

**ROGERS COUNTY
RURAL WATER DISTRICT NO. 3**

Financial Statements
And
Independent Auditor's Report
For the Year Ended October 31, 2013

**ROGERS COUNTY
RURAL WATER DISTRICT NO. 3
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WINGARD, RAGSDALE & LANGLEY

CERTIFIED PUBLIC ACCOUNTANTS, PLLC

108 NORTH ADAIR STREET, PRYOR, OK 74361

918-825-6441 OFFICE

INDEPENDENT AUDITOR'S REPORT

The Honorable Chairman and Board of Directors
Rogers County Rural Water District #3
Claremore, OK 74017

We have audited the accompanying financial statements of Rogers County Rural Water District #3 of Claremore, Oklahoma, as of and for the year ended October 31, 2013, 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

Our responsibility is to express an opinion 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 the 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.

OPINION

In our opinion, the financial statements, referred to above, present fairly, in all material respects, the respective financial position of the Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flows, which collectively comprise the basic financial statements of the Rogers County Rural Water District No. 3, as of October 31, 2013, thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Management has not presented the management's discussion and analysis that governmental accounting principles generally accepted in the United States of America require to be presented, to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report, dated February 7, 2014, on our consideration of Rogers 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 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*, in considering Rogers County Rural Water District No. 3's internal control over financial reporting, and compliance.

Sincerely,

A handwritten signature in cursive script that reads "Wingard, Ragsdale & Langley, CPAs, PLLC".

WINGARD, RAGSDALE & LANGLEY
CERTIFIED PUBLIC ACCOUNTANTS, PLLC
PRYOR, OKLAHOMA

February 7, 2014

**ROGERS COUNTY
RURAL WATER DISTRICT NO. 3
STATEMENT OF NET POSITION
FOR THE YEAR ENDING OCTOBER 31, 2013**

Assets

Current assets

Cash and cash equivalents	\$ 2,890,361
Accounts receivable	261,767
Grant receivable	99,950
Prepaid insurance	36,925
Inventory	<u>34,135</u>

Total current assets 3,323,138

Non-current assets

Cash restricted	214,844
Capital assets (net)	<u>17,772,467</u>

Total restricted assets 17,987,311

Total assets \$21,310,449

Liabilities and Net Position

Current liabilities

Accounts payable	396,466
Accrued payroll and liabilities	25,017
Notes payable	<u>248,761</u>

Total current liabilities 670,244

Long-term liabilities

Long-term notes payable	<u>5,984,730</u>
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Total long-term liabilities 6,654,974

Net Position

Investment in capital assets, net of debt	11,538,976
Restricted Net Position	314,794
Unrestricted Net Position	<u>2,801,705</u>

Total Net Position 14,655,475

Total liabilities and Net Position \$21,310,449

**ROGERS COUNTY
RURAL WATER DISTRICT NO. 3
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
FOR THE YEAR ENDING OCTOBER 31, 2013**

Support and Revenue	
Water income	\$ 4,300,335
Miscellaneous income	37,773
Late fees and penalties	49,841
Sewer income	40,989
Grant income	<u>319,900</u>
Total support and revenue	<u>4,748,838</u>
Expenses	
Water purchases	1,800,339
Salaries and benefits	999,977
Chemicals	188,266
Operating supplies	97,663
Utilities	135,871
Repairs and maintenance	142,586
Office expense	36,578
Vehicle and travel expense	36,174
Insurance	64,121
Professional fees	172,492
Postage	49,632
Bank and trustee fees	25,787
Service charges	3,023
Miscellaneous	53,395
Depreciation/amortization	<u>606,987</u>
Total expenses	<u>4,412,891</u>
Total operating income	<u>335,947</u>
Non-operating revenue (expense)	
Interest expense	(182,507)
Interest income	<u>31,160</u>
Total non-operating revenue	<u>(151,347)</u>
Increase (decrease) in Net Position before capital contribution	<u>184,600</u>
Capital contributions	
Membership (tap) sales	<u>249,303</u>
Increase (decrease) in Net Position	433,903
Net Position, beginning of year	<u>14,221,572</u>
Net Position, end of year	<u>\$14,655,475</u>

