REPORT

This annual report consists of two parts; Management's Discussion and Analysis and the Financial Statements. The Financial Statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Statements

The Financial Statements of the District report information about the District using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The Statement of Net Position includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine profitability, credit worthiness and whether the District has successfully recovered all its costs through its user fees and other charges. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments and net changes in cash resulting from cooperation, investing, and capital and noncapital financing activities and provides answers to such questions as "from where did cash come?," "for what was cash used:," and "what was the change in cash balance during the reporting period?"

CRAIG COUNTY RURAL WATER DISTRICT NO. 3
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2014

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

One of the most important questions asked about the District's finances is "Is the District, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position report information about the District's activities in a way that will help answer this question. These two statements report the net assets of the District and changes in them. You can think of the District's net assets – the difference between assets and liabilities – as one way to measure financial health or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, population growth and new or changed legislation.

The District's total Net Position increased from last year by \$19,551.68 or about 1.6%. Our analysis below focuses on the District's net assets (Table 1) and changes in net assets (Table 2) during the year.

Table 1

	12/31/14	12/31/13
Current Assets	\$ 297,023.40	\$ 285,979.64
Restricted Assets	120,114.27	107,731.42
Fixed Assets	1,356,535.54	1,394,328.14
Other Assets	155.00	155.00
Total Assets	<u>1,773,828.21</u>	<u>1,788,194.20</u>
Current Liabilities	51,894.37	52,212.04
Long-term Liabilities	445,600.00	479,200.00
Total Liabilities	<u>497,494.37</u>	<u>531,412.04</u>
Invested in Capital Assets, Net of Related Debt	866,435.54	873,128.14
Net Position, Restricted	120,114.27	107,731.42
Net Position, Unrestricted	<u>289,784.03</u>	<u>275,922.60</u>
Total Net Assets	<u>\$ 1,276,333.84</u>	<u>\$ 1,256,782.16</u>

The District's net assets reflects its investment in capital assets (e.g. water system, buildings, machinery and equipment) less any related debt used to acquire those assets still outstanding. The District uses these capital assets to provide services to citizens and consumers; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CRAIG COUNTY RURAL WATER DISTRICT NO. 3
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2014

The Balance of unrestricted net assets may be used to meet the District's ongoing obligations to citizens, customers and creditors. The District's unrestricted net assets increased by \$13,861.43 or 5.02% during the current year.

Changes in the District's net assets can be determined by reviewing the following condensed Statement of Revenue, Expenses and Changes in Net Assets for the year.

Table 2

	12/31/14	12/31/13
Total Operating Revenues	\$ 336,589.46	\$ 305,904.89
Operating Expenses	(254,962.52)	(201,346.01)
Depreciation Expense	(81,663.63)	(81,418.46)
Other Non-Operating Revenues (Expenses)	19,588.37	(6,600.08)
Increase (Decrease) in Net Position	19,551.68	16,540.34
Net Position, Beginning of Year	1,256,782.16	1,240,241.82
Net Position, End of Year	<u>\$ 1,276,333.84</u>	<u>\$ 1,256,782.16</u>

The District's primary source of revenue is the sale of water which comprises most of the operating revenues. Operating revenues increased by \$30,684.57 or 10% from the prior year.

Total operating expenses increased by \$53,616.51 or 26.6% from the prior year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2014, the District had \$1,356,535.54 (net of accumulated depreciation) invested in capital assets, including the water storage and distribution system, improvements, machinery and equipment. The District purchased capital assets costing \$43,871.03 during this year. Net capital assets decreased by \$37,792.60 or 2.7% from the prior year. This decrease was due to normal depreciation of assets during the year.

Debt

The District had one note payable outstanding as of December 31, 2014. Total long-term obligations decreased by \$31,100.00 during the year as a result of normal repayment. The balance of the note with Oklahoma Water Resources Board was \$490,100.00 at the end of the year.

**CRAIG COUNTY RURAL WATER DISTRICT NO. 3
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2014**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

A product of an ongoing examination and of how the District does business, our budget emphasizes outcomes or results for the community and allows for longer-term financial planning decisions.

