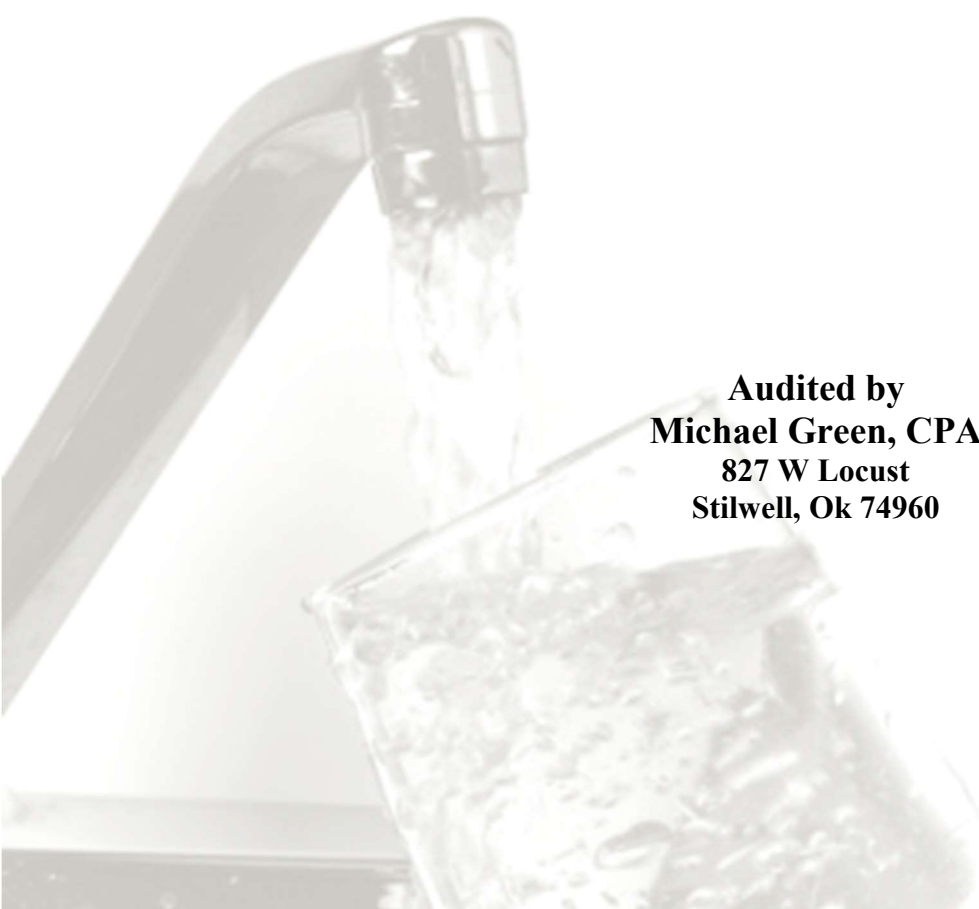


RURAL WATER DISTRICT # 3

Washington County, Oklahoma

Annual Financial Statements & Independent Auditor's Report

December 31, 2023



**Audited by
Michael Green, CPA
827 W Locust
Stilwell, Ok 74960**

RURAL WATER DISTRICT NO. 3
Washington County, Oklahoma

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MICHAEL W. GREEN
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INDEPENDENT AUDITOR'S REPORT

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

Opinion

I have audited the accompanying financial statements of Washington County Rural Water District No. 3 (the District), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District, as of December 31, 2023, and the respective changes in financial position, and, where applicable, cash flows thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of the District and to meet my other ethical responsibilities, in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards, I:*

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

I am required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that I identified during the audit.

Supplementary Information

My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying combining statement of financial position and combining statement of revenues, expenses and changes in fund balance are presented for additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated April 24, 2024, on my consideration of the District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's 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 District's internal control over financial reporting and compliance.

Regards,



Michael Green, CPA
Stilwell, Oklahoma
April 24, 2024

**Washington County Rural Water District No. 3
Management's Discussion and Analysis Report
For Fiscal Year 2023
(Ended December 31, 2023)**

Introduction

The purpose for this report is to present, from the District Manager's perspective, an assessment of the financial activities and performance of Washington County Rural Water District No. 3 (hereinafter referred to as the "District") for the audited year. The primary goal of this report is to address the critical question "Is the District as a whole better or worse off as a result of the year's activities?" It is also the goal of this report to present the findings from the audit and other critical operations information in an easy-to-read format for interpretation by the non-accountant.

The information included herein should be read in conjunction with the financial statements prepared by the District's Auditor. Also note that the currency amounts presented herein have been rounded to the nearest dollar.

Financial Highlights

- The amount of water sold in FY '23 (895,984,285 gallons) decreased by approximately 4.86 percent when compared to the previous year (sold 941,793,619 gallons in FY '22).
- Revenues from the sale of water accounted for 94 percent of all revenues. The total revenue from water sales decreased by approximately 2 percent when compared to FY '22.
- The District expended approximately \$3,722,972 on new infrastructure during the year.
- The District did improve its position with regard to total liabilities by decreasing their value by \$604,204 when compared to FY '22. Total equity increased by approximately \$1,975,629.
- The District as a whole is much better off as a result of the year's activities.