**ROGERS COUNTY
RURAL WATER DISTRICT NO. 3
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDING OCTOBER 31, 2013**

Cash flows from operating activities	
Receipts from customers and users	\$ 4,718,083
Receipts from grantors	399,950
Receipts from interest	31,160
Payments to suppliers	(3,033,228)
Payments to employees	<u>(994,501)</u>
Net cash provided by (used in) operating activities	<u>1,121,464</u>
Cash flows from capital and related financing activities	
Purchase of property and equipment	(1,630,205)
Cash paid for interest	(182,507)
Net proceeds from debt issuance/payments	<u>1,056,345</u>
Net cash used in investing activities	(756,367)
Net increase in cash	365,097
Cash and cash equivalents, beginning of year	<u>2,740,108</u>
Cash and cash equivalents, end of year	<u>\$3,105,205</u>
Reconciliation of operating income (loss) to net cash provided (used in) operating activities:	
Change in Net Position	433,903
Adjustments to reconcile change in Net Position to net cash used In operating activities:	
Depreciation and amortization expense	606,987
Change in operating assets/liabilities	
Decrease in receivables	119,892
Increase in inventory	(1,801)
Decrease in prepaid expenses	4,232
Increase in accounts payable and accrued expenses	(224,256)
Interest paid for financing	<u>182,507</u>
Net cash provided by (used in) operating activities	<u>\$ 1,121,464</u>

ROGERS COUNTY RURAL WATER DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENT
OCTOBER 31, 2013

Note 1 – Nature of Organization

The Rogers County Rural Water District No. 3 (the District) is a non-profit governmental organization. Its purpose is to process and provide for the use and benefit of its members a water processing and distribution system, including physical facilities necessary for its operations and maintenance. The District was organized by the Board of County Commissioners of Rogers County, Oklahoma. District members fall within territorial boundaries within Rogers, Tulsa and Mayes Counties as assigned by the Board of County Commissioners of Rogers County, Oklahoma.

Note 2 – Summary of Significant Accounting Policies

Basis of Accounting

The District's fund is an enterprise fund. Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. The activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

The proprietary funds utilize an "economic resources" measurement focus. 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 noncurrent) associated with their activities are reported. Proprietary fund equity is classified as Net Position.

All proprietary funds utilize the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. The District applies all Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, and the Accounting Principles Board (APB) of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date, and reported revenues and expenses during the reporting period. Estimates are used to determine depreciation expense, the allowance for doubtful accounts and certain claims and judgment liabilities among other amounts. Actual results may differ from those estimates.

The District adopts annual operations and capital budgets. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. The current operating budget details the District's plans to earn and expend funds for charges incurred for operation, maintenance, certain interest and general functions, and other charges for the fiscal year. The capital budget details the plan to receive and expend cash basis capital contribution fees, special assessments, grants, borrowings and certain revenues for capital projects.

All unexpensed and unencumbered appropriations in the operating budget lapse at the end of the fiscal year. No appropriation for a capital project in the capital budget lapses until the purpose for which the appropriation was made has been accomplished or abandoned.

The Board of Directors adopts a budget at the meeting prior to the beginning of the new fiscal year. Actual revenues and expenditures are monitored and compared with the budget during the year. Significant variations from budgeted amounts are researched and the board is informed of the results.

Cash and Cash Equivalents

Cash and cash equivalents, for purposes of the statement of cash flows, include restricted and unrestricted cash on hand or on deposit, interest in State Treasurer's Pool, certificates of deposit, repurchase agreements and investments with a maturity of three months or less.

Investments are reported at their fair market value. The District is permitted to invest in certificates of deposit and United States general obligations. Banks must guarantee all District funds they hold with specified securities the bank owns for cumulative amounts exceeding the \$250,000 FDIC guarantee.

Restricted Assets

Restricted assets represent cash, investments and receivables maintained in accordance with bond resolutions, loan agreements, grant awards, and other resolutions and formal actions of the District or by agreement for the purpose of funding certain debt service payments, depreciation and contingency activities and improvements and extensions to the water system.

Receivables and Payables

Customer receivables represent service fees earned, but not yet collected. Service billings at the end of the year are made and the revenues recorded through year end.

Inventories

Inventories consist of construction materials, repair parts and chemicals. Materials and supplies are stated at cost.

Capital Assets

Property, plant and equipment in service and construction in progress are recorded at cost, if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value, if applicable, or at engineers' fair market value or cost to construct at the date of contribution. Internal engineering costs are capitalized to the extent of direct support and contribution to construct and expansion projects. Costs of studies that directly result in specific construction projects are capitalized.

