

RURAL WATER DISTRICT NO. 3
Washington County, Oklahoma

FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

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RURAL WATER DISTRICT NO. 3
Washington County, Oklahoma

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Washington County Rural Water District No. 3 as of and for the years ended December 31, 2017 and 2016, 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

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we 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, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our 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, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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. We 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 our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We 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*, we have also issued our report dated April 30, 2018, on our consideration of Washington County Rural Water District No. 3's, internal control over financial reporting and on our 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 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.

Handwritten signature of Bruce G. Luttrell in black ink, followed by the text "CPA, PC".

Bruce G. Luttrell, CPA, PC

April 30, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

**Washington County Rural Water District No. 3
Management's Discussion and Analysis Report
For Fiscal Year 2017
(Ended December 31, 2017)**

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 prepared by the District's Auditor. Also note that the currency amounts presented herein have been rounded to the nearest dollar.

Financial Highlights

- The amount of water sold in FY '17 (691,596,086 gallons) decreased by approximately 1.8 percent when compared to the previous year (sold 704,334,019 gallons in FY '16).
- Revenues from the sale of water accounted for 75.6 percent of all revenues. The total revenue from water sales increased by approximately 1.4 percent when compared to FY '16.
- The District expended approximately \$ 427,000 on new infrastructure during the year.
- The District improved its position with regard to total liabilities by decreasing their value by \$ 438,220 when compared to FY '16. Total equity increased by approximately \$ 1,259,000.
- 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 '17 audit were 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

	12/31/17	12/31/16	Dollar Change	Percent Change
Current and Other Assets	\$ 6,144,820	\$ 5,556,381	\$ 588,439	10.6
Capital Assets	\$33,266,138	\$33,045,319	\$ 220,819	0.7
Total Assets	\$39,410,658	\$38,601,700	\$ 809,258	2.1
Current Liabilities	\$ 674,538	\$ 630,139	\$ 44,399	7.0
Long-Term Liabilities	\$17,276,736	\$17,770,991	\$ (494,255)	(2.8)
Total Liabilities	\$17,951,274	\$18,401,130	\$ (449,856)	(2.4)
Net Assets invested in capital assets, net of related debt	\$15,535,837	\$14,876,798	\$ 659,039	4.4
Restricted for debt service	\$ 689,516	\$ 727,028	\$ (37,512)	(5.2)
Unrestricted net assets	\$ 5,234,331	\$ 4,596,744	\$ 637,587	13.9
Total Net Assets	\$21,459,684	\$20,200,570	\$ 1,259,114	6.2

Condensed Statement of Activities

	12/31/17	12/31/16	Dollar Change	Percent Change
Operating Revenues	\$ 5,161,208	\$ 5,065,949	\$ 95,259	1.9
Non-operating Revenues	\$ 1,322,053	\$ 2,123,038	\$ (800,985)	(37.7)
Total Revenues	\$ 6,483,261	\$ 7,188,987	\$ (705,726)	(9.8)
Depreciation Expense	\$ 1,181,703	\$ 1,163,172	\$ 18,531	1.6
Other Operating Expenses	\$ 4,042,444	\$ 4,098,971	\$ (56,527)	(1.4)
Total Expenses	\$ 5,224,147	\$ 5,262,143	\$ (38,006)	(0.7)
Change in Net Assets	\$ 1,259,114	\$ 1,926,844	\$ (667,730)	(34.7)
Beginning Net Assets	\$20,200,570	\$18,273,726	\$ 1,926,844	10.5
Ending Net Assets	\$21,459,684	\$20,200,570	\$ 1,259,114	6.2

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 327 new benefit units (i.e., water meters) were sold compared to a total of 351 sold in FY '16. The District sold 691,596,086 gallons of water, which represents an approximate decrease of 1.8 percent from FY '16 likely the result of a milder year in FY '17. The decrease in year-over-year benefit unit sales is likely the result of a minor fluctuation in the housing market compared to the previous year.

Statements of Net Assets:

Total Net Assets - The *Statement of Net Assets* shows that the District's total net assets actually increased by \$ 1,259,114 when compared with FY '16. This increase represents 6.2 % in our total net assets. Although current assets (i.e., cash) increased by \$ 38,439, the District's fixed assets (i.e., land, equipment and infrastructure) actually increased by \$ 220,819 and the District's investments increased by \$ 550,000.

