

RURAL WATER DISTRICT NO. 3
Washington County, Oklahoma

FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

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RURAL WATER DISTRICT NO. 3
Washington County, Oklahoma

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

I have audited the accompanying financial statements of the business-type activities of Washington County Rural Water District No. 3 as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise Washington County Rural Water District No. 3's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. 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. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Washington County Rural Water District No. 3 as of December 31, 2014 and 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8, and page 26, 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. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated April 27, 2015, on my consideration of Washington County Rural Water District No. 3'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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Washington County Rural Water District No. 3's, internal control over financial reporting and compliance.



Bruce G. Luttrell, CPA, PC

April 27, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

**Washington County Rural Water District No. 3
Management's Discussion and Analysis Report
For Fiscal Year 2014
(Ended December 31, 2014)**

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 '14 (662,659,058 gallons) increased slightly by approximately 2 percent when compared to the previous year (sold 649,559,927 gallons in FY '13).
- Revenues from the sale of water accounted for 88.0 percent of all revenues. The total revenue from water sales increased by approximately 3 percent when compared to FY '13.
- The District expended approximately \$ 832,000 on new infrastructure during the year.
- The District *did* improve its position with regard to total liabilities by *decreasing* their value by \$ 402,705 when compared to FY '13. Total equity *decreased* by approximately \$ 149,000.
- The District as a whole is much better off as a result of the year's activities.

Overview of Financial Statements

The financial statements prepared for the FY '14 audit were used to develop this report. A brief description of each statement and their purpose follows:

Statements of Net Position [Balance Sheet] - The purpose for the “Statements of Net 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 Net 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

	12/31/14	12/31/13	Dollar Change	Percent Change
Current and Other Assets	5,074,944	\$5,503,576	<428,632>	7.8
Capital Assets	30,467,965	\$30,567,732	<99,767>	0.3
Total Assets	35,542,909	\$36,071,308	<528,399>	1.5
Current Liabilities	597,080	\$559,628	37,452	6.7
Long-Term Liabilities	17,728,816	\$18,144,932	<416,116>	2.3
Total Liabilities	18,325,896	\$18,704,560	<378,664>	2.0
Net Assets invested in capital assets, net of related debt	12,367,340	\$12,064,402	302,938	2.5
Restricted for debt service	319,673	\$368,524	<48,851>	13.3
Unrestricted net assets	4,530,000	\$4,933,822	<403,822>	8.2
Total Net Assets	17,217,013	\$17,366,748	<149,735>	0.9

Condensed Statement of Activities

	12/31/14	12/31/13	Dollar Change	Percent Change
Operating Revenues	4,277,830	\$4,154,515	123,315	3.0
Non-operating Revenues	362,969	\$796,825	<433,856>	54.4
Total Revenues	4,640,799	\$4,951,340	<310,541>	6.3
Depreciation Expense	931,770	\$466,086	465,684	99.9
Other Operating Expenses	3,611,024	\$3,756,501	<145,477>	3.9
Total Expenses	4,542,794	\$4,222,587	320,207	7.6
Change in Net Assets	98,005	\$728,753	<630,748>	86.6
Beginning Net Assets	17,119,008	\$16,637,995	481,013	2.9
Ending Net Assets	17,217,013	\$17,366,748	<149,735>	0.9

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 346 new benefit units (i.e., water meters) were sold compared to a total of 361 sold in FY '13. The District sold 662,659,058 gallons of water which represents an approximate increase of 2 percent over FY '13. The slight decrease in year-over-year benefit unit sales is likely the result of a slowing housing market compared to the previous year.

Statements of Net Position:

Total Net Assets - The *Statement of Net Position* shows that the District's total net assets actually *decreased* by \$ 149,735 when compared with FY '13. This *decrease* represents 0.9 % in our total net assets. Although current assets (i.e., cash) *increased* by \$ 37,452, the District's fixed assets (i.e., land, equipment and infrastructure) actually *decreased* by \$ 99,767 and the District's investments *decreased* by \$ 200,000.

On the 2 nd page of the *Statement of Net Position* we see that the District *improved* its position with regard to total (i.e., current and long term) liabilities by *decreasing* their value by \$ 378,664 when compared to FY '13. This *decrease* occurred primarily in the category of *long term liabilities*. Total equity *decreased* by approximately \$ 149,000.

Statement of Revenues, Expenditures and Changes in Fund Assets:

Reviewing the *Statement of Revenues, Expenditures and Changes in Fund Assets* we can see that the District's change in net assets was \$ 98,005. This compares *unfavorably* to the net change in net assets of \$ 728,753 experienced in FY '13.

