

**Muskogee County Rural Water District No. 3  
Council Hill, Oklahoma**

Financial Statements and Auditor's Reports

Year Ended December 31, 2015

Audited by

**SANDERS, BLEDSOE & HEWETT  
CERTIFIED PUBLIC ACCOUNTANTS, LLP**

BROKEN ARROW, OK  
SHAWNEE, OK

Muskogee County Rural Water District No. 3  
Council Hill, Oklahoma  
Board of Directors  
December 31, 2015

**BOARD OF DIRECTORS**

**Chairman**

John Dock

**Vice-Chairman**

Jeff Eller

**Secretary/Treasurer**

Jerry Luce

**Members**

Howard Whatley

Terry Gattenby

**PLANT OPERATOR/MANAGER**

Kentley McCullar

**BOOKKEEPER**

Brenda Miller

Muskogee County Rural Water District No. 3  
Council Hill, Oklahoma  
December 31, 2015

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# SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Muskogee County Rural Water District No. 3  
Council Hill, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Muskogee County Rural Water District No. 3 (the District), Council Hill, Oklahoma, as of and for the year ended December 31, 2015, 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. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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 of 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 District'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 District'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 opinions.

## **Opinions**

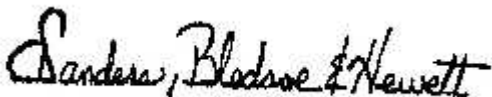
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of December 31, 2015, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 and 6 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 supplemental 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 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 March 16, 2016 on our consideration of the District'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 or on 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 the Authority's internal control over financial reporting and compliance.



Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP

March 16, 2016

**RURAL WATER DISTRICT NO. 3, MUSKOGEE COUNTY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**DECEMBER 31, 2015**

Our discussion and analysis of the Rural Water District No. 3, Muskogee County's financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2015. Please read it in conjunction with the District's financial statements that begin on page 11.

**FINANCIAL HIGHLIGHTS:**

- The District's total operating revenues exceeded total operating expenses by \$49,611. Overall, the District's total net assets decreased by \$687 in the current fiscal year.
- The District increased water rates by 5% in 2015, to keep up with increased expenses.
- The District had several repairs in 2015 due to flooding and rain/storm damage, and applied to FEMA to receive reimbursement for some of these repairs.
- The District's membership numbers stayed consistent in 2015, with 399 users.

**Using This Report**

This report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the District's basis of accounting.

**Basis of Accounting**

The District has elected to present its financial statements in the accrual basis of accounting. According to the accrual basis, revenues are recorded when earned and expenses are recognized when incurred. This policy is in accordance with generally accepted accounting principles.

**The Financial Statements**

One of the most important questions asked about the District's finances is, "Is the District as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows report information about the District and about its activities in a way that helps answer this question.

These three statements report the District's net position, and the changes in them. You can think of the District's net position – the difference between assets and liabilities – as one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in water rates paid or charged and the condition of the District's water system, to assess the overall health of the District.

The District has only one type of fund or activity, which is defined as *Business-type activities*. This is considered a proprietary fund. This means the District charges a fee to customers to help it cover all or most of the cost of certain services it provides.

### **Fixed Assets**

At December 31, 2015, the District had \$1,799,197 invested in fixed assets, net of depreciation, including land, the water system, radio read meters and lines. The District increased fixed assets by \$23,645 in 2015.

### **Long-Term Debt**

The District continued to pay on their \$1,790,000 of 2008 Revenue Bonds. The outstanding balance of this obligation at December 31, 2015 was \$1,600,000. The current monthly obligation towards this debt is \$11,729.

### **Economic Factors and Next Year's Budget and Rates**

For the upcoming fiscal year ending December 31, 2016, the District's projected budget is fairly consistent with the 2015 fiscal year.

The District may have to consider additional increases in water rates to users to meet increasing expenses in future years. If demand is increased on existing lines and equipment, or additional memberships are substantially increased, it may be necessary for the District to incur some long-term debt to meet these demands. As of the date of this report, none of these situations are probable for the 2016 year.

### **Contacting the District**

This report is designed to provide our customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the District Office at P.O. Box 173, Council Hill, OK 74428, or call (918) 474-3773.



# SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

**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  
Muskogee County Rural Water District No. 3  
Council Hill, Oklahoma

We have audited, 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, the accompanying financial statements of the Muskogee County Rural Water District No. 3 (the District), Council Hill, Oklahoma, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 16, 2016.

**Internal Control Over Financial Reporting**

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting in order to determine our auditing procedures that are appropriate for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified no deficiencies in the internal controls that we considered to be material weaknesses.

*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 District'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. We consider the deficiency described in the accompanying schedule of findings and responses as item 15-1, to be a material weakness.

#### Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

#### District's Response to Findings

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP

March 16, 2016

**MUSKOGEE COUNTY RURAL DISTRICT NO. 3**  
**Disposition of Prior Year's Reportable Conditions**  
**December 31, 2015**

There were no prior year instances of noncompliance.

**MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 3**  
**Schedule of Audit Results**  
**December 31, 2015**

**Section 1 – Summary of Auditor’s Results:**

1. An unqualified opinion report was issued on the financial statements.
2. The audit disclosed a reportable condition in the internal controls which was not considered a material weakness.
3. The audit disclosed no instances of noncompliance.

**Section 2 – Findings relating to the financial statements required to be reported in accordance with GAGAS:**

**15-1 – Lack of Segregation of Duties**

**Condition-**

The inherent limitations resulting from a small number of employees performing functions that would normally be divided among employees were a larger number available prevent a proper segregation of accounting functions, which is necessary in order to assure adequate internal accounting controls.

**Criteria-**

An organization should ensure that there is a proper segregation of duties regarding cash collections and the payment of expenses.

**Cause-**

The District is not large enough to justify the hiring of additional personnel.

**Effect-**

There is always the possibility that not all collections are actually receipted or deposited, and the possibility that funds expended are not used for actual District obligations.

**Recommendation-**

The current procedures should not be changed. However, there should be additional personnel instilled into the collection, receipt, deposit, reconciliation and payment procedures when this becomes economically possible.

**Response-**

Additional personnel will be hired when the actual funds are available.

MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 3  
Statement of Net Position  
December 31, 2015

ASSETS

Current Assets:

Cash and cash equivalents	\$ 78,874
Accounts receivable	41,969
Prepaid insurance	6,778
Total current assets	<u>127,621</u>

Restricted Assets:

Trust Accounts-	
Sinking fund	11,731
Reserve fund	140,564
Total restricted assets	<u>152,295</u>

Fixed Assets:

Land	1,000
Water system & lines	2,582,756
Maintenance equipment	29,806
Automatic meter reading system	78,750
Office furniture & equipment	14,366
Total fixed assets	<u>2,706,678</u>
Less: accumulated depreciation	(907,481)
Total fixed assets (net)	<u>1,799,197</u>

Other Assets:

Loan costs	91,490
Less: accumulated amortization	(43,203)
Total other assets	<u>48,287</u>

Total Assets	<u>2,127,400</u>
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LIABILITIES

Current Liabilities:

Accounts payable	6,409
Renter deposits	1,000
Interest payable	11,319
Current maturities of long-term debt	35,000
Total current liabilities	<u>53,728</u>

Long-Term Debt, less current maturities-

Revenue bonds payable	1,565,000
Less: Unamortized discount on bonds payable	(41,021)
Total long-term liabilities	<u>1,523,979</u>

Total Liabilities	<u>1,577,707</u>
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NET POSITION

Invested in capital assets, net of related debt	240,218
Unrestricted assets	<u>309,475</u>
Total Net Position	<u>\$ 549,693</u>

The accompanying notes to the financial statements are an integral part of this statement

MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 3  
Statement of Revenues, Expenses and Changes in Net Position  
For The Year Ended December 31, 2015

