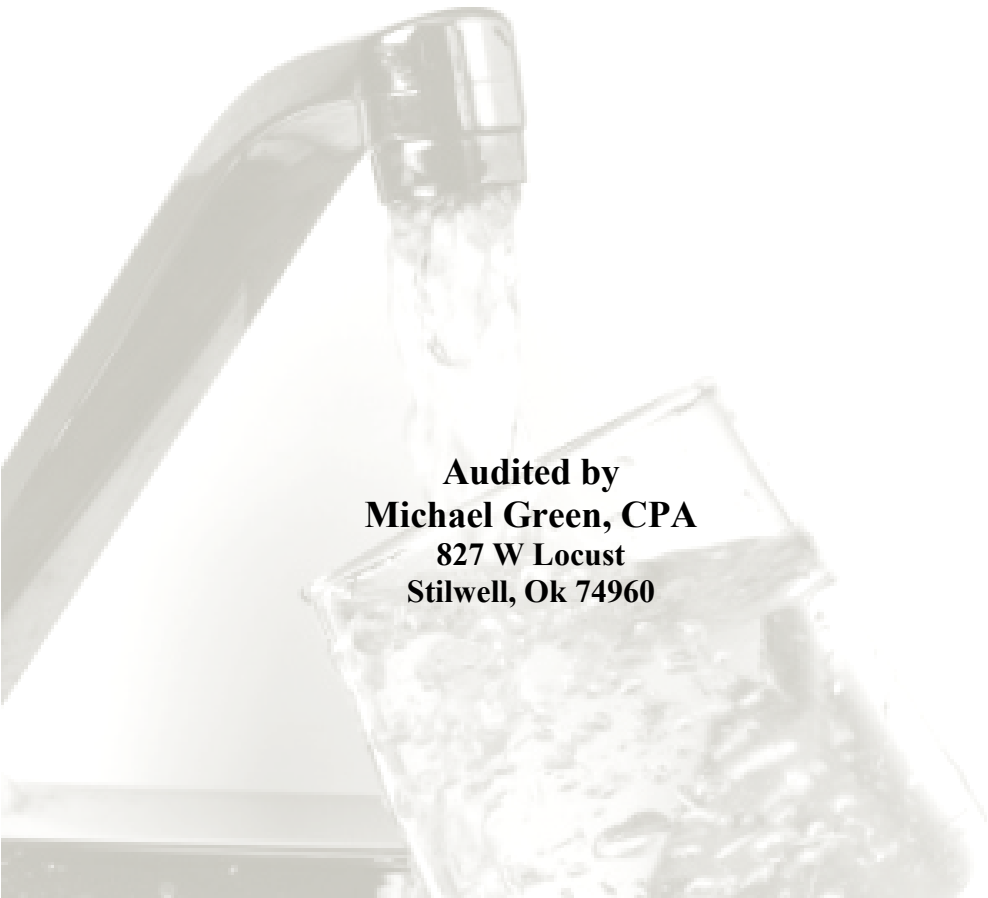


RURAL WATER DISTRICT # 3

Washington County, Oklahoma

Financial Statements & Audit Report

December 31, 2018



**Audited by
Michael Green, CPA
827 W Locust
Stilwell, Ok 74960**

RURAL WATER DISTRICT NO. 3
Washington County, Oklahoma

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INDEPENDENT AUDITORS REPORT

MICHAEL W. GREEN
Certified Public Accountant
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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

I have audited the accompanying financial statements of the business-type activities of Washington County Rural Water District No. 3 as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise Washington County Rural Water District No. 3's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 entity'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 entity's internal control. Accordingly, I express no such 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Washington County Rural Water District No. 3 as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of Washington County Rural Water District No. 3 as of December 31, 2017, were audited by other auditors whose report dated April 30, 2018, expressed an unmodified opinion on those statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8, and page 24, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated April 23, 2019, on my consideration of Washington County Rural Water District No. 3's, internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Washington County Rural Water District No. 3's, internal control over financial reporting and compliance.



Michael Green, CPA
Stilwell, Oklahoma

April 23, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

**Washington County Rural Water District No. 3
Management's Discussion and Analysis Report
For Fiscal Year 2018
(Ended December 31, 2018)**

Introduction

The purpose for this report is to present, from the District Manager's perspective, an assessment of the financial activities and performance of Washington County Rural Water District No. 3 (hereinafter referred to as the "District") for the audited year. The primary goal of this report is to address the critical question "Is the District as a whole better or worse off as a result of the year's activities?" It is also the goal of this report to present the findings from the audit and other critical operations information in an easy-to-read format for interpretation by the non-accountant.

The information included herein should be read in conjunction with the financial statements. Also note that the currency amounts presented herein have been rounded to the nearest dollar.

Financial Highlights

- The amount of water sold in FY '18 (719,486,409 gallons) increased by approximately 4.0 percent when compared to the previous year (sold 691,596,086 gallons in FY '17).
- Revenues from the sale of water accounted for 72.1 percent of all revenues. The total revenue from water sales increased by approximately 35.6 percent when compared to FY '17.
- The District expended approximately \$237,618 on new infrastructure during the year.
- The District improved its position with regard to total liabilities by *decreasing* their value by \$488,802. when compared to FY '17. Total equity *increased* by approximately \$1,575,314.
- The District as a whole is much better off as a result of the year's activities.

