

# AUDIT REPORT

NOWATA COUNTY RURAL WATER DISTRICT #3  
NOWATA COUNTY, OKLAHOMA

DECEMBER 31, 2016



## KERSHAW CPA & ASSOCIATES, PC

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

WEB: [KERSHAWCPA.COM](http://KERSHAWCPA.COM)  
E-MAIL: [RK@KERSHAWCPA.COM](mailto:RK@KERSHAWCPA.COM)

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

NOWATA COUNTY RURAL WATER DISTRICT #3  
NOWATA COUNTY, OKLAHOMA  
DECEMBER 31, 2016

TABLE OF CONTENTS

	<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 - MODIFIED CASH BASIS	7
EXHIBIT B    STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - MODIFIED CASH BASIS	8
EXHIBIT C    STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS	9
NOTES TO THE FINANCIAL STATEMENTS	10-17
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 <i>GOVERNMENT AUDITING STANDARDS</i>	18-20
SCHEDULE OF FINDINGS	21

NOWATA COUNTY RURAL WATER DISTRICT #3  
NOWATA COUNTY, OKLAHOMA  
DECEMBER 31, 2016

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>	<u>TERM EXPIRATION</u>
Carolyn Woodworth	Chairman	2021
Judy Shoemaker	Vice Chairman	2018
Tara Peters	Secretary	2020
Betty Lawrence	Board Member	2017
Kenny Freeman	Board Member	2020

# KERSHAW CPA & ASSOCIATES, PC

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

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

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

---

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Nowata County Rural Water District #3  
Nowata County, Oklahoma

### *Report on Financial Statements*

We have audited the accompanying modified cash basis financial statements of the Nowata County Rural Water District #3, as of and for the fiscal year ended December 31, 2016, 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 the modified cash basis of accounting 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 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 assessments, the auditor considers internal control relevant to the District'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

# KERSHAW CPA & ASSOCIATES, PC

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

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

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

---

the effectiveness of the District'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 modified cash basis financial position of the Nowata County Rural Water District #3, Nowata County, Oklahoma, as of December 31, 2016, and the respective changes in modified cash basis financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

## *Other Matters*

### *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 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 an assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2017, on our consideration of the Nowata County Rural Water District #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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in compliance with *Government Auditing Standards* in considering Nowata County Rural Water District #3's internal control over financial reporting and compliance.

# KERSHAW CPA & ASSOCIATES, PC

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

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

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

---

## *Basis of Accounting*

We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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

March 7, 2017

## EXHIBIT A

**NOWATA COUNTY RURAL WATER DISTRICT #3**  
**NOWATA COUNTY, OKLAHOMA**  
**STATEMENT OF NET POSITION - MODIFIED CASH BASIS**  
**DECEMBER 31, 2016**

	<u>2016</u>	<u>Memo Only 2015</u>
<b><u>ASSETS</u></b>		
<b><u>CURRENT ASSETS:</u></b>		
Cash - Revenue Fund	\$ 86,970	\$ 82,813
Cash - Operation and Maintenance	4,147	1,501
<b>Total Current Assets</b>	<u>91,117</u>	<u>84,314</u>
<b><u>CAPITAL ASSETS:</u></b>		
Property, Plant & Equipment	333,657	329,871
Less: Accumulated Depreciation	(125,788)	(118,586)
<b>Net Capital Assets</b>	<u>207,869</u>	<u>211,285</u>
 <b>TOTAL ASSETS</b>	 <u><u>\$ 298,986</u></u>	 <u><u>\$ 295,599</u></u>
<b><u>LIABILITIES &amp; NET POSITION</u></b>		
<b><u>LIABILITIES:</u></b>		
<b><u>CURRENT LIABILITIES:</u></b>		
Current Portion of Long-Term Debt	\$ -	\$ -
<b>Total Current Liabilities</b>	<u>-</u>	<u>-</u>
 <b>TOTAL LONG-TERM LIABILITIES</b>	 <u>-</u>	 <u>-</u>
 <b>TOTAL LIABILITIES</b>	 <u>-</u>	 <u>-</u>
<b><u>NET POSITION:</u></b>		
Net investment in capital assets	207,869	211,285
Restricted for debt service	-	-
Unrestricted	91,117	84,314
<b>TOTAL NET POSITION</b>	<u>298,986</u>	<u>295,599</u>
 <b>TOTAL LIABILITIES AND NET POSITION</b>	 <u><u>\$ 298,986</u></u>	 <u><u>\$ 295,599</u></u>

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

**EXHIBIT B****NOWATA COUNTY RURAL WATER DISTRICT #3****NOWATA COUNTY, OKLAHOMA****STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - MODIFIED CASH BASIS  
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2016**