Revenue from Operations:	
Water sales	\$ 325,267
Late charges	11,028
Benefit unit sales	5,900
Collection and reconnect fees	826
Other income and fees	478
Total revenue from operations	<u>343,499</u>
Expenses from Operations:	
Professional fees	2,000
Plant operations & maintenance	111,062
Insurance	12,449
Easements	480
Miscellaneous	581
Office and postage	3,738
Salaries	67,400
Payroll taxes	12,406
Telephone	1,428
Utilities	20,148
Trustee fees	1,500
Amortization	7,889
Depreciation	52,807
Total expenses from operations	<u>293,888</u>
Net Income (Loss) from Operations	49,611
Non-operating income:	
Interest earnings	27
McIntosh Co RWD #4 debt service	58,000
Total other income	<u>58,027</u>
Non-operating expenses:	
Interest on debt	<u>(108,325)</u>
Net Income (Loss)	(687)
Net Assets, beginning of period	<u>550,380</u>
Net Assets, end of period	<u><u>\$ 549,693</u></u>

The accompanying notes to the financial statements are an integral part of this statement

MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 3  
Statement of Cash Flows  
For Year Ended December 31, 2015

Cash Flows from Operating Activities:	
Receipts from customers	\$ 342,271
Payments to employees	(67,400)
Payments to vendors	(160,895)
Net Cash Provided by Operating Activities	<u>113,976</u>
Cash Flows from Financial Activities:	
Principal payments on long-term debt	(30,000)
Interest payments on long-term debt	(105,825)
Debt service payments from McIntosh Co RWD #4	58,000
Purchase of fixed assets	(23,645)
Net cash provided by (used in) financial activities	<u>(101,470)</u>
Cash Flows from Investing Activities:	
(Increase) decrease in restricted assets	16,305
Interest revenue	27
Net cash provided by (used in) investing activities	<u>16,332</u>
Net Increase (Decrease) in Cash and Equivalents	28,838
Cash and cash equivalents, beginning of period	<u>50,036</u>
Cash and cash equivalents, end of period	<u><u>\$ 78,874</u></u>
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating Income (loss)	\$ 49,611
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	52,807
Amortization Expense	7,889
(Increase) decrease in accounts receivable	(1,228)
(Increase) decrease in prepaid expenses	(493)
Increase (decrease) in accounts payable	5,390
Net Cash Provided by Operating Activities	<u><u>\$ 113,976</u></u>

The accompanying notes to the financial statements are an integral part of this statement

## **MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 3**

### **Council Hill, Oklahoma**

#### **Notes to the Financial Statements**

**December 31, 2015**

### **Note 1 – Summary of Significant Accounting Policies**

#### Reporting Entity

The Muskogee County Rural Water District No. 3 (the District) was incorporated under the Laws of the State of Oklahoma in accordance with Title 82 of the Oklahoma Statutes, as a subdivision of the State of Oklahoma. The District operates and maintains a water treatment and distribution system within Muskogee County, Oklahoma, and provides potable water services for members around Council Hill, Oklahoma.

#### Fund Accounting

The District is accounted for within the framework of enterprise fund accounting. Enterprise funds are used to account for operations that are operated in a manner similar to private business enterprises wherein the intent of the District's Board of Directors is to recover the cost of providing goods and services through user charges.

#### Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. The District utilizes the accrual basis of accounting, which is in accordance with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses when incurred.

#### Budgetary Data

The District is required by its loan agreements to prepare annually an estimated budget.

#### Assets, Liabilities and Equity:

##### Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents consist of unrestricted cash in the checking accounts.

## MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 3

### Council Hill, Oklahoma

#### Notes to the Financial Statements

December 31, 2015

#### **Note 1 – Summary of Significant Accounting Policies - (cont'd)**

##### Capital Assets

Assets acquisitions are recorded and depreciated at historical cost. Depreciation on capital assets is calculated using the straight-line method of depreciation with useful lives as follows:

	Life (in years)
Water System & Lines	20 - 50
Office Furniture & Equipment	3 - 5
Maintenance Equipment	5

The dollar threshold for capitalization has been set at \$250.

##### Accounts Receivable

Accounts receivable represent customer billings for water sales, which were due and owing at the balance sheet date.

##### Allowance for Doubtful Accounts

The District does not have an allowance for doubtful accounts because it believes the ultimate amount received will be materially similar to the amount accrued.

##### Long-Term Debt

Long-term debt is reported at face value, net of applicable discounts and deferred loss on refunding. Costs related to the issuance of debt are deferred and amortized over the lives of various debt issues.