In considering the District's budget for the year 2015, the Board estimates that revenues and expenses in the coming year will approximate actual revenues and expenses for the past year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Board of Directors at Craig County Rural Water District No. 3, P.O. Box 267, Welch, Oklahoma 74369.

LANGLEY-LITTLEFIELD-OBER

CERTIFIED PUBLIC ACCOUNTANTS, PLLC

124 SOUTH MAIN MIAMI, OK 74354

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INDEPENDENT AUDITORS REPORT

To the Board of Directors
Craig County Rural Water District No. 3
Welch, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Craig County Rural Water District No. 3 as of and for the year ended December 31, 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 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 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 evaluation 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Craig County Rural Water District No. 3 as of December 31, 2014, and the respective changes in financial position and cash flows thereof for the year then ended 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 on pages 2 through 5 be presented to supplement the basic financial statements. 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 the 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 6, 2015 on our consideration of Craig County Rural Water District No. 3'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 Craig County Rural Water District No. 3's internal control over financial reporting and compliance.



LANGLEY-LITTLEFIELD-OBER
CERTIFIED PUBLIC ACCOUNTANTS, PLLC
MIAMI, OKLAHOMA

APRIL 6, 2015

CRAIG COUNTY RURAL WATER DISTRICT NO. 3
STATEMENT OF NET POSITION
December 31, 2014

ASSETS

Current Assets:

Cash and cash equivalents	\$ 14,870.87
Restricted cash and cash equivalents	120,114.27
Investments	222,225.16
Accounts receivable	35,491.33
Grant receivable	22,107.66
Interest receivable	108.55
Prepaid insurance	<u>2,219.83</u>
Total Current Assets	<u>417,137.67</u>

Noncurrent Assets:

Capital assets, net of accumulated depreciation	1,356,535.54
Utility deposits	<u>155.00</u>
Total Noncurrent Assets	<u>1,356,690.54</u>

Total Assets	<u>1,773,828.21</u>
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LIABILITIES

Current Liabilities:

Accounts payable	6,409.09
Accrued interest	985.28
Current portion of long-term debt	<u>44,500.00</u>
Total Current Liabilities	<u>51,894.37</u>

Non-Current Liabilities:

Notes payable, net of current portion	<u>445,600.00</u>
Total Noncurrent Liabilities	<u>445,600.00</u>

Total Liabilities	<u>497,494.37</u>
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NET POSITION

Invested in capital assets, net of related debt	866,435.54
Restricted for debt service	120,114.27
Unrestricted	<u>289,784.03</u>
Total Net Position	<u>\$ 1,276,333.84</u>

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

CRAIG COUNTY RURAL WATER DISTRICT NO. 3
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
For the Year Ended December 31, 2014

Operating Revenues:

Water revenues	\$ 326,512.87
Other revenues	<u>10,076.59</u>
Total Operating Revenues	<u>336,589.46</u>

Operating Expenses:

Accounting and legal	23,331.40
Depreciation	81,663.63
Dues and memberships	2,186.50
Engineering fees	3,860.93
Insurance and bonds	5,286.07
Line costs	19,245.00
Materials and supplies	24.20
Meeting expenses	3,335.38
Operator's expenses	82,974.02
Office supplies and expenses	4,457.88
Rents	1,010.00
Repairs and maintenance	68,375.33
Trustees fees	1,104.29
Utilities and telephone	34,054.02
Water testing	<u>5,717.50</u>
Total Operating Expenses	<u>336,626.15</u>

Operating Income (Loss)	(36.69)
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Non-Operating Revenues (Expenses):

Interest income	2,948.69
Grant revenue	22,107.66
Proceeds from legal settlement	70,901.90
Legal settlement expense	(70,901.90)
Interest expense	<u>(5,467.98)</u>
Total Non-Operating Revenues (Expenses)	<u>19,588.37</u>

Change in Net Position	19,551.68
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Total Net Position - Beginning	<u>1,256,782.16</u>
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Total Net Position - Ending	<u><u>\$ 1,276,333.84</u></u>
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The accompanying notes are an integral part of these financial statements.