Revenues – The District's total operating revenues for FY '14 were \$ 4,277,830. This represents an *increase* of approximately \$ 123,315 or 2.9 percent over FY '13. Approximately 88.0 percent of our revenues (i.e., \$ 4,085,432) were derived from sale of water services.

Approximately 7.5 percent of revenues (\$ 346,500) came from membership fees. Revenues from these items were *down* 4.0 percent over FY '13.

Expenses - The District's total operating expenses were \$ 4,542,794. Excluding depreciation and amortization the total operating expenses are reduced to \$ 3,611,024. This represents an approximate *decrease* of \$ 135,987 or 3.6 percent over FY '13.

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 \$ 75,627.

Annual Budget

As required by the District's By-Laws an Annual Budget was prepared by the District Manager for FY '14. 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 '14 Annual Budget was reviewed and approved by the Board during the Board meeting held on March 10, 2014.

Debt Administration:

The remaining balance for all promissory notes (i.e., loans) at the beginning of the year was \$ 18,503,330. \$ 165,552 was drawn on the OWRB loan, and all scheduled loan and interest payments through December 31, 2014 were made on time. The District reduced its principal on outstanding loans by \$ 568,257. The balance remaining on all outstanding loans is \$ 18,100,625. The sinking fund for the District's loans is fully funded.

Highlights of Other Critical Information:

- In Fiscal Year 2014 the District has continued to meet the new and more stringent water quality regulations. This includes monthly testing for Total Organic Carbons (TOC's) and quarterly testing for Trihalomethanes (THM's) and Haloacetic Acids (HAA's). The District is pleased to report that our water quality complied with all the regulations. We started testing for unregulated contaminants in the October 2014.
- Caney River Raw Water Supply Project – Although the project is functional all the final construction tasks on the project have not been completed. Legal action filed by the Contractor against the District is in progress.
- Water Treatment Plant (WTP) Expansion Project – The WTP was put into production in April 2014; however work continued to complete other construction items.
- Legal Action by Design Engineer of WTP Expansion Project – Formal legal action continued against the District in 2014 by the design engineer for additional fees.
- City of Owasso Utility Relocation Projects – The District worked with the City and their representatives on the construction of water line relocations for District infrastructure located near the intersection of 106th Street North and Garnett.
- Two (2) water towers in the distribution system were cleaned during 2014 (i.e., Scott and 2MG towers).
- Water Resources Master Planning – We continue work on a new master plan for the District.
- 24-inch Water Line Extension – The District continued construction on a 24-inch water line extension along 129th East Avenue from 126th Street North to approximately 116th Street North.
- Oologah Raw Water Pump Station – The District purchased a new raw water pump for Pump #2.
- Tulsa County Water Line Relocation Project – The District completed work on the relocation of a water line at Skalall Creek.

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 decreased. We ended the year with less cash and investments (i.e., \$ 324,478) than we started with.

Looking Forward – As we look forward to Fiscal Year 2015 we anticipate our growth to be the same or slightly greater than that which was experienced in FY '14. We also anticipate progress on the following major capital projects:

- Water Treatment Plant (WTP) Expansion Project – We anticipate that all construction on the remainder of the project will be completed in the second of FY 2015.
- Caney River Raw Water Supply Project – We anticipate the remaining construction to be completed in the second or third quarter of 2015.

- Water Resources Master Plan – We anticipate completing the master plan in 2015. This master plan will identify future capital needs with emphasis on priority.
- Water Towers – Repair work is expected to be completed to certain water towers.
- Discharge Permit – We anticipate renewal of the discharge permit to the Caney River.
- Future Water Lines – The District is planning:
 - The completion of the 24-inch water line along 129th East Avenue from 126th Street North to approximately 116th Street North.
 - The completion of approximately 3,000 linear feet of 16-inch raw water line relocation at the AEP/PSO Oologah Power Station Facility.
 - Design for relocation of certain water lines along Highway 11.

