

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

ANNUAL FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT
DISTRICT NO. 3, OSAGE COUNTY, OKLAHOMA
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014

	Page
INTRODUCTORY SECTION:	
Table of Contents	i
FINANCIAL SECTION:	
Independent Auditor's Report	1-2
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> .	3-6
Financial Statements:	7
Statements of Assets, Liabilities, and Net Position - Modified Cash Basis	8
Statements of Revenues, Expenses and Changes in Net Position - Modified Cash Basis	9
Statements of Cash Flows – Modified Cash Basis	10
Notes to Financial Statements	11-14

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying statements of assets, liabilities and net position – modified cash basis of Rural Water, Sewer, and Solid Waste Management District No. 3, Osage County, Oklahoma as of December 31, 2015 and 2014 and the statements of revenues, expenses and changes in net position – modified cash basis and of cash flows for the years then ended, 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 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 the 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance 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 the effectiveness of the District's internal control. Accordingly, we express no such an 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

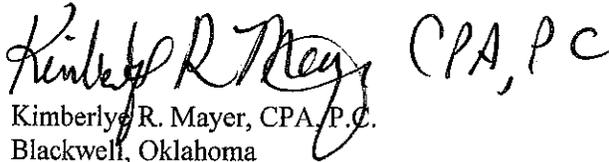
In our opinions, the financial statements referred to above, present fairly, in all material respects, the modified cash basis financial position of Rural Water, Sewer, and Solid Waste Management District No. 3, Osage County, Oklahoma, as of December 31, 2015 and 2014; the changes in modified cash basis financial position; and cash flows thereof, for the years then ended in conformity with the basis of accounting described in Note 1.

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 opinions are not modified with respect to this matter.

Other Reporting Required By Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated December 1, 2016 on our consideration of Rural Water, Sewer, and Solid Waste Management District No. 3, Osage County, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

 CPA, P.C.

Kimberly R. Mayer, CPA, P.C.
Blackwell, Oklahoma
December 1, 2016

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*

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

We have audited the financial statements of Rural Water, Sewer, and Solid Waste Management District No. 3, Osage County, Oklahoma as of and for the year ended December 31, 2015, and have issued our report thereon dated December 1, 2016. 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. The financial statements were 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.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Rural Water, Sewer, and Solid Waste Management District No. 3, Osage County, Oklahoma's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Rural Water, Sewer, and Solid Waste Management District No. 3, Osage County, Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of the Rural Water, Sewer, and Solid Waste Management District No. 3, Osage County, Oklahoma's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 control deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Rural Water, Sewer, and Solid Waste Management District No. 3, Osage County, Oklahoma's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water, Sewer, and Solid Waste Management District No. 3, Osage County, Oklahoma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations,

contracts and grants, 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*.

We noted other matters that we reported to Rural Water, Sewer, and Solid Waste Management District No. 3, Osage County, Oklahoma in a separate letter dated December 1, 2016.

Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Kimberly R. Mayer, CPA, P.C.

Blackwell, Oklahoma

December 1, 2016

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT
DISTRICT NO. 3, OSAGE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2015

Material Weakness Communicated In Prior Year:

Material Weakness in Internal Control Over Financial Reporting: Inadequate Segregation of Duties:

Criteria: The segregation of duties and responsibilities between different individuals and the reconciliation of those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

Condition: Presently, the same individual is responsible for water service billings and receiving payments; making and recording deposits; maintaining billing registers; and reconciling the monthly bank statements. Only limited oversight is provided over this individual in the conduct of their daily functions.

Cause: The entity's limited size has made it difficult for management to fully segregate the duties.

Effect or Potential Effect: Without sufficient segregation of duties, the risk significantly increases that errors and/or fraud related to the water billing and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: The board should evaluate the risks associated with the lack of segregation of duties and consider implementing controls that could mitigate these risks.

Board's Response: The board has concluded that due to the limited number of personnel, an adequate segregation of duties is not achievable and that the cost of correcting the weakness would exceed the benefits that would be derived from it.

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT
DISTRICT NO. 3, OSAGE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2015

**Material Weakness in Internal Control Over Financial Reporting: No reconciliations
of Revenues:**

Criteria:

Accountability is an overall goal of management in the accounting of funds. To help ensure a proper accounting of funds, all revenues received should be accounted for and reconciled to the financial statements.

Condition:

The amount of payments recorded in the billing program does not match the receipt lists and is not being reconciled to the deposits.

Effect:

This condition could result in incorrectly recorded transactions, misstated financial reports, and undetected errors.

Recommendation:

We recommend that all payments recorded in the billing program be reconciled with the deposits.

Views of responsible officials and planned corrective actions:

We will strive to reconcile all payments to the bank statement deposits.