Overview of Financial Statements

The financial statements prepared for the FY '23 audit was used to develop this report. A brief description of each statement and their purpose follows:

Statements of Financial Position [Balance Sheet] - The purpose for the "Statements of Financial Position" is to present a summary of the District's net assets. In simple terms this statement shows what we own (assets) minus what we owe (liabilities). When we compare this years Statement of Financial Position to previous years, we look at how our net worth (i.e., net assets) is increasing or decreasing. This is one indicator of how the District's financial position is improving or deteriorating.

Statements of Activities - The "Statements of Activities" presents the results of the business activities over the course of the fiscal year and information as to how the net assets changed during the year without regard to when cash was received or paid.

Statements of Cash Flows - The "Statements of Cash Flows" presents changes in cash and cash equivalents (i.e., Accounts Payable and Receivable), resulting from operational, financing and investing activities. This statement shows how the District's cash on hand changed from the beginning to the end of the year.

Condensed Financial Statements

Condensed Statement of Financial Position

	12/31/23	12/31/22	Dollar Change	Percent Change
Current and Other Assets	\$11,156,026	\$12,023,481	(\$866,955)	(7.3%)
Capital Assets	\$39,628,790	\$37,360,149	\$2,268,641	6.07%
Total Assets	\$50,784,816	\$49,383,630	\$1,401,686	2.84%
Current Liabilities	\$865,647	\$815,474	\$50,173	6.15%
Long-Term Liabilities	\$15,484,846	\$16,109,462	(\$624,616)	(3.88%)
Total Liabilities	\$16,350,493	\$16,924,936	(\$574,443)	(3.39%)
Net Assets invested in capital assets, net of related debt	\$23,519,330	\$21,581,336	\$1,937,994	8.98%
Restricted for debt service	\$1,258,936	\$2,298,129	(\$1,039,193)	(45.22%)
Unrestricted net assets	\$9,656,057	\$8,579,229	\$1,077,328	12.56%
Total Net Assets	\$34,434,323	\$32,458,694	\$1,976,129	6.09%

Condensed Statement of Activities

	12/31/23	12/31/22	Dollar Change	Percent Change
Operating Revenues	\$7,170,951	\$7,156,526	\$14,425	.020%
Non-operating Revenues	\$2,616,212	\$1,208,734	\$1,407,478	116.44%
Total Revenues	\$9,787,163	\$8,365,260	\$1,421,903	17%
Depreciation Expense	\$1,337,006	\$1,319,191	\$17,815	1.35%
Other Operating Expenses	\$5,967,569	\$5,923,182	\$43,887	.74%
Total Expenses	\$7,304,575	\$7,242,373	\$61,702	.85%
Change in Net Assets	\$1,976,629	\$1,135,536	\$840,593	74.02%
Beginning Net Assets	\$32,458,694	\$31,323,158	\$1,135,536	3.62%
Ending Net Assets	\$34,434,323	\$32,458,158	\$1,976,665	6.09%

Analytical Overview

Sources of Income - The District's primary sources of income are from the sale of water services. Other sources of income include interest on investments; membership fees; and collection fees. The District has no taxing power.

Growth - During the year 330 new benefit units (i.e., water meters) were sold compared to a total of 269 sold in FY '22. The District sold 895,984,285 gallons of water, which represents an approximate decrease of 4.86 percent when compared to FY '22 and was likely a result of more mild weather in FY '23. The increase in last years benefit unit sales is likely the result of a stronger housing market compared to the previous year.

Statements of Net Position:

Total Net Assets - The *Statement of Net Assets* shows that the District's total net assets actually increased by \$1,975,629 when compared with FY '22. This increase represents 5.7% in our total net assets. Although current assets (i.e., cash) decreased by \$5,791,925, the District's fixed assets (i.e., land, equipment and infrastructure) actually increased by \$2,268,641 and the District's investments increased by \$5,125,539.

On the *Statement of Net Assets* we see that the District improved its position with regard to total (i.e., current and long term) liabilities by decreasing there value by \$604,204 when compared to FY '22. This decrease occurred primarily in the category of bond payables. Total equity increased by approximately \$1,975,629.

Statement of Revenues, Expenditures and Changes in Fund Net Position:

Reviewing the *Statement of Revenues, Expenditures and Changes in Fund Net Position* we can see that the District's change in net assets was \$1,975,629. This compared favorably to the net change in net assets of \$1,135,536 experienced in FY '22.

Revenues – The District's total operating revenues for FY '23 were \$7,190,951. This represents an increase of approximately \$14,425 (or 2 percent) over FY '22. Approximately 96 percent of our revenues (i.e., \$6,721,046) were derived from sale of water services.

Approximately 19 percent of revenues (\$495,500) came from membership fees. Revenues from these items were up 8 percent over FY '22.

Expenses - The District's total operating expenses were \$7,304,575. Excluding depreciation and amortization the total operating expenses are reduced to \$5,967,69. This represents an approximate increase of \$570,036 (or 8.5 percent) over FY '22.

Statement of Cash Flows:

As shown in the *Statement of Cash Flows* the District had a net decrease in cash at the end of the year of \$5,791,925; but an increase in investments of \$5,125,539.

Annual Budget

As required by the District's By-Laws, an Annual Budget was prepared by the District Manager for FY '23. The basis for the budget included a thorough examination of the actual results from the last several years. The budget also included certain anticipated expenses that were related to budgeted capital projects. The FY '23 Annual Budget was reviewed and approved by the Board during the Board meeting held on March 13, 2023.

