

**RURAL WATER DISTRICT NO. 3
KAY COUNTY, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014**

RURAL WATER DISTRICT NO. 3
KAY COUNTY, OKLAHOMA
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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of Rural Water District No. 3, Kay County, Oklahoma as of December 31, 2015 and 2014 and 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 District No. 3, Kay County, Oklahoma, as of December 31, 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.

Other Reporting Required By Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated March 3, 2016 on our consideration of Rural Water District No. 3, Kay 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
March 3, 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 District No. 3, Kay County, Oklahoma

We have audited the financial statements of Rural Water District No. 3, Kay County, Oklahoma as of and for the year ended December 31, 2015 and have issued our report thereon dated March 3, 2016. 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. The financial statements were prepared on the modified cash basis of accounting which is a comprehensive 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 District No. 3, Kay 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, Kay County, Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of the Rural Water District No. 3, Kay County, Oklahoma's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of 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.

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.

Compliance and Other Matters

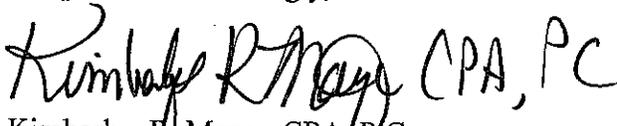
As part of obtaining reasonable assurance about whether Rural Water District No. 3, Kay County, Oklahoma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have 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, Kay 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, Kay 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.

 Kimberlye R. Mayer, CPA, P.C.

Blackwell, Oklahoma

March 3, 2016

RURAL WATER DISTRICT NO. 3, KAY COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 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
 KAY 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	\$ 118,235	\$ 58,758
Certificates of deposit	147,583	146,615
ORWAAG reserves	1,000	1,000
Utility deposit	180	180
Total Current Assets	266,998	206,553
Capital assets (net of accumulated depreciation) (Note 2)	826,100	795,696
Work in progress		44,366
Total Assets	\$ 1,093,098	\$ 1,046,615

LIABILITIES AND NET POSITION

Liabilities:	\$	\$
Net Position:		
Net investment in capital assets	826,100	840,062
Unrestricted	266,998	206,553
Total Net Position	1,093,098	1,046,615
Total Liabilities and Net Position	\$ 1,093,098	\$ 1,046,615

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

RURAL WATER DISTRICT NO. 3
 KAY 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	\$ 283,441	\$ 275,744
Late penalties	4,186	5,927
Read fees	21,199	17,691
Miscellaneous income	1,998	923
Total Operating Revenues	<u>310,824</u>	<u>300,285</u>
Operating Expenses:		
Water purchases	99,155	114,785
Utilities	12,649	13,085
Repairs and maintenance	18,913	6,876
Outside services	94,883	99,393
Mileage	2,091	2,411
Office supplies and postage	5,164	4,821
Insurance and bonds	5,247	5,397
Auditing, accounting and legal fees	1,005	955
Personnel costs	14,683	13,406
Depreciation	32,978	31,472
Dues, memberships & meetings	1,881	2,446
Telephone	708	833
Miscellaneous expense	190	1,123
Total Operating Expenses	<u>289,547</u>	<u>297,003</u>
Operating Income (Loss)	21,277	3,282
Nonoperating Revenue (Expenses):		
Interest income	1,008	906
Line extension reimbursements	16,198	
New memberships	8,000	14,000
Total Nonoperating Revenues	<u>25,206</u>	<u>14,906</u>
Change in Net Position	46,483	18,188
Net Position, beginning of year	<u>1,046,615</u>	<u>1,028,427</u>
Net Position, end of year	<u>\$ 1,093,098</u>	<u>\$ 1,046,615</u>

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

RURAL WATER DISTRICT NO. 3
 KAY COUNTY, OKLAHOMA
 STATEMENTS OF CASH FLOWS
 MODIFIED CASH BASIS
 YEARS ENDED DECEMBER 31, 2015 AND 2016

	2015	2014
Cash Flows From Operating Activities:		
Cash received from customers	\$ 310,824	\$ 300,285
Cash payments to employees	(13,558)	(12,420)
Cash payments to suppliers for goods and services	(243,011)	(253,111)
Net cash provided (used) by operating activities	54,255	34,754
Cash flows from non-capital financing activities:		
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(19,016)	(56,177)
Line extension reimbursements	16,198	
Membership fees	8,000	14,000
Net cash provided (used) by financing activities	5,182	(42,177)
Cash flows from investing activities:		
Interest income	1,008	906
(Increase) decrease in certificates of deposit	(968)	(41,102)
Net cash provided (used) by investing activities	40	(40,196)
Net increase (decrease) in cash and cash equivalents	59,477	(47,619)
Beginning cash and cash equivalents	58,758	106,377
Ending cash and cash equivalents	\$ 118,235	\$ 58,758
Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:		
Operating income or loss	\$ 21,277	\$ 3,282
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation	32,978	31,472
Net cash provided (used) by operating activities	\$ 54,255	\$ 34,754

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

RURAL WATER DISTRICT NO. 3
KAY COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

Rural Water District No. 3, Kay County, Oklahoma was incorporated on April 3, 1967 under the Rural Water District Act of the Oklahoma State Statutes, Title 82, 1301-1321, as amended. The District is exempt from federal and state income taxes as a 501(c)(12) organization. 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 maintains its records and prepares its financial statements on the modified cash basis of accounting. Under the modified cash basis, revenues are recognized when received, rather than when earned, and expenditures are recognized when paid, rather than when incurred. Fixed assets are recorded at cost when purchased. Annual depreciation is calculated on a straight-line basis. Total depreciation for the years ended December 31, 2015 and 2014 was \$32,978 and \$31,472 respectively.

Cash and Deposits

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

Statement of Cash Flows

For the purposes of the Statement of Cash Flows, the District considers all accounts, (excluding restricted reserves), with a maturity of three months or less to be cash equivalents.

Budget

The District is not legally required to adopt a budget.

RURAL WATER DISTRICT NO. 3
 KAY COUNTY, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 2 – PROPERTY AND EQUIPMENT:

Depreciable assets are recorded at cost when purchased or constructed. 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. The balances for depreciable assets by major category are as follows:

	<u>12/31/14</u>	<u>Additions</u>	<u>12/31/15</u>
Land	\$ 4,200	\$	\$ 4,200
Waterline system	1,602,811	63,382	1,666,193
Office building	77,475		77,475
Office equipment and tools	5,565		5,565
	<u>1,690,051</u>	<u>63,382</u>	<u>1,753,433</u>
Accumulated depreciation	<u>(894,355)</u>	<u>(32,978)</u>	<u>(927,333)</u>
Net	<u>\$ 795,696</u>	<u>\$ 30,404</u>	<u>\$ 826,100</u>

NOTE 3 – 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 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 none have been reported, are considered. There were no claims during the year ended December 31, 2015.

NOTE 4 – 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 5 – 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.

RURAL WATER DISTRICT NO. 3
KAY COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 6 – FAIR VALUES 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 certificates of deposit. The District's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying value 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 7 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through March 3, 2016, the date which the financial statements were available to be issued.