##### Equity Classification

Equity is classified as net position and displayed in three components:

1. Net investment in capital assets – 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 and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.

## **MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 3**

### **Council Hill, Oklahoma**

#### **Notes to the Financial Statements**

**December 31, 2015**

#### **Note 1 – Summary of Significant Accounting Policies - (cont'd)**

##### Equity Classification – (cont'd)

2. Restricted – Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constructional provisions or enabling legislation.
3. Unrestricted – Net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

It is the District's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

##### Revenues, expenditures & expenses

Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

##### Governmental Accounting Standards Board Statement No. 34

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. Certain of the significant changes in the Statement include the following:

1. For the first time the financial statement should include:
  - a. A Management Discussion and Analysis (MD&A) section providing analysis of the District's overall financial position and results of operations.
  - b. Financial statements prepared using full accrual accounting for all of the District's activities, except for including the General capital assets or infrastructure (liens, pump stations, etc.).

## **MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 3**

### **Council Hill, Oklahoma**

#### **Notes to the Financial Statements**

**December 31, 2015**

#### **Note 1 – Summary of Significant Accounting Policies - (cont'd)**

##### Governmental Accounting Standards Board Statement No. 34 – (cont'd)

2. A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The District has elected to implement the general provisions of the Statement and report infrastructure acquired after December 31, 2003 as provided by GASB standards.

##### Income Taxes

The District is exempt from income taxes under Section 501c(12) of the Internal Revenue Code.

##### Compensated Absences

The organization does not accrue a liability for compensated absences. This is not in accordance with generally accepted accounting principles. However, because of the limited number of people employed by the organization, any liability for compensated absences at December 31, 2015 would not be material to the financial statements taken as a whole.

##### Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

##### Memorandum Totals

The “Memorandum Only” captions above the total columns mean that totals are presented for overview information purposes only.

## **MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 3**

### **Council Hill, Oklahoma**

#### **Notes to the Financial Statements**

**December 31, 2015**

### **Note 2 – Stewardship, Compliance and Accountability**

As a local government unity, the District is subject to various federal, state, and local laws and contractual regulations. In accordance with Government Auditing Standards, the auditor has issued a report on his consideration of the District's internal control over financial reporting and tested its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be read in conjunction with this report in considering the results of the audit.

#### Finance-related Legal & Contractual Provisions

The Terms of the loan agreements require Reserve Accounts as shown in Note 4. All of the requirements have been met.

#### Deficit Fund Balance or Retained Earnings

As indicated in the financial statements, there are no fund balance or retained earnings deficits for the District for this fiscal year.

### **Note 3- Cash and Equivalents**

#### **Custodial Credit Risk**

At December 31, 2015, the District held deposits of approximately \$78,874 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name.

#### **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.

## **MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 3**

### **Council Hill, Oklahoma**

#### **Notes to the Financial Statements**

**December 31, 2015**

#### **Note 3- Cash and Equivalents – (cont'd)**

##### **Investment Credit Risk**

The District has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligation of the U.S. Government, its agencies and 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 deposits 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 obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, 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.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a. – d.).

#### **Note 4 – Restricted Assets**

##### **Cash in Trust Fund**

The Cash in Trust Fund account is an account that is an offset to the Revenue Bonds Payable (See Note 6). This fund is made up of four individual accounts all held by the Trustee Bank (BancFirst). The four accounts are the main account, the debt service reserve fund, the sinking fund, and the construction fund.

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

**Council Hill, Oklahoma**

Notes to the Financial Statements

December 31, 2015

**Note 5 – Capital Assets**

The following is a summary of the property, plant and equipment of the District as of December 31, 2015:

	Balance at Dec. 31, 2014	Additions	Deletions	Balance at Dec. 31, 2015
Land	\$ 1,000	-	-	1,000
Water system & lines	2,559,111	23,645	-	2,582,756
Office Furniture & Equipment	14,366	-	-	14,366
Automatic Meter Reading System	78,750	-	-	78,750
Maintenance Equipment	29,806	-	-	29,806
Construction in Progress	-	-	-	-
Subtotal	2,683,033	23,645	-	2,706,678
Less: Accumulated Depreciation	(854,674)	(52,807)	-	(907,481)
Total	<u>\$ 1,828,359</u>	<u>(29,162)</u>	<u>-</u>	<u>1,799,197</u>

The capital asset additions included distribution system additions and the plant upgrade project which was reclassified to the water system.