Debt Administration:

The remaining balance for all promissory notes (i.e., loans) at the beginning of the year was \$16,713,664. No new loans were acquired during 2023 and all scheduled loan and interest payments through December 31, 2023 were made on time. The District reduced its principal on outstanding loans by \$604,204. The balance remaining on all outstanding loans is \$16,734,074. The sinking fund for the District's loans is fully funded.

Highlights of Other Critical Information:

- In Fiscal Year 2023, the District has continued to meet the new and more stringent water quality regulations. This includes monthly testing for Total Organic Carbons (TOC's) and quarterly testing for Trihalomethanes (THM's) and Haloacetic Acids (HAA's). We also successfully completed second phase of the Unregulated Contaminant Monitoring Regulations (UCMR4). The District is pleased to report that our water quality complied with all the regulations.
- Caney River Raw Water Supply Project
 - Legal action filed by the Contractor against the District is in progress.
- Water Treatment Plant Expansion Project
 - Legal action by Design Engineer of WTP Expansion Project continued against the District in 2020.
- Water Resources Master Planning – We continue work on a new master plan for the District.
- Oklahoma Department of Transportation – The District worked with ODOT on the following projects:
 - Highway 20 between Highway 75 and Mingo – The District completed the construction on approximately 3 miles of 12-inch water line.
- Owasso Utility Relocation Projects – The District shared cost with the City of Owasso on various projects including:
 - 116th St. North and 129th East Ave. intersection widening.
 - 116th St. North road widening between Highway 169 and 129th East Ave.
 - 106th St. North and 145th East Ave. intersection widening.
- Washington County Utility Relocation Projects – The District worked with Washington County on the following water line relocation plans:
 - Green Lake (approximately one-half mile east of Garnett on 196th Str. N.) was completed in 2020.
- Tulsa County Utility Relocation Projects
 - Horse Pen Creek - The District worked with Tulsa County on the development of water line relocation plans for water lines along old Highway 169 south of 166th Str. N.
- 24-Inch Water Line Extension – Planning efforts got underway for the extension of approximately two and a half (2.5) miles of new 24-inch water line beginning at the North WTP and extending south.

Conclusions – The District as a whole has a better financial position than a year ago. The value of our total liabilities decreased while the value of our total equity increased. Our total debt service decreased by \$604,204. We ended the year with less cash and investments (i.e., \$666,386) than we started with.

Looking Forward – As we look forward to Fiscal Year 2024 we anticipate our growth to be the same or slightly lower than that which was experienced in FY '23. We also anticipate progress on the following major capital projects:

- Water Treatment Plant Expansion Project: We anticipate progress on the lawsuit for this project.
- Caney River Raw Water Supply Project: We anticipate progress on the lawsuit for this project.
- Water Quality Regulations – We will continue sampling and testing for S.O.C. as mandated by the EPA.
- Water Resources Master Plan – We anticipate completing the master plan in 2021. This master plan will identify future capital needs with emphasis on priority.
- Booster Pump Station – The District will acquire property, develop plans and construct a new booster pump station.
- Future Water Lines – The District is planning:
 - To develop plans for the construction of new 24-inch water line.
 - The District will work with the ODOT on the following:
 - To complete relocation plans and construction for relocation of certain water lines along Highway 11.
 - The District will work with Tulsa County to prepare water line relocation plans for the following:
 - Along 86th Street North in areas East and West of Sheridan.
 - At Horse Pen Creek along old Highway 169 south of 166th Street North.
 - Along 126th Street North between Sheridan and Yale.
 - The District will continue to work with Owasso on the following:
 - Water line relocations in the intersection of 116th Street North and 129th East Avenue.
 - Water line relocations in the intersection of 106th Street North and 145th East Avenue.
 - Water line relocations along 116th Street North between 129th East Avenue and Garnett.
 - Water line relocations along 116th Street North in areas East of 129th East Avenue to Highway 169.
 - Water line relocations in the intersection of 106th and 129th East Avenue.
 - Water line relocations along 96th Street North between Garnett and 129th East Avenue.

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

**STATEMENT OF NET POSITION
DECEMBER 31, 2023**

	<u>2023</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 3,841,562
Restricted cash	1,243,372
Investments	5,125,539
Accounts receivable	454,709
Accrued interest receivable	3,129
Inventory	425,147
Prepaid insurance	62,568
Total current assets	<u>11,156,026</u>
Noncurrent assets:	
Capital assets:	
Building & land	705,678
Machinery & tools	514,184
Automotive equipment	663,297
Furniture & fixtures	116,212
Lab equipment	40,706
Water treatment & distribution system	58,949,622
Construction in Progress	790,130
Less accumulated depreciation	<u>(22,151,039)</u>
Total capital assets	<u>39,628,790</u>
Total Assets	<u><u>\$ 50,784,816</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 70,116
Accrued interest payable	170,917
Current portion of long-term debt	624,614
Total current liabilities	<u>865,647</u>
Noncurrent liabilities:	
Revenue Bonds payable	11,040,000
Revenue Bond premium	927,310
Notes payable	4,142,150
Less: current portion	<u>(624,614)</u>
Total noncurrent liabilities	<u>15,484,846</u>
Total Liabilities	<u>16,350,493</u>
NET POSITION	
Net Investment in Capital Assets	23,519,330
Restricted for Debt Service	1,258,936
Unrestricted	<u>9,656,057</u>
Total Net Position	<u><u>\$ 34,434,323</u></u>

The accompanying notes and auditor's report are an integral part of the financial statements.

