

RURAL WATER DISTRICT NO. 3
OKMULGEE COUNTY, OKLAHOMA
HENRYETTA, OKLAHOMA
ANNUAL FINANCIAL REPORT
DECEMBER 31, 2015 AND 2014

RALPH OSBORN
CERTIFIED PUBLIC ACCOUNTANT
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INDEPENDENT AUDITORS' REPORT

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

I have audited the accompanying modified cash basis financial statements of Rural Water District No. 3, Okmulgee County, Oklahoma, Henryetta, Oklahoma, as of and for the year ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Rural Water District No. 3, Okmulgee County, Oklahoma, Henryetta, Oklahoma's basic 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 described in Note A; this includes determining that the modified cash basis of accounting is an acceptable basis for the presentation 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion 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 of material misstatement.

An audit includes performing procedures to obtain audit evidence about amounts and disclosures in the financial statements, whether due to fraud or error. 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 modified cash basis financial position of Rural Water District No. 3, Okmulgee County, Oklahoma, Henryetta, Oklahoma as of December 31, 2015 and 2014, and the respective changes in modified cash basis financial position and cash flows thereof for the year ended in conformity with the modified cash basis of accounting described in Note A.

Basis of Accounting

We draw attention to Note A of the financial statements, which 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 Information

Rural Water District No. 3, Okmulgee County, Oklahoma, Henryetta, Oklahoma has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statement.

In accordance with *Government Auditing Standards*, I have also issued my report dated March 10, 2017, on my consideration of Rural Water District No. 3, Okmulgee County, Oklahoma, Henryetta, Oklahoma's internal control over financial reporting and 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 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 considered in assessing the results of my audit.



Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
March 10, 2017

RURAL WATER DISTRICT NO. 3
OKMULGEE COUNTY, OKLAHOMA
HENRYETTA, OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
DECEMBER 31, 2015 AND 2014

ASSETS

	<u>2015</u>	<u>2014</u>
Current assets:		
Cash and cash equivalents	\$ 85,721	\$ 84,245
Investments	<u>59,966</u>	<u>59,637</u>
Total current assets	<u>145,687</u>	<u>143,882</u>
Non-current assets:		
Capital assets:		
Other capital assets, net of accumulated depreciation	<u>12,800</u>	<u>14,540</u>
Total non-current assets	<u>12,800</u>	<u>14,540</u>
Total assets	<u>158,487</u>	<u>158,422</u>

NET POSITION

Invested in capital assets, net of related debt	12,800	14,540
Unrestricted	<u>145,687</u>	<u>143,882</u>
Net position	<u>\$ 158,487</u>	<u>\$ 158,422</u>

See accompanying notes to financial statements.

RURAL WATER DISTRICT NO. 3
OKMULGEE COUNTY, OKLAHOMA
HENRYETTA, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<u>OPERATING REVENUES</u>		
Charges for services:		
Water Sales	\$ 40,934	\$ 40,591
Tap Fees	<u>1,165</u>	<u>1,270</u>
Total operating revenues	<u>42,099</u>	<u>41,861</u>
<u>OPERATING EXPENSES</u>		
Water Purchases	23,213	15,063
Contract Services	4,485	5,007
Bookkeeping	4,800	4,800
Office Supplies & Postage	1,186	656
Bank Charges	65	75
Insurance	927	927
Professional Fees	1,600	4,800
Membership Dues	-	111
Water Testing	2,053	3,392
Rent	600	600
Utilities	520	200
Repairs & Maintenance	79	2,942
Travel	992	1,281
Box Rent	103	95
Depreciation	<u>1,740</u>	<u>1,740</u>
Total operating expenses	<u>42,363</u>	<u>41,689</u>
Operating income (loss)	<u>(264)</u>	<u>172</u>
<u>NON-OPERATING REVENUE (EXPENSES)</u>		
Investment income	<u>329</u>	<u>327</u>
Total non-operating revenue (expenses)	<u>329</u>	<u>327</u>
Net income (loss)	65	499
Total net position, beginning	<u>158,422</u>	<u>157,923</u>
Total net position, ending	<u>\$ 158,487</u>	<u>\$ 158,422</u>

See accompanying notes to financial statements.