Overview of Financial Statements

The financial statements prepared for the FY '18 audit was used to develop this report. A brief description of each statement and their purpose follows:

Statements of Financial Position [Balance Sheet] - The purpose for the “Statements of Financial Position” is to present a summary of the District’s net assets. In simple terms this statement shows what we own (assets) minus what we owe (liabilities). When we compare this years Statement of Financial Position to previous years, we look at how our net worth (i.e., net assets) is increasing or decreasing. This is one indicator of how the District’s financial position is improving or deteriorating.

Statements of Activities - The “Statements of Activities” presents the results of the business activities over the course of the fiscal year and information as to how the net assets changed during the year without regard to when cash was received or paid.

Statements of Cash Flows - The “Statements of Cash Flows” presents changes in cash and cash equivalents (i.e., Accounts Payable and Receivable), resulting from operational, financing and investing activities. This statement shows how the District’s cash on hand changed from the beginning to the end of the year.

Condensed Financial Statements

Condensed Statement of Financial Position

	2018	2017	Dollar Change	Percent Change
Current and Other Assets	\$ 6,622,729	\$ 6,144,820	\$ 477,909	7.8%
Capital Assets	\$ 33,874,741	\$ 33,266,138	\$ 608,603	1.8%
Total Assets	\$ 40,497,470	\$ 39,410,958	\$ 1,086,512	2.8%
Current Liabilities	\$ 658,292	\$ 674,538	\$ (16,246)	-2.4%
Long-Term Liabilities	\$ 16,804,180	\$ 17,276,736	\$ (472,556)	-2.7%
Total Liabilities	\$ 17,462,472	\$ 17,951,274	\$ (488,802)	-2.7%
Net Assets invested in capital assets, net of related debt	\$ 16,599,089	\$ 15,535,837	\$ 1,063,252	6.8%
Restricted for debt service	\$ 725,213	\$ 689,516	\$ 35,697	5.2%
Unrestricted net assets	\$ 5,710,696	\$ 5,234,331	\$ 476,365	9.1%
Total Net Assets	\$ 23,034,998	\$ 21,459,684	\$ 1,575,314	7.3%

Condensed Statement of Activities

Operating Revenues	\$ 5,292,755	\$ 5,161,208	\$ 131,547	2.5%
Non-Operating Revenues	\$ 1,756,550	\$ 1,322,053	\$ 434,497	32.9%
Total Revenues	\$ 7,049,305	\$ 6,483,261	\$ 566,044	8.7%
Depreciation Expense	\$ 1,158,051	\$ 1,181,703	\$ (23,652)	-2.0%
Other Operating Expense	\$ 4,315,940	\$ 4,042,444	\$ 273,496	6.8%
Total Expenses	\$ 5,473,991	\$ 5,224,147	\$ 249,844	4.8%
Change in Net Assets	\$ 1,575,314	\$ 1,259,114	\$ 316,200	25.1%
Beginning Net Assets	\$ 21,459,684	\$ 20,200,570	\$ 1,259,114	6.2%
Ending Net Assets	\$ 23,034,998	\$ 21,459,684	\$ 1,575,314	7.3%

Analytical Overview

Sources of Income - The District's primary sources of income are from the sale of water services. Other sources of income include interest on investments; membership fees; and collection fees. The District has no taxing power.

Growth - During the year 287 new benefit units (i.e., water meters) were sold compared to a total of 327 sold in FY '17. The District sold 719,486,406 gallons of water, which represents an approximate increase of 4.0 percent when compared to FY '17 and was likely a result of a drier than average year in FY '18. The decrease in last years benefit unit sales is likely the result of a slowing housing market compared to the previous year.

Statements of Net Position:

Total Net Assets - The *Statement of Financial Position* shows that the District's total net assets actually *increased* by \$1,575,314, when compared with FY '17. This *increase* represents growth in our total net assets. While current assets (i.e., cash), *increased* by \$477,909, the District's fixed assets (i.e., land, equipment and infrastructure) also *increased* by \$608,603 and the District's investments *increased* by \$300,000.

On the *Statement of Financial Position* we see that the District has *improved* its position with regard to total (i.e., current and long term) liabilities by *decreasing* their value by \$488,802 when compared to FY '17. This *decrease* occurred primarily in the category of *long term liabilities*. Total equity *increased* by approximately \$1,575,314.

Statement of Revenues, Expenditures and Changes in Fund Net Position:

Reviewing the *Statement of Revenues, Expenditures and Changes in Fund Net Position* we can see that the District's change in net assets was \$1,575,314. This compared *favorably* to the net change in net assets of \$1,259,114 experienced in FY '17.

Revenues – The District’s total operating revenues for FY ’18 were \$5,292,755. This represents an *increase* of approximately \$131,547 or 2.5 percent over FY ’17. Approximately 72.1 percent of our revenues (i.e., \$5,078,514) were derived from sale of water services.

Approximately 4 percent of revenues (\$287,400) came from membership fees. Revenues from these items were *down* 1 percent from FY ’17.

Expenses - The District’s total operating expenses were \$5,473,991. Excluding depreciation and amortization the total operating expenses are reduced to \$4,315,940. This represents an approximate *increase* of \$273,496 or 6.8 percent over FY ’17.

Statement of Cash Flows:

As shown in the *Statement of Cash Flows* the District had a net *increase* in cash at the end of the year of \$123,315.

Annual Budget

As required by the District’s By-Laws, an Annual Budget was prepared by the District Manager for FY ’18. The basis for the budget included a thorough examination of the actual results from the last several years. The budget also included certain anticipated expenses that were related to budgeted capital projects. The FY ’18 Annual Budget was reviewed and approved by the Board during the Board meeting held on March 13, 2018.

