

BECKHAM COUNTY RURAL WATER DISTRICT
NO. 3
ELK CITY, OKLAHOMA
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

**BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
ELK CITY, OKLAHOMA
DECEMBER 31, 2019**

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**BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
ELK CITY, OKLAHOMA
BOARD OF DIRECTORS
December 31, 2019**

BOARD OF DIRECTORS

Chairman Ronald Whittenberg
Vice Chairman Wendell Dunn
Secretary Gilbert Hutson
Treasurer Bobby Elliott
Member Monte Carlson
Member Jimmy Taylor
Member Kyle Merrick

MANAGER

Doug Wallin



BRITTON, KUYKENDALL, & MILLER
CERTIFIED PUBLIC ACCOUNTANTS

JAMES M. KUYKENDALL
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INDEPENDENT AUDITOR'S REPORT

To the Honorable Board of Directors
Beckham County Rural Water District No. 3
Elk City, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of Beckham County Rural Water District No. 3, Elk City, Oklahoma, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, and the aggregate remaining fund information of Beckham County Rural Water District No. 3, Elk City, Oklahoma, as of December 31, 2019 and 2018, and the respective changes in financial position and cash flows, thereof for the years then ended in accordance 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 and budgetary comparison information 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.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Beckham County Rural Water District No. 3, Elk City, Oklahoma's basic financial statements. The other information such as the introductory section and the accompanying Schedule of Insurance Coverage and Prepaid Premiums as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Insurance Coverage and Prepaid Premiums as listed in the accompanying table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Insurance Coverage and Prepaid Premiums as listed in the accompanying table of contents is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 2020, on our consideration of Beckham County Rural Water District No. 3, Elk City, Oklahoma'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 solely 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 effectiveness of Beckham County Rural Water District No. 3, Elk City, Oklahoma's 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 Beckham County Rural Water District No. 3, Elk City, Oklahoma's internal control over financial reporting and compliance.

Britton, Kuykendall & Miller

BRITTON, KUYKENDALL & MILLER
Certified Public Accountants

Weatherford, Oklahoma
May 13, 2020

FINANCIAL STATEMENTS
OF
BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
ELK CITY, OKLAHOMA

BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
STATEMENT OF NET POSITION
As of December 31, 2019 and 2018

	<u>12-31-19</u>	<u>12-31-18</u>
<u>Current Assets</u>		
Cash on Hand	\$ 400.00	\$ 400.00
Cash in Bank - Note 1	362,538.68	380,186.43
Cash in Bank - Reserve Fund (Temporarily Restricted)	78,768.00	78,768.00
Cash in Bank - Reserve Fund 2 (Temporarily Restricted)	23,892.10	21,815.10
Certificates of Deposit	<u>752,896.79</u>	<u>686,308.65</u>
Total Cash and Cash Equivalents	1,218,495.57	1,167,478.18
Accounts Receivable - Note 1	30,561.65	31,649.41
Inventory	29,379.03	27,361.28
Prepaid Insurance	<u>9,193.53</u>	<u>9,532.73</u>
TOTAL CURRENT ASSETS	<u>1,287,629.78</u>	<u>1,236,021.60</u>
<u>Capital Assets - Note 1</u>		
Land	17,500.00	17,500.00
Easements	3,000.00	3,000.00
Water Rights	17,000.00	17,000.00
Buildings	162,534.66	162,534.66
Office Furniture	30,045.74	30,045.74
Equipment and Tools	82,421.74	88,861.74
Transportation Equipment	54,059.00	54,059.00
Lines and Storage	<u>4,411,302.58</u>	<u>4,388,849.32</u>
Total Capital Assets	4,777,863.72	4,761,850.46
Less: Accumulated Depreciation	<u>(2,852,923.49)</u>	<u>(2,737,444.49)</u>
TOTAL CAPITAL ASSETS - NET OF DEPRECIATION	<u>1,924,940.23</u>	<u>2,024,405.97</u>
TOTAL ASSETS	<u>3,212,570.01</u>	<u>3,260,427.57</u>
<u>Deferred Outflows of Resources</u>		
TOTAL DEFERRED OUTFLOWS	<u>0.00</u>	<u>0.00</u>

See accompanying notes to financial statements.

BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
STATEMENT OF NET POSITION - CONTINUED
As of December 31, 2019 and 2018

	<u>12-31-19</u>	<u>12-31-18</u>
<u>Current Liabilities</u>		
Payroll Taxes Payable	\$ 3,530.83	\$ 2,967.49
Current Portion of Long-Term Debt	47,206.92	45,149.12
Customer Deposits	300.00	700.00
	<u>51,037.75</u>	<u>48,816.61</u>
<u>Long-Term Liabilities</u>		
Long-Term Debt - Note 2	<u>1,176,340.40</u>	<u>1,223,550.00</u>
	<u>1,176,340.40</u>	<u>1,223,550.00</u>
TOTAL LIABILITIES	<u>1,227,378.15</u>	<u>1,272,366.61</u>
<u>Deferred Inflows of Resources</u>		
TOTAL DEFERRED INFLOWS	<u>0.00</u>	<u>0.00</u>
<u>NET POSITION</u>		
Invested in Capital Assets, Net of Related Debt	701,392.91	755,706.85
Temporarily Restricted	102,660.10	100,583.10
Unrestricted	<u>1,181,138.85</u>	<u>1,131,771.01</u>
TOTAL NET POSITION	<u>\$ 1,985,191.86</u>	<u>\$ 1,988,060.96</u>

See accompanying notes to financial statements.

BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
For Years Ended December 31, 2019 and 2018

	<u>12-31-19</u>	<u>12-31-18</u>
Revenues:		
Water	\$ 559,260.31	\$ 608,580.40
Grant Income	0.00	0.00
Memberships	0.00	600.00
Rental Income	1,050.00	0.00
Miscellaneous	<u>1,316.08</u>	<u>0.00</u>
 TOTAL REVENUES	 <u>561,626.39</u>	 <u>609,180.40</u>
Expenses:		
Salaries	169,104.08	149,469.96
Contract Labor	20,812.00	20,883.50
Water	56,338.33	64,366.49
Utilities	29,998.98	33,983.03
Operating Supplies	22,074.82	25,134.66
Office Supplies	7,480.50	5,461.71
Repairs and Maintenance	2,243.96	5,513.74
Fuel	5,200.86	5,570.62
Water Testing	1,241.49	1,641.45
Telephone	5,126.85	4,914.21
Insurance	17,732.86	17,726.78
Employee Benefits	30,086.67	29,860.54
Accounting	4,430.00	4,290.00
Dues and Fees	3,414.28	2,117.89
Travel	0.00	0.00
Payroll Taxes	13,461.65	12,014.51
Audit Fees	4,160.00	3,850.00
Legal	0.00	0.00
Bank Charges	0.00	0.00
Directors' Fees	4,098.25	3,042.20
Postage	4,585.00	3,850.00
Land & Equipment Leases	1,944.80	1,212.02
Miscellaneous	2,147.14	2,060.26
Depreciation	<u>121,919.00</u>	<u>121,791.00</u>
 TOTAL EXPENSES	 <u>527,601.52</u>	 <u>518,754.57</u>

See accompanying notes to financial statements.

BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION - CONTINUED
For Years Ended December 31, 2019 and 2018

	<u>12-31-19</u>	<u>12-31-18</u>
Net Income (Loss) From Operations	\$ 34,024.87	\$ 90,425.83
Other Income (Expenses)		
Interest Earnings	14,837.33	9,680.89
Gain on Sale of Water Rights	0.00	0.00
Gain on Sale of Equipment	3,532.90	0.00
Settlement Income	0.00	0.00
Interest Expense	<u>(55,264.20)</u>	<u>(57,232.26)</u>
TOTAL OTHER INCOME (EXPENSES)	<u>(36,893.97)</u>	<u>(47,551.37)</u>
Changes in Net Position	(2,869.10)	42,874.46
Net Position, Beginning of Year	<u>1,988,060.96</u>	<u>1,945,186.50</u>
Net Position, End of Year	<u>\$ 1,985,191.86</u>	<u>\$ 1,988,060.96</u>

See accompanying notes to financial statements.

BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
STATEMENT OF CASH FLOWS
For Years Ended December 31, 2019 and 2018

