

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

ROGER MILLS COUNTY, OKLAHOMA

INDEPENDENT AUDITOR'S REPORT

YEARS ENDED

DECEMBER 31, 2017 & 2016

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

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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, 2017 and 2016, 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,⁶ 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, 2017 and 2016, 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.

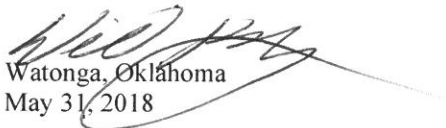
Basis of Accounting

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2018, 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, 2018

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT DISTRICT #3
 ROGER MILLS COUNTY, OKLAHOMA
 STATEMENT OF NET POSITION
 DECEMBER 31, 2017 AND 2016

ASSETS	<u>2017</u>	<u>2016</u>
Current Assets		
Cash on Hand	\$ 100	\$ 100
Cash in Checking	10,439	23,399
Cash in Savings	14,727	14,668
Accounts Receivable, net	3,439	2,570
Prepaid Assets	<u>-</u>	<u>761</u>
Total Current Assets	<u>28,704</u>	<u>41,498</u>
Noncurrent Assets		
Restricted Cash	18,853	18,192
Capital Assets, net of Depreciation	<u>206,973</u>	<u>228,592</u>
Total Noncurrent Assets	<u>225,826</u>	<u>246,784</u>
TOTAL ASSETS	<u><u>254,530</u></u>	<u><u>288,282</u></u>
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts Payable	-	-
Accrued Payroll Taxes	558	857
Current Portion of Long-Term Debt	<u>806</u>	<u>767</u>
Total Current Liabilities	<u>1,364</u>	<u>1,623</u>
Long-Term Liabilities		
Customer Deposits	7,956	7,353
Long-Term Debt, net of Current Portion	<u>14,841</u>	<u>15,685</u>
Total Long-Term Liabilities	<u>22,797</u>	<u>23,038</u>
TOTAL LIABILITIES	<u>24,160</u>	<u>24,661</u>
NET POSITION		
Net Investment in Capital Assets	191,326	212,141
Restricted	10,897	10,839
Unrestricted	<u>28,147</u>	<u>40,641</u>
TOTAL NET POSITION	<u>230,370</u>	<u>263,621</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 254,530</u></u>	<u><u>\$ 288,282</u></u>

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT DISTRICT #3
 ROGER MILLS COUNTY, OKLAHOMA
 STATEMENT OF ACTIVITIES
 DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Operating Revenues		
Water & Sewer Revenues	\$ 42,194	\$ 38,848
Miscellaneous Income	<u>1,738</u>	<u>4,219</u>
Total Operating Revenue	<u>43,932</u>	<u>43,067</u>
Operating Expenses		
Salaries	18,144	16,844
Payroll Taxes	1,571	1,457
Utilities	3,413	3,047
Travel	1,396	118
Professional Fees	7,200	15,400
Insurance	3,405	3,573
Maintenance & Supplies	13,676	13,352
Dues & Registrations	244	228
Depreciation	27,429	38,068
Bad Debt Expense	-	702
Miscellaneous Expense	<u>52</u>	<u>585</u>
Total Operating Expenses	<u>76,529</u>	<u>93,374</u>
Income (Loss) from Operations	(32,597)	(50,307)
Other Revenue		
Contributed Memberships Received	-	-
Interest Income	151	177
Interest Expense	<u>(805)</u>	<u>(842)</u>
Net Other Revenue	<u>(654)</u>	<u>(665)</u>
Changes in Net Position	(33,251)	(50,972)
Net Position - Beginning of the Year	<u>263,621</u>	<u>314,593</u>
Net Position - End of Year	<u>\$ 230,370</u>	<u>\$ 263,621</u>