Debt Administration:

The remaining balance for all promissory notes (i.e., loans) at the beginning of the year was \$17,730,301. No new loans were acquired during 2018 and all scheduled loan and interest payments through December 31, 2018 were made on time. The District reduced its principal on outstanding loans by \$454,649. The balance remaining on all outstanding loans is \$17,275,652. The sinking fund for the District’s loans is fully funded.

Highlights of Other Critical Information:

- In Fiscal Year 2018 the District has continued to meet the new and more stringent water quality regulations. This includes monthly testing for Total Organic Carbons (TOC's) and quarterly testing for Trihalomethanes (THM's) and Haloacetic Acids (HAA's). The District is pleased to report that our water quality complied with all the regulations.
- Environmental Protection Agency Long Term 2 Enhanced Surface Water Treatment Rule – The District completed the regulatory requirements for sampling in FY '18.
- Caney River Raw Water Supply Project
 - Legal action filed by the Contractor against the District is in progress.
- Water Treatment Plant Expansion Project
 - Legal action by Design Engineer of WTP Expansion Project continued against the District in 2018.
- Water Resources Master Planning – We continue work on a new master plan for the District.
- Abbott Farms – The District shared cost with the developer to relocate and upgrade approximately one quarter mile of existing water lines along 106th Street N. East of Mingo.
- Owasso Utility Relocation Projects – The District shared cost with the City of Owasso on various projects including:
 - Owasso Fire Station on 116th Street North – The project included the extension of approximately one-half mile of new 12-inch water line.
 - 135th Access Road (Near Rejoice Church & School) – The project included the extension of approximately one-half mile of new 12-inch water line.
 - 137th Access Road (Near Glover Owasso) – The project will include approximately 500 feet of new 12-inch water line. Engineering work was completed during FY '18.
- Washington County Utility Relocation Projects – The District worked with Washington County to prepared water line relocation plans at two (2) separate locations including Bevan Creek (Memorial & 226th Str. N) and Green Lake (approximately one-half mile east of Garnett on 196th Str. N.)
- Tulsa County Utility Relocation Projects
 - 86th Str. N. and Sheridan - The District worked with Tulsa County to relocate water lines in the intersection of 86th Str. N. and Sheridan. All relocation work was completed in FY '18.
 - Horse Pen Creek - The District worked with Tulsa County on the conceptual planning and probable cost for relocation of water lines along old Highway 169 south of 166th Str. N.
- 24-Inch Water Line Extension – Planning efforts got underway for the extension of approximately two (2) miles of new 24-inch water line beginning at the North WTP and extending south.

Conclusions – The District as a whole has a better financial position than a year ago. The value of our total liabilities decreased while the value of our total equity increased. Our

total debt service was decreased by \$454,649. We ended the year with more cash and investments (i.e., \$459,012) than we started with.

Looking Forward – As we look forward to Fiscal Year 2019 we anticipate our growth to be the same or slightly lower than that which was experienced in FY ‘18. We also anticipate progress on the following major capital projects:

- Water Treatment Plant Expansion Project: We anticipate progress on the lawsuit for this project.
- Caney River Raw Water Supply Project: We anticipate progress on the lawsuit for this project.
- Water Quality Regulations – We will continue sampling and testing for S.O.C. as mandated by the EPA.
- Water Resources Master Plan – We anticipate completing the master plan in 2019. This master plan will identify future capital needs with emphasis on priority.
- Future Water Lines – The District is planning:
 - To develop plans for the construction of new 24-inch water line.
 - The District will work with the ODOT on the following:
 - To complete water line relocation plans for approximately three (3) miles of water line along State Highway 20 between US Highway 75 and Mingo.
 - To complete construction for relocation of certain water lines along Highway 11.
 - The District will work with Washington County on the following:
 - To complete the relocation of water lines at Bevan Creek along Memorial north of Vera.
 - To complete the relocation of water lines at Green Lake.
 - The District will work with Tulsa County to prepare water line relocation plans for the following:
 - Along 86th Street North in areas East and West of Sheridan.
 - At Horse Pen Creek along old Highway 169 south of 166th Street North.
 - The District will work with Owasso on the following:
 - Water line relocations in the intersection of 116th Street North and 129th East Avenue.
 - Water line relocations in the intersection of 106th Street North and 145th East Avenue.
 - Water line relocations along 116th Street North between 129th East Avenue and Garnett.
 - Water line relocations along 116th Street North in areas East of 129th East Avenue to Highway 169.
 - Water line relocations in the intersection of 106th and 129th East Avenue.
 - Water line relocations along 137th East Avenue (North of Glover Owasso).

FINANCIAL STATEMENTS

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

**STATEMENT OF NET POSITION
DECEMBER 31, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
ASSETS		
Current assets:		
Cash	\$ 1,041,288	\$ 917,973
Restricted cash (Note 7)	725,213	689,516
Investments	4,000,000	3,700,000
Accounts receivable	524,207	493,767
Accrued interest receivable	3,129	1,129
Inventory	266,324	277,626
Prepaid insurance	62,568	64,809
Total current assets	<u>6,622,729</u>	<u>6,144,820</u>
Noncurrent assets:		
Other assets:		
Capital assets:		
Building & land	446,501	377,751
Machinery & tools	376,759	375,659
Automotive equipment	434,561	398,780
Furniture & fixtures	116,212	116,212
Lab equipment	40,706	40,706
Water treatment & distribution system	48,029,931	46,368,908
Less accumulated depreciation	<u>(15,569,929)</u>	<u>(14,411,878)</u>
Total capital assets	<u>33,874,741</u>	<u>33,266,138</u>
Total Assets	<u>\$ 40,497,470</u>	<u>\$ 39,410,958</u>

The accompanying notes to the financial statements are an integral part of this statement.

