

AUDIT REPORT

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT,
DISTRICT NO. 3, ATOKA COUNTY, OKLAHOMA

OCTOBER 31, 2015



KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT,
DISTRICT NO. 3, ATOKA COUNTY, OKLAHOMA
OCTOBER 31, 2015

TABLE OF CONTENT

	<u>PAGE</u>
INTRODUCTORY SECTION:	
BOARD OF DIRECTORS	3
FINANCIAL SECTION:	
INDEPENDENT AUDITOR'S REPORT	4-6
BASIC FINANCIAL STATEMENTS:	
EXHIBIT A STATEMENT OF NET POSITION	7
EXHIBIT B STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION	8
EXHIBIT C STATEMENT OF CASH FLOWS	9
NOTES TO THE FINANCIAL STATEMENTS	10-18
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	19-21
SCHEDULE OF FINDINGS	22

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT,
DISTRICT NO. 3, ATOKA COUNTY, OKLAHOMA
OCTOBER 31, 2015

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>
RICK LACKEY	CHAIRMAN
SHARON CRITES	VICE-CHAIRMAN
NICK BRISTER	SECRETARY/TREASURER
RONALD JACKSON	MEMBER
THOMAS MERRITT	MEMBER
ANTHONY DILLARD	MEMBER
WYATT O'HERN	MEMBER

OFFICE MANAGER / BOOKKEEPER

MICHELLE SMITH

OPERATIONS MANAGER

PERRY TRENT

KERSHAW CPA & ASSOCIATES, PC

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Rural Water, Sewer and Solid Waste Management,
District No. 3, Atoka County, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Rural Water, Sewer and Solid Waste Management, District No. 3, Atoka County, Oklahoma as of and for the fiscal year ended October 31, 2015, as listed in the table of contents and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the 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

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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 respective financial position of the Rural Water, Sewer and Solid Waste Management, District No. 3, Atoka County, Oklahoma as of October 31, 2015, and the respective changes in financial position and, where applicable, 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

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

Supplementary and Other Information

The introductory section listed in the accompanying table of contents is presented for the purpose of additional analysis and is not a

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required part of the basic financial statements of the District. Such additional information has not been subjected to the auditing procedures applied in our audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 6, 2016, on our consideration of the Rural Water, Sewer and Solid Waste Management, District No. 3, Atoka County's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rural Water, Sewer and Solid Waste Management, District No. 3, Atoka County's internal control over financial reporting and compliance.

Kershaw CPA & Associates, P.C.
Kershaw, CPA & Associates, PC

January 6, 2016

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT,
DISTRICT NO.3, ATOKA COUNTY, OKLAHOMA
STATEMENT OF NET POSITION
OCTOBER 31, 2015

	Total 2015	Total (Memo Only) 2014
<u>ASSETS</u>		
<u>Current Assets:</u>		
Revenue Fund - Checking	\$ 57,009	\$ 48,607
Revenue Fund - Savings	79,500	76,983
Accounts Receivable - Trade	22,205	17,920
Interest Receivable	20	13
Prepaid Insurance	6,016	8,878
Total Current Assets	164,749	152,400
<u>Restricted Assets:</u>		
Capital Improvement Fund	105,763	100,854
Water Security Deposit Fund	31,585	30,373
Total Restricted Assets	137,349	131,227
<u>Capital Assets:</u>		
Land	27,317	27,317
Equipment	152,123	152,123
Water Distribution Facilities	1,361,003	1,351,203
Lagoon System	149,522	149,522
Less: Accumulated Depreciation	(1,052,525)	(996,102)
Total Capital Assets	637,440	684,064
TOTAL ASSETS	939,539	967,691
<u>LIABILITIES</u>		
<u>Current Liabilities:</u>		
Accounts Payable - Trade	897	1,116
Payroll Taxes Payable	1,497	681
Security Deposits	29,193	28,018
Current Portion of Long-Term Debt	16,727	15,806
Total Current Liabilities	48,314	45,621
<u>Long-Term Liabilities:</u>		
Notes Payable	16,727	32,910
Less: Current Portion	(16,727)	(15,806)
Total Long-Term Liabilities	-	17,104
TOTAL LIABILITIES	48,314	62,726
<u>NET POSITION</u>		
Net investment in capital assets	620,713	651,153
Restricted for debt service or other purposes	137,349	131,227
Unrestricted	133,162	122,585
TOTAL NET POSITION	\$ 891,224	\$ 904,965