	<u>2016</u>	<u>Memo Only 2015</u>
<b><u>OPERATING REVENUES:</u></b>		
Water Sales	\$ 58,877	\$ 52,138
Meter Sales	-	-
Other Operating Income	-	-
<b>TOTAL OPERATING REVENUES</b>	<u>58,877</u>	<u>52,138</u>
<b><u>OPERATING EXPENSES:</u></b>		
Water Purchased	27,563	16,080
Office Expense	1,265	772
Bookkeeping and Management	12,076	11,603
Professional Fees	1,096	1,384
Bank Fee & Bad Debt	91	251
Repairs & Maintenance	1,358	2,002
Insurance	1,697	1,653
Water Testing	2,201	2,874
Utilities	1,063	660
Depreciation	7,201	5,488
Miscellaneous	-	1,278
<b>Total Operating Expenses</b>	<u>55,611</u>	<u>44,045</u>
<b>NET OPERATING INCOME (LOSS)</b>	<u>3,266</u>	<u>8,093</u>
<b><u>OTHER REVENUES (EXPENSES):</u></b>		
Interest Revenue	121	169
Interest Expense	-	-
<b>Total Other Revenues (Expenses)</b>	<u>121</u>	<u>169</u>
<b>NET INCOME (LOSS) BEFORE CONTRIBUTIONS</b>	3,387	8,262
<b>CAPITAL CONTRIBUTIONS</b>	<u>-</u>	<u>-</u>
<b>CHANGE IN NET POSITION</b>	3,387	8,262
<b>TOTAL NET POSITION, Beginning of Year</b>	295,599	287,337
<b>TOTAL NET POSITION, Prior Year Adjustment</b>	-	-
<b>TOTAL NET POSITION, End of Year</b>	<u>\$ 298,986</u>	<u>\$ 295,599</u>

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



**NOWATA COUNTY RURAL WATER DISTRICT #3  
NOWATA COUNTY, OKLAHOMA  
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS  
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2016**

	<u>2016</u>	<u>Memo Only 2015</u>
<b><u>Cash Flows from Operating Activities:</u></b>		
Cash Receipts from Customers	\$ 58,877	\$ 52,138
Payments to Suppliers & Laborers for Goods & Services	<u>(48,410)</u>	<u>(38,557)</u>
Net Cash Provided (Used) by Operating Activities	<u>10,468</u>	<u>13,581</u>
<b><u>Cash Flows from Capital &amp; Related Financing Activities:</u></b>		
Additions to Capital Assets	(3,785)	(61,741)
Gain on Conversion/Sale of Capital Assets	-	-
Principal paid on Long-Term Debt	-	-
Interest paid on Debt	<u>-</u>	<u>-</u>
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(3,785)</u>	<u>(61,741)</u>
<b><u>Cash Flows from Investing Activities:</u></b>		
Interest Income	<u>121</u>	<u>169</u>
Net Cash Provided (Used) by Investing Activities	<u>121</u>	<u>169</u>
Net Increase (Decrease) in Cash and Cash Equivalents	6,803	(47,990)
Cash & Cash Equivalents, Beginning of Year	84,314	132,304
Cash & Cash Equivalents, Prior Year Adjustment	<u>-</u>	<u>-</u>
Cash & Cash Equivalents, End of Year	<u><u>\$ 91,117</u></u>	<u><u>\$ 84,314</u></u>
<b><u>Reconciliation of operating income (loss) to net cash provided operating activities:</u></b>		
Operating Income (Loss)	\$ 3,266	\$ 8,093
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	7,201	5,488
(Increase)Decrease in Accounts Receivable	-	-
Increase(Decrease) in Accounts Payable	<u>-</u>	<u>-</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 10,468</u></u>	<u><u>\$ 13,581</u></u>

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

NOWATA COUNTY RURAL WATER DISTRICT #3  
NOWATA COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES & OPERATIONS

As discussed further in Note 1.C, these financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) established by the Governmental Accounting Standards Board (GASB). These modified cash-basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

A. Organization & Reporting Entity

Rural Water District No. 3, Nowata County, Oklahoma, a corporation, was organized to sell water to its members. It is not a component unit, as defined by Governmental Accounting Standards Board Statement No. 14.

B. 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 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).

C. Measurement Focus and Basis of Accounting

Measurement Focus

The District utilizes an economic resources measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement

NOWATA COUNTY RURAL WATER DISTRICT #3  
NOWATA COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

focus are the determination of operating income, changes in net position (or cost recovery), net financial position, and cash flows. All assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent or financial or nonfinancial) associated with their activities are generally reported within the limitations of the modified cash basis of accounting.

#### Basis of Accounting

The financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modifications to the cash basis of accounting to report in the statements of net position cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include investments, capital assets and related depreciation, and short-term and long-term liabilities arising from cash transactions or events.

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue billed or provided services not yet collected and other accrued revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

If the District utilized the basis of accounting recognized as generally accepted in the United States, the fund financial statements for proprietary fund types would use the accrual basis of accounting.