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

**STATEMENT OF NET POSITION, CONTINUED
DECEMBER 31, 2018 AND 2017**

	2018	2017
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 48,419	\$ 78,795
Accrued interest payable	138,401	142,178
Current portion of long-term debt (Note 2)	471,472	453,565
Total current liabilities	<u>658,292</u>	<u>674,538</u>
Noncurrent liabilities:		
Notes payable (Note 2)	17,275,652	17,730,301
Less: current portion	<u>(471,472)</u>	<u>(453,565)</u>
Total noncurrent liabilities	<u>16,804,180</u>	<u>17,276,736</u>
Total Liabilities	<u>17,462,472</u>	<u>17,951,274</u>
NET POSITION		
Net Investment in Capital Assets	16,599,089	15,535,837
Restricted for debt service	725,213	689,516
Unrestricted	<u>5,710,696</u>	<u>5,234,331</u>
Total Net Position	<u>\$ 23,034,998</u>	<u>\$ 21,459,684</u>

The accompanying notes to the financial statements are an integral part of this statement.

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

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018	2017
Operating revenues:		
Water sales (net of adjustments)	\$ 5,078,514	\$ 4,903,729
Penalties, fees, service charges and miscellaneous	214,241	257,479
Total operating revenues	<u>5,292,755</u>	<u>5,161,208</u>
Operating expenses:		
Salaries, wages & contract labor	935,130	921,302
Payroll taxes	68,876	73,247
Employee benefits	249,982	234,389
Utilities	371,775	361,669
Telephone	21,983	13,885
Equipment expense	3,270	7,903
Depreciation	1,158,051	1,181,703
Interest expense	639,855	657,874
Vehicle expense	48,622	50,964
Building, vehicle & other insurance	113,227	131,988
Plant repair & maintenance	77,719	57,348
Chemicals	868,123	831,570
Travel, entertainment & miscellaneous	62,848	40,879
Licenses & fees	38,565	48,235
Plant supplies	414,121	235,555
Water purchased	6,615	5,232
Office expense & postage	80,852	77,664
Professional fees	314,377	292,740
Total operating expenses	<u>5,473,991</u>	<u>5,224,147</u>
Net operating income	<u>(181,236)</u>	<u>(62,939)</u>
Nonoperating revenue (expense)		
New benefit units	287,400	326,000
Contribution of developments	1,426,405	975,567
Interest income	43,245	20,986
Gain on sale of assets	-	-
Trustee fee	(500)	(500)
Total nonoperating revenue (expense)	<u>1,756,550</u>	<u>1,322,053</u>
Change in net position	1,575,314	1,259,114
Net position beginning of year	<u>21,459,684</u>	<u>20,200,570</u>
Net position end of year	<u>\$ 23,034,998</u>	<u>\$ 21,459,684</u>

The accompanying notes to the financial statements are an integral part of this statement.

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

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018	2017
Cash flows from operating activities:		
Receipts from customers	\$ 5,260,315	\$ 5,166,507
Payments to suppliers	(3,082,562)	(3,126,430)
Payments to employees	(1,253,988)	(918,643)
Net cash provided (used) by operating activities	<u>923,765</u>	<u>1,121,434</u>
Cash flows from noncapital financing activities:		
Transfers from (to) investments	(300,000)	-
Transfers from (to) restricted cash and investments	(35,697)	(512,488)
Trustee fee	(500)	(500)
Net cash provided (used) by noncapital financing activities	<u>(336,197)</u>	<u>(512,988)</u>
Cash flows from capital and related financing activities:		
New benefit units	287,400	326,000
Purchase of capital assets	(340,249)	(426,955)
Principal paid on capital debt	(454,649)	(438,220)
Issue new capital debt	-	-
Sales and trade assets	-	-
Net cash provided (used) by capital and related financing activities	<u>(507,498)</u>	<u>(539,175)</u>
Cash flows from investing activities:		
Interest income	<u>43,245</u>	<u>20,986</u>
Net increase (decrease) in cash and cash equivalents	123,315	90,257
Cash balance beginning of year	<u>917,973</u>	<u>827,716</u>
Cash balance end of year	<u><u>\$ 1,041,288</u></u>	<u><u>\$ 917,973</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (181,236)	\$ (62,939)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Cash flows reported in other categories:		
Depreciation expense	1,158,051	1,181,703
Amortization	-	-
Change in assets and liabilities:		
Accounts receivable	(30,440)	5,299
Accrued interest receivable	(2,000)	(648)
Inventory	11,302	6,932
Prepaid insurance	2,241	2,723
Accounts payable	(30,376)	(9,451)
Accrued interest payable	(3,777)	(2,185)
Net cash provided by operating activities	<u><u>\$ 923,765</u></u>	<u><u>\$ 1,121,434</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

NOTES TO BASIC FINANCIAL STATEMENTS

RURAL WATER DISTRICT NO. 3
Washington County, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Washington County Rural Water District Number 3 (the District) complies with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations.) The accounting and reporting framework and the more significant accounting policies established in GAAP and used by the District are discussed below.

A. REPORTING ENTITY

The District was organized in 1965, under Title 82, O.S. Supp. 1972, Sections 1324.1 to 1324.26 for the purpose of providing a water works system including all physical facilities, improvements and services necessary for executing that purpose, in Washington, Osage, Tulsa and Rogers counties. Since the District is a political subdivision of the State of Oklahoma, under Title 82, it is exempt from Federal and State income taxes.