On the second page of the *Statement of Net Assets* we see that the District improved its position with regard to total (i.e., current and long term) liabilities by decreasing their value by \$ 438,220 when compared to FY '16. This decrease occurred primarily in the category of long term liabilities. Total equity increased by approximately \$ 1,259,000.

Statement of Revenues, Expenditures and Changes in Fund Assets:

Reviewing the *Statement of Revenues, Expenditures and Changes in Fund Assets* we can see that the District's change in net assets was \$ 1,259,114. This compares unfavorably to the net change in net assets of \$ 1,926,844 experienced in FY '16.

Revenues – The District's total operating revenues for FY '17 were \$ 5,161,208. This represents an increase of approximately \$ 95,000 or 1.9 percent over FY '16. Approximately 75.6 percent of our revenues (i.e. \$ 4,903,729) were derived from sale of water services.

Approximately 5.0 percent of revenues (\$ 326,000) came from membership fees. Revenues from these items were down 7.2 percent over FY '16.

Expenses - The District's total operating expenses were \$ 5,224,147. Excluding depreciation and amortization the total operating expenses are reduced to \$ 4,042,444. This represents an approximate decrease of \$ 56,527 or 1.4 percent over FY '16.

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 \$ 90,257.

Annual Budget

As required by the District's By-Laws, an Annual Budget was prepared by the District Manager for FY '17. 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 '17 Annual Budget was reviewed and approved by the Board during the Board meeting held on March 13, 2017.

Debt Administration:

The remaining balance for all promissory notes (i.e., loans) at the beginning of the year was \$ 18,168,521. No new loans were acquired during 2017 and all scheduled loan and interest payments through December 31, 2017 were made on time. The District reduced its principal on outstanding loans by \$ 438,220. The balance remaining on all outstanding loans is \$ 17,730,301. The sinking fund for the District's loans is fully funded.

Highlights of Other Critical Information:

- In Fiscal Year 2017 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.
- In Fiscal Year 2017 the District continued sampling for the EPA required Long Term 2 Surface Water Treatment Rule.
- In Fiscal Year 2017 the District continues sampling for the EPA required Total Coliform Rule.
- Caney River Raw Water Supply Project
 - Legal action filed by the Contractor against the District is in progress.
- Legal Action by Design Engineer of WTP Expansion Project – Formal legal action continued against the District in 2017 by the design engineer for additional fees.
- Water Resources Master Planning – We continue work on a new master plan for the District.
- Oologah Raw Water Line – The District worked with AEP/PSO towards finalizing the easement agreement with AEP/PSO Oologah Power Station.
- 12-inch Water Line Relocation – The District relocated a portion of 12-inch water line located along 129th Street south of 126th Street North.
- The District worked with ODOT to complete water line relocation plans for water lines along Highway 11. We also began plan development for three (3) miles of water line relocation along Highway 20.
- The District worked with Owasso on development of water line relocation plans in the following locations:
 - Intersection of 106th and 145th
 - Intersection of 116th and 129th
 - Roadway widening along 116th Street from Garnett to Highway 169
 - 135th Street Access Road between 106th and 116th Street North
 - 140th Street Access Road south of 106th Street North
- The District worked with Tulsa County to complete water line relocation plans at the intersection of 86th Street North and Sheridan.

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 debts were decreased by \$ 438,220. We ended the year with more cash and investments (i.e. \$ 602,745) than we started with.

Looking Forward – As we look forward to Fiscal Year 2018 we anticipate our growth to be the same or slightly greater than that which was experienced in FY '17. We also anticipate progress on the following major capital projects:

- Water Treatment Plant (WTP) 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 Resources Master Plan – We will continue to work on the water resources master plan in 2018. This master plan will identify future capital needs with emphasis on priority.
- Future Water Lines – The District is planning:
 - To continue to work with AEP/PSO to complete the balance of work remaining on this project (i.e., easement).
 - 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.
 - Washington County - To develop water line relocation plans for existing water lines at Bevan Creek along Memorial north of Vera.
 - Washington County - To develop water line relocation plans for existing water lines at Green Lake.
 - Tulsa County - The District will work with Tulsa County to complete the construction of the relocation work in 2018. We anticipate beginning the development of relocation plans going East and West from the intersection of 86th Street North and Sheridan.
 - 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 Highway 169 and Garnett.
 - Water line extension and relocations along new access roads adjacent to Highway 169 (i.e., 135th and 140th Street Access Road Projects)
 - The District will work with Developers on the following:
 - To relocate and increase size of existing water lines along 106th Street North near the new Abbott Farms development.
- Water Quality Regulations
 - Long Term 2 Surface Water Treatment Rule (LT2) – Testing will continue for the second phase of the LT2 regulations in the 2018.
 - S.O.C. sampling as mandated by the EPA/ODEQ will begin in 2018.