**Note 6 – Long-Term Debt**

Revenue Bonds Payable

On November 3, 2008, the District issued \$1,790,000.00 Revenue Bonds Series 2008, to provide funds to refund certain outstanding indebtedness of the District and to provide improvements to the water system as approved by the District. The District sold the Revenue Bonds at a purchase price of 97% of the principal, plus accrued interest from the date thereof to the date of delivery, said Bonds to bear interest at the average annual rate of not to exceed 6.75%.

The Series 2008 Revenue Bonds are secured by the “Pledged Revenues” (as defined in the Bond Indenture) and amounts held by the bond trustee bank. Under the terms of the Bond Indenture Agreement, The district is required to maintain certain deposits with a trustee bank. Such deposits are included as restricted assets in the Statement of Net Position.

**MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 3****Council Hill, Oklahoma**

## Notes to the Financial Statements

December 31, 2015

**Note 6 – Long-Term Debt – (cont'd)**Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended December 31, 2015:

	Balance at Dec. 31, 2014	Additions	Deletions	Balance at Dec. 31, 2015
Revenue Bonds Payable	\$ 1,630,000	-	(30,000)	\$ 1,600,000
Total Long-Term Debt	1,630,000	-	(30,000)	1,600,000
Less: Unamortized Discount on Bonds Payable	(42,811)	-	1,790	(41,021)
Less: Current Maturities of Long-Term Debt	(30,000)			(35,000)
Net Long-Term Debt	<u>\$ 1,557,189</u>			<u>\$ 1,523,979</u>

The annual debt service requirements to maturity, including principal and interest, for long-term debt, as of December 31, 2015, are as follows:

Revenue Bonds Payable-

Year Ended December 31,	Principal	Interest	Annual Payment
2016	\$ 35,000	104,250	139,250
2017	35,000	102,413	137,413
2018	35,000	100,575	135,575
2019	40,000	98,737	138,737
2020	40,000	96,338	136,338
2021-25	250,000	441,350	691,350
2026-30	335,000	353,205	688,205
2031-35	465,000	225,023	690,023
2036-38	365,000	51,032	416,032
Total	<u>\$ 1,600,000</u>	<u>1,572,923</u>	<u>3,172,923</u>

**Note 7 – Contingencies**Litigation

According to management, there were no known contingent liabilities at December 31, 2015 which would have a material effect on the financial statements.

## **MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 3**

### **Council Hill, Oklahoma**

#### **Notes to the Financial Statements**

**December 31, 2015**

#### **Note 7 – Contingencies – (cont'd)**

##### Federally Assisted Programs

In the normal course of operations, the District participates in various federal or state/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

#### **Note 8 – Insurance Coverage**

The District has the following insurance coverage:

- Property Coverage (Buildings and Personal Property)
- Comprehensive General Liability
- Errors or Omissions
- Employment Related Practices Liability
- Employee Dishonesty and Crime Coverage
- Worker's Compensation

#### **Note 9 – Water Contract**

As of October 17, 2008, the District entered into a contract with the McIntosh County Rural Water District #4 (the Purchaser) for the sale of water. The Purchaser agrees to pay the District the following amounts, on or before the 10<sup>th</sup> day of each month, for water delivered to the Purchaser (going through the Master Meter) in accordance with the agreement:

- \$4,833.33 per month which shall serve as the Purchaser's share of the monthly debt service payment
- \$3.00 Per 1,000 Gallons of Water for all gallons of water passing through the Purchaser's Master Meter

The payment of \$4,833.33 per month (\$57,999.96 annually) for debt service has been included on the Statements of Revenues, Expenses and Changes in Net Position in the Other Revenues (Expenses) Section.