The membership consists of approximately 10,000 benefit unit holders, each entitled to one vote. Subscribers to benefit units pay a \$ 1,000 subscription fee (\$ 750 prior to May 2005), which is non-refundable, and entitles the holder to one line from the District's water system. The Board of Directors consist of 7 members serving 3 year terms. The vacant Board seats are filled at the annual meeting in April, and following, the Board of Directors meet and elect a Chairman, Vice-Chairman, Secretary and Treasurer.

B. BASIS OF ACCOUNTING

The District's policy is to prepare its financial statements on the accrual basis of accounting; consequently, revenue and the related assets are recognized when earned, and expenditures are recognized when the obligation is incurred.

C. INVENTORY

The District utilizes a perpetual inventory system for supplies. The supplies on hand at year end are valued at the lower of cost or market, on a first-in, first-out basis, and included in the December 31, 2018 and 2017, financial statements at \$ 266,324 and \$ 277,626, respectively.

D. FIXED ASSETS

All fixed assets are recorded at their original acquisition cost. Depreciation is provided in the financial statements utilizing the following estimated useful lives:

RURAL WATER DISTRICT NO. 3
Washington County, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

	<u>Years</u>
Office Building	40
Water Plant & System	40
Furniture, Fixtures & Equipment	10
Machinery & Tools	10-15
Automotive	5
Office Equipment	5-15

A summary of the fixed asset accounts for the year ended December 31, 2018, is as follows:

	<u>Beginning Balance</u>		<u>Additions</u>		<u>Deletions</u>		<u>Ending Balance</u>
Building & Land	\$ 377,751		68,750		-		\$ 446,501
Machinery & Tools	375,659		1,100		-		376,759
Automotive	398,780		35,781		-		434,561
Furniture, Fixtures & Equipment	116,212		-		-		116,212
Lab Equipment	40,706		-		-		40,706
Water Treatment & Dist System	46,368,908		1,661,023		-		48,029,931
	<u>47,678,016</u>	-	<u>1,766,654</u>		-		<u>49,444,670</u>
Less Accumulated Depreciation	(14,411,878)		(1,158,051)		-		(15,569,929)
	<u>\$ 33,266,138</u>	-	<u>608,603</u>		-		<u>\$ 33,874,741</u>

E. DEPOSITS AND INVESTMENTS

Custodial Credit Risk - Custodial credit risk related to deposits exists when the District holds deposits that are uninsured and uncollateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the District's name or collateralized without a written or approved collateral agreement. Exposure to custodial credit risk related to investments exists when the District holds investments that are uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the District's name. The District's policy for custodial credit risk is to secure its uninsured deposits with collateral. As of December 31, 2018, \$ 4,943,772 of the District's bank balances was exposed to custodial credit risk as follows:

Collateralized with securities held by the banks' trust department but not in the District's name	\$ 4,943,772
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Investment Credit Risk - The District has no investment policy that limits its investments choices other than the limitation of state law as follows:

RURAL WATER DISTRICT NO. 3
Washington County, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- a) Direct obligations of the U.S. Government, its agencies or instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b) Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c) With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper, and repurchase agreements with certain limitations.
- d) County, municipal, or school district tax-supported debt obligation, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, a municipality, or school district.
- e) Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- e) Money market funds regulated by the Securities and Exchange Commission and in which investments consist of the investments mentioned in the previous paragraphs a,b,c, and d.

Investment Interest Rate Risk – the District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk – The District places no limit on the amount it may invest in any one issuer. Since the District has all investments in certificates of deposit, there is no concentration of investment credit risk exposure.

The deposits and investments held at December 31, 2018, are as follows:

Type	Maturity (Months)	Credit Rating	Market Value	Cost
Cash Deposits	N/A	N/A	1,766,501	1,766,501
Investments				
Certificates of Deposit	12	N/A	<u>4,000,000</u>	<u>4,000,000</u>
Total Deposits and Investments			<u>5,766,501</u>	<u>5,766,501</u>

RURAL WATER DISTRICT NO. 3
Washington County, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. STATEMENT OF CASH FLOWS

For purposes of the Statement of Cash Flows, the District considers demand accounts, subject to withdrawal by check, and cash on hand, as cash or cash equivalents.

G. COMPENSATED ABSENCES

Employees must complete one (1) year of continuous service before earning two (2) weeks of vacation time per calendar year. Employees who have completed two (2) years through five (5) years of continuous service will earn three (3) weeks of vacation time per calendar year. Beginning in the sixth (6) year of continuous service, employees will earn four (4) weeks of vacation time per calendar year. Beginning in the twentieth (20) year of continuous service, employees will earn five (5) weeks of vacation time per calendar year. Vacation time is computed on a calendar year basis.

Vacation pay is vested, and thus paid upon retirement or separation (with two weeks' notice.) Vacation time is to be taken during the calendar year. Employees are required to utilize at least one-half of earned vacation time. The remaining vacation time will be paid at year end, and does not carry over to the next year without Board approval. The vacation accrued at December 31, 2018, was paid the first week of 2018.

All full- time employees are eligible for sick leave, after six months service, accrued at four hours per month (6 days per year.) Employees may accrue a maximum of 120 days of sick leave. Sick leave is not vested, and is thus lost upon separation.

H. ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2018 and 2017, represent charges for services provided to customers. The District utilizes the direct charge-off method of recognition of bad debts. Uncollectible accounts are an insignificant amount each year, thus there is no reserve for uncollectible accounts at December 31, 2018 and 2017.

I. INVESTMENTS

Investments classified in the financial statements, consist entirely of certificates of deposit whose original maturity term exceeds three months. Investments are carried at cost, which approximated fair value.

J. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles

RURAL WATER DISTRICT NO. 3
Washington County, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

requires 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 (such as estimated useful lives in determining depreciation expense.) Accordingly, actual results could differ from those estimates.

K. CASH AND CASH EQUIVALENTS

For the purpose of financial reporting, “cash and cash equivalents” include all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less.

L. EQUITY CLASSIFICATION

Net position is displayed in three components:

- a. *Invested in capital assets, net of related debt* – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- b. *Restricted fund balance* – consists of net assets with constraints placed on the use either by an external group such as creditors, grantors, contributors, or laws and regulation of other governments, or by law through constitutional provisions or enabling legislation.
- c. *Unrestricted fund balance* – all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

M. BUDGETARY DATA

In accordance with the by-laws of the District, the Board of Directors prepare a budget, under the accrual basis of accounting.

NOTE 2: LONG-TERM DEBT

A. RURAL DEVELOPMENT LOANS

RURAL WATER DISTRICT NO. 3
Washington County, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

NOTE 2: LONG-TERM DEBT (continued)

During a previous year, the District entered into a loan agreement with the Rural Utilities Service division of the USDA for \$ 4,800,000. The loan bears interest at 3.75 %, and requires monthly payments of \$ 19,344, beginning December 17, 2010, through November 17, 2050 (forty years.) The proceeds of the loan was utilized to acquire and construct water system improvements, namely the Caney River project. The total cost of the project was approximately \$ 6,300,000, thus the District provided the balance of the funds for the project (\$ 1,500,000.) The total balance outstanding under the loan as of December 31, 2018 and 2017, was \$ 4,138,189 and \$ 4,213,600, respectively.

This loan requires that a reserve be established in the amount of \$ 1,934.40 per month, until a balance of \$ 232,128 is maintained. During the year ended December 31, 2011, the District funded the reserve in full. The balance in the reserve account at December 31, 2018 and 2017, was \$ 240,502 and \$ 239,435, respectively.

During the year ended December 31, 2000, the District entered into two separate loan agreements with the Rural Economic and Community Development division of the USDA for \$ 724,200 and \$ 329,000. The loans bear interest at 5.5 %, and require monthly payments of \$ 3,737 and \$ 1,698, respectively, beginning November 4, 2000, through October 4, 2040. The proceeds of the loans were utilized to renovate and upgrade the existing north water treatment plant. The total cost of the project was approximately \$ 1,746,000. Thus, the District provided the balance of the funds for the project (approximately \$ 692,000.) The total balance outstanding under the loans as of December 31, 2018 and 2017, was approximately \$ 607,160 and \$ 638,060, respectively.

Each of the loans require that a reserve be established in the amount of \$ 373.70 per month for the \$ 724,200 loan, until a balance of \$ 44,844 is maintained, and in the amount of \$ 169.80 per month for the \$ 329,000 loan, until a balance of \$ 20,376 is maintained. As of December 31, 2018 and 2017, the balances in the reserve accounts were \$ 67,586 and \$ 67,286, respectively.

B. OKLAHOMA WATER RESOURCES BOARD LOAN

On December 14, 2009, the District entered into a Drinking Water SRF (State Revolving Fund) promissory note, and a Trust Indenture, with the Oklahoma Water Resources Board, for \$ 17,394,645, to fund the expansion of the north water treatment plant. The total cost of the project was estimated at \$ 17,832,782. Part of the funding (\$ 2,000,000) was from a grant from the EPA (Environmental Protection Agency) to the OWRB, under the Clean Water State Revolving Fund – American Recovery and Reinvestment Act of 2009 (ARRA.) In accordance with the agreement with the Oklahoma Water Resources Board, the \$ 2,000,000 funded through the American Recovery and Reinvestment Act of 2009, was forgiven, pending compliance with all ARRA regulations.

RURAL WATER DISTRICT NO. 3
Washington County, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

NOTE 2: LONG-TERM DEBT (continued)

The loan requires monthly payments into a debt service fund, to be held by a trustee, who will make semi-annual payments of principal and interest to the Oklahoma Water Resources Board on March 15 and September 15, beginning no later than March 15, 2012. The loan carries interest at 2.99 %, and an administrative fee of 0.5 %, and will be payable in 360 months from the date of completion. Interest and the administrative fee began March 15, 2010. The balance outstanding under the loan at December 31, 2018 and 2017, was \$ 12,530,303 and \$ 12,878,641, respectively.

The loan is secured by the revenue derived from the operation of the system, on parity with the security interest securing the District's existing debt. OWRB has also taken a security interest in virtually all of the District's assets.

The District's schedule of rates or charges for the services of the system shall be sufficient to provide funds which, together with other revenues pledged under the loan, will provide net revenues available for debt service equal to at least 125 % of the maximum annual amount required for debt service on all obligations of the District. The District was in compliance with this requirement during the years ending December 31, 2018 and 2017.

C. CHANGES IN LONG-TERM DEBT

The following is a summary of changes in Long-term debt for the year ended December 31, 2018.