FINANCIAL STATEMENTS

AND

NOTES

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT
DISTRICT NO. 3, OSAGE COUNTY, OKLAHOMA
STATEMENTS OF ASSETS, LIABILITIES AND NET POSITION
MODIFIED CASH BASIS
DECEMBER 31, 2015 AND 2014

ASSETS		
	2015	2014
Current Assets:		
Cash and cash equivalents	\$ 42,498	\$ 33,502
Restricted accounts:		
Reserve account (Note 4)	19,953	15,552
Property, plant and equipment (net of accumulated depreciation) (Note 2)	900,365	946,769
Work in progress		
Other assets:		
Deposits	190	190
Total Assets	\$ 963,006	\$ 996,013

LIABILITIES AND NET POSITION

Current Liabilities:		
Deposits	\$ 1,000	\$ 1,000
Notes payable (current portion)	14,757	14,040
Total Current Liabilities	15,757	15,040
Notes payable, long-term (Note 3)	572,974	587,758
Total Liabilities	588,731	602,798
Net Position:		
Net investment in capital assets	312,634	344,971
Restricted for debt service	19,953	15,552
Unrestricted	41,688	32,692
Total Net Position	374,275	393,215
Total Liabilities and Net Position	\$ 963,006	\$ 996,013

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

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT
DISTRICT NO. 3, OSAGE COUNTY, OKLAHOMA
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
MODIFIED CASH BASIS
YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Operating Revenues:		
Water Service	\$ 251,508	\$ 225,240
Other income	1,350	
Total Operating Revenues	<u>252,858</u>	<u>225,240</u>
Operating Expenses:		
Water purchases	111,245	97,043
Utilities	755	1,989
Telephone	2,401	2,065
Repairs and maintenance	24,554	21,003
Insurance	1,474	2,437
Office supplies and postage	1,528	1,949
Depreciation	46,404	46,538
Professional fees	5,580	2,400
Accounting and billing fees	9,608	9,233
Water tests & fees	7,740	4,380
Contract labor	34,020	34,020
Miscellaneous expense	772	1,284
Total Operating Expenses	<u>246,081</u>	<u>224,341</u>
Operating Income (Loss)	6,777	899
Nonoperating Revenue (Expenses):		
Interest income	52	42
Interest expense	(29,769)	(30,454)
New memberships	4,000	4,000
Total Nonoperating Revenues (Expenses)	<u>(25,717)</u>	<u>(26,412)</u>
Change in Net Position	(18,940)	(25,513)
Net Position, beginning of year	<u>393,215</u>	<u>418,728</u>
Net Position, end of year	<u>\$ 374,275</u>	<u>\$ 393,215</u>

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

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT
DISTRICT NO. 3, OSAGE COUNTY, OKLAHOMA
STATEMENTS OF CASH FLOWS
MODIFIED CASH BASIS
YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Cash received from customers	\$ 252,858	\$ 225,240
Cash payments to suppliers for goods and services	<u>(199,677)</u>	<u>(177,803)</u>
Net cash provided (used) by operating activities	53,181	47,437
 Cash flows from non-capital financing activities:		
 Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets		
Principal paid on notes	(14,067)	(13,382)
Interest paid on notes and loans	(29,769)	(30,454)
Grants received (paid)		
System development fees	4,000	4,000
Net cash provided (used) by financing activities	<u>(39,836)</u>	<u>(39,836)</u>
 Cash flows from investing activities:		
Interest income	52	42
(Increase) decrease in restricted accounts	<u>(4,401)</u>	<u>(4,031)</u>
Net cash provided (used) by investing activities	<u>(4,349)</u>	<u>(3,989)</u>
 Net increase (decrease) in cash and cash equivalents	8,996	3,612
Beginning cash and cash equivalents	33,502	29,890
Ending cash and cash equivalents	<u>\$ 42,498</u>	<u>\$ 33,502</u>
 Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income or loss	\$ 6,777	\$ 899
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	46,404	46,538
Changes in assets and liabilities:		
Increase in deposits		
Net cash provided (used) by operating activities	<u>\$ 53,181</u>	<u>\$ 47,437</u>

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

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT
DISTRICT NO. 3, OSAGE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

The Rural Water, Sewer, and Solid Waste Management District No. 3, Osage County, Oklahoma was incorporated on May 20, 1974 under Title 82, Section 1324.1 as amended, of the laws of the State of Oklahoma. The purpose of the District is to provide water services to the owners and occupants of property located within the District, and others as authorized by law.

The District is a governed entity by a Board of Directors that acts as the authoritative and legislative body of the entity. The Board of Directors is comprised of elected board members.