RURAL WATER DISTRICT NO. 3
OKMULGEE COUNTY, OKLAHOMA
HENRYETTA, OKLAHOMA
STATEMENT OF CASH FLOWS-MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Cash received from water sales	\$ 42,099	\$ 41,861
Cash payments to suppliers	(29,738)	(25,342)
Cash payments for services	(10,885)	(14,607)
Net cash provided (used) by operating activities	<u>1,476</u>	<u>1,912</u>
Cash flows from capital and related activities		
Increase in Reserve Fund	<u>(329)</u>	<u>(327)</u>
Net cash used for capital and related activities	<u>(329)</u>	<u>(327)</u>
Cash flows from investing activities		
Interest revenue	<u>329</u>	<u>327</u>
Net cash used for investing activities	<u>329</u>	<u>327</u>
Net increase (decrease) in cash and cash equivalents	1,476	1,912
Cash and cash equivalents, beginning	<u>84,245</u>	<u>82,333</u>
Cash and cash equivalents, ending	<u>\$ 85,721</u>	<u>\$ 84,245</u>
Reconciliation of operating income (loss) to net cash provided by (used) by operating activities		
Operating income (loss)	\$ (264)	\$ 172
Adjustments to reconcile operating income to net cash used by operating activities:		
Changes in assets and liabilities:		
Depreciation	<u>1,740</u>	<u>1,740</u>
Net cash provided by operating activities	<u>\$ 1,476</u>	<u>\$ 1,912</u>

See accompanying notes to financial statements.

RURAL WATER DISTRICT NO. 3
OKMULGEE COUNTY, OKLAHOMA
HENRYETTA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rural Water District No. 3, Okmulgee County, Oklahoma, (the "District") was created March 28, 1966 by the Board of County Commissioners of Okmulgee County, Oklahoma under the provisions of the Rural Water District Act (Title 82 Oklahoma Statutes, Sections 1324.1 et. seq). The District is managed by a Board of Directors. Members of the board are elected by the membership of the District at its annual meeting. Membership in the District is attained by paying membership dues and receiving services from the District. The activities of the District constitute the entire reporting entity. There are no other component or oversight units. The District is a political subdivision of the state of Oklahoma.

Government-Wide and Fund Financial Statements

The District is a special purpose governmental entity engaged only in business type activities. The District prepares financial statements required for enterprise funds.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

In the financial statements business-like activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or non-current, financial, or non-financial) associated with their activities are reported. Fund equity is classified as net position.

Basis of Accounting

In the financial statements, business-like activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net position/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this 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. If the District utilized the basis of accounting recognized as generally accepted, the financial statements would use the accrual basis of accounting.

RURAL WATER DISTRICT NO. 3
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NOTES TO FINANCIAL STATEMENTS
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FUND TYPES AND MAJOR FUNDS

The District reports all activity within a single fund.

Investments

The District follows Governmental Accounting Standards Board (GASB) Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which requires marketable securities to be carried at fair value. The District considers highly liquid investments with a maturity of 3 months or less when purchased to be cash equivalents. The investment reported is certificates of deposit.

Capital Assets, Depreciation, and Amortization

The District's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost or at estimated historical cost for those items not previously reported. The District maintains infrastructure assets records consistent with all other capital assets. Donated assets are stated at fair value on the date donated. The cost of normal maintenance and repairs that do not add to the assets value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are moved from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follow:

Buildings	5-60
Improvements, other than buildings	2-50
Mobile equipment	3-40
Furniture , machinery, and equipment	3-30
Utility system	5-60

Compensated Absences

The District does not currently have any employees. Therefore, the District has not accrued any vacation, sick leave, or other compensated absences.

Reserves and Designations

Reserves represent those portions of fund balance not available for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

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Use of Estimates

The preparation of financial statements in conformity with the modified cash basis requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Custodial Credit Risk

Custodial credit risk is the risk that in the event of failure of counterparty, the District will not be able to recover the value of its deposits or investments. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Investment securities are exposed to custodial credit risk if they are uninsured, are not registered in the name of the District, and are held by counterparty or the counterparty's trust department but not in the name of the District. The District's policy requires that all deposits and investments in excess of amounts covered by federal deposit insurance be fully collateralized by the entity holding the deposits or investments. As of December 31, 2015, all of the District's deposits and investments were either covered by federal deposit insurance or were fully collateralized.

Deposits

The District had deposits at financial institutions with a carrying amount of approximately \$145,687 at December 31, 2015. The bank balance of the deposits at December 31, 2015 was approximately \$145,545.