	<u>12-31-19</u>	<u>12-31-18</u>
Cash Flows From Operating Activities:		
Cash Received From Customers	\$ 559,948.07	\$ 606,494.95
Cash Paid to Suppliers	(56,338.33)	(64,366.49)
Cash Received From Other Revenues	2,366.08	0.00
Cash Paid for Operating Expenses and Salaries	<u>(350,459.40)</u>	<u>(338,034.83)</u>
Net Cash Provided (Used) by Operating Activities	<u>155,516.42</u>	<u>204,093.63</u>
Cash Flows From Capital & Related Financing Activities:		
Acquisition & Construction of Capital Assets	(22,453.26)	(22,319.71)
Proceeds Received From Sale of Capital Assets	3,532.90	0.00
Cash Paid for Loans	(45,151.80)	(43,183.74)
Cash Received From Loans	0.00	0.00
Cash Paid for Interest	<u>(55,264.20)</u>	<u>(57,232.26)</u>
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(119,336.36)</u>	<u>(122,735.71)</u>
Cash Flows From Investing Activities:		
Interest Income	<u>14,837.33</u>	<u>9,680.89</u>
Net Cash Provided (Used) by Investing Activities	<u>14,837.33</u>	<u>9,680.89</u>
Net Increase (Decrease) in Cash and Cash Equivalents	51,017.39	91,038.81
Cash and Cash Equivalents, Beginning of Year	<u>1,167,478.18</u>	<u>1,076,439.37</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,218,495.57</u>	<u>\$ 1,167,478.18</u>
Adjustments to Reconcile Net Income from Operations to Net Cash Provided by Operating Activities:		
Net Income (Loss) from Operations	\$ 34,024.87	\$ 90,425.83
Depreciation	121,919.00	121,791.00
(Increase) Decrease in Receivables	1,087.76	(1,735.45)
(Increase) Decrease in Inventory	(2,017.75)	(4,913.06)
(Increase) decrease in Prepaid Expenses	339.20	546.43
Increase (Decrease) in Customer Deposits	(400.00)	(950.00)
Increase (Decrease) in Payroll Taxes Payable	<u>563.34</u>	<u>(1,071.12)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 155,516.42</u>	<u>\$ 204,093.63</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
OF
BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
ELK CITY, OKLAHOMA

BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
ELK CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

1. Significant Accounting Policies

Organization

Beckham County Rural Water District No. 3 is organized and operated as a water-supply source for its members.

Reporting Entity

Beckham County Rural Water District No. 3 is an independent, self-contained reporting entity with no associated component units. It is operated in a manner similar to a private business enterprise where the cost (expenses, including depreciation) of providing water services is financed through user charges.

Basis of Accounting, Measurement Focus and Basis of Presentation - Fund Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting for all accounts in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America. The accounting and financial reporting treatment is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation are included in the statement of net position. The operating statements present increases (revenues) and decreases (expenses) in net total assets. Revenues are recorded when earned and accrued liabilities are recognized when incurred. Depreciation expense is provided for capital assets based upon estimated useful lives.

Use of Estimates

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

Major Funds

The reporting model sets forth minimum criteria (percentage of the assets, liabilities, revenues, or expenditures/expenses, of either fund category or the governmental and enterprise combined) for the determination of major funds. The District's major fund is the Enterprise Fund.

BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
ELK CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

Significant Accounting Policies, (Continued)

Cash and Investments

The District's funds are required to be deposited into one or more banks, trust companies, credit unions or savings and loan associations. All deposits including investments in a depository may not exceed the Federal Deposit Insurance Corporation insurance plus the amount of approved collateral securities pledged by the depository.

The District may invest monies in direct obligations of the United States Government, certificates of deposit, savings accounts or certificates of savings and loan associations. The District's investments are recorded at cost.

For the years ended December 31, 2019 and 2018, the District recognized \$14,837.33 and \$9,680.89 of investment income, respectively. Due to minimal rates of return on allowable investments in the current environment, most of the District's deposits are in demand deposits and short-term time deposits.

At December 31, 2019 and 2018, the District held the following cash and investments:

	<u>12-31-19</u>	<u>12-31-18</u>
Cash on Hand	\$ 400.00	\$ 400.00
Demand Deposits	465,198.78	480,769.53
Time Deposits	<u>752,896.79</u>	<u>686,308.65</u>
Total Cash and Investments	<u>\$ 1,218,495.57</u>	<u>\$ 1,167,478.18</u>

Custodial Credit Risk:

Exposure to custodial credit related to deposits exists when the District holds deposits that are uninsured and uncollateralized; collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the District's name; or collateralized without a written or approved collateral agreement. Exposure to custodial credit risk related to investments exists when the District holds investments that are uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the District's name. The District's policy as it relates to custodial credit risk is to secure its uninsured deposits with collateral, valued at no more than market value, at least at a level of 100% of the uninsured deposits and accrued

BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
ELK CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

Significant Accounting Policies, (Continued)

Cash and Investments, (Continued)

interest thereon. Acceptable collateral is defined in state statutes and includes U.S. Treasury securities and direct debt obligations of municipalities, counties, and school districts in the state of Oklahoma, surety bonds, and letters of credit. Treasury securities and direct debt obligations of municipalities, counties, and school districts in the state of Oklahoma, surety bonds, and letters of credit. As required by Federal 12 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the District must have a written collateral agreement approved by the board of directors or loan committee.