Maintenance and repairs, which do not significantly extend the value or life of property, plant and equipment, are expensed as incurred.

Interest costs are capitalized on the construction of qualified assets, whether or not borrowings exist for such projects, to the extent of amounts funded by debt or operating results. Interest is not capitalized on project costs funded by contributed capital, such as grants and gifts. Interest costs of tax-exempt borrowings are capitalized net of related investment earnings or the proceeds.

Assets are depreciated on the straight-line method. Depreciation is calculated using the following estimated useful lives:

	<u>Years</u>
Automatic meters	20
Office equipment	5 – 10
Vehicles and automotive equipment	5
Buildings and equipment	10 – 30
Water System prior to 1995	50
Water system 1995 – present	40
Land	Not depreciated

Long-Term Obligations

Long-term obligations are reported at face value, net of applicable premiums and discounts.

Revenues and Rate Structure

Revenues from water services are recognized on the accrual basis and as earned. Services are supplied to customers under a rate structure designed to produce revenues sufficient to provide for operating and maintenance costs, capital outlay, debt service, reserves and debt service coverage.

Capital Contributions

Contributions are recognized in the Statement of Revenues, Expenses and changes in Net Position when earned. Contributions include tap fees, capital grants and other supplemental support by federal, state and local grants in support of system improvements.

Net Position

Net Position comprise the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net Position are classified in the following three components: Invested in capital assets, net of related liabilities; restricted for capital activity and debt service; and unrestricted Net Position. Invested in capital assets, net of related debt consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to acquisition, construction and improvements of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from determination. Restricted for capital activity and debt service consists of Net Position for which constraints are placed by external parties, such as lenders, grantors, contributors, laws, regulations, legislation, including self-imposed legal mandates, less any related liabilities. Unrestricted consists of all other assets not included in the above categories.

Note 3- Deposits and Investments

Deposits include demand deposits and certificates of deposit in financial institutions. All bank balances are covered by federal depository insurance or by collateral held by the bank and pledged to the District.

	<i>Total</i>	<i>Category 1</i>	<i>Credit Risk Category 2</i>	<i>Category 3</i>
Bank accounts	\$1,415,740	\$1,415,740	--	--
Certificates of deposits	<u>1,694,545</u>	<u>1,694,545</u>	--	--
	<u>\$3,110,285</u>	<u>\$3,110,285</u>		

Category 1 – Investments that are insured by FDIC or collateralized with securities held by the District or its agent in the District's name.

Category 2 – Uninsured and unregistered investments for which securities are held by the pledging financial institution's trust department or agent but not in the District's name.

Note 4 – Accounts Receivable

Accounts receivable are composed of unpaid billings for services rendered as of the end of the fiscal year. After six months of non-payments the right to service is forfeited, the meter is pulled and the balance is written off. For service to be reconnected to the related property a new membership is required. This minimizes the loss the District may incur due to nonpayment of service billings.

Note 5 – Restricted Assets

The components of the restricted assets at year end were as follows:

RDA Required Equipment Reserve	\$ 77,490
RDA Debt Service	52,438
OWRB 1998 Debt Reserve	75,000
OWRB Debt Service	9,918
Grant Receivable	<u>99,950</u>
	<u>\$314,794</u>

Note 6 – Capital Assets

Capital asset activity during the year was as follows:

	<u>2012</u>	<u>Additions</u>	<u>Disposals</u>	<u>2013</u>
Water Distribution System	\$21,429,656	\$ 2,058,174	\$ --	\$23,487,830
Automatic Read Meters	754,594	242,221		996,815
Office Equipment	44,724	--	--	44,724
Office Building and Equipment	265,531	--	--	265,531
Land	200,000	--	--	200,000
Vehicles and Equipment	131,945	--	--	131,945
Construction in Process	<u>750,326</u>	<u>80,135</u>	<u>(750,326)</u>	<u>80,135</u>
Total Property Plant and Equipment	23,576,776	2,380,530	(750,326)	25,206,980
Accumulated Depreciation	<u>(6,827,526)</u>	<u>(606,987)</u>	<u>--</u>	<u>(7,434,513)</u>
Total Capital Assets (Net of Accumulated depreciation)	<u>\$16,749,250</u>	<u>\$ 1,773,543</u>	<u>\$(750,326)</u>	<u>\$17,772,467</u>

Note 7 – Long Term Debt

The Oklahoma Water Resources Board approved the District's 1998 note in the amount of \$750,000. This note requires principal and interest payments quarterly and a variable interest rate. Monthly payments are made to the loan trustee, Bank of New York Mellon in the amount of \$4,592.20. The payments are invested in securities by the trustee. The debt service fund is used by the trustee to make the principal and interest payments. As of October 31, 2013, the balance on this note is \$247,200.