FINANCIAL STATEMENTS

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

**STATEMENTS OF NET POSITION
DECEMBER 31, 2014 AND 2013**

	2014	2013
ASSETS		
Current assets:		
Cash	\$ 726,009	\$ 801,636
Investments	3,150,000	3,350,000
Restricted cash & investments (Note 7)	319,673	368,524
Accounts receivable	407,322	382,173
Accrued interest receivable	508	519
Inventory	419,626	302,697
Prepaid insurance	51,806	50,287
Total current assets	5,074,944	5,255,836
Noncurrent assets:		
Other assets:		
Debt issue costs (Note 2)	-	247,740
Total other assets	-	247,740
Capital assets:		
Building & land	307,638	307,638
Machinery & tools	322,336	322,336
Automotive equipment	340,778	345,200
Furniture & fixtures	116,212	116,212
Lab equipment	40,706	40,706
Water treatment & distribution system	40,315,027	39,527,481
Less accumulated depreciation	(10,974,732)	(10,091,841)
Total capital assets	30,467,965	30,567,732
Total Assets	\$ 35,542,909	\$ 36,071,308

The accompanying notes to the financial

	<u>2014</u>	<u>2013</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 79,241	\$ 55,387
Accrued interest payable	146,030	145,843
Current portion of long-term debt (Note 2)	371,809	358,398
Total current liabilities	<u>597,080</u>	<u>559,628</u>
Noncurrent liabilities:		
Notes payable (Note 2)	18,100,625	18,503,330
Less: current portion	(371,809)	(358,398)
Total noncurrent liabilities	<u>17,728,816</u>	<u>18,144,932</u>
 Total Liabilities	 <u>18,325,896</u>	 <u>18,704,560</u>
 NET POSITION		
Invested in capital assets, net of related debt	12,367,340	12,064,402
Nonspendable	419,626	302,697
Restricted for debt service	319,673	368,524
Unassigned	4,110,374	4,631,125
 Total Net Position	 <u>\$ 17,217,013</u>	 <u>\$ 17,366,748</u>

statements are an integral part of this statement.

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

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	2014	2013
Operating revenues:		
Water sales (net of adjustments)	\$ 4,085,432	\$ 3,964,340
Penalties, fees, service charges and miscellaneous	192,398	190,175
Total operating revenues	4,277,830	4,154,515
Operating expenses:		
Salaries, wages & contract labor	832,434	799,816
Payroll taxes	65,708	63,835
Employee benefits	231,324	215,228
Utilities	347,556	362,443
Telephone	12,733	15,345
Equipment expense	38,630	10,194
Depreciation	931,770	466,086
Interest expense	657,934	685,319
Vehicle expense	57,133	74,140
Building, vehicle & other insurance	93,828	90,770
Plant repair & maintenance	134,140	39,533
Chemicals	730,184	519,372
Travel, entertainment & miscellaneous	35,854	25,625
Licenses & fees	30,888	29,322
Plant supplies	58,500	323,419
Water purchased	15,854	230,393
Office expense & postage	78,231	73,225
Professional fees	190,093	189,032
Amortization (Note 10)	-	9,490
Total operating expenses	4,542,794	4,222,587
Net operating income	(264,964)	(68,072)
Nonoperating revenue (expense)		
New benefit units	346,500	361,000
Settlement of encroachment lawsuit	-	420,000
Interest income	14,200	16,325
Gain on sale of assets	2,769	-
Trustee fee	(500)	(500)
Total nonoperating revenue (expense)	362,969	796,825
Change in net position	98,005	728,753
Net position beginning of year (Note 10)	17,119,008	16,637,995
Net position end of year	\$ 17,217,013	\$ 17,366,748

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

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

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	2014	2013
Cash flows from operating activities:		
Receipts from customers	\$ 4,252,681	\$ 4,140,769
Payments to suppliers	(2,886,296)	(2,953,525)
Payments to employees	(819,124)	(791,678)
Net cash provided (used) by operating activities	547,261	395,566
Cash flows from noncapital financing activities:		
Transfers from (to) investments	200,000	300,000
Transfers from (to) restricted cash and investments	48,851	(13,367)
Settlement of encroachment lawsuit	-	420,000
Trustee fee	(500)	(500)
Net cash provided (used) by noncapital financing activities	248,351	706,133
Cash flows from capital and related financing activities:		
New benefit units	346,500	361,000
Purchase of capital assets	(832,003)	(860,178)
Principal paid on capital debt	(568,258)	(652,325)
Issue new capital debt	165,553	224,088
Sales and trade assets	2,769	0
Net cash provided (used) by capital and related financing activities	(885,439)	(927,415)
Cash flows from investing activities:		
Interest income	14,200	16,325
Net increase (decrease) in cash and cash equivalents	(75,627)	190,609
Cash balance beginning of year	801,636	611,027
Cash balance end of year	\$ 726,009	\$ 801,636
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (264,964)	\$ (68,072)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Cash flows reported in other categories:		
Depreciation expense	931,770	466,086
Amortization	-	9,490
Change in assets and liabilities:		
Accounts receivable	(25,149)	(13,746)
Accrued interest receivable	11	340
Inventory	(116,929)	0
Prepaid insurance	(1,519)	(1,437)
Accounts payable	23,854	4,232
Accrued interest payable	187	(1,327)
Net cash provided by operating activities	\$ 547,261	\$ 395,566