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT,
DISTRICT NO.3, ATOKA COUNTY, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2015**

	Total October 31, 2015	Total (Memo Only) October 31, 2014
<u>Operating Revenues:</u>		
Water Sales	\$ 191,235	\$ 185,040
Sewer Sales	25,076	25,237
Late Charges	13,371	10,217
Meter Services	3,493	875
Recovery of Bad Debts	-	-
Total Operating Revenues	233,174	221,370
<u>Operating Expenses:</u>		
Salaries	66,257	81,580
Utilities	15,069	15,871
Repairs & Maintenance	44,698	53,070
Offices Supplies, Printing & Postage	13,934	5,187
Insurance	11,387	9,982
Employee Benefits	16,839	22,727
Retirement Expense	-	150
Payroll Taxes	6,845	6,255
Accounting and Auditing	2,341	3,600
Analysis Testing	4,419	4,551
Licenses and Permits	3,321	5,640
Travel and Meetings	107	-
Advertising	813	641
Lease Expense	3,000	4,000
Miscellaneous	1,034	555
Bad Debts	4,423	3,941
Depreciation Expense	56,423	60,176
Total Operating Expenses	250,912	277,925
Operating Income (Loss)	(17,738)	(56,555)
<u>Non-Operating Revenues (Expenses):</u>		
Interest Income	347	347
Miscellaneous Income	4,625	2,219
Membership Dues and Supplies	-	4,700
Interest Expense	(990)	(1,459)
Total Non-operating Revenues (Expenses)	3,982	5,808
Net Income (Loss) Before Contributions	(13,756)	(50,747)
Capital Contributions	-	-
Change in Net Position	(13,756)	(50,747)
Total Net Position - Beginning	904,965	956,892
Total Net Position - Prior Year Adjustment	15	(1,179)
Total Net Position - Ending	\$ 891,224	\$ 904,965

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT,
DISTRICT NO.3, ATOKA COUNTY, OKLAHOMA
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2015**

	<u>10/31/15</u>	<u>Memorandum Only 10/31/14</u>
<u>Cash Flows from Operating Activities:</u>		
Cash Receipts from Customers	\$ 228,889	\$ 221,998
Payments to Suppliers for Goods & Services	(124,774)	(137,722)
Payments to Employees & Laborers	(66,257)	(81,580)
Receipts of Customer Utility Deposits, Net of Refunds	1,175	775
Net Cash Provided (Used) by Operating Activities	<u>39,034</u>	<u>3,470</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>		
Additions to Capital Assets	(9,800)	(17,160)
Proceeds from sale of Capital Assets	-	-
Loan Proceeds	-	-
Principal paid on Debt	(16,183)	(15,714)
Interest paid on Debt	(990)	(1,459)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(26,973)</u>	<u>(34,333)</u>
<u>Cash Flows from Investing Activities:</u>		
Non-Operating Income	4,625	6,919
Interest Income	340	345
Net Cash Provided (Used) by Investing Activities	<u>4,965</u>	<u>7,265</u>
Net Increase (Decrease) in Cash and Cash Equivalents	17,026	(23,598)
Cash & Cash Equivalents, Beginning of Year	256,817	280,415
Cash & Cash Equivalents, Prior Year Adjustment	15	-
Cash & Cash Equivalents, End of Year	<u>\$ 273,857</u>	<u>\$ 256,817</u>
<u>Reconciliation of operating income (loss) to net cash provided operating activities:</u>		
Operating Income (Loss)	\$ (17,738)	\$ (56,555)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	56,423	60,176
(Increase)Decrease in Accounts Receivable-Trade	(4,285)	628
(Increase)Decrease in Prepaid Insurance	2,861	(1,508)
Increase(Decrease) in Accounts Payable	(219)	64
Increase(Decrease) in Payroll Taxes Payable	816	(110)
Increase(Decrease) in Security Deposits	1,175	775
Net Cash Provided (Used) by Operating Activities	<u>\$ 39,034</u>	<u>\$ 3,470</u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT,
DISTRICT NO. 3, ATOKA COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Rural Water, Sewer, and solid Waste Management, District No. 3, Atoka County, Oklahoma, was organized October 1, 1985, pursuant to the Oklahoma rural Water, Sewer, and Solid Waste Management District Act. The District operates as a nontaxable government entity to serve residents of a portion of rural Atoka County.