The cash deposits at December 31, 2019 are categorized to give an indication of the level of risk assumed by the District at year end as follows:

- (A) Insured or collateralized with securities held by the District or by its agent in the District's name.
- (B) Collateralized with securities held by the pledging financial institutions trust department or agent in the District's name.
- (C) Uncollateralized.

	Category			Bank Balance
	(A)	(B)	(C)	
Cash	\$ 465,598.78	\$ 0.00	\$ 0.00	\$ 465,598.78
Investments	752,896.79	0.00	0.00	752,896.79
Total	\$ 1,218,495.57	\$ 0.00	\$ 0.00	\$ 1,218,495.57

BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
ELK CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

Significant Accounting Policies, (Continued)

Cash and Investments, (Continued)

Investment Credit Risk:

The District has no investment policy that limits its investment choices other than the limitation of state law. The District generally authorizes investments in (1) full faith and credit, direct obligations of the U.S. Government, its agencies and instrumentalities, and the State of Oklahoma and certain mortgage insured federal debt; (2) certificates of deposit or savings accounts that are either insured or secured with acceptable collateral; (3) negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations; (4) 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; and government money market funds regulated by the SEC. The investments held by the District are certificates of deposit.

Investment Interest Rate Risk:

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District has no investment policy that limits based on maturity. The District discloses its exposure to interest rate risk by disclosing the maturity dates of its various investments. The District's investments at December 31, 2019 and 2018 consist of three short-term certificates of deposit with Great Plains National Bank of Elk City, Oklahoma, a Certificate of Deposit Account Registry Service (CDARS) account with the Bank of Western Oklahoma, Elk City, Oklahoma, and another CDARS account with the First National Bank & Trust, Elk City, Oklahoma. The District's CDARS accounts both consist of multiple certificates of deposit from various banks. Each certificate of deposit held inside each CDARS account is below the \$250,000 FDIC insurance maximum to ensure both principal and interest are fully covered by FDIC insurance.

BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
ELK CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

Significant Accounting Policies, (Continued)

Cash and Investments, (Continued)

Concentration of Investment Credit Risk:

Exposure to concentration of credit risk is considered to exist when investments in any one issuer represent a significant percent of total investments of the District. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this consideration. The District has no investment policy regarding concentration of credit risk. At December 31, 2019 and 2018, the District had no concentration of credit risk as defined above.

Fair Value of Financial Instruments

The District's financial instruments include cash and cash equivalents, accounts receivable and notes payable. The District's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of net position. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Cash and Cash Equivalents

For financial statement presentation and for purposes of the Statement of Cash Flows, the District considers all highly liquid investments including cash on hand, demand deposits and certificates of deposit with a maturity of three (3) months or less when purchased to be cash and cash equivalents.

Accounts Receivable

Billings for accounts receivable at December 31, 2019 and 2018 are \$30,561.65 and \$31,649.41, respectively. Allowance for doubtful accounts was not computed on these balances because uncollectibles do not have a material effect on the balance sheet.

Inventory

Inventory is valued at cost, principally on a first-in, first-out basis, but not in excess of market value. Inventory consists of supplies necessary for the maintenance and operation of the water system. Expenses are incurred only when the inventory item is used.

BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
ELK CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

Significant Accounting Policies, (Continued)

Capital Assets

Capital assets are valued at cost or, if contributed property, at their estimated acquisition value at the time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. The District maintains a capitalization threshold of \$1,000 and an estimated useful life in excess of two years. Depreciation is computed using the straight-line method over the fixed assets estimated useful life. The estimated useful lives of these assets are as follows:

Office Furniture and Fixtures	7 years
Equipment and Tools	7 years
Transportation Equipment	5 years
Buildings and Improvements	40 years
Lines and Storage	40 years

The following is a summary of the changes in capital assets:

	12-31-19			Ending Balance 12-31-19
	Beginning Balance 1-1-19	Additions	Deletions	
Non-Depreciable Assets:				
Land	\$ 17,500.00	\$ 0.00	\$ 0.00	\$ 17,500.00
Easements	3,000.00	0.00	0.00	3,000.00
Water Rights	17,000.00	0.00	0.00	17,000.00
Total Non-Depreciable Assets	37,500.00	0.00	0.00	37,500.00
Depreciable Assets:				
Buildings	162,534.66	0.00	0.00	162,534.66
Office Furniture	30,045.74	0.00	0.00	30,045.74
Equipment and Tools	88,861.74	0.00	6,440.00	82,421.74
Transportation Equipment	54,059.00	0.00	0.00	54,059.00
Lines and Storage	4,388,849.32	22,453.26	0.00	4,411,302.58
Total Depreciable Assets	4,724,350.46	22,453.26	6,440.00	4,740,363.72
Less: Accumulated Depreciation	(2,737,444.49)	(121,919.00)	(6,440.00)	(2,852,923.49)
Net Depreciable Assets	1,986,905.97	(99,465.74)	0.00	1,887,440.23
Total Capital Assets - Net of Depr	\$ 2,024,405.97	\$ (99,465.74)	\$ 0.00	\$ 1,924,940.23

BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
ELK CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

Significant Accounting Policies, (Continued)

Capital Assets, (Continued)

	12-31-18			Ending Balance 12-31-18
	Beginning Balance 1-1-18	Additions	Deletions	
Non-Depreciable Assets:				
Land	\$ 17,500.00	\$ 0.00	\$ 0.00	\$ 17,500.00
Easements	3,000.00	0.00	0.00	3,000.00
Water Rights	17,000.00	0.00	0.00	17,000.00
Total Non-Depreciable Assets	37,500.00	0.00	0.00	37,500.00
Depreciable Assets:				
Buildings	140,214.95	22,319.71	0.00	162,534.66
Office Furniture	30,045.74	0.00	0.00	30,045.74
Equipment and Tools	88,861.74	0.00	0.00	88,861.74
Transportation Equipment	54,059.00	0.00	0.00	54,059.00
Lines and Storage	4,388,849.32	0.00	0.00	4,388,849.32
Total Depreciable Assets	4,702,030.75	22,319.71	0.00	4,724,350.46
Less: Accumulated Depreciation	(2,615,653.49)	(121,791.00)	0.00	(2,737,444.49)
Net Depreciable Assets	2,086,377.26	(99,471.29)	0.00	1,986,905.97
Total Capital Assets - Net of Depr	\$ 2,123,877.26	\$ (99,471.29)	\$ 0.00	\$ 2,024,405.97

Temporarily Restricted Assets

Under the terms of the USDA Rural Development loan agreements, the Beckham County Rural Water District No. 3, Elk City, Oklahoma, must maintain reserve funds. The original loan agreements required the district to deposit \$860.00 monthly into the reserve fund until a required balance of \$103,200.00 was reached. In July 1993, Rural Development agreed that the District could defer making transfers to the reserve account until the District received income from the sale of water to Hammon Public Works Authority (PWA). Rural Development also agreed to accept reduced payments until the Hammon PWA income was received. The sale of water to Hammon PWA began in March 1995, and the original loan was reamortized. The District resumed transfers to the reserve account one month after the loan reamortization. (See Note 2 for more information on the loan reamortization.)

BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
ELK CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

Significant Accounting Policies, (Continued)

Temporarily Restricted Assets, (Continued)

Under the terms of the new Rural Development loan agreement, the district is to deposit 10% of the monthly payment (\$6,564.00) into the reserve account until a balance of 120 times the 10% is achieved which equals \$78,768.00. During the year ended December 31, 2004, the \$78,768.00 reserve requirement balance was met.

A summary of the Rural Development reserve fund is presented below:

	<u>12-31-19</u>	<u>12-31-18</u>
Beginning Balance	\$ 78,768.00	\$ 78,768.00
Monthly Deposits	0.00	0.00
Interest	0.00	0.00
Ending Balance	<u>\$ 78,768.00</u>	<u>\$ 78,768.00</u>

The December 31, 2019 and 2018 ending balance of \$78,768.00 consists of a money-market savings account at First National Bank and Trust of Elk City, Oklahoma.

Under the terms of the Rural Development loan agreement dated June 22, 2011, the District must maintain a second reserve fund. The loan agreement requires the District to deposit 10% of the monthly payment of \$1,804.00 into this reserve account every month until a balance of \$21,648.00 is reached. During the year ended December 31, 2018, the \$21,648.00 reserve requirement balance was met. For the years ended December 31, 2019 and 2018, the Rural Development Reserve Fund 2 bank account consists of a money market savings account at First National Bank and Trust of Elk City, Oklahoma.