FINANCIAL STATEMENTS

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

**STATEMENTS OF NET POSITION
DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
ASSETS		
Current assets:		
Cash	\$ 917,973	\$ 827,716
Restricted cash (Note 7)	689,516	727,028
Investments	3,700,000	3,150,000
Accounts receivable	493,767	499,066
Accrued interest receivable	1,129	481
Inventory	277,626	284,558
Prepaid insurance	64,809	67,532
Total current assets	<u>6,144,820</u>	<u>5,556,381</u>
Noncurrent assets:		
Other assets:		
Capital assets:		
Building & land	377,751	307,638
Machinery & tools	375,659	375,659
Automotive equipment	398,780	340,778
Furniture & fixtures	116,212	116,212
Lab equipment	40,706	40,706
Water treatment & distribution system	46,368,908	45,094,501
Less accumulated depreciation	<u>(14,411,878)</u>	<u>(13,230,175)</u>
Total capital assets	<u>33,266,138</u>	<u>33,045,319</u>
Total Assets	<u>\$ 39,410,958</u>	<u>\$ 38,601,700</u>

The accompanying notes to the financial

	<u>2017</u>	<u>2016</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 78,795	\$ 88,246
Accrued interest payable	142,178	144,363
Current portion of long-term debt (Note 2)	453,565	397,530
Total current liabilities	<u>674,538</u>	<u>630,139</u>
 Noncurrent liabilities:		
Notes payable (Note 2)	17,730,301	18,168,521
Less: current portion	<u>(453,565)</u>	<u>(397,530)</u>
Total noncurrent liabilities	<u>17,276,736</u>	<u>17,770,991</u>
 Total Liabilities	<u>17,951,274</u>	<u>18,401,130</u>
 NET POSITION		
Invested in capital assets, net of related debt	15,535,837	14,876,798
Restricted for debt service	689,516	727,028
Unrestricted	<u>5,234,331</u>	<u>4,596,744</u>
 Total Net Position	<u>\$ 21,459,684</u>	<u>\$ 20,200,570</u>

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, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Operating revenues:		
Water sales (net of adjustments)	\$ 4,903,729	\$ 4,837,880
Penalties, fees, service charges and miscellaneous	257,479	228,069
Total operating revenues	<u>5,161,208</u>	<u>5,065,949</u>
Operating expenses:		
Salaries, wages & contract labor	921,302	856,709
Payroll taxes	73,247	67,534
Employee benefits	234,389	247,705
Utilities	361,669	362,748
Telephone	13,885	13,367
Equipment expense	7,903	19,336
Depreciation	1,181,703	1,163,172
Interest expense	657,874	673,024
Vehicle expense	50,964	34,429
Building, vehicle & other insurance	131,988	135,090
Plant repair & maintenance	57,348	118,324
Chemicals	831,570	666,215
Travel, entertainment & miscellaneous	40,879	39,250
Licenses & fees	48,235	33,445
Plant supplies	235,555	371,194
Water purchased	5,232	8,169
Office expense & postage	77,664	79,177
Professional fees	292,740	373,255
Total operating expenses	<u>5,224,147</u>	<u>5,262,143</u>
Net operating income	<u>(62,939)</u>	<u>(196,194)</u>
Nonoperating revenue (expense)		
New benefit units	326,000	351,500
Contribution of developments	975,567	1,767,642
Interest income	20,986	14,384
Gain on sale of assets	-	(9,988)
Trustee fee	(500)	(500)
Total nonoperating revenue (expense)	<u>1,322,053</u>	<u>2,123,038</u>
Change in net position	1,259,114	1,926,844
Net position beginning of year	<u>20,200,570</u>	<u>18,273,726</u>
Net position end of year	<u>\$ 21,459,684</u>	<u>\$ 20,200,570</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, 2017 AND 2016**