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

NOTES TO BASIC FINANCIAL STATEMENTS

RURAL WATER DISTRICT NO. 3
Washington County, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

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

The membership consists of approximately 9,300 benefit unit holders, each entitled to one vote. Subscribers to benefit units pay a \$ 1,000 subscription fee (\$ 750 prior to May 2005), which is non-refundable, and entitles the holder to one line from the District's water system. The Board of Directors consist of 7 members serving 3 year terms. The vacant Board seats are filled at the annual meeting in April, and following, the Board of Directors meet and elect a Chairman, Vice-Chairman, Secretary and Treasurer.

B. BASIS OF ACCOUNTING

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

C. INVENTORY

During the year ended December 31, 1998, the District instituted 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, 2014 and 2013, financial statements at \$ 407,322 and \$ 302,697, respectively.

D. FIXED ASSETS

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

RURAL WATER DISTRICT NO. 3
Washington County, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

A summary of the fixed asset accounts for the year ended December 31, 2014, is as follows:

	<u>Beginning</u>				<u>Ending</u>
	<u>Balance</u>	<u>Additions</u>	<u>Rtmts</u>	<u>Transfers</u>	<u>Balance</u>
Building & Land	\$ 307,638				\$ 307,638
Machinery & Tools	322,336				322,336
Automotive	345,200	44,457	48,879		340,778
Furniture, Fixtures & Equipment	116,212				116,212
Lab Equipment	40,706				40,706
Water Treatment & Distribution System	<u>39,527,481</u>	<u>787,546</u>			<u>40,315,027</u>
Total	<u>\$ 40,659,573</u>	<u>832,003</u>	<u>48,879</u>	<u>-</u>	<u>\$ 41,442,697</u>

E. DEPOSITS AND INVESTMENTS

Custodial Credit Risk - Custodial credit risk related to deposits exists when the District holds deposits that are uninsured and uncollateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the District's name, or collateralized without a written or approved collateral agreement. Exposure to custodial credit risk related to investments exists when the District holds investments that are uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the District's name. The District's policy for custodial credit risk is to secure its uninsured deposits with collateral. As of December 31, 2014, \$ 3,945,182 of the District's bank balances was exposed to custodial credit risk as follows:

Collateralized with securities held by the banks' trust department but not in the District's name	\$ 3,945,182
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Investment Credit Risk - The District has no investment policy that limits its investments choices other than the limitation of state law as follows:

RURAL WATER DISTRICT NO. 3
Washington County, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- a) Direct obligations of the U.S. Government, its agencies or instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b) Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c) With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper, and repurchase agreements with certain limitations.
- d) County, municipal, or school district tax-supported debt obligation, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, a municipality, or school district.
- e) Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- e) Money market funds regulated by the Securities and Exchange Commission and in which investments consist of the investments mentioned in the previous paragraphs a,b,c, and d.

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

Concentration of Credit Risk – The District places no limit on the amount it may invest in any one issuer. Since the District has all investments in certificates of deposit, there is no concentration of investment credit risk exposure.

The deposits and investments held at December 31, 2014, are as follows:

Type	Maturity (Months)	Credit Rating	Market Value	Cost
Cash Deposits	N/A	N/A	1,045,182.29	1,045,182.29
Investments				
Certificates of Deposit	12	N/A	<u>3,150,000.00</u>	<u>3,150,000.00</u>
Total Deposits and Investments			<u>4,195,182.29</u>	<u>4,195,182.29</u>

RURAL WATER DISTRICT NO. 3
Washington County, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. STATEMENT OF CASH FLOWS

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

G. COMPENSATED ABSENCES

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

Vacation pay is vested, and thus paid upon retirement or separation (with two weeks' notice.) Vacation time is to be taken during the calendar year. Employees are required to utilize at least one-half of earned vacation time. The remaining vacation time will be paid at year end, and does not carry over to the next year without Board approval. The vacation accrued at December 31, 2014, was paid the first week of 2015.

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

H. ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2014 and 2013, 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, 2014 and 2013.

I. INVESTMENTS

Investments classified in the financial statements, consist entirely of certificates of deposit whose original maturity term exceeds three months. Investments are carried at cost, which approximated fair value.

J. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles

RURAL WATER DISTRICT NO. 3
Washington County, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

K. CASH AND CASH EQUIVALENTS

For the purpose of financial reporting, “cash and cash equivalents” include all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less.