Loan	Balance 12/31/2017	Additions	Reductions	Balance 12/31/2018	Amount Due Within One Year
RECD Loan- 724,200	\$ 535,540	-	\$ (15,785)	\$ 519,755	\$ 16,671
RECD Loan- 329,000	102,520	-	(15,115)	87,405	16,192
RUS Loan	4,213,600	-	(75,411)	4,138,189	77,836
OWRB Loan	12,878,641		(348,338)	12,530,303	360,773
	<u>\$ 17,730,301</u>		<u>(454,649)</u>	<u>17,275,652</u>	<u>\$ 471,472.00</u>

D. DEBT SERVICE REQUIREMENTS

The annual debt service requirements to maturity, including principal and interest, for the long-term debt as of December 31, 2018, is as follows:

RURAL WATER DISTRICT NO. 3
Washington County, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

NOTE 2: LONG-TERM DEBT (continued)

For the Year Ended 12/31/2018	724,200 RECD Loan		329,000 RECD Loan		4,800,000 RUS Loan		OWRB Loan	
	Prin	Int	Prin	Int	Prin	Int	Prin	Int
2019	16,671	28,173	16,192	4,184	77,836	154,294	360,773	440,159
2020	17,612	27,232	17,106	3,270	80,812	151,318	372,450	428,482
2021	18,605	26,239	18,071	2,305	83,901	148,228	386,947	413,985
2022	19,655	25,189	19,090	1,286	87,109	145,020	400,760	400,172
2023	20,763	24,081	16,946	263	90,930	141,198	415,066	385,866
2024-2028	122,763	101,457	-	-	509,409	651,231	2,306,382	1,698,280
2029-2033	161,520	62,700	-	-	614,285	546,355	2,749,888	1,254,773
2034-2038	142,166	14,421	-	-	740,753	419,887	3,277,258	727,404
2039-2043					893,257	287,383	2,260,779	142,017
2044-2048					959,897	62,521		
2049-2050								
	<u>\$ 519,755</u>	<u>309,492</u>	<u>87,405</u>	<u>11,308</u>	<u>4,138,189</u>	<u>2,707,435</u>	<u>12,530,303</u>	<u>5,891,139</u>

NOTE 3: WATER PURCHASE CONTRACT

The District purchases water from Lake Oologah (an impoundment of the Verdigris River) the Skiatook Reservoir (an impoundment of Hominy Creek) and the City of Tulsa. In connection therewith, the District has contracts with the United States Corps of Engineers and the City of Tulsa, and permits to appropriate stream water, from the Verdigris River, Hominy Creek and the Caney River, with the Oklahoma Water Resources Board.

NOTE 4: INVESTMENTS

Investments as of December 31, 2018, are summarized as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Carrying Value</u>
Unrestricted:			
Certificates of Deposit	<u>\$ 4,000,000</u>	<u>4,000,000</u>	<u>4,000,000</u>
	<u>\$ 4,000,000</u>	<u>4,000,000</u>	<u>4,000,000</u>
	=====	=====	=====

NOTE 5: FAIR VALUE MEASUREMENTS

Governmental Accounting Standards Board Statement No. 72 establishes a framework for measuring

RURAL WATER DISTRICT NO. 3
Washington County, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

NOTE 5: FAIR VALUE MEASUREMENTS (continued)

fair value. That Framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy under GASB Stmt. No 72 are described below:

- Level 1 Valuation based on unadjusted quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.
- Level 2 Valuations based on quoted prices in markets that are not active or on valuation models for which all significant inputs are observable, either directly or indirectly.
- Level 3 Valuation based on inputs that are unobservable and significant to the overall fair value measurement. Level 3 investments include situations where there is little, if any, market activity for the investments. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for significant assets and liabilities measured at fair value at December 31, 2018:

Money market funds and certificates of deposits: Consist of cash deposits with financial institutions and money market funds. The District uses quoted market prices of identical assets on active exchanges, or Level 1 measurements.

Investments: Primarily consist of domestic equity, international equity, and fixed income funds. The District uses quoted market prices of identical assets on active exchanges, or Level 1 measurements.

Other assets: Primarily consists of accounts receivable, and inventory. The assets are valued based upon the expected collectible amount, lower of cost or market on a first-in, first-out method, and other unobservable inputs or Level 3 measurements.

RURAL WATER DISTRICT NO. 3
Washington County, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

NOTE 5: FAIR VALUE MEASUREMENTS (continued)

The methods described above may produce a fair value calculation that may not be indicative of the net realizable value or reflective of future fair values. Furthermore, while the District believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table set forth by level, within the fair value hierarchy, the District's assets and liabilities at fair value as of:

Assets at Fair Value as of December 31, 2018				
	Level 1	Level 2	Level 3	Total
Investments:				
Certificates of Deposit	4,000,000			4,000,000
Total	4,000,000			4,000,000
Other Assets:				
Accounts Receivable			524,207	524,207
Inventory			266,324	266,324
Total	4,000,000		790,531	4,790,531

Assets at Fair Value as of December 31, 2017				
	Level 1	Level 2	Level 3	Total
Investments:				
Certificates of Deposit	3,700,000			3,700,000
Total	3,700,000			3,700,000
Other Assets:				
Accounts Receivable			493,767	493,767
Inventory			277,626	277,626
Total	3,700,000		771,393	4,471,393

Assets and liabilities in all levels could result in volatile and material price fluctuations. Realized and unrealized gains and losses on Level 3 assets and liabilities represent only a portion of the risk to market fluctuations in the balance sheet.

