

**RURAL WATER DISTRICT NO. 3,
WOODS COUNTY, OKLAHOMA**

ANNUAL FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2015 AND 2014

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WOODS COUNTY, OKLAHOMA
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Independent Auditor's Report

Board of Directors
Rural Water District No. 3, Woods County, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Rural Water District No. 3, Woods County, Oklahoma, which comprise the statements of net position as of September 30, 2015 and 2014 and the related statements of revenues and expenses and changes in net position and 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

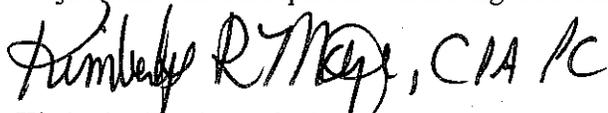
In our opinion, the financial statements referred to above, present fairly, in all material respects, the modified cash basis financial position of Rural Water District No. 3, Woods County, Oklahoma, as of September 30, 2015 and 2014; the changes in modified cash basis financial position; and cash flows thereof, for the year 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.

Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated November 2, 2015 on our consideration of Rural Water District No. 3, Woods 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.



Kimberlye R. Mayer, CPA, P.C.
Blackwell, Oklahoma
November 2, 2015

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 District No. 3, Woods County, Oklahoma

We have audited the financial statements of Rural Water District No. 3, Woods County, Oklahoma as of and for the year ended September 30, 2015 and have issued our report thereon dated November 2, 2015. We conducted our audit 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.

Internal Control Over Financial Reporting

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

Our consideration of internal control 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 a certain deficiency in internal control that we consider to be a material weakness.

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 that there is reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water District No. 3, Woods 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*.

Response to Findings

Rural Water District No. 3, Woods County, Oklahoma's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Rural Water District No. 3, Woods 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.

 Kimberley R. Mayer CPA, PC

Kimberlye R. Mayer, CPA, P.C.

Blackwell, Oklahoma

November 2, 2015

RURAL WATER DISTRICT NO. 3
WOODS COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED SEPTEMBER 30, 2015

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 sales 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.

FINANCIAL STATEMENTS

AND

NOTES

RURAL WATER DISTRICT NO. 3
WOODS COUNTY, OKLAHOMA
STATEMENTS OF ASSETS, LIABILITIES AND NET POSITION
MODIFIED CASH BASIS
SEPTEMBER 30, 2015 AND 2014

ASSETS		
	2015	2014
Current Assets:		
Cash and cash equivalents	\$ 41,285	\$ 17,232
Certificates of deposit	172,779	151,812
Total Current Assets	214,064	169,044
Reserve certificates	3,000	3,000
Utility deposits	70	70
Capital assets (net of accumulated depreciation) (Note 2)	443,956	482,605
Work in progress	22,463	22,463
Total Assets	\$ 683,553	\$ 677,182

LIABILITIES AND NET POSITION

Liabilities:	\$	\$
Net Position:		
Net investment in capital assets	466,419	505,068
Restricted		
Unrestricted	217,134	172,114
Total Net Position	683,553	677,182
Total Liabilities and Net Position	\$ 683,553	\$ 677,182

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

RURAL WATER DISTRICT NO.3
WOODS COUNTY, OKLAHOMA
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
MODIFIED CASH BASIS
YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Operating Revenues:		
Water service	\$ 357,570	\$ 318,063
Other income	350	1,300
Total Operating Revenues	<u>357,920</u>	<u>319,363</u>
Operating Expenses:		
Water purchases	107,358	115,872
Payroll	114,488	107,262
Payroll taxes	8,213	5,679
Employee benefits	11,416	7,784
Office supplies and postage	2,071	3,317
Insurance	5,779	11,570
Professional fees	1,910	6,210
Utilities	20,403	16,088
Telephone, cell and internet	4,071	3,817
Repairs, maintenance and fuel	32,960	48,157
Meter reader fees	4,250	4,463
Meetings, travel and training	386	1,749
Depreciation	39,972	38,962
Sampling and fees	1,208	1,333
Other expenses	1,112	930
Total Operating Expenses	<u>355,597</u>	<u>373,193</u>
Operating Revenues Over (Under) Expenses	2,323	(53,830)
Non-operating Revenues (Expenses):		
Interest income	1,448	1,636
New memberships	2,600	5,025
FEMA		9,111
Total Non-operating Revenue (Expense)	<u>4,048</u>	<u>15,772</u>
Changes in Net Position	6,371	(38,058)
Net Position, beginning of year	677,182	715,240
Net Position, end of year	<u>\$ 683,553</u>	<u>\$ 677,182</u>