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT DISTRICT #3
 ROGER MILLS COUNTY, OKLAHOMA
 STATEMENT OF CASH FLOWS
 DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash Flows From Operating Activities		
Cash Received from Customers	\$ 44,249	\$ 44,000
Cash Paid for Goods and Services	(30,108)	(39,251)
Cash Paid to Employees	<u>(19,715)</u>	<u>(18,301)</u>
Net Cash Provided (Used) by Operating Activities	<u>(5,575)</u>	<u>(13,552)</u>
 Cash Flow from Noncapital Financing Activities		
Memberships Received	-	-
Customer Deposits Received (Refunded), net	<u>566</u>	<u>363</u>
Net Cash Provided by Noncapital Financing Activities	<u>566</u>	<u>363</u>
 Cash Flow from Capital and Related Financing Activities		
Purchase Lot (Land)(Easements)	(1,000)	-
Water Tower Repair	(4,810)	-
Interest paid on Mortgage	(805)	(842)
Principle paid on Mortgage	<u>(767)</u>	<u>(730)</u>
Net Cash (Used for) Capital and Related Financing Activities	<u>(7,382)</u>	<u>(1,572)</u>
 Cash Flow from Investing Activities		
Cash Received from Investments	<u>151</u>	<u>177</u>
Net Cash Provided by Investing Activities	<u>151</u>	<u>177</u>
 Increase (Decrease) in Cash and Cash Equivalents	(12,239)	(14,584)
 Cash and Cash Equivalents at Beginning of the Year	<u>56,358</u>	<u>70,941</u>
 Cash and Cash Equivalents at End of the Year	<u>\$ 44,119</u>	<u>\$ 56,358</u>
 Reconciliation of Operating (Loss) to Net Cash		
Provided by Operating Activites	\$ (32,597)	\$ (50,307)
Adjustments to Reconcile Operating (Loss) to Net Cash		
Provided by Operating Activities:		
Depreciation	27,429	38,068
Changes in Assets and Liabilities		
(Increase) in Prepaid Asets	761	154
(Increase) in Accounts Receivale, Net	(869)	933
(Decrease) in Accounts Payable	-	(2,778)
(Decrease) in Payroll Taxes	<u>(299)</u>	<u>378</u>
Total Adjustments	<u>27,022</u>	<u>36,755</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (5,575)</u>	<u>\$ (13,552)</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, 2017 AND 2016

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,
ROGER MILLS COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 2017 AND 2016

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 \$10,700 and \$10,700 at December 31, 2017 and 2016, 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, 2017 AND 2016

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,			
		2017		2016	
	Customer Deposits	\$	7,956	\$	7,353
	RECD Reserve Fund		10,192		10,178
	Total Restricted Cash	\$	18,148	\$	17,531

The RECD Reserve Fund requirement is \$1,572. The District’s reserve account exceeds this requirement by \$8,620 and 8,606 at December 31, 2017 and 2016, 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, 2017 AND 2016

Note 3 – Capital Assets, Net.

The District’s capital assets consisted of the following:

Capital Assets:	DECEMBER 31,				
	2016	Additions	Deletions	2017	
Land	\$ 7,700	\$ 1,000	\$	\$	\$ 8,700
Water Distribution	300,245				300,245
Water Tower Improve.	64,666	4,810			69,476
Buildings	32,867				32,867
Equipment	60,968				60,968
Wastewater Treatment Facility	379,906				379,906
Total Capital Assets	846,352	5,810	0		852,162
Less Accumulated Depreciation:					
Water Distribution	200,255	6,675			206,930
Water Tower Improve.	73,115	3,862			76,977
Buildings	13,789	689			14,478
Equipment	49,632	4,963			54,595
Wastewater Treatment Facility	280,969	11,239			292,208
Total Acc. Deprec.	617,760	27,429	0		645,189
Capital Assets, Net	\$ 228,592	\$ -21,619	\$ 0	\$	206,973

RURAL WATER, SEWER AND SOLID
WASTE MANAGEMENT DISTRICT #3,
ROGER MILLS COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 2017 AND 2016

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

Capital Assets:	DECEMBER 31,				
	2015	Additions	Deletions	2016	
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	188,383	11,872			200,255
Water Tower Improve.	68,977	4,138			73,115
Buildings	12,980	809			13,789
Equipment	43,428	6,204			49,632
Wastewater Treatment Facility	265,924	15,045			280,969
Total Acc. Deprec.	579,692	38,068	0		617,760
Capital Assets, Net	\$ 266,660	\$ -38,068	\$ 0	\$	228,592

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, 2017 AND 2016

Note 4 – Mortgages Payable (continued).

	DECEMBER 31,	
	2017	2016
In January, 1994, the District borrowed an additional \$12,200 and \$14,500 from the Rural Economic & Community Development. Mortgage terms call for interest only payments at the end of the first year, and then monthly payments thereafter of \$60 and \$71, respectively. Interest rate for both loans is at 5%. Term is for 40 years.	7,181	7,533
	8,503	8,918
Total Mortgages Payable	\$ 15,685	\$ 16,451

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,	
	2017	2016
Beginning Balance	16,451	17,181
Principal Reductions	(766)	(730)
Ending Balance	\$ 15,685	\$ 16,451

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

Year Ending			
December 31,	Principal	Interest	Total
2018 Due within 1 yr.	\$ 806	\$ 766	\$ 1,572
2019	847	725	1,572
2020	890	682	1,572
2021	936	636	1,572
2022	984	587	1,572
2023-2027	5,729	2,131	7,860
2028-2032	5,493	572	6,065
Total	\$ 15,685	\$ 6,099	\$ 21,785

RURAL WATER, SEWER AND SOLID
WASTE MANAGEMENT DISTRICT #3,
ROGER MILLS COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 2017 AND 2016

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,			
	2017		2016	
Contributed Capital, Beginning	\$	3,385	\$	3,365
Membership Fees Collected		0		0
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.

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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, 2017 and 2016, 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, 2018.

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, 2018