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

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2023**

	2023
Operating revenues:	
Water sales (net of adjustments)	\$ 6,721,046
Penalties, fees, service charges and miscellaneous	449,905
Total operating revenues	<u>7,170,951</u>
Operating expenses:	
Salaries, wages & contract labor	1,403,638
Payroll taxes	109,716
Employee benefits	91,025
Utilities	406,084
Telephone	24,144
Equipment expense	3,070
Depreciation	1,337,006
Vehicle expense	80,799
Building, vehicle & other insurance	379,953
Plant repair & maintenance	213,716
Chemicals	1,689,786
Travel, entertainment & miscellaneous	107,893
Licenses & fees	60,168
Plant supplies	879,688
Water purchased	10,067
Office expense & postage	103,997
Professional fees	403,825
Total operating expenses	<u>7,304,575</u>
Net operating income	<u>(133,624)</u>
Nonoperating revenue (expense)	
New benefit units	495,500
Contribution of developments	1,801,974
Unrealized gain on investments	125,539
Interest income	193,199
Interest Expense	(506,959)
Total nonoperating revenue (expense)	<u>2,109,253</u>
Operating transfers: In	2,247,136
Operating transfers: Out	(2,247,136)
Total Operating Transfers	<u>-</u>
Change in net position	1,975,629
Net position beginning of year	32,458,694
Net position end of year	<u><u>\$ 34,434,323</u></u>

The accompanying notes and auditor's report are an integral part of the financial statements.

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

**STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2023**

	<u>2023</u>
Cash flows from operating activities:	
Receipts from customers	\$ 7,225,977
Payments to suppliers	(4,187,886)
Payments to employees	(1,604,379)
Net cash provided (used) by operating activities	<u>1,433,712</u>
Cash flows from noncapital financing activities:	
Other Non-Operating Income	1,801,974
Net cash provided (used) by noncapital financing activities	<u>1,801,974</u>
Cash flows from capital and related financing activities:	
New benefit units	495,500
Purchase of capital assets (net of non-cash contributions)	(3,722,972)
Change in Construction in progress	117,325
Principal paid on capital debt	(604,204)
Interest paid on capital debt	(506,959)
Net cash provided (used) by capital and related financing activities	<u>(4,221,310)</u>
Cash flows from investing activities:	
Interest income	193,199
Purchase of Treasury Bills	(5,000,000)
Net cash provided (sed) by investing activities:	<u>(4,806,801)</u>
Net increase (decrease) in cash and cash equivalents	(5,792,425)
Cash balance beginning of year (adjusted to include restricted cash)	<u>10,877,359</u>
Cash balance end of year (non-restricted & restricted)	<u><u>\$ 5,084,934</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (133,624)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Cash flows reported in other categories:	
Depreciation expense	1,337,006
Change in assets and liabilities:	
Accounts receivable	55,026
Inventory	145,543
Accounts payable	12,349
Accrued interest payable	17,412
Net cash provided by operating activities	<u><u>\$ 1,433,712</u></u>
Additional Cash Flow Information	
Interest Paid	\$ 506,959

The accompanying notes and auditor's report are an integral part of the financial statements.

RURAL WATER DISTRICT NO. 3
Washington County, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Washington County Rural Water District Number 3 (the District) complies with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations.) The accounting and reporting framework and the more significant accounting policies established by GAAP and used by the District are discussed below.

A. REPORTING ENTITY

The District was organized in 1965, under Title 82, O.S. Supp. 1972, Sections 1324.1 to 1324.26 for the purpose of providing a water works system including all physical facilities, improvements and services necessary for executing that purpose, in Washington, Osage, Tulsa and Rogers counties. Since the District is a political subdivision of the State of Oklahoma, under Title 82, it is exempt from Federal and State income taxes.

The membership consists of approximately 11,500 benefit unit holders, each entitled to one vote. Subscribers to benefit units pay a \$ 1,500 subscription fee (\$ 1,000 prior), which is non- refundable, and entitles the holder to one line from the District's water system. The Board of Directors consist of 7 members serving 3-year terms. The vacant Board seats are filled at the annual meeting in April, and following, the Board of Directors meet and elect a Chairman, Vice-Chairman, Secretary and Treasurer.

B. BASIS OF ACCOUNTING

The District's policy is to prepare its financial statements on the accrual basis of accounting; consequently, revenue and the related assets are recognized when earned, and expenditures are recognized when the obligation is incurred.

C. CASH, CASH EQUIVALENTS AND INVESTMENTS

For the purpose of financial reporting, "cash and cash equivalents" include all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less. Revenue bond and promissory note trust account investments in open-ended mutual fund shares are also considered cash equivalents and are reported at the funds' current share costs which approximates fair value. 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.

