

Rural Water District No. 3
Kingfisher County, Oklahoma

Audit Report
for the year ended September 30, 2016

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Independent Auditor's Report

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

I have audited the accompanying financial statements of the operating activities of Rural Water District No. 3, Kingfisher County, Oklahoma as of and for the year ended September 30, 2016, and the related notes to the 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. 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 opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the operating activities of the Rural Water District No. 3, Kingfisher County, Oklahoma as of September 30, 2016, 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.

In accordance with *Government Auditing Standards*, I have also issued my report dated December 29, 2016, on my consideration of the District'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 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 considered in assessing the results of my audit.

The Rural Water District No. 3, Kingfisher County, Oklahoma has not presented a Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although, not required to be part of, the basic financial statements.


Linda S Woodruff CPA, P.C.

Oklahoma City, Oklahoma 73172-1578
December 29, 2016

Rural Water District No. 3, Kingfisher County, Oklahoma
Statement of Net Position
September 30, 2016

Current Assets

Operating Account	\$ 57,016.03	
Certificates of Deposit	51,970.12	
Accounts Receivable (net)	3,765.44	
Prepaid Expense	1,206.00	
Total Current Assets		\$ 113,957.59

Capital Assets

Capital Assets - Depreciable		
Water & Distribution System (Note 3)	202,592.85	
Water Well and Rights	14,396.00	
Less: Depreciation Reserve	(174,997.13)	
Capital Assets - Amortizable		
Easements	86,250.00	
Less: Amortization Reserve	(16,125.25)	
Total Capital Assets		112,116.47

Other Assets

Utility Deposits	10.00	
Total Other Assets		10.00

Deferred Outflows of Resources

Total Deferred Outflows	-	-
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Total Assets

\$ 226,084.06

Current Liabilities

Accounts Payable	\$ 1,999.77	
Other	-	
Total Current Liabilities		1,999.77

Long Term Liabilities

Meter Deposits	-	
Total Long Term Liabilities		-

Total Liabilities

1,999.77

Deferred Inflows of Resources

Total Deferred Inflows	-	-
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Net Position

Invested in Capital Assets (Net)	112,116.47	
Unrestricted	111,967.82	
Total Net Position		224,084.29

Total Liabilities and Net Position

\$ 226,084.06

The accompanying notes are an integral part of the basic financial statements.

Rural Water District No. 3, Kingfisher County, Oklahoma
Statement of Revenues, Expenses, and Changes in Net Position
September 30, 2016

Revenue			
Water Sales	\$	60,978.29	
Refunds		-	
Total Revenue			\$ 60,978.29
Expenses			
Professional Fees		1,324.15	
Labor		22,462.90	
Utilities		5,825.88	
Repairs/Maintenance		2,727.84	
Advertising		43.19	
Insurance		1,233.97	
Director/Meeting		476.50	
Water Sampling		2,114.00	
Supplies		656.48	
Office Expense		715.92	
Dues and Fees		211.75	
Bank Charges		50.55	
Total Expenses			<u>37,843.13</u>
Operating Income (Loss)			23,135.16
Other Income (Expense)			
Interest Income		392.87	
Amorization		(2,125.00)	
Depreciation		(1,011.40)	
Total Other Income (Expense)			<u>(2,743.53)</u>
Change in Net Position			20,391.63
Net Position - Beginning of Year			203,692.66
Net Position - End of Year			<u><u>\$ 224,084.29</u></u>

The accompanying notes are an integral part of the basic financial statements.

Rural Water District No. 3, Kingfisher County, Oklahoma
Statement of Cash Flow
September 30, 2016

Cash Flow from Operating Activities	
Cash Payments for Services	\$ 60,261.03
Cash Payments to Suppliers for Goods and Contractors and Other Services	(37,927.20)
Net Cash Provided by Operating Activities	<u>22,333.83</u>
Cash Flows from Capital and Related Financing Activities	
Acquisition & Construction of Capital Assets	(4,570.67)
Net Cash Used in Capital and Financing Activities	<u>(4,570.67)</u>
Cash Flows from Investing Activities	
Interest Income	392.87
Net Cash Provided by Investing Activities	<u>392.87</u>
Net Increase (Decrease) in Cash	18,156.03
Cash and Cash Equivalents - Beginning of Year	<u>90,830.12</u>
Cash and Equivalents - End of Year	<u><u>108,986.15</u></u>
Reconciliation of Operation Income to Net Cash provided by Operating Activities	
Operating Income (Loss)	19,998.76
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities	
Depreciation	1,011.40
Amortization	2,125.00
Changes in Assets & Liabilities:	
(Increase) Decrease in Account Receivable	(717.26)
(Increase) Decrease in Prepaid Expense	-
Increase (Decreases) in Accounts Payable	(84.07)
Total Adjustments	<u>2,335.07</u>
Net Cash Provided by Operating Activities	22,333.83

The accompanying notes are an integral part of the basic financial statements.

Rural Water District No. 3, Kingfisher County, Oklahoma
Notes to Financial Statements
for the year ended September 30, 2016

Organization

Rural Water District No. 3, Kingfisher County, Oklahoma (the District) was organized under Oklahoma Statutes Title §82-1324.

Note 1 – Summary of Significant Accounting Principals

The Government's significant accounting policies are described below.

