

ROGERS COUNTY
RURAL WATER DISTRICT NO. 3
ANNUAL FINANCIAL STATEMENTS AND REPORTS OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT
OCTOBER 31, 2015

OBER & LITTLEFIELD
CERTIFIED PUBLIC ACCOUNTS, PLLC
124 SOUTH MAIN
MIAMI, OK 74354
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OBER & LITTLEFIELD

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RURAL WATER DISTRICT NO. 3
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INDEPENDENT AUDITOR'S REPORT

Honorable Chairman and Board of Directors
Rogers County Rural Water District No. 3
Rogers County, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Rogers County Rural Water District No. 3 as of, and for the year ended, October 31, 2015, and the related notes to the financial statements, which collectively comprise the District'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 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 of material misstatement.

An audit involves performing procedures to obtain 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 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 obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2015, 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.

Honorable Chairman and Board of Directors
Rogers County Rural Water District No. 3
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OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with Government Auditing Standards, we have also issued our report dated January 22, 2016 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 "Ober & Littlefield, PLLC".

**OBER & LITTLEFIELD, CPAs, PLLC
MIAMI, OKLAHOMA**

JANUARY 22, 2016

**ROGERS COUNTY
RURAL WATER DISTRICT NO. 3
STATEMENT OF NET POSITION
FOR THE YEAR ENDING OCTOBER 31, 2015**

Assets

Current assets

Cash and cash equivalents	\$ 3,218,718
Accounts receivable	580,246
Prepaid insurance	18,896
Grant receivable	98,823
Inventory	<u>74,031</u>

Total current assets 3,990,714

Non-current assets

Cash restricted	200,345
Capital assets (net)	<u>17,980,346</u>

Total restricted assets 18,180,691

Total assets \$22,171,405

Liabilities and Net Position

Current liabilities

Accounts payable	\$ 368,002
Accrued payroll and liabilities	36,909
Notes payable	<u>282,587</u>

Total current liabilities 687,498

Long-term liabilities

Long-term notes payable	<u>5,165,576</u>
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Total liabilities 5,853,074

Net Position

Investment in capital assets, net of debt	12,532,183
Restricted Net Position	200,345
Unrestricted Net Position	<u>3,585,803</u>

Total Net Position 16,318,331

Total liabilities and Net Position \$22,171,405

**ROGERS COUNTY
RURAL WATER DISTRICT NO. 3
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
FOR THE YEAR ENDING OCTOBER 31, 2015**

Support and Revenue	
Water income	\$ 4,639,693
Miscellaneous income	40,548
Late fees and penalties	49,727
Sewer income	68,424
Grant income	<u>198,773</u>
Total support and revenue	<u>4,997,165</u>
Expenses	
Water purchases	1,864,414
Salaries and benefits	942,440
Chemicals	152,040
Operating supplies	97,154
Utilities	148,928
Repairs and maintenance	163,186
Office expense	40,876
Vehicle and travel expense	29,514
Insurance	67,960
Professional fees	42,351
Postage	50,037
Bank and trustee fees	17,981
Service charges	33,136
Miscellaneous	15,943
Depreciation/amortization	<u>637,444</u>
Total expenses	<u>4,303,404</u>
Total operating income	<u>693,761</u>
Non-operating revenue (expense)	
Interest expense	(180,170)
Interest income	<u>14,303</u>
Total non-operating revenue	<u>(165,867)</u>
Increase (decrease) in Net Position before capital contribution	<u>527,894</u>
Capital contributions	
Membership (tap) sales	<u>458,365</u>
Increase (decrease) in Net Position	986,259
Net Position, beginning of year	<u>15,332,072</u>
Net Position, end of year	<u>\$16,318,331</u>

**ROGERS COUNTY
RURAL WATER DISTRICT NO. 3
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDING OCTOBER 31, 2015**

Cash flows from operating activities	
Receipts from customers and users	\$ 5,123,534
Receipts from grantors	99,950
Receipts from interest	14,303
Payments to suppliers	(2,539,300)
Payments to employees and related payroll items	<u>(943,024)</u>
Net cash provided by (used in) operating activities	<u>1,755,463</u>
Cash flows from capital and related financing activities	
Purchase of property and equipment	(905,535)
Cash paid for interest	(180,170)
Net proceeds from debt issuance/payments	<u>(273,645)</u>
Net cash used in investing activities	<u>(1,359,350)</u>
Net increase in cash	396,113
Cash and cash equivalents, beginning of year	<u>3,022,950</u>
Cash and cash equivalents, end of year	<u><u>\$3,419,063</u></u>
Reconciliation of operating income (loss) to net cash provided (used in) operating activities:	
Change in Net Position	<u>\$ 986,259</u>
Adjustments to reconcile change in Net Position to net cash used In operating activities:	
Depreciation and amortization expense	637,444
Change in operating assets/liabilities	
Increase in receivables	(133,223)
Increase in grant receivable	(98,823)
Decrease in inventory	114,109
Decrease in prepaid expenses	21,413
Increase in accounts payable and accrued expenses	48,114
Interest paid for financing	<u>180,170</u>
Net cash provided by (used in) operating activities	<u><u>\$ 1,755,463</u></u>

ROGERS COUNTY RURAL WATER DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENT
OCTOBER 31, 2015

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, 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.