L. EQUITY CLASSIFICATION

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Balance

Fund Balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable – The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, such as inventory. It also includes the long-term amount of interfund loans.

Restricted – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation (ordinances).

RURAL WATER DISTRICT NO. 3
Washington County, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Enabling legislation authorizes the District to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the District can be compelled by an external party such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of the Board of Trustees. Those committed amounts cannot be used for any other purpose unless the Board of Trustees removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by the Board of Trustees, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints are not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board of Trustees or any official delegated that authority by trust indenture or ordinance.

Unassigned – Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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.

RURAL WATER DISTRICT NO. 3
Washington County, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

M. BUDGETARY DATA

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

NOTE 2: LONG-TERM DEBT

A. RURAL DEVELOPMENT LOANS

During the previous year, the District entered into a loan agreement with the Rural Utilities Service division of the USDA for \$ 4,800,000. The loan bears interest at 3.75 %, and requires monthly payments of \$ 19,344, beginning December 17, 2010, through November 17, 2050 (forty years.) The proceeds of the loan was utilized to acquire and construct water system improvements, namely the Caney River project. The total cost of the project was approximately \$ 6,300,000, thus the District provided the balance of the funds for the project (\$ 1,500,000.) The total balance outstanding under the loan as of December 31, 2014 and 2013, was \$ 4,413,080 and \$ 4,488,529, respectively.

This loan requires that a reserve be established in the amount of \$ 1,934.40 per month, until a balance of \$ 232,128 is maintained. During the year ended December 31, 2011, the District funded the reserve in full. The balance in the reserve account at December 31, 2014 and 2013, was \$ 236,254.42 and \$ 235,083.26, respectively.

During the year ended December 31, 2000, the District entered into two separate loan agreements with the Rural Economic and Community Development division of the USDA for \$ 724,200 and \$ 329,000. The loans bear interest at 5.5 %, and require monthly payments of \$ 3,737 and \$ 1,698, respectively, beginning November 4, 2000, through October 4, 2040. The proceeds of the loans were utilized to renovate and upgrade the existing north water treatment plant. The total cost of the project was approximately \$ 1,746,000. Thus, the District provided the balance of the funds for the project (approximately \$ 692,000.) The total balance outstanding under the loans as of December 31, 2014 and 2013, was approximately \$ 717,066 and \$ 746,018, respectively.

In connection with the settlement of the encroachment lawsuit during the previous year (discussed in Note 8), the remainder of the settlement (\$ 104,186.83) after reimbursing the District's legal fees, was paid on the principal of the \$ 329,000 loan.

In connection with the two loans, issue costs of \$ 31,702 were incurred. These were being amortized over the life of the loans (40 years), under the straight-line method. At December 31, 2013, accumulated amortization was \$ 10,093. During the current year, in connection with the implementation of GASB Statement No. 65, the remainder of the issue costs were written off (see Note 10.)

RURAL WATER DISTRICT NO. 3
Washington County, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

NOTE 2: LONG-TERM DEBT (continued)

Each of the loans require that a reserve be established in the amount of \$ 373.70 per month for the \$ 724,200 loan, until a balance of \$ 44,844 is maintained, and in the amount of \$ 169.80 per month for the \$ 329,000 loan, until a balance of \$ 20,376 is maintained. As of December 31, 2014 and 2013, the balances in the reserve accounts were \$ 66,392.59 and \$ 66,063.47, respectively.

B. OKLAHOMA WATER RESOURCES BOARD LOAN

On December 14, 2009, the District entered into a Drinking Water SRF (State Revolving Fund) promissory note, and a Trust Indenture, with the Oklahoma Water Resources Board, for \$ 17,394,645, to fund the expansion of the north water treatment plant. The total cost of the project is estimated at \$ 17,832,782. However, part of the funding (\$ 2,000,000) is from a grant from the EPA (Environmental Protection Agency) to the OWRB, under the Clean Water State Revolving Fund – American Recovery and Reinvestment Act of 2009 (ARRA.) Through December 31, 2013, a total of \$ 16,196,498 was drawn under the loan agreement, and expended, and principal of \$ 927,715 had been paid on the loan. And, in accordance with the agreement with the Oklahoma Water Resources Board, \$ 2,000,000 of those proceeds were funded through the American Recovery and Reinvestment Act of 2009, and that amount of the loan principle will be forgiven, pending compliance with all ARRA regulations. During the year ended December 31, 2014, another \$ 165,552 was drawn under the loan agreement, and expended, and principal of \$ 463,857 was paid on the loan.