A summary of the Rural Development Reserve Fund 2 by year is presented below:

	<u>12-31-19</u>	<u>12-31-18</u>
Beginning Balance	\$ 21,815.10	\$ 19,322.70
Monthly Deposits	2,077.00	2,492.40
Interest	0.00	0.00
Ending Balance	<u>\$ 23,892.10</u>	<u>\$ 21,815.10</u>

BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
ELK CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

Significant Accounting Policies, (Continued)

Net Position

In the accompanying financial statements, net position represents the difference between assets and liabilities. Net position of the business-type activity (proprietary fund) is displayed in the following three components:

1. Invested in Capital Assets, Net of Related Debt - Consists of 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.
2. Temporarily Restricted Net Position - Consists of net position with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or law through constitutional provisions or enabling legislation.
3. Unrestricted Net Position - All other net position that does not meet the definition of restricted or invested in capital assets, net of related debt.

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

Federal Income Tax

The District is exempt from federal and state income taxes.

2. Long-term Debt

The original Rural Development loan is dated April 11, 1990, for \$1,350,000 at an interest rate of 7.125%. The payment schedule called for monthly payments of \$8,600.00 beginning April 1991. The District paid \$2,902.09 principal on the note through December 31, 1994. The balance of principal payments was delinquent at December 31, 1994. Rural Development worked with the District to increase its revenue base in order for the District to be able to fund its debt-service requirements. Rural Development and Hammon Public Works Authority completed negotiations for the construction of a water line to connect the PWA to the District system. Hammon PWA completed the water line to the District's distribution system and was connected in March 1995.

BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
ELK CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

Long-term Debt, (Continued)

Dayton K. Watkins, Rural Development acting administrator, approved that after the District was on-line with Hammon for approximately one month (target date April 14, 1995) and Hammon PWA began purchasing water, the District could reamortize the original loan. With the reamortization transaction, unpaid interest in the amount of \$111,364.58 as of the date of closing became principal. The new principal amount will be repaid at an interest rate of 4.5% for 40 years. The first monthly installment was due (May 9, 1995) thirty days from the date of closing. As of April 14, 1995, the new loan balance was \$1,458,462.49 at an interest rate of 4.5%. The payment schedule called for monthly payments of \$6,564.00 beginning May 1995. During the year ended December 31, 2019, a total of \$38,818.07 was applied to the principal on this loan.

On June 22, 2001, the District obtained an additional loan from Rural Development, loan number 91-06, in the amount of \$415,600.00 for the purpose of providing a portion of the cost of acquiring and constructing improvements to the District's water distribution system. The interest rate for this loan is 4.25%. The loan terms call for monthly payments of \$1,804.00 beginning July 22, 2011, and each month thereafter until the principal and interest are fully paid, except that the final installment of the entire indebtedness, if not sooner paid, shall be due and payable 40 years from the date of this note. During the year ended December 31, 2019, a total of \$6,333.73 was applied to the principal on this loan.

The following is a summary of the long-term debt transactions for the year and a breakdown of the current and long-term portions of the Rural Development loans by year:

	12-31-19		
	Rural Dev. Loan #91-03	Rural Dev. Loan #91-06	Totals
Beginning Balance 1-1-19	\$ 905,469.96	\$ 363,229.16	\$ 1,268,699.12
Loan Advances	0.00	0.00	0.00
Repayments	38,818.07	6,333.73	45,151.80
Ending Balance 12-31-19	\$ 866,651.89	\$ 356,895.43	\$ 1,223,547.32
Current Portion of Long-Term Debt	\$ 40,599.23	\$ 6,607.69	\$ 47,206.92
Long-Term Debt	826,052.66	350,287.74	1,176,340.40
Total Debt	\$ 866,651.89	\$ 356,895.43	\$ 1,223,547.32

BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
ELK CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

Long-term Debt, (Continued)

	12-31-18		
	Rural Dev. Loan #91-03	Rural Dev. Loan #91-06	Totals
Beginning Balance 1-1-18	\$ 942,583.05	\$ 369,299.81	\$ 1,311,882.86
Loan Advances	0.00	0.00	0.00
Repayments	<u>37,113.09</u>	<u>6,070.65</u>	<u>43,183.74</u>
Ending Balance 12-31-18	<u>\$ 905,469.96</u>	<u>\$ 363,229.16</u>	<u>\$ 1,268,699.12</u>
Current Portion of Long-Term Debt	\$ 38,815.94	\$ 6,333.18	\$ 45,149.12
Long-Term Debt	<u>866,654.02</u>	<u>356,895.98</u>	<u>1,223,550.00</u>
Total Debt	<u>\$ 905,469.96</u>	<u>\$ 363,229.16</u>	<u>\$ 1,268,699.12</u>