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

RURAL WATER DISTRICT NO. 3
WOODS COUNTY, OKLAHOMA
STATEMENTS OF CASH FLOWS
MODIFIED CASH BASIS
YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Cash Flows From Operating Activities:		
Cash received from customers	\$ 357,920	\$ 319,363
Cash payments to employees	(114,488)	(107,262)
Cash payments to suppliers for goods and services	(201,137)	(226,969)
Net cash provided (used) by operating activities	<u>42,295</u>	<u>(14,868)</u>
Cash flows from non-capital financing activities:		
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(1,323)	(47,663)
Membership fees and system additions	2,600	5,025
FEMA		9,111
Net cash provided (used) by financing activities	<u>1,277</u>	<u>(33,527)</u>
Cash flows from investing activities:		
Interest income	1,448	1,636
(Increase) decrease in certificates of deposit	(20,967)	51,234
Net cash provided (used) by investing activities	<u>(19,519)</u>	<u>52,870</u>
Net increase (decrease) in cash and cash equivalents	24,053	4,475
Beginning cash and cash equivalents	17,232	12,757
Ending cash and cash equivalents	<u>\$ 41,285</u>	<u>\$ 17,232</u>
Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 2,323	\$ (53,830)
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation	<u>39,972</u>	<u>38,962</u>
Net cash provided (used) by operating activities	<u>\$ 42,295</u>	<u>\$ (14,868)</u>

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

RURAL WATER DISTRICT NO. 3
WOODS COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2015 AND 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

Rural Water District No. 3, Woods County, Oklahoma was organized in January, 1977 under the Rural Water, Sewer, Gas and Solid Waste Management District Act, Title 82, 1324.3 et seq. of the laws of the State of Oklahoma. The District is exempt from federal and state income taxes. The purpose of the District is to acquire water and water rights; to build and acquire waterlines and other facilities; and to operate the same for the purpose of furnishing water to serve the needs of owners and occupants of land located within the District, and others as authorized by the By-laws.

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 recognizes 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 and deposits are maintained in financial institutions which provide coverage to depositors through the Federal Deposit Insurance Corporation.

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.

Cash and Cash Equivalents

The District considers all checking accounts and deposits with a maturity of three months or less to be cash equivalents.

RURAL WATER DISTRICT NO. 3
WOODS COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2015 AND 2014

NOTE 2 – PROPERTY AND EQUIPMENT:

Waterline extensions and additions are capitalized and depreciated over their estimated useful lives. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are expendable. Annual depreciation is calculated on a straight-line basis. Total depreciation for the year ended September 30, 2015 and 2014 was \$39,972 and \$38,962 respectively. The balances for depreciable assets by major category are as follows:

	<u>9/30/14</u>	<u>Additions</u>	<u>Deletions</u>	<u>9/30/14</u>
Land and right of way	\$ 3,014	\$	\$	\$ 3,014
Waterline system	1,055,156			1,055,156
Buildings	105,042			105,042
Equipment	122,248	955		123,203
Office equipment	10,254	368		10,622
Vehicles	12,000			12,000
Accumulated depreciation	(825,109)	(39,972)		(865,081)
Net	<u>\$ 482,605</u>	<u>\$ (38,649)</u>	<u>\$</u>	<u>\$ 443,956</u>

NOTE 3 – NET POSITION:

Net position presents the difference between assets and liabilities in the statement of net position. Net investments 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 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS:

The District's financial statements include cash and cash equivalents and certificates of deposits. The District's estimates of the fair value of all financial instruments do not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

RURAL WATER DISTRICT NO. 3,
WOODS COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2015 AND 2014

NOTE 5 – RISK MANAGEMENT:

The District is exposed to various risks of 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 probable 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 none have been reported, are considered. There were no claims during the year ended September 30, 2015.

NOTE 6 – ESTIMATES:

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

NOTE 7 – CONTINGENCIES:

As of September 30, 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 8 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through November 2, 2015, the date which the financial statements were available to be issued.