	2017	2016
Cash flows from operating activities:		
Receipts from customers	\$ 5,166,507	\$ 5,018,067
Payments to suppliers	(3,126,430)	(3,251,003)
Payments to employees	(918,643)	(848,030)
Net cash provided (used) by operating activities	<u>1,121,434</u>	<u>919,034</u>
Cash flows from noncapital financing activities:		
Transfers from (to) investments	-	-
Transfers from (to) restricted cash and investments	(512,488)	(396,854)
Trustee fee	(500)	(500)
Net cash provided (used) by noncapital financing activities	<u>(512,988)</u>	<u>(397,354)</u>
Cash flows from capital and related financing activities:		
New benefit units	326,000	351,500
Purchase of capital assets	(426,955)	(1,113,713)
Principal paid on capital debt	(438,220)	(421,107)
Issue new capital debt	-	555,562
Sales and trade assets	-	(29,743)
Net cash provided (used) by capital and related financing activities	<u>(539,175)</u>	<u>(657,501)</u>
Cash flows from investing activities:		
Interest income	<u>20,986</u>	<u>14,384</u>
Net increase (decrease) in cash and cash equivalents	90,257	(121,437)
Cash balance beginning of year	<u>827,716</u>	<u>949,153</u>
Cash balance end of year	<u><u>\$ 917,973</u></u>	<u><u>\$ 827,716</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (62,939)	\$ (196,194)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Cash flows reported in other categories:		
Depreciation expense	1,181,703	1,163,172
Amortization	-	-
Change in assets and liabilities:		
Accounts receivable	5,299	(47,882)
Accrued interest receivable	(648)	12
Inventory	6,932	1,965
Prepaid insurance	2,723	(13,585)
Accounts payable	(9,451)	9,103
Accrued interest payable	(2,185)	2,443
Net cash provided by operating activities	<u><u>\$ 1,121,434</u></u>	<u><u>\$ 919,034</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, 2017

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, 2017 and 2016, financial statements at \$ 277,626 and \$ 284,558, 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, 2017

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, 2017, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Rtmts</u>	<u>Transfers</u>	<u>Ending Balance</u>
Building & Land	\$ 307,638	70,113			\$ 377,751
Machinery & Tools	375,659				375,659
Automotive	340,778	58,002			398,780
Furniture, Fixtures & Equipment	116,212				116,212
Lab Equipment	40,706				40,706
Water Treatment & Distribution System	<u>45,094,501</u>	<u>1,274,407</u>			<u>46,368,908</u>
Total	<u>\$ 46,275,494</u>	<u>1,402,522</u>	-	-	<u>\$ 47,678,016</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, 2017, \$ 4,856,561 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	\$ 4,856,561
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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, 2017

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, 2017, are as follows:

Type	Maturity (Months)	Credit Rating	Market Value	Cost
Cash Deposits	N/A	N/A	1,607,489	1,607,489
Investments				
Certificates of Deposit	12	N/A	3,700,000	3,700,000
Total Deposits and Investments			5,307,489	5,307,489

RURAL WATER DISTRICT NO. 3
Washington County, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

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, 2017, 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, 2017 and 2016, 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, 2017 and 2016.

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, 2017

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, 2017

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, 2017 and 2016, was \$ 4,213,600 and \$ 4,286,239, 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, 2017 and 2016, was \$ 239,435 and \$ 238,372, 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, 2017 and 2016, was approximately \$ 638,060 and \$ 667,310, 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, 2017 and 2016, the balances in the reserve accounts were \$ 67,286 and \$ 66,988, 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, 2017

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, 2017 and 2016, was \$ 12,878,641 and \$ 13,214,972, 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, 2017 and 2016.

C. CHANGES IN LONG-TERM DEBT

The following is a summary of changes in Long-term debt for the year ended December 31, 2017.

Loan	Jan. 1, 2017	Additions	Reductions	Dec. 31, 2017	Amount Due Within One Year
RECD Loan – 724,200	550,481		14,941	535,540	15,781
RECD Loan – 329,000	116,829		14,309	102,520	15,328
RUS Loan	4,286,239		72,639	4,213,600	74,118
OWRB Loan	13,214,972		336,331	12,878,641	348,338
Total	18,168,521	-	438,220	17,730,301	453,565

D. DEBT SERVICE REQUIREMENTS

The annual debt service requirements to maturity, including principal and interest, for the long-term debt as of December 31, 2017, is as follows:

RURAL WATER DISTRICT NO. 3
Washington County, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

NOTE 2: LONG-TERM DEBT (continued)