The deposits and investments held at December 31, 2023 are as follows:

	<u>Deposits and Investments</u>
Utility Demand Deposits	\$ 1,172,140
NWTP restricted	431,661
Time deposits	2,669,422
OWRB Accounts (DCUA):	
Project Mutual Funds - BancFirst	602,012
Bond Premium Mutual Funds - BancFirst	209,699
	<u>\$ 5,084,934</u>

D. INVENTORY

The District utilizes a perpetual inventory system for supplies. The supplies on hand at year end are valued at the lower of cost or market, on a first-in, first-out basis, and included in the December 31, 2023, financial statements at \$425,147.

E. FIXED ASSETS

All fixed assets are recorded at their original acquisition cost. Depreciation is provided in the financial statements utilizing the following estimated useful lives:

	<u>Years</u>
Office Building	40
Water Plant & System	40
Furniture, Fixtures & Equipment	10
Machinery & Tools	10-15
Automotive	5
Office Equipment	5-15

A summary of the fixed asset accounts for the year ended December 31, 2023, is as follows:

	Balance			Balance
	December 31, 2022	Additions	Disposals	December 31, 2023
Building & Land	\$ 599,000	106,678	-	\$ 705,678
Machinery & Tools	509,184	5,000	-	514,184
Automotive	552,209	111,088	-	663,297
Furniture, Fixtures & Equipment	116,212	-	-	116,212
Lab Equipment	40,706	-	-	40,706
Water Treatment & Dist System	56,078,148	2,871,474	-	58,949,622
Construction in Progress	278,723	628,732	(117,325)	790,130
	58,174,182	3,722,972	(117,325)	61,779,829
Less Accumulated Depreciation	(20,814,033)	(1,337,006)	-	(22,151,039)
Net Property and Equipment	<u>\$ 37,360,149</u>	<u>2,385,966</u>	<u>(117,325)</u>	<u>\$ 39,628,790</u>

F. DEPOSITS AND INVESTMENTS

Cash and investments include all deposits held by financial institutions - money market accounts, savings accounts and certificates of deposit. At year-end, the bank balance of the District's deposits totaled \$5,084,934. All funds were either covered by federal depository insurance or collateralized by securities pledged to the District by various depository banks.

GASB Statement No. 72, *Fair Value Measurement and Application*, established a fair value hierarchy for investments. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The District has the following recurring fair value measurements as of December 31, 2023: Treasury Bills in the amount of \$ 5,125,539 are valued using quoted market prices (Level 1 input).

Custodial Credit Risk - Custodial credit risk is the risk that in the event of bank failure, the District's deposits may not be returned to it. The District requires that all deposits be collateralized by either FDIC insurance or pledged collateral.

Investment Interest Rate Risk – The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk – The District places no limit on the amount it may invest in any one issuer. Exposure to concentration of credit risk is considered to exist when investments in any one issuer represent a significant percent of total investments. Investments issued or explicitly guaranteed by the US Government and investments in mutual funds, external investment pools and other pooled investments are excluded from this concentration.

Investment Credit Risk – The District has no investment policy that limits its investment choices other than the limitations of state law that generally authorize investments in: (1) full faith and credit, direct obligations of the US Government, its agencies and instrumentalities, and the State of Oklahoma and certain mortgage insured federal debt; (2) certificates of deposit or savings accounts that are either insured or secured with acceptable collateral; (3) negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations; (4) 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; and government money market funds regulated by the SEC.

The deposits and investments held at December 31, 2023, are as follows:

	Balance 12/31/2023	Restricted	Unrestricted
Cash on Hand	\$ 500	-	\$ 500
RCB Bank			
Cash in Bank Operating	1,171,640	-	1,171,640
RECD Reserve	47,577	47,577	-
RECD Reserve #2	-	-	-
RUS Reserve - CRP	246,373	246,373	-
Caney River Project	157	157	-
North Treatment Plant Construction	137,554	137,554	-
	<u>1,603,801</u>	<u>431,661</u>	<u>1,172,140</u>
Bank First			
Project Fund	602,012	602,012	-
Bond Fund	209,699	209,699	-
	<u>811,711</u>	<u>811,711</u>	<u>-</u>
First Bank of Owasso			
Money Market	1,123,953	-	1,123,953
American Bank of Oklahoma			
Certificate of Deposits	1,295,469	-	1,295,469
Armstrong Bank			
Certificate of Deposits	250,000	-	250,000
TOTAL CASH and DEPOSITS	3,539,465	1,243,372	2,296,093
TOTAL CERTIFICATE of DEPOSITS	1,545,469	-	1,545,469
Totals	<u>\$ 5,084,934</u>	<u>1,243,372</u>	<u>\$ 3,841,562</u>

G. STATEMENT OF CASH FLOWS

For purposes of the Statement of Cash Flows, the District considers demand accounts, subject to withdrawal by check, money market accounts, and cash on hand, as cash or cash equivalents.

H. COMPENSATED ABSENCES

Employees must complete one (1) year of continuous service before earning two (2) weeks of vacation time per calendar year. Employees who have completed two (2) years through five (5) years of continuous service will earn three (3) weeks of vacation time per calendar year. Beginning in the sixth (6) year of continuous service, employees will earn four (4) weeks of vacation time per calendar year. Beginning in the twentieth (20) year of continuous service, employees will earn five (5) weeks of vacation time per calendar year. Vacation time is computed on a calendar year basis.