Accounting

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Certain of the significant changes in the Statement include the following:

1. For the first time the financial statement should include:
 - a. A Management Discussion and Analysis (MD&A) section providing analysis of the District's overall financial position and results of operations. However, the District has chosen not to present the required MD&A for the current year.
 - b. Financial statements prepared using full accrual accounting for all of the District's activities, except for including the General capital assets or infrastructure (lines, pump stations, etc.).
2. A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The District has elected to implement the general provisions of the Statement and report infrastructure acquired after July 1, 2003 as provided by GASB standards.

Basis of Presentation

The accounts of the District are organized on the basis of proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT,
DISTRICT NO. 3, ATOKA COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2015

self-balancing accounts that comprise the District's assets, liabilities, net assets, revenues and expenses. Enterprise Funds account for activities (1) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (2) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (3) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Basis of Accounting

The proprietary fund type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. Fund equity consists of contributed capital and retained earnings. Proprietary fund type operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in net total assets. The accrual basis of accounting is utilized by the proprietary fund type. Under this basis of accounting revenues are recognized when earned and expenses are recognized when the related liability is incurred.

Budgetary Data

The District does not prepare an annual budget.

Property and Equipment

Water distribution facilities, lagoon and sewer facilities, office furniture and equipment purchased or constructed by the District are stated at cost. Depreciation is computed on the straight-line method based on the estimated useful lives of the assets ranging from five to forty years.

Construction in progress is recorded at cost. No depreciation is recognized until contracts are complete and the applicable facilities become operational.

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT,
DISTRICT NO. 3, ATOKA COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2015

Capitalization Policy:

Purchases of capital items in excess of \$1,000.00 that increase the capacity or operation efficiency or extend the useful life of any asset are capitalized. Repairs and maintenance are expensed as incurred

Equity Classification

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

1. Net investment in capital assets—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.
2. Restricted—Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted—Net amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

It is the District's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

Revenues, expenditures & expenses

Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT,
DISTRICT NO. 3, ATOKA COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2015

not related to capital and related financing, noncapital financing, or investing activities.

Memorandum Totals

The “memorandum only” captions above the total columns mean that totals are presented for overview information purposes only.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

As a local government unit, the District is subject to various federal, state, and local laws and contractual regulations. In accordance with Government Auditing Standards, the auditor has issued a report on his consideration of the District’s internal control over financial reporting and tested its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be read in conjunction with this report in considering the results of the audit.

Finance-related Legal & Contractual Provisions

The District is no longer required by loan covenant to keep a balance in the debt reserve account. This requirement ceased to exist upon the pay-off of the promissory note in June 2003.

Deficit Fund Balance or Retained Earnings

As indicated in the financial statements, there are no fund balance or retained earnings deficits for the District for this fiscal year.

Excess of Expenditures Over Appropriations

As indicated in Note 1, the District does not prepare an annual budget.

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT,
DISTRICT NO. 3, ATOKA COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2015

NOTE 3 - AGED ACCOUNTS RECEIVABLE - TRADE

CURRENT	\$ 19,430.58
01-30 DAYS	5,207.52
31-60 DAYS	1,118.81
61+ DAYS	19,412.84
Amount of Overpayments/Prepayments	<u>(3,552.34)</u>
 Total Accounts Receivable	 <u><u>\$ 41,617.41</u></u>

The allowance for doubtful accounts included in the financial statements is equal to account balances 61 days and older.