The loan requires monthly payments into a debt service fund, to be held by a trustee, who will make semi-annual payments of principal and interest to the Oklahoma Water Resources Board on March 15 and September 15, beginning no later than March 15, 2012. The loan carries interest at 2.99 %, and an administrative fee of 0.5 %, and will be payable in 360 months from the date of completion. Interest and the administrative fee began March 15, 2010. The balance outstanding under the loan at December 31, 2014 and 2013, was \$ 12,970,478 and \$ 13,268,783, respectively.

The loan is secured by the revenue derived from the operation of the system, on parity with the security interest securing the District's existing debt. OWRB has also taken a security interest in virtually all of the District's assets.

In connection with this loan, issue costs of \$ 260,920 were incurred. These were being amortized over the life of the loan (30 years) under the straight-line method. At December 31, 2013, accumulated amortization was \$ 34,789. During the current year, in connection with the implementation of GASB Statement No. 65, the remainder of the issue costs were written off (see Note 10.)

The District's schedule of rates or charges for the services of the system shall be sufficient to provide funds which, together with other revenues pledged under the loan, will provide net

RURAL WATER DISTRICT NO. 3
Washington County, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

NOTE 2: LONG-TERM DEBT (continued)

revenues available for debt service equal to at least 125 % of the maximum annual amount required for debt service on all obligations of the District. The District was in compliance with this requirement during the years ending December 31, 2014 and 2013.

C. CHANGES IN LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended December 31, 2014.

Loan	Jan. 1, 2014	Additions	Reductions	Dec. 31, 2014	Amount Due Within One Year
RECD Loan – 724,200	590,688		14,752	575,936	13,386
RECD Loan – 329,000	155,330		14,199	141,131	13,001
RUS Loan	4,488,529		75,449	4,413,080	66,989
OWRB Loan	13,268,783	165,552	463,857	12,970,478	278,433
Total	18,503,330	165,552	568,257	18,100,625	371,809

D. DEBT SERVICE REQUIREMENTS

The annual debt service requirements to maturity, including principal and interest, for the long-term debt as of December 31, 2014, is as follows:

For the Year Ended December 31,	\$ 724,200 RECD Loan		\$ 329,000 RECD Loan		\$ 4,800,000 RUS Loan		OWRB Loan	
	Prin	Int	Prin	Int	Prin	Int	Prin	Int
2015	13,386	31,458	13,001	7,375	66,989	165,141	278,434	448,575
2016	14,141	30,703	13,735	6,641	69,550	162,579	288,308	438,701
2017	14,939	29,906	14,509	5,867	72,209	159,920	298,532	428,477
2018	15,781	29,063	15,328	5,048	74,970	157,160	309,119	417,889
2019	16,671	28,173	16,192	4,184	77,836	154,294	320,082	406,927
2020-2024	98,569	125,651	68,366	7,124	436,159	724,488	1,778,947	1,856,096
2025-2029	129,688	94,532	-	-	526,159	634,488	2,117,568	1,517,475
2030-2034	170,631	53,589	-	-	634,731	525,917	2,520,646	1,114,397
2035-2039	102,130	7,548	-	-	765,705	394,943	3,000,448	634,595
2040-2044	-	-	-	-	923,706	236,942	2,058,394	113,143
2045-2049	-	-	-	-	765,066	54,707	-	-
Totals	\$ 575,936	430,623	141,131	36,239	4,413,080	3,370,579	12,970,478	7,376,275

RURAL WATER DISTRICT NO. 3
Washington County, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

NOTE 3: WATER PURCHASE CONTRACT

The District purchases water from Lake Oologah (an impoundment of the Verdigris River) the Skiatook Reservoir (an impoundment of Hominy Creek) and the City of Tulsa (effective June 2006.) In connection therewith, the District has contracts with the United States Corps of Engineers and the City of Tulsa, and permits to appropriate stream water, from the Verdigris River, Hominy Creek and the Caney River, with the Oklahoma Water Resources Board.

NOTE 4: INVESTMENTS

Investments as of December 31, 2014, are summarized as follows:

	Cost	Fair Value	Carrying Value
Unrestricted:			
Certificates of Deposit	\$ 3,150,000	3,150,000	3,150,000
	\$ 3,150,000	3,150,000	3,150,000

NOTE 5: FAIR VALUES OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Corporation in estimating its fair value disclosures for financial instruments.

Cash, restricted cash, and notes payable: The carrying amounts reported in the statement of financial position approximate fair values because of the short term maturities of those instruments.

Investments: The fair values of investments are based on quoted market prices for those or similar investments.