For the Year Ended December 31,	\$ 724,200 RECD Loan		\$ 329,000 RECD Loan		\$ 4,800,000 RUS Loan		OWRB Loan	
	Prin	Int	Prin	Int	Prin	Int	Prin	Int
2018	15,781	29,063	15,328	5,048	74,970	157,160	348,338	452,594
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
2023-2027	116,209	108,011	16,733	263	488,122	672,526	2,227,722	1,776,938
2028-2030	152,895	71,325	-	-	588,844	571,803	2,654,270	1,350,390
2033-2037	178,112	23,323	-	-	710,350	450,297	3,164,300	840,360
2038-2040	-	-	-	-	856,929	303,719	2,963,081	240,647
2043-2047	-	-	-	-	1,033,753	126,895	-	-
2048-2050	-	-	-	-	130,974	1,680	-	-
Totals	\$ 535,540	338,555	102,520	16,356	4,213,600	2,882,940	12,878,641	6,343,727

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, 2017, are summarized as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Carrying Value</u>
Unrestricted:			
Certificates of Deposit	\$ 3,700,000	3,700,000	3,700,000
	<u>\$ 3,700,000</u>	<u>3,700,000</u>	<u>3,700,000</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, 2017

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, 2017:

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, 2017

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, 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 at Fair Value as of December 31, 2016				
	Level 1	Level 2	Level 3	Total
Investments:				
Certificates of deposit	3,150,000			3,150,000
Total	3,150,000			3,150,000
Other assets:				
Accounts receivable			499,066	499,066
Inventory			284,558	284,558
Total	3,150,000	-	783,624	3,933,624

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, 2017

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, 2017 and 2016, as follows:

	<u>2017</u>	<u>2016</u>
RECD Reserve	\$ 46,267	\$ 46,061
RECD Reserve	21,019	20,926
RUS Reserve – Caney River	239,435	238,372
North Treatment Plant Project Fund	153	152
North Treatment Plant Construction Fund	133,680	187,625
North Treatment Plant Debt Service Fund	200,928	200,247
Interest Reserve	<u>48,034</u>	<u>33,645</u>
	<u>\$ 689,516</u>	<u>\$ 727,028</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 30, 2018, 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, 2017**

- 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	4,914,812	(94,377)
Memberships	340,000	340,000	326,000	(14,000)
Penalties, fees, service charges & misc	129,850	129,850	152,895	23,045
Total operating revenues	5,479,039	5,479,039	5,393,707	(85,332)
Operating Expenses:				
Salaries	957,200	957,200	918,002	39,198
Contract labor	23,000	23,000	3,300	19,700
Payroll taxes	77,800	77,800	73,247	4,553
Retirement	47,000	47,000	46,265	735
Automobile	115,000	115,000	50,964	64,036
Equipment expense	68,000	68,000	7,903	60,097
Chemicals	700,000	700,000	831,570	(131,570)
Subscriptions / License / Fees	45,000	45,000	51,383	(6,383)
Education	10,000	10,000	8,076	1,924
Supplies	540,000	540,000	235,555	304,445
Office expense	65,000	65,000	36,561	28,439
Postage	51,500	51,500	41,103	10,397
Professional fees	188,000	188,000	292,740	(104,740)
Line Extensions	350,000	350,000	28,534	321,466
Repair & maintenance	150,000	150,000	57,348	92,652
Telephone	14,000	14,000	13,885	115
Utilities	370,000	370,000	361,669	8,331
Travel	10,000	10,000	10,290	(290)
Uniforms	3,500	3,500	2,271	1,229
Water Purchased	20,000	20,000	5,232	14,768
Insurance	374,000	374,000	319,787	54,213
Taxes	50	50	50	-
Refunds	16,000	16,000	11,083	4,917
Total operating expenses	4,195,050	4,195,050	3,406,818	788,232
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)	(104,585)	4,585
Interest income	(15,000)	(15,000)	(20,986)	5,986
Total non-operating (income) expenses	1,023,280	1,023,280	994,542	28,738
Total Expenses	5,218,330	5,218,330	4,401,360	816,970
Ending Budgetary Balance	\$ 4,041,208	\$ 4,041,208	\$ 4,737,454	\$ 696,246

RURAL WATER DISTRICT NO. 3
Washington County, Oklahoma

NOTES TO BUDGETARY COMPARISON SCHEDULE
For the Year Ended December 31, 2017

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

**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

We 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 years ended December 31, 2017 and 2016, 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 our report thereon dated April 30, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we 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 our 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, we 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.

Our 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 our audit we did not identify any deficiencies in internal control that we 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, we 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 our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

Handwritten signature of Bruce G. Luttrell in black ink, followed by the text "CPA, PC".

Bruce G. Luttrell, CPA, PC

April 30, 2018