Rural Water District No. 3, Kingfisher County, Oklahoma, is an independent, self-contained, reporting entity with no associated component units. It is operated in a manner similar to a private business enterprise where the cost (expenses, including depreciation) of providing water services is financed through user charges.

The operations of the District constitute an enterprise fund, a proprietary fund type. Enterprise funds are used to account for operations that are financed and operated in a manner similar to a private business enterprise. The District's fund is accounted for on the flow of economic resources measurement focus and uses the accrual method of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Depreciation expense is provided for capital assets based upon estimated useful lives.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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. Accordingly, actual results could differ from those estimates.

Cash Equivalents and Investments

1. Deposits and Investments

Oklahoma Statutes authorize the District to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the District can invest in direct debt securities of the United States unless law expressly prohibits such an investment.

For financial statement presentation and for purposes of the statement of cash flows, the District's cash and cash equivalents are considered to be cash on hand, demand deposits and certificates of deposit with a maturity date of three months or less.

2. Deposits and Investments

The District's financial instruments include cash and cash equivalents, certificates of deposits, and accounts receivable. The District's estimates of the fair value of all financial instruments do not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of net assets. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Rural Water District No. 3, Kingfisher County, Oklahoma
Notes to Financial Statements
for the year ended September 30, 2016

Note 2 – Income Tax

As a special district of a state government, the district is exempt from State and Federal income taxes.

Note 3 – Employee Benefits

Depreciation has been calculated on each class of depreciable property using the straight-line method. Easements and water rights are amortized over their useful life. Estimated useful lives are as follows:

Water System.....	40 Years
Easement.....	40 Years
Water Rights.....	40 Years

Capital asset activity for the year is as follows:

	Balance 9/30/2015	Addition	Disposals	Balance 9/30/2016
Depreciable Assets				
Water System	\$ 198,022.18	\$ 4,570.67	\$ -	\$ 202,592.85
Water Well	14,396.00	-	-	14,396.00
Total	<u>212,418.18</u>	<u>4,570.67</u>	<u>-</u>	<u>216,988.85</u>
Accumulated Depreciation				
Water System	158,577.99		-	158,577.99
Water Well	15,407.74	1,011.15	-	16,418.89
Total	<u>173,985.73</u>	<u>1,011.15</u>	<u>-</u>	<u>174,996.88</u>
Net Depreciable Assets	\$ 38,432.45	\$ 3,559.52	\$ -	\$ 41,991.97
Amortizable Assets				
Easement	1,250.00	-	-	1,250
Water Rights	85,000.00	-	-	85,000
Total	<u>86,250.00</u>			<u>86,250</u>
				-
Accumulated Depreciation				
Easement	1,250.00	-	-	1,250.00
Water Rights	12,750.25	2,125.25	-	14,875.50
Total	<u>14,000.25</u>	<u>2,125.25</u>	<u>-</u>	<u>16,125.50</u>
Net Amortizable Assets	72,249.75	(2,125.25)	-	70,124.50
Net Capital Assets	\$ 110,682.20	\$ 1,434.27	\$ -	\$ 112,116.47

Note 4 – Debt

The District had no outstanding debt on September 30, 2016

**Independent Auditor's Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters Base on an
Audit of Financial Statements Preformed in Accordance with *Government Auditing Standards***

Rural Water District No. 3, Kingfisher County, Oklahoma
Board of Directors
Kingfisher, 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 operating activities of Rural Water District No. 3, Kingfisher County, Oklahoma as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise Rural Water District No. 3, Kingfisher County, Oklahoma's basic financial statements and have issued my report thereon dated December 29, 2016. The District did not present the Management's Discussion and Analysis required by the Government Auditing Standards Board.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Rural Water District No. 3, Kingfisher 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 my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rural Water District No. 3, Kingfisher County, Oklahoma's internal control. Accordingly, I do not express an opinion on the effectiveness of Rural Water District No. 3, Kingfisher County, Oklahoma's internal control.

My consideration of internal control was for the 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 responses, I identified certain deficiencies in internal control that I consider to be material weaknesses and significant deficiencies.

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 a 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. I consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness. 2016-01.

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. I consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water District No. 3, Kingfisher County, Oklahoma's financial statements are free from 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*.

Rural Water District No. 3, Kingfisher County, Oklahoma's Response to Findings

Rural Water District No. 3, Kingfisher County, Oklahoma's response to the findings identified in my audit is described in the accompanying schedule of findings and responses. Rural Water District No. 3, Kingfisher County, Oklahoma's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

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.


Linda S Woodruff CPA, PC

Oklahoma City, Oklahoma 73172-1578
December 29, 2016

Rural Water District No. 3, Kingfisher County, Oklahoma
Schedule of Findings and Responses
for the year ended September 30, 2016

2016-01. Internal Control

Condition: An adequate internal control structure does not exist because of the small size of the entity nor is there adequate segregation of duties.

Criteria: Internal controls should be in place that provide reasonable assurance that any one individual or family does not have control over several of the financial functions of the District.

Effect: Because of the inadequate segregation of duties, an opportunity exists for an employee to alter record keeping.

Recommendation: I recommend that the District strive to implement more segregation of duties where possible and utilize compensating procedures where applicable.

Response: The Rural Water District No. 3, Kingfisher County, Oklahoma Board concurs with the recommendation although, the cost to correct this might exceed the benefit.