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

**Council Hill, Oklahoma**

Notes to the Financial Statements

December 31, 2015

**Note 9 – Water Contract – (cont'd)**

Also, per the water contract, the improvements and extensions of the water supply distributed system by the District has been financed by the Revenue Bonds, Series 2008 of the District. In addition it is mutually agreed that proceeds from the aforesaid Bonds in the amount of \$125,000.00 will be transferred to the Purchaser to provide improvements to its water supply system. This transfer was shown on the Statement of Revenues, Expense and Changes in Net Position in the Other Revenues (Expenses) Section.

**Note 10 – Benefits**

The District does not provide retirement or insurance benefits to employees.

**Note 11 – Sewer Collections**

The District collects payments from its users for sewer services and passes these payments forward to the Council Hill PWA. In the 2014-15 year, the District collected and paid forward \$13,362 in sewer collections.

**Note 12 – Subsequent Events**

The District did not have any subsequent events through March 16, 2015, which is the date of the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending December 31, 2015.

MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 3

Balance Sheet  
December 31, 2015

	DECEMBER 31,	
	2015	(memo only) 2014
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents	\$ 78,874	50,036
Accounts receivable	41,969	40,741
Prepaid insurance	6,778	6,285
Total current assets	127,621	97,062
Restricted Assets:		
Cash - Renters deposits	0	1,194
Trust Accounts-		
Construction account	0	15,389
Sinking fund	11,731	11,462
Reserve fund	140,564	140,555
Total restricted assets	152,295	168,600
Fixed Assets:		
Land	1,000	1,000
Water system & lines	2,582,756	2,559,111
Maintenance equipment	29,806	29,806
Automatic meter reading system	78,750	78,750
Office furniture & equipment	14,366	14,366
Total fixed assets	2,706,678	2,683,033
Less: accumulated depreciation	(907,481)	(854,674)
Total fixed assets (net)	1,799,197	1,828,359
Other Assets:		
Loan costs	91,490	91,490
Less: accumulated amortization	(43,203)	(37,104)
Total other assets	48,287	54,386
Total Assets	\$ 2,127,400	2,148,407
<u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 6,409	1,019
Renter deposits	1,000	1,000
Interest payable	11,319	8,819
Current maturities of long-term debt	35,000	30,000
Total current liabilities	53,728	40,838
Long-Term Debt, less current maturities-		
Revenue bonds payable	1,565,000	1,600,000
Less: Unamortized discount on bonds payable	(41,021)	(42,811)
Total long-term liabilities	1,523,979	1,557,189
Total Liabilities	1,577,707	1,598,027
Fund Equity:		
Retained earnings	549,693	550,380
Total Liabilities and Fund Equity	\$ 2,127,400	2,148,407

MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 3  
Statement of Revenue, Expenses and Changes in Retained Earnings  
For Years Ended December 31, 2015

	2015	(memo only) 2014
Revenue from Operations:		
Water sales	\$ 325,267	280,796
Late charges	11,028	11,330
Benefit unit sales	5,900	0
Collection and reconnect fees	826	750
Other income and fees	478	3,558
Total revenue from operations	<u>343,499</u>	<u>296,434</u>
Expenses from Operations:		
Professional fees	2,000	1,606
Plant operations & maintenance	111,062	75,731
Insurance	12,449	12,424
Easements	480	450
Miscellaneous	581	1,543
Office and postage	3,738	5,529
Salaries	67,400	62,103
Payroll taxes	12,406	4,804
Travel	0	1,907
Telephone	1,428	2,133
Utilities	20,148	23,411
Trustee fees	1,500	1,545
Amortization	7,889	7,889
Depreciation	52,807	66,350
Total expenses from operations	<u>293,888</u>	<u>267,425</u>
Net Income (Loss) from Operations	49,611	29,009
Other Income:		
Interest earnings	27	58
McIntosh Co RWD #4 debt service	58,000	58,000
Total other income	<u>58,027</u>	<u>58,058</u>
Other Expenses:		
Interest on debt	<u>(108,325)</u>	<u>(107,269)</u>
Net Income (Loss)	(687)	(20,202)
Retained earnings, beginning of period	<u>550,380</u>	<u>570,582</u>
Retained earnings, end of period	<u>\$ 549,693</u>	<u>550,380</u>