Vacation pay is vested, and thus paid upon retirement or separation (with two weeks' notice.) Vacation time is to be taken during the calendar year. Employees are required to utilize at least one-half of earned vacation time. The remaining vacation time will be paid at year end and does not carry over to the next year without Board approval. The vacation accrued at December 31, 2023, was paid the last week of 2023 resulting in no compensated absences on the financial statements.

All full-time employees are eligible for sick leave, after six months service, accrued at four hours per month (6 days per year.) Employees may accrue a maximum of 120 days of sick leave. Sick leave is not vested and is lost upon separation.

I. ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2023 represent charges for services provided to customers. The District utilizes the direct charge-off method of recognition of bad debts. Uncollectible accounts are an insignificant amount each year, thus there is no reserve for uncollectible accounts at December 31, 2023.

J. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period (such as estimated useful lives in determining depreciation expense.) Accordingly, actual results could differ from those estimates.

K. EQUITY CLASSIFICATION

Net position is displayed in three components:

a) Invested in capital assets, net of related debt:

Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

b) Restricted fund balance:

Consists of net assets with constraints placed on the use either by an external group such as creditors, grantors, contributors, or laws and regulation of other governments, or by law through constitutional provisions or enabling legislation.

c) Unrestricted fund balance:

All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

L. BUDGETARY DATA

In accordance with the by-laws of the District, the Board of Directors prepare a budget, under the accrual basis of accounting.

M. FUNDS

During 2020, the District added a bond fund for servicing the bond debt in accordance with the Bond Indenture discussed in note 2.C.

During 2023, the District evaluated its Fiduciary Fund as prescribed by GASB Statement No. 84. The District has concluded it does have Fiduciary responsibility for billing and collecting on behalf of other municipalities. However, the exception allowed in GASB Statement No. 84 paragraph 19 applies to these financial statements since the funds are not held more than 90 days, therefore a separate Fiduciary Fund is not required.

NOTE 2: LONG-TERM DEBT

A. RURAL DEVELOPMENT LOANS

On October 4, 2000, the District entered into two separate loan agreements with the Rural Utilities Service division of the USDA for \$724,200 and \$329,000. The loans bear interest at 5.5% and require monthly payments of \$3,737 and \$1,698, respectively, beginning November 4, 2000, through October 4, 2040. The proceeds of the loans were utilized to renovate and upgrade the existing north water treatment plant. The total cost of the project was approximately \$1,746,000. The remaining balance of which was approximately \$692,000 and was funded by the District. The total outstanding loan balance as of December 31, 2023, was approximately \$426,428 on the \$724,000 loan. The \$329,000 loan was paid in full during the 2023 year.

The remaining loan requires a reserve be established and maintained in the amount of \$44,844. During the year ended December 31, 2015, the District reserve was fully funded. As of December 31, 2023, the reserve balance is approximately \$47,577.

On November 17, 2010, the District entered into a loan agreement with the Rural Utilities Service division of the USDA for \$4,800,000. The loan bears interest at 3.75%, and requires monthly payments of \$19,344, beginning December 17, 2010, through November 17, 2050. The proceeds of the loan were utilized to acquire and construct the Caney River project water system improvements. The total cost of the project was approximately \$6,300,000. The remaining balance of which was approximately \$1,500,000 and was funded by the District. The total outstanding loan balance as of December 31, 2023, was approximately \$3,715,722.

This loan requires that a reserve be established and maintained in the amount of \$232,128. During the year ended December 31, 2011, the District reserve was fully funded. The balance in the reserve account at December 31, 2023, is approximately \$246,373.

B. REFUNDING AND CAPITAL IMPROVEMENT REVENUE BONDS

On March 16, 2020, the District issued Revenue Bonds. The Par Amount of the Bonds were \$12,605,000 which were sold at a premium of \$959,204. The proceeds were utilized to pay off Oklahoma Water Resources Board (OWRB) debt of \$11,985,159, fund capital projects costing approximately \$1,189,922, establish a bond fund of \$20,024 and pay related bond expenses of \$384,203.

The bond agreement requires monthly payments into a Bond Fund debt service account, to be held by a trustee, who will make semi-annual payments of principal and interest on March 15th and September 15th each year beginning September 15, 2020, and ending September 15, 2041. As of December 31, 2023, the account was fully funded and has a balance of approximately \$209,699.

The bond premium of \$959,204 is amortized over the life of the bonds using the effective interest method. The bond coupons carry an interest rate between 2% and 3%. As of December 31, 2023, the balance of the bond premium was approximately \$927,310 and the bonds payable balance is \$11,040,000.

C. CHANGES IN LONG-TERM DEBT

The following is a summary of changes in Long-term debt for the year ended December 31, 2023.