CRAIG COUNTY RURAL WATER DISTRICT NO. 3
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2014

Cash flows from operating activities:

Cash received from customers	\$ 322,116.05
Cash received from other revenues	10,076.59
Cash paid to suppliers for goods and services	<u>(257,821.72)</u>
Net cash provided (used) by operating activities	<u>74,370.92</u>

Cash flows from investing activities:

Interest received from investments	2,925.72
Cash received from certificates of deposit	8,000.00
Purchases of certificates of deposit	(1,187.19)
Capital expenditures	<u>(43,871.03)</u>
Net cash provided (used) by investing activities	<u>(34,132.50)</u>

Cash flows from capital and related financing activities:

Principal payments on capital debt	(31,100.00)
Interest paid on capital debt	<u>(5,467.98)</u>
Net cash provided (used) by capital and related financing activities	<u>(36,567.98)</u>

Net increase (decrease) in cash and cash equivalents	3,670.44
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Beginning cash and cash equivalents	<u>131,314.70</u>
Ending cash and cash equivalents	<u><u>\$ 134,985.14</u></u>

Reconciliation of operating income (loss) to cash provided

by operating activities:

Operating Income (Loss)	\$ (36.69)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	81,663.63
Change in assets and liabilities:	
(Increase) in accounts receivable	(4,396.82)
(Increase) in in prepaid insurance	(41.53)
(Decrease) in accounts payable	<u>(2,817.67)</u>
Net cash provided by operating activities	<u><u>\$ 74,370.92</u></u>

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

CRAIG COUNTY RURAL WATER DISTRICT NO. 3
Notes to the Financial Statements
December 31, 2014

Note 1 - Summary of Significant Accounting Policies

Craig County Rural Water District No. 3, (the "District") was created under the provisions of Title 82, O.S. 1981, Sections 1324.1-1324.26 inclusive, for the purpose of providing water to the members of the District it serves. Membership in the water district consists of water users who have paid the required membership and connection fees. The District is exempt from federal and state income taxes.

The membership consists of approximately 545 users, each entitled one vote. The Board of Directors consists of five (5) members serving one to three-year terms. The vacant Board seats are elected at the annual meeting in February, and following, the Board of Directors meet and elect a chairman, vice-chairman and secretary/treasurer. All Board members serve without pay.

The accounting policies of the District conform to generally accepted accounting principles applicable to governmental units. The District complies with generally accepted accounting principles and applies all relevant Government Accounting Standards Board (GASB) pronouncements. In addition, the District applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The District has elected not to follow FASB pronouncements issued since that date.

1.A. Financial Reporting Entity

The District complies with GASB Statement No. 14, "*The Financial Reporting Entity*." This statement establishes standards for defining and reporting on the financial reporting entity. It defines component units as legally separate organizations for which the elected officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The District considered all potential component units determining what organizations should be included in the financial statements. Based on these criteria, there are no component units to include in the District's financial statements.

1.B. Basis of Presentation

The accounts of the District are organized into funds, each of which is considered to be a separate accounting entity. The District uses the following fund types.

CRAIG COUNTY RURAL WATER DISTRICT NO. 3
Notes to the Financial Statements
December 31, 2014

Note 1 - Summary of significant Accounting Policies: continued

1.B. Basis of Presentation: continued

Proprietary Funds

Enterprise Funds

The District's fund is an enterprise fund. Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

1.C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe *which* transactions are recorded within the various financial statements. Basis of accounting refers to *when* transactions are recorded regardless of the measurement focus applied.

Measurement Focus

The proprietary funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

Basis of Accounting

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the District's enterprise fund is charges to customers for sales and services. The District also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CRAIG COUNTY RURAL WATER DISTRICT NO. 3
Notes to the Financial Statements
December 31, 2014

Note 1 – Summary of Significant Accounting Policies: continued

1.D. Assets, Liabilities and Net Assets

Cash and Cash Equivalents

For the purposes of cash flows, the District considers all cash on hand, demand deposits, and highly liquid investments, with an original maturity of three months or less when purchased, to be cash and cash equivalents.