The estimated fair values of the District's financial instruments at December 31, 2014, none of which are held for trading purposes, are as follows:

	Carrying Amount	Fair Value
Financial assets:		
Cash	\$ 726,009	\$ 726,009
Investments	3,150,000	3,150,000
Restricted Cash & Investments	319,673	319,673
Financial liabilities:		
Notes Payable	18,100,625	18,100,625

RURAL WATER DISTRICT NO. 3
Washington County, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

NOTE 6: RETIREMENT PLAN

The District participates in a governmental Section 457 salary reduction plan. The plan is managed by Pension Solutions. All full time employees are eligible to participate. The District contributes 4 % of each employee’s gross salary, monthly, to the plan. Employees are eligible to contribute a percentage of their compensation up to a maximum amount allowed by the plan, and if they contribute at least 2 %, then the District matches that up to 2 %. All District contributions become fully vested after 1 year of service.

NOTE 7: RESTRICTED NET ASSETS

Net assets were restricted for debt service at December 31, 2014 and 2013, as follows:

	2014	2013
RECD Reserve	\$ 45,652	\$ 45,426
RECD Reserve	20,740	20,638
RUS Reserve – Caney River	236,254	235,083
North Treatment Plant Project Fund	151	150
North Treatment Plant Construction Fund	1,455	1,414
Interest Reserve	15,421	65,813
	\$ 319,673	\$ 368,524

The RECD Reserves are maintained by the District, in separate interest bearing accounts, as discussed in Note 2.A. The North Treatment Plant Project Fund, the North Treatment Plant Construction Fund, and the Interest Reserve are held in separate interest bearing accounts at a local bank.

NOTE 8: LITIGATION

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

During the previous year, the encroachment lawsuit was settled with the City of Owasso. The City of Owasso paid the District \$ 420,000. The District retained \$ 315,813.17 for reimbursement for its legal fees, and the remaining \$ 104,186.83 was paid to Rural Development to be applied to the principal of the \$ 329,000 loan.

RURAL WATER DISTRICT NO. 3
Washington County, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

NOTE 9: LEASE

In December 2013, the District entered into an operating lease agreement for a skid steer. The lease included monthly payments of \$ 2,355, for two years. The lease included a purchase option, at any time, for \$ 64,380, and allowed the District to apply all rentals paid towards the purchase price. The annual lease payments are as follows:

<u>Year Ending</u>	<u>Total</u>
2015	<u>28,260</u>
Total lease obligations	\$ <u>28,260</u>

NOTE 10: NEW ACCOUNTING PRONOUNCEMENTS

The District implemented the following accounting standards during the year ended December 31, 2014:

Governmental Accounting Standards Board Statement No. 61 – The Financial Reporting Entity: Omnibus – This had no impact on the District’s financial report.

Governmental Accounting Standards Board Statement No. 62 – Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements – A few sentences were removed from “Note 1” to eliminate references to FASB pronouncements and APB opinions issued on or before November 30, 1989,

Governmental Accounting Standards Board Statement No. 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position – The only change required from the early implementation of this statement are changing the words “Net Assets” in the District’s financial report to “Net Position.”

Governmental Accounting Standards Board Statement No. 65, Items Previously Reported as Assets and Liabilities – This statement amends or supersedes the accounting and financial reporting guidance for certain items previously required to be reported as assets or liabilities.

The objective is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources, or recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues).

The following is a summary of the impact of the adoption of GASB 65 on the financial statements of the District as of and for the year ended December 31, 2013, as previously reported.

RURAL WATER DISTRICT NO. 3
Washington County, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2014

NOTE 10: NEW ACCOUNTING PRONOUNCEMENTS (continued)

	As previously Reported	Adjustments	As Restated
Deferred financing costs, net	247,739.86	<247,739.86>	-
Total	247,739.86	<247,739.86>	-
Net position – beginning of year	16,637,995.19	<247,739.86>	16,390,255.33
Change in net position	728,753.36	-	728,753.36
Net position – end of year	17,366,748.55	<247,739.86>	17,119,008.69

GASB issued Statement No. 67, *Financial Reporting for Pension Plans* and Statement No. 68, *Accounting and Financial Reporting for Pensions* in June 2012 that are effective for financial statements for periods beginning after June 15, 2013 and June 15, 2014, respectively. GASB Statement No. 67 became effective during the current year, and the District determined that there were no significant changes to the financial statements as a result of implementation. The District is in the process of evaluating the impact, if any that will result from adopting GASB Statement No. 68.