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.

Note 2 – Summary of Significant Accounting Policies (Continued)

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:

Note 2 – Summary of Significant Accounting Policies (Continued)

	<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 comprises the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net Position is 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	\$1,828,630	\$1,828,630	--	--
Certificates of deposits	<u>1,590,234</u>	<u>1,590,234</u>	--	--
	<u>\$3,418,864</u>	<u>\$3,418,864</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	\$ 146,888
RDA Debt Service	<u>53,457</u>
	<u>\$200,345</u>

Note 6 – Capital Assets

Capital asset activity during the year was as follows:

	<u>2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>2015</u>
Water Distribution System	\$23,580,664	\$ 654,339	\$ --	\$24,235,003
Automatic Read Meters	1,240,843	273,032		1,513,875
Office Equipment	44,724	--	--	44,724
Office Building and Equipment	265,531	--	--	265,531
Land	200,000	--	--	200,000
Vehicles and Equipment	130,859	28,278	--	159,137
Construction in Process	<u>273,852</u>	<u>183,278</u>	<u>(233,392)</u>	<u>223,738</u>
 Total Property Plant and Equipment	 25,736,473	 1,138,927	 (233,392)	 26,642,008
 Accumulated Depreciation	 <u>(8,024,218)</u>	 <u>(637,444)</u>	 --	 <u>(8,661,662)</u>
 Total Capital Assets (Net of Accumulated depreciation)	 <u>\$17,712,255</u>	 <u>\$ 501,483</u>	 <u>\$(233,392)</u>	 <u>\$17,980,346</u>

Note 7 – Long Term Debt

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, 2015, the balance on this note is \$3,407,774.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year 1	\$ 192,001	\$ 118,185	\$ 310,186
Year 2	199,129	111,057	310,186
Year 3	206,175	104,011	310,186
Year 4	213,472	96,714	310,186
Year 5	220,772	89,414	310,186
Thereafter	<u>2,376,225</u>	<u>415,451</u>	<u>2,791,676</u>
 Total	 <u>\$3,407,774</u>	 <u>\$ 934,832</u>	 <u>\$4,342,606</u>

The Rural Water Development Authority, a program of the 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, 2015, the balance on this note is \$891,179.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year 1	\$ 14,313	\$ 37,767	\$ 52,080
Year 2	15,041	37,039	52,080
Year 3	15,694	36,386	52,080
Year 4	16,375	35,705	52,080
Year 5	16,987	35,093	52,080
Thereafter	<u>812,769</u>	<u>525,906</u>	<u>1,338,675</u>
 Total	 <u>\$891,179</u>	 <u>\$707,896</u>	 <u>\$1,599,075</u>

Note 7 – Long Term Debt (Continued)

A loan with First Bank of Owasso, up to \$4,000,000, drawn as needed for construction. Note will require monthly principal and interest payments beginning in 2015 at 2.98% of \$9,162. As of October 31, 2015, the balance on this note is \$1,149,211.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year 1	\$ 76,273	\$ 33,671	\$ 109,944
Year 2	78,610	31,334	109,944
Year 3	81,018	28,926	109,944
Year 4	83,500	26,444	109,944
Year 5	86,058	23,886	109,944
Thereafter	<u>743,752</u>	<u>89,310</u>	<u>833,062</u>
Total	<u>\$1,149,211</u>	<u>\$233,571</u>	<u>\$1,382,782</u>

Note 8 – Board of Directors and Officers

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

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.

Note 10 – Subsequent Events Disclosure

Management has evaluated subsequent events through the date of the audit report, which is the date the financial statements were available to be issued and have determined that no additional information needs to be added to the financial statements.

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**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***

Honorable Chairman and Board of Directors
Rogers County Rural Water District No. 3
Disney, OK 74340

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 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, 2015, and have issued our report thereon dated January 22, 2016

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performed our audit, we considered Rogers County Rural Water District No. 3's internal control over financial reporting to determine the audit procedures that are appropriate in 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 No. 3's internal control. Accordingly, we do not express an opinion on the effectiveness of Rogers 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 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.

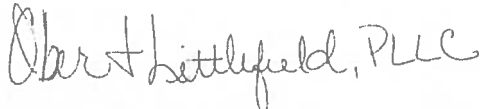
COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Rogers County Rural Water District 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.



OBER & LITTLEFIELD, CPAs, PLLC
MIAMI, OKLAHOMA

January 22, 2016