Fair Value of Financial Instruments

The District's financial statements include cash and investments. The District's estimates of the fair value of all financial instruments do not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of net assets. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Accounts Receivable

Accounts receivable consists primarily of charges for water sales. Management has not established a provision for uncollectible accounts. Such amounts are written off in the month in which management determines they are uncollectible.

Capital Assets

The water storage and delivery system and equipment are recorded at cost. Donated capital assets are reported at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

All reported capital assets are depreciated on the straight-line basis over the estimated useful lives ranging from fifteen (15) to forty (40) years.

Restricted Cash

On June 9, 1997, the District refinanced their existing loans with the Oklahoma Water Resources Board. This loan agreement requires the District to make monthly payments into the debt service fund, from which the semi-annual loan payment will be made. As of December 31, 2014, this account had a balance of \$16,648.33.

The loan agreement also requires the District to maintain a debt service reserve account in the amount of \$95,437.92. This account is held in a money market account. As of December 31, 2014 the balance of the money market account was \$103,465.94.

CRAIG COUNTY RURAL WATER DISTRICT NO. 3
Notes to the Financial Statements
December 31, 2014

Note 1 – Summary of Significant Accounting Policies: continued

1.D. Assets, Liabilities and Net Assets: continued

Equity Classification

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- b. Restricted net position – Consists of net position with 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 provisions or enabling legislation.
- c. Unrestricted net position – All other net assets that do not meet the definitions of “restricted” or “invested in capital assets, net of related debt”.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 – Detailed Notes Concerning Accounts

2.A. Deposits and Investments

State statutes govern the District’s investment policy. Permissible investments include direct obligations of the United States Government and Agencies; certificates of deposit of savings and loan associations, and bank and trust companies; and savings accounts or savings certificates of savings and loan associations and trust companies. Collateral is required for demand deposits and certificates of deposit for all amounts not covered by federal deposit insurance. Investments are stated at cost. Currently the District invests entirely in certificates of deposit.

Custodial Credit Risk – Deposits: Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The District’s cash deposits, including interest-bearing certificates of deposit, are maintained in financial institutions. As of December 31, 2014, none of the District’s investments were exposed to custodial credit risk because they were either insured or collateralized.

CRAIG COUNTY RURAL WATER DISTRICT NO. 3
Notes to the Financial Statements
December 31, 2014

Note 2 – Detailed Notes Concerning Accounts: continued

2.A. Deposits and Investments: continued

Interest rate risk: This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

2.B. Accounts Receivable

Aged accounts receivables as of December 31, 2014 are as follows:

Current	\$ 23,656.23
31 - 60 days arrears	4,111.70
Over 60 days arrears	<u>7,723.40</u>
Total	<u>\$ 35,491.33</u>

2.C. Changes in Capital Assets

Capital asset activity for the fiscal year ended December 31, 2014 was as follows:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Water Well	\$ 274,657.85	\$ -	\$ -	\$ 274,657.85
Line and Tank	1,137,162.16	18,037.50	-	1,155,199.66
Water System	376,201.96	3,700.87	-	379,902.83
New Installations - West	961,548.67	-	-	961,548.67
New Installations - North	460,606.11	-	-	460,606.11
Furniture and Equipment	3,745.00	25.00	-	3,770.00
Construction in Process	<u>-</u>	<u>22,107.66</u>	<u>-</u>	<u>22,107.66</u>
Total Capital Assets	3,213,921.75	43,871.03	-	3,257,792.78
Less: Accumulated Depreciation	<u>(1,819,593.61)</u>	<u>(81,663.63)</u>	<u>-</u>	<u>(1,901,257.24)</u>
Net Book Value	<u>\$ 1,394,328.14</u>	<u>\$ (37,792.60)</u>	<u>\$ -</u>	<u>\$ 1,356,535.54</u>

CRAIG COUNTY RURAL WATER DISTRICT NO. 3
Notes to the Financial Statements
December 31, 2014

Note 2 – Detailed Notes Concerning Accounts: continued

2.D. Notes Payable

On June 9, 1997 the District consolidated their outstanding loans and refinanced through the Oklahoma Water Resources Board. The variable rate loan matures August 15, 2024. The loan balance at December 31, 2014 is \$490,100.00 with a variable rate of interest, which is currently 1.45%. The loan is collateralized by the District's water system.