The District had deposits at financial institutions with a carrying amount of approximately \$143,882 at December 31, 2014. The bank balance of the deposits at December 31, 2014 was approximately \$143,882.

Credit Risk

Fixed-income securities are subject to credit risk. However, the District did not have fixed income securities at December 31, 2015.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board of Directors monitors the investment performance on an ongoing basis to limit the District's interest rate risk. As of December 31, 2015, the District's deposits consisted of demand deposits and certificates of deposit with a maturity of 12 months or less.

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NOTE C - DESIGNATED CASH AND CASH EQUIVALENTS

At December 31, 2015, designated cash consisted of two certificate of deposits held at First National Bank, Henryetta in the amount of \$34,690 and \$25,276. The designated cash consists of money designated for repairs of the system.

At December 31, 2014, designated cash consisted of one certificate of deposit held at First National Bank, Henryetta in the amount of \$34,499 and \$25,138. The designated cash consists of money designated for repairs of the system.

NOTE D - CAPITAL ASSETS

The following table provides a summary of changes in capital assets in 2015:

	CAPITAL ASSETS, DEPRECIATED			
	Infrastructure & Improvements Other Than Buildings	Furniture, Machinery, And Equipment	Totals	
PRIMARY GOVERNMENT				
Business-type activities				
Balance, Dec. 31, 2014	\$ -	\$ 63,664	\$ 4,018	\$ 67,682
Increases	-	-	-	-
Decreases	-	-	-	-
Balance, Dec. 31, 2015	-	63,664	4,018	67,682
Accumulated Depreciation				
Balance, Dec. 31, 2014	-	49,880	3,262	53,142
Increase	-	1,561	179	1,740
Decreases	-	-	-	-
Balance, Dec. 31, 2015	-	51,441	3,441	54,882
Business-type Activities				
Capital Assets, Net	<u>\$ -</u>	<u>\$ 12,223</u>	<u>\$ 577</u>	<u>\$ 12,800</u>

The following table provides a summary of changes in capital assets in 2014:

	CAPITAL ASSETS, DEPRECIATED			
	Infrastructure & Improvements Other Than Buildings	Furniture, Machinery, And Equipment	Totals	
PRIMARY GOVERNMENT				
Business-type activities				
Balance, Dec. 31, 2013	\$ -	\$ 63,664	\$ 3,124	\$ 66,788
Increases	-	-	894	894
Decreases	-	-	-	-
Balance, Dec. 31, 2014	-	63,664	4,018	67,682
Accumulated Depreciation				
Balance, Dec. 31, 2013	-	48,319	3,083	51,402
Increase	-	1,561	179	1,740
Decreases	-	-	-	-
Balance, Dec. 31, 2014	-	49,880	3,262	53,142
Business-type Activities				
Capital Assets, Net	<u>\$ -</u>	<u>\$ 13,784</u>	<u>\$ 756</u>	<u>\$ 14,540</u>

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NOTE E - NOTES PAYABLE PROPRIETARY FUND

The District does not have outstanding long-term debt.

NOTE F - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District carries commercial insurance for risk of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past 3 fiscal years.

NOTE G - EVALUATION OF SUBSEQUENT EVENTS

The District has evaluated subsequent events through March 10, 2017, the date which the financial statements were available to be issued. The District does not believe there are any events requiring disclosure.

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

To the Board of Directors
Rural Water District No. 3
Okmulgee County, Oklahoma,
Henryetta, 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 *Governmental Auditing Standards* issued by the Comptroller General of the United States, the modified cash basis financial statements of Rural Water District No. 3, Okmulgee County, Oklahoma, Henryetta, Oklahoma, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise Rural Water District No. 3, Okmulgee County, Oklahoma, Henryetta, Oklahoma's basic financial statements, and have issued my report thereon dated March 10, 2017 which did not include Management's Discussion and Analysis.

Internal Control over Financial Reporting

In planning and performing my audit of the modified cash basis financial statements, I considered Rural Water District No. 3, Okmulgee County, Oklahoma, Henryetta, 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, Okmulgee County, Oklahoma, Henryetta, Oklahoma's internal control. Accordingly, I do not express an opinion on the effectiveness of Rural Water District No. 3, Okmulgee County, Oklahoma, Henryetta, 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 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. 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting 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 Rural Water District No. 3, Okmulgee County, Oklahoma, Henryetta, Oklahoma'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 our 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.

Sincerely,



Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
March 10, 2017