The following is a summary of debt service requirements for the Rural Development loans:

Rural Development Loan #91-03			
Year Ending	Principal	Interest	Total
December 31, 2020	\$ 40,599.23	\$ 38,168.77	\$ 78,768.00
December 31, 2021	42,464.34	36,303.66	78,768.00
December 31, 2022	44,415.15	34,352.85	78,768.00
December 31, 2023	46,455.58	32,312.42	78,768.00
December 31, 2024	48,589.74	30,178.26	78,768.00
December 31, 2025-2029	278,554.67	115,285.33	393,840.00
December 31, 2030-2034	348,693.58	45,146.42	393,840.00
December 31, 2035	<u>16,879.60</u>	<u>116.67</u>	<u>16,996.27</u>
	<u>\$ 866,651.89</u>	<u>\$ 331,864.38</u>	<u>\$ 1,198,516.27</u>

BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
ELK CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

Long-term Debt, (Continued)

Rural Development Loan #91-06			
Year Ending	Principal	Interest	Total
December 31, 2020	\$ 6,607.69	\$ 15,040.31	\$ 21,648.00
December 31, 2021	6,894.03	14,753.97	21,648.00
December 31, 2022	7,192.81	14,455.19	21,648.00
December 31, 2023	7,504.54	14,143.46	21,648.00
December 31, 2024	7,829.75	13,818.25	21,648.00
December 31, 2025-2029	44,542.48	63,697.52	108,240.00
December 31, 2030-2034	55,067.94	53,172.06	108,240.00
December 31, 2035-2039	68,080.57	40,159.43	108,240.00
December 31, 2040-2044	84,168.15	24,071.85	108,240.00
December 31, 2045-2048	69,007.47	5,276.51	74,283.98
	<u>\$ 356,895.43</u>	<u>\$ 258,588.55</u>	<u>\$ 615,483.98</u>

The total interest paid on all debt for the years ended December 31, 2019 and 2018, was \$55,264.20 and \$57,232.26, respectively.

3. Accumulated Unpaid Vacation and Sick Pay

At December 31, 2019 and 2018, no determination of the aggregate dollar value of vacation or sick pay had been made.

4. Revenues, Expenses and Other Changes in Net Position

Operating Revenues and Expenses

Operating revenues and expenses are principally from water sales and connection fees charged to new customers. Customer water consumption is determined by monthly meter readings. The water sales from customer water consumption billed but unpaid at the District's year-end are recognized as revenue in the current year and reported in the statement of net position as accounts receivable. Operating expenses consist of those costs necessary to operate and maintain the water distribution system and for general administration of the District.

BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
ELK CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

Revenues, Expenses and Other Changes in Net Position, (Continued)

Non-Operating Revenues and Expenses

Non-operating revenues and expenses consist of interest earnings, interest expense incurred on the District's notes payable and gains and losses on sales of long-lived assets.

Bad Debts

The District uses the direct write-off method for recognizing bad debts. Under the direct write-off method, accounts receivable are charged to expense during the period they are determined to be uncollectible. The use of this method does not result in a material difference from the valuation method required by generally accepted accounting principles.

5. Hammon Water Purchase Agreement Amendment

The contract was amended to read Hammon Public Works Authority (Hammon PWA) in lieu of Town of Hammon.

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 cover these risks of loss, including general and auto liability, property damage, and director liability. Management believes such coverage is sufficient to preclude any significant uninsured losses to the District. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

7. Subsequent Events

Management has evaluated subsequent events through May 13, 2020, which is the date the financial statements were available to be issued and have determined that no additional information needs to be added to the financial statements.

SUPPORTING SCHEDULES
OF
BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
ELK CITY, OKLAHOMA

BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
 SCHEDULE OF INSURANCE COVERAGE AND PREPAID PREMIUMS
 For the Year Ended December 31, 2019

POLICY NUMBER	COMPANY	COVERAGE	AMOUNT	EXPIRATION DATE	ANNUAL PREMIUM	PREPAID PREMIUM
10215	ORWA Assurance Group	I. Liability Coverage		6-1-20	\$ 14,136.48	\$ 5,890.20
		A. Bodily Injury	\$ 125,000			
		B. Property Damage	25,000			
		C. Personal Injury	125,000			
		D. Errors and Omissions	125,000			
		II. Business Auto Coverage				
		A. Bodily Injury	125,000			
		B. Property Damage	25,000			
		C. Auto Physical Damage	25,000			
		III. Property Coverage				
		A. Buildings and Personal Prop.	RC			
		IV. Blanket Bond Fidelity				
		By Position Held	103,668			
3089347	ORWA Assurance Group	Worker's Compensation		10-31-20	3,964.00	3,303.33
						\$ 9,193.53