The following is a schedule of debt maturities and interest expense:

	Principal	Interest
2015	\$ 44,500.00	\$ 6,846.78
2016	48,200.00	6,191.06
2017	52,100.00	5,488.15
2018	56,300.00	4,728.03
2019	61,000.00	3,906.42
2020 - 2023	228,000.00	6,173.76
	<u>\$ 490,100.00</u>	<u>\$ 33,334.20</u>

2.E. Changes in General Long-Term Debt

Long-term debt consists of notes payable. The following is a summary of the changes in general long-term debt of the District for the fiscal year.

Beginning of Year	Advances	Payments	End of Year
<u>\$ 521,200.00</u>	<u>\$ -</u>	<u>\$ 31,100.00</u>	<u>\$ 490,100.00</u>

Note 3 – Other Information

3.A. 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 cover these risks, including general and auto liability, property damage, and public officials liability. There were no significant reductions in insurance coverage from the prior year. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

CRAIG COUNTY RURAL WATER DISTRICT NO. 3
Notes to the Financial Statements
December 31, 2014

Note 3 – Other Information: continued

3.B. Rates and Fees

Water Rates and Charges

Minimum monthly charge on first 2,000 gallons	\$ 28.50
Price per thousand gallons for next 2,000 gallons	5.00
Price per thousand gallons for next 4,000 gallons	3.00
Price per thousand gallons for gallons over 8,000	1.75

Other Fees

Water Meter Tap Fee	\$ 1,000.00
Meter and Material Cost	300.00
Meter Setting Fee	200.00
Engineering Fee (if required)	100.00
Road Crossing Fee	500.00

3.C. Subsequent Events

The District has evaluated events and transactions for subsequent events that would impact the financial statements for the year ended December 31, 2014 through April 6, 2015, the date the financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in the financial statements.

REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS

LANGLEY-LITTLEFIELD-OBER

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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 FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Craig County Rural Water District No. 3
Welch, 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 business-type activities of Craig County Rural Water District No. 3, as of and for the year ended December 31, 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 April 6, 2015..

Internal Control over Financial Reporting

In planning and performing our audit, we considered Craig County Rural Water District No. 3's internal control over financial reporting (internal control) to determine the auditing 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 Craig County Rural Water District No. 3's internal control. Accordingly, we do not express an opinion on the effectiveness of the Craig County Rural Water District No. 3'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies listed as item 2012-1.

Compliance and Other Matters

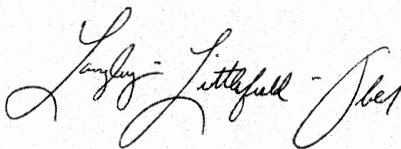
As part of obtaining reasonable assurance about whether the Craig County Rural Water District No. 3's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could 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*.

Craig County Rural Water District No. 3's Response to Findings

Craig County Rural Water District No. 3's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Craig County Rural Water District No. 3's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.



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MIAMI, OKLAHOMA

APRIL 6, 2015

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SCHEDULE OF FINDINGS AND RESPONSES

2012-1 Segregation of Duties and Safeguarding of Assets

Criteria or Specific Requirement – Effective internal controls require a separation of duties (i.e. collection of accounts receivable should be separated from the reconciliation of bank statements) so that assets are adequately safeguarded and to prevent and detect fraud. This is a repeat finding from the previous year.

Condition – One individual is responsible for billing, collections, maintenance of accounts receivable, deposits, reconciliation of bank accounts and posting to the general ledger with limited oversight from management.

Context – Duties listed above should be completed by more than one person with a member of management reviewing the work that has been completed.

Effect – The District is susceptible to misappropriation of assets and possible fraudulent activities that may not be discovered in the normal course of business.

Cause – Lack of sufficient resources to hire additional staff for segregation of duties.

Recommendation – Management requests a bank statement be mailed directly from the depositor to a board officer for review and evidence of the review and any findings be reported at the monthly board meeting. The chosen board officer should not also be a signer on the Districts account held with the depositor.

Response – Management understands the recommendation and will take under advisement.