NOWATA COUNTY RURAL WATER DISTRICT #3  
NOWATA COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

D. Financial Position

Cash & Cash Equivalents

For the purpose of these financial statements, the District considers cash and cash equivalents to be currency on hand and demand deposits with banks. There were no non-monetary transactions.

Inventory

The District does not maintain inventory records of parts or supplies, but charges these purchases to maintenance or supplies as they are received.

Capital Assets

Asset acquisitions are recorded and depreciated at historical cost. Depreciation on fixed assets is calculated using the straight-line method of depreciation with useful lives averaging 50 years for major asset purchases. Other asset purchases are depreciated over a period of 5 years. The District has set the capitalization amount at \$500.00 for new assets purchased.

Long-Term Debt

Long-term debt is reported at face value, net of applicable discounts and deferred loss on refunding. Costs related to the issuance of debt are deferred and amortized over the lives of various debt issues.

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.

NOWATA COUNTY RURAL WATER DISTRICT #3  
NOWATA COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

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

Income Taxes

The District is organized as a not-for-profit entity and is exempt from paying Federal and State Income Taxes.

Compensated Absences

The District does not have salaried employees.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting used by the District requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

NOWATA COUNTY RURAL WATER DISTRICT #3  
NOWATA COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

Memorandum Only

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 has no long-term debt and therefore has no reserve requirements.

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.

NOTE 3 - CASH AND INVESTMENTS

Custodial Credit Risk

At December 31, 2016, the District held deposits of approximately \$91,117 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.

NOWATA COUNTY RURAL WATER DISTRICT #3  
NOWATA COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

Investment Credit Risk

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

- 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 4 - RESTRICTED ASSETS

As of December 31, 2016, the District has no long term debt and no restricted assets.

NOTE 5 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended December 31, 2016, was as follows:

NOWATA COUNTY RURAL WATER DISTRICT #3  
 NOWATA COUNTY, OKLAHOMA  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2016

	Balance at Dec. 31, 2015	Additions	Deductions	Balance at Dec. 31, 2016
Land	\$ 750	\$ -	\$ -	\$ 750
Building & Land Improvements	69,114	3,356	-	72,469
Water System	180,521	-	-	180,521
System Improvements	75,447	-	-	75,447
Office Equipment	4,039	430	-	4,469
Subtotal	329,871	3,785	-	333,657
Less: Accum. Depr.	(118,586)	(7,201)	-	(125,788)
Total Capital Assets (Net of Depreciation)	<u>\$ 211,285</u>	<u>\$ (3,416)</u>	<u>\$ -</u>	<u>\$ 207,869</u>

NOTE 6 - LONG-TERM DEBT

The District has no long-term debt.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended December 31, 2016:

	Balance at December 31, 2015	Additions	Deductions	Balance at December 31, 2016
Notes Payable	\$ -	\$ -	\$ -	\$ -
Total Long-Term Debt	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Debt Services Requirements to Maturity

The annual debt service requirements to maturity, including principal and interest, for long-term debt, as of December 31, 2016, are as follows:

Year Ending December 31,	Principal	Interest	Total
2017	\$ -	\$ -	\$ -
2018	-	-	-
2019	-	-	-
2020	-	-	-
2021	-	-	-
2022-2026	-	-	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 7 - FUND EQUITY

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



NOWATA COUNTY RURAL WATER DISTRICT #3  
NOWATA COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

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

NOTE 8 - CONTINGENCIES

Litigation

According to management there were no known contingent liabilities at December 31, 2016, which would have a material effect on the financial statements.

Grant Program Involvement

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 9 - WATER PURCHASES

The District purchases its water from the City of Nowata.

NOTE 10 - SUBSEQUENT EVENTS

The District did not have any subsequent events through March 7, 2017, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending December 31, 2016.

# KERSHAW CPA & ASSOCIATES, PC

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

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

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

---

## 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  
Nowata County Rural Water District #3  
Nowata 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 modified cash basis financial statements of the Nowata County Rural Water District #3, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles, and have issued our report thereon dated March 7, 2017.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Nowata County Rural Water District #3'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 Nowata County Rural Water District #3's internal control. Accordingly, we do not express an opinion on the effectiveness of Nowata County Rural Water District #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 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

# KERSHAW CPA & ASSOCIATES, PC

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

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

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

---

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 that we consider to be significant deficiencies. Those deficiencies are listed as Item 16-01.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Nowata County Rural Water District #3'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*.

## Nowata County Rural Water District #3's Response to Findings

Nowata County Rural Water District #3's response to the findings identified in our audit is described in the accompanying Schedule of Findings. Nowata County Rural Water District #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

# KERSHAW CPA & ASSOCIATES, PC

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

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

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

---

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

March 7, 2017

NOWATA COUNTY RURAL WATER DISTRICT #3  
NOWATA COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS  
DECEMBER 31, 2016

Item 16-01: 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: The Board is actively involved in the operations of the organization.