Type of Debt	Balance 12/31/2022	Additions	Reductions	Balance 12/31/2023	Amount Due Within One Year
Business Type Activities:					
RECD Loan 724,200	\$ 447,196	-	(20,768)	426,428	\$ 21,940
RECD Loan 329,000	17,923	-	(17,923)	-	-
RUS Loan	3,806,658	-	(90,936)	3,715,722	94,407
Revenue Bond	11,500,000	-	(460,000)	11,040,000	470,000
Revenue Bond Premium	941,887	-	(14,577)	927,310	38,267
Total Business Type Activities:	<u>\$ 16,713,664</u>	<u>-</u>	<u>(604,204)</u>	<u>16,109,460</u>	<u>\$ 624,614</u>

D. DEBT SERVICE REQUIREMENTS

The annual debt service requirements to maturity, including principal and interest, for the long-term debt as of December 31, 2023, is as follows:

Year Ended December 31	Principal	Interest	Total
2024	\$ 624,614	\$ 488,301	\$ 1,112,914
2025	653,429	469,286	1,122,715
2026	681,820	449,540	1,131,360
2027	710,453	429,202	1,139,654
2028	735,961	408,113	1,144,074
2029-2033	9,969,172	2,448,909	12,418,082
2034-2038	882,854	428,554	1,311,408
2039-2043	893,330	267,310	1,160,640
2044-2048	957,828	84,301	1,042,129
Totals	<u>\$ 16,109,460</u>	<u>\$ 5,473,516</u>	<u>\$ 21,582,976</u>

NOTE 3: WATER PURCHASE CONTRACT

The District has contracts to purchase water from Lake Oologah (an impoundment of the Verdigris River), the Skiatook Reservoir (an impoundment of Hominy Creek), the Caney River and the City of Tulsa. In connection therewith, the District has contracts with the United States Corps of Engineers and the City of Tulsa, and permits to appropriate stream water, from the Verdigris River, Hominy Creek and the Caney River, with the Oklahoma Water Resources Board.

NOTE 4: RETIREMENT PLAN

The District participates in a governmental Section 457 salary reduction plan. The plan is managed by Pension Solutions. All full-time employees are eligible to participate. The District contributes 4 % of each employee's gross salary, monthly, to the plan. Employees are eligible to contribute a percentage of their compensation up to a maximum amount allowed by the plan, and if they contribute at least 4 %, then the District matches that up to 4%. All District contributions become fully vested after 1 year of service.

NOTE 5: LITIGATION

The District is a party to various legal proceedings that normally occur in the course of operations. The financial statements do not include accruals or provisions for loss contingencies that may result from these proceedings. While the outcome of the above noted proceedings cannot be predicted, due to the insurance coverage maintained by the District, the District feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the District.

NOTE 6: SUBSEQUENT EVENTS

Subsequent events have been evaluated through April 24, 2024, which is the date the financial statements were available to be issued.

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

**COMBINING STATEMENT OF NET POSITION
DECEMBER 31, 2023**

	Bond Fund 2023	Enterprise Fund 2023	Total 2023
ASSETS			
Current assets:			
Cash and cash equivalents	\$ -	\$ 3,841,562	\$ 3,841,562
Restricted cash	811,711	431,661	1,243,372
Investments		5,125,539	5,125,539
Accounts receivable	-	454,709	454,709
Accrued interest receivable	-	3,129	3,129
Inventory	-	425,147	425,147
Prepaid insurance	-	62,568	62,568
Total current assets	<u>811,711</u>	<u>10,344,315</u>	<u>11,156,026</u>
Noncurrent assets:			
Other assets:			
Capital assets:			
Building & land	-	705,678	705,678
Machinery & tools	-	514,184	514,184
Automotive equipment	-	663,297	663,297
Furniture & fixtures	-	116,212	116,212
Lab equipment	-	40,706	40,706
Water treatment & distribution system	-	58,949,622	58,949,622
Construction in Progress	-	790,130	790,130
Less accumulated depreciation	-	(22,151,039)	(22,151,039)
Total capital assets	<u>-</u>	<u>39,628,790</u>	<u>39,628,790</u>
Total Assets	<u>811,711</u>	<u>49,973,105</u>	<u>50,784,816</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ -	\$ 70,116	\$ 70,116
Accrued interest payable	-	170,917	170,917
Current portion of long-term debt	-	624,614	624,614
Total current liabilities	<u>-</u>	<u>865,647</u>	<u>865,647</u>
Noncurrent liabilities:			
Revenue Bonds payable net of premium	-	11,967,310	11,967,310
Notes payable	-	4,142,150	4,142,150
Less: current portion	-	(624,614)	(624,614)
Total noncurrent liabilities	<u>-</u>	<u>15,484,846</u>	<u>15,484,846</u>
Total Liabilities	<u>-</u>	<u>16,350,493</u>	<u>16,350,493</u>
NET POSITION			
Net investment in capital assets	-	23,519,330	23,519,330
Restricted for debt service	811,711	447,225	1,258,936
Unrestricted	<u>-</u>	<u>9,656,057</u>	<u>9,656,057</u>
Total Net Position	<u>\$ 811,711</u>	<u>\$ 33,622,612</u>	<u>\$ 34,434,323</u>

The accompanying notes and auditor's report are an integral part of the financial statements.

