

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

**ANNUAL FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2017 AND 2016**

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT  
DISTRICT NO. 3, OSAGE COUNTY, OKLAHOMA  
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YEARS ENDED DECEMBER 31, 2017 AND 2016

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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, 2017 and 2016 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

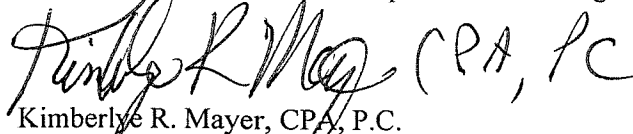
In our opinions, the financial statements referred to above, present fairly, in all material respects, the modified cash basis financial position of Rural Water, Sewer, and Solid Waste Management District No. 3, Osage County, Oklahoma, as of December 31, 2017 and 2016; the changes in modified cash basis 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 August 30, 2018 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  
August 30, 2018

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, 2017, and have issued our report thereon dated August 30, 2018. 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*.

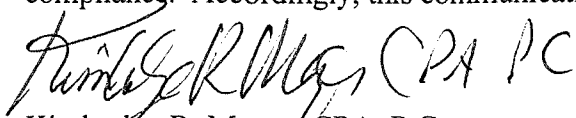
We noted another matter that we reported to Rural Water, Sewer, and Solid Waste Management District No. 3, Osage County, Oklahoma in a separate letter dated August 30, 2018.

### **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.



Kimberley R. Mayer, CPA, P.C.  
Blackwell, Oklahoma  
August 30, 2018

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT  
DISTRICT NO. 3, OSAGE COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED DECEMBER 31, 2017

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, 2017 AND 2016

ASSETS		
	2017	2016
Current Assets:		
Cash and cash equivalents	\$ 99,687	\$ 48,897
Restricted accounts:		
Reserve account (Note 4)	28,769	24,359
Property, plant and equipment (net of accumulated depreciation) (Note 2)	807,805	854,085
Work in progress		
Other assets:		
Deposits	190	190
Total Assets	\$ 936,451	\$ 927,531
LIABILITIES AND NET POSITION		
Current Liabilities:		
Deposits	\$ 1,000	\$ 1,000
Notes payable (current portion)	16,306	15,313
Total Current Liabilities	17,306	16,313
Notes payable, long-term (Note 3)	541,095	557,631
Total Liabilities	558,401	573,944
Net Position:		
Net investment in capital assets	250,404	281,141
Restricted for debt service	28,769	24,359
Unrestricted	98,877	48,087
Total Net Position	378,050	353,587
Total Liabilities and Net Position	\$ 936,451	\$ 927,531

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, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Operating Revenues:		
Water Service	\$ 287,948	\$ 245,330
Other income	1,350	1,575
Total Operating Revenues	<u>289,298</u>	<u>246,905</u>
Operating Expenses:		
Water purchases	108,251	116,446
Utilities	766	494
Telephone	2,971	2,674
Repairs and maintenance	29,250	21,011
Insurance	1,981	2,455
Office supplies and postage	2,444	1,803
Depreciation	46,280	46,280
Engineer fees		4,800
Professional fees	1,674	2,222
Accounting and billing fees	9,804	8,927
Water tests & fees	4,900	4,100
Contract labor	33,551	34,020
Miscellaneous expense	755	1,376
Total Operating Expenses	<u>242,627</u>	<u>246,608</u>
Operating Income (Loss)	46,671	297
Nonoperating Revenue (Expenses):		
Interest income	85	64
Interest expense	(28,293)	(29,049)
New memberships	6,000	8,000
Total Nonoperating Revenues (Expenses)	<u>(22,208)</u>	<u>(20,985)</u>
Change in Net Position	24,463	(20,688)
Net Position, beginning of year	<u>353,587</u>	<u>374,275</u>
Net Position, end of year	<u>\$ 378,050</u>	<u>\$ 353,587</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, 2017 AND 2016

	2017	2016
Cash flows from operating activities:		
Cash received from customers	\$ 289,298	\$ 246,905
Cash payments to suppliers for goods and services	(196,347)	(200,328)
Net cash provided (used) by operating activities	92,951	46,577
 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	(15,543)	(14,787)
Interest paid on notes and loans	(28,293)	(29,049)
Grants received (paid)		
System development fees	6,000	8,000
Net cash provided (used) by financing activities	(37,836)	(35,836)
 Cash flows from investing activities:		
Interest income	85	64
(Increase) decrease in restricted accounts	(4,410)	(4,406)
Net cash provided (used) by investing activities	(4,325)	(4,342)
 Net increase (decrease) in cash and cash equivalents	50,790	6,399
Beginning cash and cash equivalents	48,897	42,498
Ending cash and cash equivalents	\$ 99,687	\$ 48,897
 Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income or loss	\$ 46,671	\$ 297
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	46,280	46,280
Changes in assets and liabilities:		
Increase in deposits		
Net cash provided (used) by operating activities	\$ 92,951	\$ 46,577

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, 2017 AND 2016

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, 2017 AND 2016

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, 2017 and 2016 was \$46,280 and \$46,404 respectively. The balances for depreciable assets by major category at December 31, 2017 are:

	12/31/2016	Additions	12/31/2017
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	(964,757)	(46,280)	(1,011,037)
Net depreciable assets	844,362	(46,280)	798,082
Land	9,723		9,723
Total	<u>\$ 854,085</u>	<u>\$ (46,280)</u>	<u>\$ 807,805</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 2017 were \$15,543. Monthly payments are \$3,653. The following is a schedule of note payments:

Year ended	Amount	Principle	Interest
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
12/31/2022	43,836	19,908	23,928
12/31/23 - 12/31/27	219,180	115,904	103,276
12/31/28 - 12/31/32	219,180	148,745	70,435
12/31/33 - 12/31/37	219,180	190,894	28,286
12/31/38	12,256	11,546	710
Total	<u>\$ 888,976</u>	<u>\$ 557,401</u>	<u>\$ 331,575</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, 2017 and 2016, the balances in this reserve account were \$28,769 and \$24,359 respectively.

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT  
DISTRICT NO. 3, OSAGE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2017 AND 2016

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, 2017 and 2016 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, 2017 AND 2016

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, 2017 and 2016.

NOTE 10 – CONTINGENCIES:

As of December 31, 2017, 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 August 30, 2018, the date which the financial statements were available to be issued.