NOTE 4 - ACCUMULATED UNPAID VACATION BENEFITS

Accumulated unpaid vacation benefits have not been show as a liability in the financial statements. The District's position is that any accrued benefits are not significant and would not materially affect the financial statements.

NOTE 5 - CUSTODIAL CREDIT RISK RELATED TO DEPOSITS

Custodial Credit Risk

At October 31, 2015, the District held deposits of approximately \$273,857 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name.

Investment Interest Rate Risk

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.

Investment Credit Risk

The District has no policy that limits its investment choices other than the limitation of state law as follows:

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT,
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NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2015

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

NOTE 6 - RESTRICTED ASSETS

Restrictions included as restricted assets are as follows:

Reserve Fund	-Use is Restricted for Unforeseen Repairs (This restriction was previously by bond indenture)
Security Deposits	-Use is Restricted to deposit and refund water meter security deposits
Capital Improvement	-Use is Restricted to unforeseen repairs

NOTE 7 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended October 31, 2015, was as follows:

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT,
DISTRICT NO. 3, ATOKA COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2015

	Balance at Oct. 31, 2014	Additions	Deductions	Balance at Oct. 31, 2015
Land	\$ 27,317	\$ -	\$ -	\$ 27,317
Equipment	152,123	-	-	152,123
Water Distribution Facilities	1,351,203	-	-	1,351,203
Lagoon System	149,522	9,800	-	159,322
Subtotal	1,680,165	9,800	-	1,689,965
Less: Accum. Depr.	(996,102)	(56,423)	-	(1,052,525)
Total Capital Assets (Net of Depreciation)	<u>\$ 684,064</u>	<u>\$ (46,623)</u>	<u>\$ -</u>	<u>\$ 637,440</u>

The capital asset additions included the lagoon project.

NOTE 8 - LONG-TERM DEBT

The District has a lease purchase agreement with Government Capital Corporation dated May 21, 2012 for the purchase of a front end loader/backhoe. The agreement includes five (5) equal annual payments in the amount of \$17,173.13 due June 15, 2012 thru June 15, 2016.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended October 31, 2015:

	Balance at October 31, 2014	Additions	Deductions	Balance at October 31, 2015
Notes Payable	\$ 32,910.41	\$ -	\$ 16,183.08	\$ 16,727.33
Total Long-Term Debt	<u>\$ 32,910.41</u>	<u>\$ -</u>	<u>\$ 16,183.08</u>	<u>\$ 16,727.33</u>

A summary of future maturities of principal and interest are as follows:

Year Ending October 31,	Principal	Interest	Total
2016	\$ 16,727	\$ 446	\$ 17,173
2017	-	-	-
2018	-	-	-
2019	-	-	-
2020	-	-	-
Total	<u>\$ 16,727</u>	<u>\$ 446</u>	<u>\$ 17,173</u>

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT,
DISTRICT NO. 3, ATOKA COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2015

NOTE 9 - FUND EQUITY

As described in Note 1 above, equity is classified as net position and displayed in three components:

1. Net investment in capital assets
2. Restricted
3. Unrestricted

Restricted amounts are described in Note 6 above.

NOTE 10 - INSURANCE COVERAGE

The District carries the following types of insurance coverage:

- Liability
- Auto
- Commercial
- Fidelity Bonds
- Workers' Compensation

NOTE 11 - ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that could affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 12 - RISK MANAGEMENT

The District's risk management of loss consists of commercial insurance for property and liability losses, an employee's bond for employee dishonesty, and worker's compensation.

NOTE 13 - CONTINGENCIES

Litigation

The District currently has no pending litigation.