REPORT ON INTERNAL CONTROL AND ON COMPLIANCE

OF

**BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
ELK CITY, OKLAHOMA**



BRITTON, KUYKENDALL, & MILLER
CERTIFIED PUBLIC ACCOUNTANTS

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

To the Honorable Board of Directors
Beckham County Rural Water District No. 3
Elk City, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities, and the aggregate remaining fund information of Beckham County Rural Water District No. 3, Elk City, Oklahoma, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise Beckham County Rural Water District No. 3, Elk City, Oklahoma's basic financial statements, and have issued our report thereon dated May 13, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Beckham County Rural Water District No. 3, Elk City, 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 entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of control deficiencies as item 2019-001 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Beckham County Rural Water District No. 3, Elk City, Oklahoma'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*.

Response to Findings

Beckham County Rural Water District No. 3, Elk City, Oklahoma's response to the findings identified in our audit is described in the accompanying schedule of response to findings. Beckham County Rural Water District No. 3, Elk City, 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 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.

Britton, Kuykendall & Miller

BRITTON, KUYKENDALL AND MILLER
Certified Public Accountants

Weatherford, Oklahoma
May 13, 2020

**BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
ELK CITY, OKLAHOMA
CONTROL DEFICIENCIES
December 31, 2019 and 2018**

CURRENT YEAR

2019-001

While performing the payroll testing, we noted an increase in salaries expense of \$19,634.12 for the current year compared to \$1,217.10 for the prior year. The breakdown of the salaries of the two highest compensated employees for the year ended December 31, 2019 follows:

<u>Position</u>	<u>Base Salary</u>	<u>Overtime</u>	<u>Bonus</u>	<u>Total Salary</u>	<u>OT as % of Total Salary</u>	<u>Total Overtime Hours</u>
Manager	\$ 59,520.00	\$ 24,877.83	\$ 2,707.10	\$ 87,104.93	28.56%	535.01
Maintenance	36,480.00	12,649.47	1,082.84	50,212.31	25.19%	443.84
Total	\$ 96,000.00	\$ 37,527.30	\$ 3,789.94	\$ 137,317.24	27.33%	978.85

The District uses an overtime pay rate calculated at one and one-half (1.5) times the hourly rate of base salary. Our calculation of the time and a half overtime rate for the manager was \$42.92 compared to \$46.50 actually used by the District. The overtime hours of the manager for the year were 535.01, which resulted in him being overpaid by \$1,915.34. Our calculation of the time and a half overtime rate for the maintenance employee was \$26.31 compared to \$28.50 actually used by the District. The overtime hours of the maintenance employee for the year were 443.84, which resulted in him being overpaid by \$972.01. The District must have procedures in place to verify that overtime rates are computed correctly.

Our next procedure was to compare the overtime hours on the employee's actual time sheets to the actual hours they were paid for overtime. We found multiple discrepancies in the overtime hours on the employee's actual time sheets compared to the actual hours they were paid for overtime compensation.

While performing our employee time sheet testing, we also noted where almost all overtime hours were submitted in hourly increments. The manager rounds the time up or down based on 30 minute increments. The District's overtime pay should be for actual overtime worked.

The current management controls for overtime are ineffective to ensure that overtime is reasonable, accurate and approved. The lack of oversight and internal controls related to overtime create a potential for fraud or abuse to occur. The District's employee time sheets are deficient in several areas and need to be revised. The revised time sheets need a place for employees to adequately document their reasons for working beyond regular hours to support the

BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
ELK CITY, OKLAHOMA
CONTROL DEFICIENCIES, (CONTINUED)
December 31, 2019 and 2018

CURRENT YEAR, (CONTINUED)

2019-001, (CONTINUED)

overtime. The revised time sheets also need signature lines. One signature line is for the employee that should state the timesheet is true and correct. Another signature line will be for the manager to review and approve for payment. The manager's time sheet should be signed and approved by a board member. Each employee should fill out their own time sheet. It is essential for the secretary to ensure the time sheets have proper approval and she must recalculate the overtime hours for accuracy before calculating the payment due to the employee.

PRIOR YEAR

(None Reported)