Payments are required as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year 1	\$ 56,110	\$ 3,398	\$ 59,508
Year 2	56,958	2,550	59,508
Year 3	57,818	1,690	59,508
Year 4	58,691	817	59,508
Year 5	<u>17,623</u>	<u>77</u>	<u>17,700</u>
Total	<u>\$247,200</u>	<u>\$ 8,532</u>	<u>\$255,732</u>

The Oklahoma Water Resources Board approved the District's Series 2008 note in the amount of \$4,500,000. This note requires principal and interest payments on March 15 and September 15 at an interest rate of 3.46%. Semi-annual payments are wired to the Oklahoma Water Resources Board account at Banc First. As of October 31, 2013, the balance on this note is \$3,772,944.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year 1	\$ 179,411	\$ 130,775	\$ 310,186
Year 2	185,760	124,426	310,186
Year 3	192,001	118,185	310,186
Year 4	199,129	111,057	310,186
Year 5	206,175	104,011	310,186
Thereafter	<u>2,810,468</u>	<u>601,580</u>	<u>3,412,048</u>
Total	<u>\$3,772,944</u>	<u>\$1,190,034</u>	<u>\$4,962,978</u>

The Rural Water Development, a U.S. Department of Agriculture approved a note in the amount of \$1,000,000. This note requires principal and interest payments on a monthly basis and an interest rate of 4.25%. As of October 31, 2013, the balance on this note is \$918,342.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year 1	\$ 13,240	\$ 38,840	\$ 52,080
Year 2	13,815	38,265	52,080
Year 3	14,309	37,771	52,080
Year 4	15,036	37,044	52,080
Year 5	15,689	36,391	52,080
Thereafter	<u>846,253</u>	<u>596,973</u>	<u>1,443,226</u>
Total	<u>\$918,342</u>	<u>\$785,284</u>	<u>\$1,703,626</u>

A loan with First Bank of Owasso, up to \$4,000,000, drawn as needed for construction. Note will require principal and interest payments beginning in 2015 at 2.98%.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year 1	\$ --	\$ 38,969	\$ 38,969
Year 2	53,198	36,439	89,637
Year 3	71,531	36,034	107,565
Year 4	73,692	33,873	107,565
Year 5	75,918	31,647	107,565
Thereafter	<u>1,020,666</u>	<u>180,479</u>	<u>1,201,145</u>
Total	<u>\$1,295,005</u>	<u>\$357,441</u>	<u>\$1,652,446</u>

Note 8 – Board of Directors and Officers

Milford Harp	Chairman
Brant Snap	Vice Chairman
Lee Gaston	Treasurer
Larry Cragie	Secretary
Bryan Spriggs	
Larry Mallory	
Bob Morton	
Brad Shelton	
D. M. Sokolosky	

Note 9 – Other Information – Risk Management

The District is exposed to various risks of loss related to torts; theft of , damage and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District purchases commercial insurance to cover these risks, including general and auto liability, property damage and public officials' liability. There were no significant reductions in insurance coverage from the prior year.

WINGARD, RAGSDALE & LANGLEY

CERTIFIED PUBLIC ACCOUNTANTS, PLLC

108 NORTH ADAIR STREET, PRYOR, OK 74361

918-825-6441 OFFICE

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 Honorable Chairman and Board of Directors
Rogers County Rural Water District #3
Claremore, OK 74017

We have audited the statement of financial position of the Rogers County Rural Water District #3, as of October 31, 2013, and the related statements of activities, functional expenses and cash flows for the year then ended. 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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered Rogers County Rural Water District #3, State of Oklahoma's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rogers County Rural Water District #3, State of Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of Rogers County Rural Water District #3, State of 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.

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 the Rogers County Rural Water District #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, other than those described above, of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, Rogers County Rural Water District #3, the Oklahoma State Auditor, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Wingard, Ragsdale & Langley, CPAs, PLLC".

WINGARD, RAGSDALE & LANGLEY

CERTIFIED PUBLIC ACCOUNTANTS, PLLC

February 7, 2014