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT,
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NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2015

Federally Assisted Programs

In the normal course of operations, the District participates in various federal or state/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

NOTE 14 - ACCESS LEASE

On March 18, 2014, the District entered into a contract/access lease with Mark & Sherry O'Hern for access to the water well, and use of the water from such well, on property owned by the O'Herns. The lease is for a price of \$500 a month and shall include a 2.0% cost of living increase each year based upon the \$500 (i.e. that there will be 2.0% on \$500 monthly payment at the end of the first year, \$510, and increasing \$10 each year thereafter). The access lease shall be permanent and perpetual in nature, and shall run with the land. The District may terminate the lease if it no longer feels the need for access for such water for its purposes or if the water is unavailable (dry well) or the water becomes of such quality that it may not be used by the District according to the regulations of the Oklahoma Department of Environmental Quality.

During the fiscal year ending October 31, 2015, the District was informed by DEQ that they would not approve any new plans in regards to the well. It was determined that if the District tried to do what DEQ approved it might ruin the well. The District's attorney drew up paperwork to terminate the lease contract. The District contacted Caddo RWD #6 about tying into their system for an emergency water source. They were informed that they would be allowed to tie in and that it would cost \$20.00 per month, then \$3.00 per thousand after the first thousand if any water was used.

NOTE 15 - SUBSEQUENT EVENTS

The District did not have any subsequent events through January 6, 2016, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending October 31, 2015.

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607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

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
Rural Water, Sewer and Solid Waste Management,
District No. 3, Atoka County, 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, and in accordance with Oklahoma Statutes, the financial statements of the Rural Water, Sewer and Solid Waste Management, District No. 3, Atoka County, Oklahoma, as of and for the year ended October 31, 2015, and the related notes to the financial statements, and have issued our report thereon dated January 6, 2016. Management has omitted the MD&A required by accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Rural Water, Sewer and Solid Waste Management, District No. 3, Atoka County, Oklahoma'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Rural Water, Sewer and Solid Waste Management, District No. 3, Atoka County, Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of Rural Water, Sewer and Solid Waste Management, District No. 3, Atoka County, Oklahoma'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 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

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

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 that we consider to be significant deficiencies. Those deficiencies are listed as Items 15-01 and 15-02.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Rural Water, Sewer and Solid Waste Management, District No. 3, Atoka County, Oklahoma's financial statements are free of material misstatement, we performed tests of 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.

Rural Water, Sewer and Solid Waste Management, District No. 3, Atoka County, Oklahoma's Response to Findings

Rural Water, Sewer and Solid Waste Management, District No. 3, Atoka County, Oklahoma's response to the findings identified in our audit is described in the accompanying Schedule of Findings. Rural Water, Sewer and Solid Waste Management, District No. 3, Atoka County, Oklahoma'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

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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.

Kershaw CPA & Associates, P.C.
Kershaw, CPA & Associates, PC

January 6, 2016

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT,
DISTRICT NO. 3, ATOKA COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS
OCTOBER 31, 2015

Item 15-01: Segregation of Duties

Criteria: A good system of internal control requires a proper segregation of duties to prevent one person from being in a position to authorize, execute, and record the same transaction.

Condition: Due to the size of the District's major areas of internal control, that would be prevalent in a larger District, such segregation of duties is not available for this size operation. Duties are concentrated in the hands of a few individuals, who are responsible for all phases of the accounting functions. Because of this lack of division of responsibility, internal control is determined to be weak, and in some instances, non-existent.

Cause/Effect: Due to the limited number of personnel, a breach of internal controls could occur and not be detected in the normal course of operations.

Recommendation: The Board should continue to be actively involved in the operations of the organization.

Response: Some compensating controls have been implemented by requiring the Boards approval and signature for all expenditures.

Item 15-02: Financial Reporting

Criteria: It is the responsibility of the District to properly report and account for the financial information.

Condition: The District is not dedicating sufficient resources to properly maintain the financial accounting records of the Town's activities. During our audit we noted expenses posted to incorrect general ledger accounts.

Cause/Effect: The expenses are not being properly separated by type. This compromises the integrity of financial information for both internal and external purposes.

Recommendation: Proper resources should be devoted to maintaining the District's financial accounting records. In addition, the financial statements in Quicken should be reviewed on a monthly basis and necessary corrections made.

Response: The District has had significant employee turnover during the year which has resulted in increased job requirements for the remaining employees and decreased time available for each task.