

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

ANNUAL FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT
DISTRICT NO. 3, OSAGE COUNTY, OKLAHOMA
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YEARS ENDED DECEMBER 31, 2016 AND 2015

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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, 2016 and 2015 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

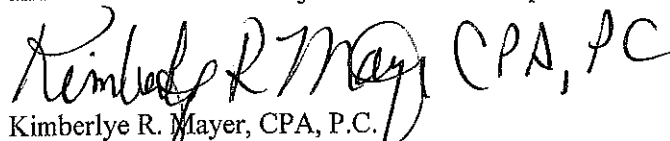
In our opinions, the financial statements referred to above, present fairly, in all material respects, the modified cash basis financial position of Rural Water, Sewer, and Solid Waste Management District No. 3, Osage County, Oklahoma, as of December 31, 2016 and 2015; the changes in modified cash basis 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 September 8, 2017 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.


Kimberlye R. Mayer, CPA, P.C.
Blackwell, Oklahoma
September 8, 2017

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, 2016, and have issued our report thereon dated September 8, 2017. 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.

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. 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 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 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, 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*.

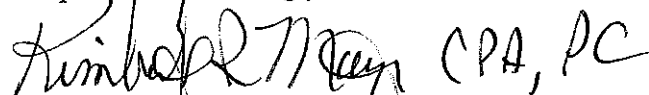
We noted another matter that we reported to Rural Water, Sewer, and Solid Waste Management District No. 3, Osage County, Oklahoma in a separate letter dated September 8, 2017.

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.



Kimberlye R. Mayer, CPA, P.C.
Blackwell, Oklahoma
September 8, 2017

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT
DISTRICT NO. 3, OSAGE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2016

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.

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, 2016 AND 2015

	ASSETS	
	2016	2015
Current Assets:		
Cash and cash equivalents	\$ 48,897	\$ 42,498
Restricted accounts:		
Reserve account (Note 4)	24,359	19,953
Property, plant and equipment (net of accumulated depreciation) (Note 2)	854,085	900,365
Work in progress		
Other assets:		
Deposits	190	190
Total Assets	\$ 927,531	\$ 963,006

LIABILITIES AND NET POSITION

Current Liabilities:		
Deposits	\$ 1,000	\$ 1,000
Notes payable (current portion)	15,313	14,757
Total Current Liabilities	16,313	15,757
Notes payable, long-term (Note 3)	557,631	572,974
Total Liabilities	573,944	588,731
Net Position:		
Net investment in capital assets	281,141	312,634
Restricted for debt service	24,359	19,953
Unrestricted	48,087	41,688
Total Net Position	353,587	374,275
Total Liabilities and Net Position	\$ 927,531	\$ 963,006

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, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Operating Revenues:		
Water Service	\$ 245,330	\$ 251,508
Other income	1,575	1,350
Total Operating Revenues	<u>246,905</u>	<u>252,858</u>
Operating Expenses:		
Water purchases	116,446	111,245
Utilities	494	755
Telephone	2,674	2,401
Repairs and maintenance	21,011	24,554
Insurance	2,455	1,474
Office supplies and postage	1,803	1,528
Depreciation	46,280	46,404
Engineer fees	4,800	2,400
Professional fees	2,222	3,180
Accounting and billing fees	8,927	9,608
Water tests & fees	4,100	7,740
Contract labor	34,020	34,020
Miscellaneous expense	1,376	772
Total Operating Expenses	<u>246,608</u>	<u>246,081</u>
Operating Income (Loss)	297	6,777
Nonoperating Revenue (Expenses):		
Interest income	64	52
Interest expense	(29,049)	(29,769)
New memberships	8,000	4,000
Total Nonoperating Revenues (Expenses)	<u>(20,985)</u>	<u>(25,717)</u>
Change in Net Position	(20,688)	(18,940)
Net Position, beginning of year	<u>374,275</u>	<u>393,215</u>
Net Position, end of year	<u>\$ 353,587</u>	<u>\$ 374,275</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, 2016 AND 2015

	2016	2015
Cash flows from operating activities:		
Cash received from customers	\$ 246,905	\$ 252,858
Cash payments to suppliers for goods and services	(200,328)	(199,677)
Net cash provided (used) by operating activities	46,577	53,181
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	(14,787)	(14,067)
Interest paid on notes and loans	(29,049)	(29,769)
Grants received (paid)		
System development fees	8,000	4,000
Net cash provided (used) by financing activities	(35,836)	(39,836)
Cash flows from investing activities:		
Interest income	64	52
(Increase) decrease in restricted accounts	(4,406)	(4,401)
Net cash provided (used) by investing activities	(4,342)	(4,349)
Net increase (decrease) in cash and cash equivalents	6,399	8,996
Beginning cash and cash equivalents	42,498	33,502
Ending cash and cash equivalents	\$ 48,897	\$ 42,498
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income or loss	\$ 297	\$ 6,777
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	46,280	46,404
Changes in assets and liabilities:		
Increase in deposits		
Net cash provided (used) by operating activities	\$ 46,577	\$ 53,181

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, 2016 AND 2015

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, 2016 AND 2015

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, 2016 and 2015 was \$46,280 and \$46,404 respectively. The balances for depreciable assets by major category at December 31, 2016 are:

	12/31/15	Additions	12/31/16
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	(918,477)	(46,280)	(964,757)
Net depreciable assets	<u>890,642</u>	<u>(46,280)</u>	<u>844,362</u>
Land	9,723	_____	9,723
Total	<u>\$ 900,365</u>	<u>\$ (46,280)</u>	<u>\$ 854,085</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 2016 were \$14,787. Monthly payments are \$3,653. The following is a schedule of note payments:

Year ended	Amount	Principle	Interest
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	43,836	18,939	24,897
12/31/22 - 12/31/26	219,180	110,262	108,918
12/31/27 - 12/31/31	219,180	141,506	77,674
12/31/32 - 12/31/36	219,180	156,329	62,851
12/31/37 - 12/31/38	56,092	78,960	(22,868)
Total	<u>\$ 932,812</u>	<u>\$ 572,974</u>	<u>\$ 359,838</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, 2016 and 2015, the balances in this reserve account were \$24,359 and \$19,953 respectively.

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT
DISTRICT NO. 3, OSAGE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

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, 2016 and 2015 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, 2016 AND 2015

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, 2016 and 2015.

NOTE 10 – CONTINGENCIES:

As of December 31, 2016 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 September 8, 2017, the date which the financial statements were available to be issued.