Basis of Accounting

The District is classified as an Enterprise Fund. The costs of providing the water services to the public are financed mainly through user charges. The financial statements of the District have been prepared using the modified cash basis of accounting. This basis recognized assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation. This basis is a basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

Cash and Deposits

Cash is maintained in financial institutions, which provide coverage to depositors through the Federal Deposit Insurance Corporation.

Cash and Cash Equivalents

All bank accounts are maintained in financial institutions which provide coverage to depositors through the Federal Deposit Insurance Corporation. All operating and savings accounts are considered cash equivalents for purposes of the cash flow statement.

Investments

The State of Oklahoma allows government entities to invest in the following: direct obligations of the United States Government, its agencies or instrumentalities, collateralized or insured certificates of deposit, insured savings accounts or savings certificates, or county, municipal or school district direct debt.

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT
DISTRICT NO. 3, OSAGE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 2 – PROPERTY, PLANT AND EQUIPMENT:

Depreciable assets are recorded at cost when purchased or constructed. Depreciation is calculated on a straight-line basis over the estimated useful lives of the depreciable assets. The water system is depreciated over 40 years and the office equipment over 5 years. Total depreciation for the year ended December 31, 2015 and 2014 was \$46,404 and \$46,538 respectively. The balances for depreciable assets by major category at December 31, 2015 are:

	12/31/14	Additions	12/31/14
Waterline system	\$ 1,806,609	\$	\$ 1,806,609
Office equipment	2,510		2,510
	<u>1,809,119</u>		<u>1,809,119</u>
Less accumulated depreciation	(872,073)	(46,404)	(918,477)
Net depreciable assets	937,046	(46,404)	890,642
Land	9,723		9,723
Total	<u>\$ 946,769</u>	<u>\$ (46,404)</u>	<u>\$ 900,365</u>

NOTE 3 – NOTES PAYABLE:

The District entered into a note agreement with USDA-Rural Development to borrow up to \$750,000 to construct a pipeline. The term of this loan is 40 years and carries an interest rate of 5%. Principle payments made during 2015 were \$14,067. Monthly payments are \$3,653. The following is a schedule of note payments:

Year ended	Amount	Principle	Interest
12/31/16	\$ 43,836	\$ 14,757	\$ 29,079
12/31/17	43,836	15,513	28,323
12/31/18	43,836	16,306	27,530
12/31/19	43,836	17,141	26,695
12/31/20	43,836	18,018	25,818
12/31/21 - 12/31/25	219,180	104,895	114,285
12/31/26 - 12/31/30	219,180	134,619	84,561
12/31/31 - 12/31/35	219,180	172,765	46,415
12/31/36 - 12/31/38	99,928	93,717	6,211
Total	<u>\$ 976,648</u>	<u>\$ 587,731</u>	<u>\$ 388,917</u>

NOTE 4 - RESTRICTED ACCOUNTS:

USDA - Rural Development requires the District to maintain a loan reserve account. Monthly funds are to be deposited to this account until the balance is \$43,836. At December 31, 2015 and 2014, the balances in this reserve account were \$19,953 and \$15,552 respectively.

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT
DISTRICT NO. 3, OSAGE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 5 – JOINT ACCOUNT:

Rural Water, Sewer, and Solid Waste Management No. 3, Osage County, Oklahoma has a project in construction with another water district. A joint bank account has been opened for the construction costs. At December 31, 2015 and 2014 this account had a balance of \$1,059.

NOTE 6 – NET POSITION:

Net position presents the difference between assets and liabilities in the statement of net position. Net investment invested in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are legal limitations imposed on their use by District legislation or external restrictions by creditors, grantors, laws or regulations of other governments.

NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS:

The definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosure about the use of fair value measurements in an effort to make the measurement of fair value more consistent and comparable.

Level 1: Quoted prices in active markets for identical securities.

Level 2: Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment spread and credit risk).

Level 3: Significant unobservable inputs (including the District's own assumptions in determining the fair value of investments).

The District's financial instruments include cash and cash equivalents and reserves. 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.

NOTE 8 – ESTIMATES:

The preparation of financial statements in conformity with the modified cash basis of accounting requires the use of 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. Accordingly, actual results could differ from those estimates.

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT
DISTRICT NO. 3, OSAGE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 9 – RISK MANAGEMENT:

The District is exposed to various risks or losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District manages this risk through the purchase of commercial insurance policies. Claims are recognized when it is probably that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which non have been reports, are considered. There were no claims during the years ended December 31, 2015 and 2014.

NOTE 10 – CONTINGENCIES:

As of December 31, 2015 the District did not have any pending litigation or potential non-disclosed liabilities that management believes would have a material effect on the financial statements.

NOTE 11 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through December 1, 2016, the date which the financial statements were available to be issued.