NOTE 11: SUBSEQUENT EVENTS

Subsequent events have been evaluated through April 27, 2015, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

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

**BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2014**

- UNAUDITED -

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Beginning Budgetary Balance	\$ 4,282,388.29	\$ 4,282,388.29	\$ 4,282,388.29	\$ -
Operating Revenues:				
Water sales	4,245,045.03	4,245,045.03	4,092,797.70	(152,247.33)
Memberships	340,000.00	340,000.00	346,500.00	6,500.00
Penalties, fees, service charges & misc	129,350.00	129,350.00	131,385.42	2,035.42
Total operating revenues	<u>4,714,395.03</u>	<u>4,714,395.03</u>	<u>4,570,683.12</u>	<u>(143,711.91)</u>
Operating Expenses:				
Salaries	819,500.00	819,500.00	826,027.10	(6,527.10)
Contract labor	20,000.00	20,000.00	6,407.25	13,592.75
Payroll taxes	67,200.00	67,200.00	65,707.51	1,492.49
Retirement	42,500.00	42,500.00	40,278.70	2,221.30
Automobile	85,000.00	85,000.00	57,132.52	27,867.48
Equipment expense	60,000.00	60,000.00	38,630.28	21,369.72
Chemicals	500,000.00	500,000.00	730,183.91	(230,183.91)
Subscriptions / License / Fees	38,000.00	38,000.00	33,093.48	4,906.52
Education	7,000.00	7,000.00	9,051.72	(2,051.72)
Supplies	340,000.00	340,000.00	58,500.07	281,499.93
Office expense	60,000.00	60,000.00	51,024.43	8,975.57
Postage	46,000.00	46,000.00	39,484.53	6,515.47
Professional fees	225,000.00	225,000.00	190,092.70	34,907.30
Line Extensions	80,000.00	80,000.00	33,702.29	46,297.71
Repair & maintenance	85,000.00	85,000.00	134,139.77	(49,139.77)
Telephone	15,000.00	15,000.00	12,733.48	2,266.52
Utilities	385,000.00	385,000.00	347,555.59	37,444.41
Travel	7,500.00	7,500.00	8,857.74	(1,357.74)
Uniforms	3,500.00	3,500.00	3,412.00	88.00
Water Purchased	40,000.00	40,000.00	15,854.48	24,145.52
Insurance	316,670.96	316,670.96	284,508.75	32,162.21
Taxes	50.00	50.00	50.00	-
Refunds	7,800.00	7,800.00	7,366.34	433.66
Total operating expenses	<u>3,250,720.96</u>	<u>3,250,720.96</u>	<u>2,993,794.64</u>	<u>256,926.32</u>
Non-operating (income) expenses:				
Caney River project	10,000.00	10,000.00	20,253.45	(10,253.45)
Caney River loan payments	232,128.00	232,128.00	232,128.00	-
N. Plant loan payments	947,882.65	947,882.65	929,156.59	18,726.06
FmHA loan payments	65,220.00	65,220.00	65,220.00	-
N. Plant upgrade	80,000.00	80,000.00	123,067.38	(43,067.38)
Miscellaneous income	(85,000.00)	(85,000.00)	(63,781.79)	(21,218.21)
Interest income	(16,000.00)	(16,000.00)	(14,199.76)	(1,800.24)
Total non-operating (income) expenses	<u>1,234,230.65</u>	<u>1,234,230.65</u>	<u>1,291,843.87</u>	<u>(57,613.22)</u>
Total Expenses	<u>4,484,951.61</u>	<u>4,484,951.61</u>	<u>4,285,638.51</u>	<u>199,313.10</u>
Ending Budgetary Balance	<u>\$ 4,511,831.71</u>	<u>\$ 4,511,831.71</u>	<u>\$ 4,567,432.90</u>	<u>\$ 55,601.19</u>

**RURAL WATER DISTRICT NO. 3
Washington County, Oklahoma**

**NOTES TO BUDGETARY COMPARISON SCHEDULE
For the Year Ended December 31, 2014**

Budgetary Information

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

Basis of Accounting

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

OTHER SUPPLEMENTARY INFORMATION

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

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

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 the business-type activities of Washington County Rural Water District No. 3 as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise Washington County Rural Water District No. 3's basic financial statements and have issued my report thereon dated April 27, 2015.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Washington County Rural Water District No. 3's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Washington County Rural Water District No. 3's internal control. Accordingly, I do not express an opinion on the effectiveness of Washington County Rural Water District No. 3's internal control.

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

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. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Washington County Rural Water District No. 3's financial statements are free of material misstatement, 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Bruce G. Luttrell, CPA, PC

April 27, 2015