RURAL WATER DISTRICT NO. 3
Washington County, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

NOTE 6: RETIREMENT PLAN

The District participates in a governmental Section 457 salary reduction plan. The plan is managed by Pension Solutions. All full time employees are eligible to participate. The District contributes 4 % of each employee's gross salary, monthly, to the plan. Employees are eligible to contribute a percentage of their compensation up to a maximum amount allowed by the plan, and if they contribute at least 2 %, then the District matches that up to 2 %. All District contributions become fully vested after 1 year of service.

NOTE 7: RESTRICTED NET ASSETS

Net assets were restricted for debt service at December 31, 2018 and 2017, as follows:

	2018	2017
RECD Reserve	\$ 46,473	\$ 46,267
RECD Reserve	21,113	21,019
RUS Reserve-Caney River	240,502	239,435
North Treatment Plant Project Fund	154	153
North Treatment Plant Construction Fund	134,277	133,680
North Treatment Plant Debt Service Fund	200,925	200,928
Interest Reserve	81,765	48,034
	<u>\$ 725,213</u>	<u>\$ 689,516</u>

The RECD Reserves are maintained by the District, in separate interest bearing accounts, as discussed in Note 2.A. The North Treatment Plant Project Fund, the North Treatment Plant Construction Fund, and the Interest Reserve are held in separate interest bearing accounts at a local bank.

NOTE 8: LITIGATION

The District is a party to various legal proceedings that normally occur in the course of operations. The financial statements do not include accruals or provisions for loss contingencies that may result from these proceedings. While the outcome of the above noted proceedings cannot be predicted, due to the insurance coverage maintained by the District, the District feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the District.

NOTE 9: SUBSEQUENT EVENTS

Subsequent events have been evaluated through April 23, 2019, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

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

**BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2018**

- UNAUDITED -

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Favorable (Unfavorable)
Beginning Budgetary Balance	\$ 3,780,499	\$ 3,780,499	\$ 3,745,107	\$ (35,392)
Operating Revenues:				
Water sales	5,009,189	5,009,189	5,078,514	69,325
Memberships	340,000	340,000	287,400	(52,600)
Penalties, fees, service charges & misc	129,850	129,850	147,223	17,373
Total operating revenues	5,479,039	5,479,039	5,513,137	34,098
Operating Expenses:				
Salaries	957,200	957,200	935,130	22,070
Contract labor	23,000	23,000	7,692	15,308
Payroll taxes	77,800	77,800	68,876	8,924
Retirement	47,000	47,000	49,013	(2,013)
Automobile	115,000	115,000	48,622	66,378
Equipment expense	68,000	68,000	3,270	64,730
Chemicals	700,000	700,000	868,123	(168,123)
Subscriptions / License / Fees	45,000	45,000	42,418	2,582
Education	10,000	10,000	5,590	4,410
Supplies	540,000	540,000	414,121	125,879
Office expense	65,000	65,000	58,342	6,658
Postage	51,500	51,500	41,824	9,676
Professional fees	188,000	188,000	314,377	(126,377)
Line Extensions	350,000	350,000	238,917	111,083
Repair & maintenance	150,000	150,000	77,719	72,281
Telephone	14,000	14,000	21,983	(7,983)
Utilities	370,000	370,000	371,775	(1,775)
Travel	10,000	10,000	7,804	2,196
Uniforms	3,500	3,500	2,886	614
Water Purchased	20,000	20,000	6,615	13,385
Insurance	374,000	374,000	314,196	59,804
Taxes	50	50	50	-
Refunds	16,000	16,000	15,916	84
Total operating expenses	4,195,050	4,195,050	3,915,259	279,791
Non-operating (income) expenses:				
Caney River project	-	-	-	-
Caney River loan payments	232,128	232,128	232,128	-
N. Plant loan payments	800,932	800,932	800,932	-
FmHA loan payments	65,220	65,220	65,220	-
N. Plant upgrade	40,000	40,000	21,833	18,167
Miscellaneous income	(100,000)	(100,000)	(67,017)	(32,983)
Interest income	(15,000)	(15,000)	(43,245)	28,245
Total non-operating (income) expenses	1,023,280	1,023,280	1,009,851	13,429
Total Expenses	5,218,330	5,218,330	4,925,110	293,220
Ending Budgetary Balance	\$ 4,041,208	\$ 4,041,208	\$ 4,333,134	\$ 291,926

RURAL WATER DISTRICT NO. 3
Washington County, Oklahoma

NOTES TO BUDGETARY COMPARISON SCHEDULE
For the Year Ended December 31, 2018

Budgetary Information

In accordance with the by-laws of the District, the Board of Directors shall prepare an estimated budget for the coming year.

Basis of Accounting

The budget is prepared on the same accrual basis of accounting as applied to the basic financial statements. Revenues and the related assets are recognized when earned, and expenditures are recognized when the obligation is incurred.

OTHER SUPPLEMENTARY INFORMATION

MICHAEL W. GREEN
Certified Public Accountant
827 W Locust Street
Stilwell, Ok. 74960
(918) 696-6298

**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
Washington County, Oklahoma

I have audited, in accordance with the 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 of the business-type activities of Washington County Rural Water District No. 3 as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise Washington County Rural Water District No. 3's basic financial statements and have issued my report thereon dated April 23, 2019.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Washington County Rural Water District No. 3's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Washington County Rural Water District No. 3's internal control. Accordingly, I do not express an opinion on the effectiveness of Washington County Rural Water District No. 3'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 deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity'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.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Washington County Rural Water District No. 3's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

A handwritten signature in black ink, appearing to read 'Michael Green', is positioned above the printed name.

Michael Green, CPA
Stilwell, Oklahoma

April 23, 2019