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

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2023**

	Bond Fund 2023	Enterprise Fund 2023	Total 2023
Operating revenues:			
Water sales (net of adjustments)	\$ -	\$ 6,721,046	\$ 6,721,046
Penalties, fees, service charges and miscellaneous	-	449,905	449,905
Total operating revenues	<u>-</u>	<u>7,170,951</u>	<u>7,170,951</u>
Operating expenses:			
Salaries, wages & contract labor	-	1,403,638	1,403,638
Payroll taxes	-	109,716	109,716
Employee benefits	-	91,025	91,025
Utilities	-	406,084	406,084
Telephone	-	24,144	24,144
Equipment expense	-	3,070	3,070
Depreciation	-	1,337,006	1,337,006
Vehicle expense	-	80,799	80,799
Building, vehicle & other insurance	-	379,953	379,953
Plant repair & maintenance	-	213,716	213,716
Chemicals	-	1,689,786	1,689,786
Travel, entertainment & miscellaneous	-	107,893	107,893
Licenses & fees	-	60,168	60,168
Plant supplies	-	879,688	879,688
Water purchased	-	10,067	10,067
Office expense & postage	-	103,997	103,997
Professional fees	-	403,825	403,825
Total operating expenses	<u>-</u>	<u>7,304,575</u>	<u>7,304,575</u>
Net operating income	<u>-</u>	<u>(133,624)</u>	<u>(133,624)</u>
Nonoperating revenue (expense)			
New benefit units	-	495,500	495,500
Contribution of developments	-	1,801,974	1,801,974
Unrealized gain on Treasury Bills	-	125,539	125,539
Interest income	53,701	139,498	193,199
Interest Expense	(333,855)	(173,104)	(506,959)
Total nonoperating revenue (expense)	<u>(280,154)</u>	<u>2,389,407</u>	<u>2,109,253</u>
Operating Transfers: In	800,733	1,446,403	2,247,136
Operating Transfers: Out	(1,446,403)	(800,733)	(2,247,136)
Total Operating Transfers	<u>(645,670)</u>	<u>645,670</u>	<u>-</u>
Change in net position	(925,824)	2,901,453	1,975,629
Net position beginning of year	<u>1,737,535</u>	<u>30,721,159</u>	<u>32,458,694</u>
Net position end of year	<u>\$ 811,711</u>	<u>\$ 33,622,612</u>	<u>\$ 34,434,323</u>

The accompanying notes and auditor's report are an integral part of the financial statements.

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

**BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2023**

- UNAUDITED -

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Amounts	
Beginning Budgetary Balance	\$ 4,768,468	\$ 4,768,468	\$ 4,768,468	\$ -
Operating Revenues:				
Water sales	6,600,000	6,600,000	6,721,046	121,046
Memberships	460,000	460,000	495,500	35,500
Penalties, fees, service charges & misc	468,500	468,500	449,905	(18,595)
Total operating revenues	7,528,500	7,528,500	7,666,451	137,951
Operating Expenses:				
Salaries	1,365,000	1,365,000	1,403,638	(38,638)
Contract labor	20,000	20,000	31,257	(11,257)
Payroll taxes	110,500	110,500	109,716	784
Retirement	86,000	86,000	91,025	(5,025)
Automobile	100,000	100,000	80,799	19,201
Equipment expense	20,000	20,000	3,070	16,930
Chemicals	1,600,000	1,600,000	1,689,786	(89,786)
Subscriptions / License / Fees	55,000	55,000	64,479	(9,479)
Education	9,000	9,000	8,761	239
Supplies	750,000	750,000	880,188	(130,188)
Office expense	75,000	75,000	47,371	27,629
Postage	60,000	60,000	56,591	3,409
Professional fees	250,000	250,000	403,825	(153,825)
Line Extensions	700,000	700,000	1,488,198	(788,198)
Repair & maintenance	200,000	200,000	213,716	(13,716)
Telephone	26,000	26,000	24,144	1,856
Utilities	433,000	433,000	406,084	26,916
Travel	15,000	15,000	16,560	(1,560)
Uniforms	5,000	5,000	3,714	1,286
Water Purchased	33,000	33,000	10,067	22,933
Insurance	367,000	367,000	379,953	(12,953)
Taxes	50	50	50	-
Refunds	26,000	26,000	42,775	(16,775)
Total operating expenses	6,305,550	6,305,550	7,455,767	(1,150,217)
Non-operating (income) expenses:				
Caney River loan payments with interest	232,128	232,128	232,128	-
FmHA loan payments	44,844	44,844	63,522	(18,678)
N. Plant loan payments	800,932	800,932	671,955	128,977
Miscellaneous income	-	-	(1,801,974)	1,801,974
Unrealized gain on investment	-	-	(125,539)	125,539
Interest income	(150,000)	(150,000)	(193,199)	43,199
Total non-operating (income) expenses	927,904	927,904	(1,153,107)	2,081,011
Total Expenses	7,233,454	7,233,454	6,302,660	930,794
Ending Budgetary Balance	\$ 5,063,514	\$ 5,063,514	\$ 6,132,259	\$ 1,068,745

The accompanying notes and auditor's report are an integral part of the financial statements.

RURAL WATER DISTRICT NO. 3
Washington County, Oklahoma

NOTES TO BUDGETARY COMPARISON SCHEDULE
For the Year Ended December 31, 2023

Budgetary Information

In accordance with the by-laws of the District, the Board of Directors shall prepare an estimated budget for the coming year.

Basis of Accounting

The budget is prepared on the same accrual basis of accounting as applied to the basic financial statements. Revenues and the related assets are recognized when earned, and expenditures are recognized when the obligation is incurred.

MICHAEL W. GREEN
Certified Public Accountant

827 W. Locust Street
STILWELL, OK. 74960
(918) 696-6298

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Washington County Rural Water District No. 3, (the District), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued my report thereon dated April 24, 2024.

Report on Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses or significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of my 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.

Regards,

A handwritten signature in black ink, appearing to read "Mike Green", with a stylized, cursive script.

Michael Green, CPA
Stilwell, Oklahoma
April 24, 2024