

**Hughes County Rural Water District No. 3  
Holdenville, Oklahoma**

Financial Statements and  
Reports of Independent Auditor

October 31, 2012

Audited by

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

Broken Arrow, Oklahoma

**Hughes County Rural Water District No. 3**  
**Holdenville, Oklahoma**

Board of Directors  
October 31, 2012

**Chairman**

Tifford McConnell

**Vice Chairman**

Brian Smith

**Secretary/Treasurer**

Wayne Chambers

**Members**

Robert Hurst  
Dale Turner

**Manager**

Clifton Taylor

**Bookkeeper**

Ina Stringfellow

**P.O. Box 469**  
**Holdenville, Oklahoma 74848**  
**(405) 379-6962**

**Hughes County Rural Water District No. 3**  
**Holdenville, Oklahoma**

Table of Contents  
October 31, 2012

	<u>Page</u>
<b>Board of Directors .....</b>	<b><i>i</i></b>
<b>Independent Auditor's Report .....</b>	<b>1</b>
<b>Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....</b>	<b>2</b>
<b>Schedule of Audit Results .....</b>	<b>4</b>
<b>Combined Financial Statements:</b>	
Statement of Net Assets.....	5
Statement of Revenues, Expenses and Changes in Net Assets .....	6
Statement of Cash Flows .....	7
Notes to the Financial Statements .....	8
<b>Other Supplementary Information:</b>	
Balance Sheet .....	12
Statement of Income and Retained Earnings.....	13



# SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

## Independent Auditor's Report

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

We have audited the accompanying financial statements of the business-type activities of the Hughes County Rural Water District No. 3 (the District), Holdenville, Oklahoma, as of and for the year ended October 31, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of October 31, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management has elected to omit the Management Discussion and Analysis, which is considered required supplementary information that is normally subjected to auditing procedures. Due to this omission, the usefulness and accessibility of the financial statements are limited to the District's management. The omission of this information does not affect the opinion expressed on the financial statements as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2013, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole on the basis of accounting described in Note 1.

Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP

January 25, 2013



# SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

**Report on Internal Control Over Financial Reporting and on Compliance and Other  
Matters Based on an Audit of Financial Standards Performed in Accordance with  
Government Auditing Standards**

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

We have audited the combined financial statements of Hughes County Rural Water District No. 3 (the District), Holdenville, Oklahoma, as of and for the year ended October 31, 2012, which, except for the omission of the Management Discussion and Analysis, collectively comprise the District's basic financial statements and have issued our report thereon dated January 25, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepting accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in a more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

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

This report is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Sanders, Bledsoe & Hewett". The signature is written in a cursive, flowing style.

Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP

January 25, 2013

**Hughes County Rural Water District No. 3**  
**Holdenville, Oklahoma**

Schedule of Audit Results  
October 31, 2012

Section 1 – Summary of Auditor’s Results:

1. An unqualified opinion report was issued on the financial statements.
2. The audit disclosed no reportable conditions in the internal controls.
3. The audit disclosed no instances of noncompliance.

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

NONE

**HUGHES COUNTY RURAL WATER DISTRICT NO. 3**  
**Statement of Net Assets**  
**October 31, 2012**

**ASSETS**

Current assets:	
Cash in bank	\$ 62,718
Investments	69,399
Receivables	13,551
Prepaid insurance	1,308
Total current assets	<u>146,976</u>
Noncurrent assets:	
Note issuance costs	2,425
Capital assets:	
Construction in progress	1,054,665
Water system and improvements, net of depreciation	<u>130,505</u>
Total noncurrent assets	<u>1,187,595</u>
Total Assets	<u>1,334,571</u>

**LIABILITIES**

Current liabilities:	
Current portion of long-term debt	<u>8,688</u>
Noncurrent liabilities:	
Notes payable	<u>669,676</u>
Total Liabilities	<u>678,364</u>

**NET ASSETS**

Invested in capital assets, net of related debt	515,494
Restricted for debt service	8,688
Unrestricted assets	<u>132,025</u>
Total Net Assets	<u>\$ 656,207</u>

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



**HUGHES COUNTY RURAL WATER DISTRICT NO. 3**  
**Statement of Activities**  
**For The Year Ended October 31, 2012**

**Operating Revenues:**

Water sales	\$ 170,661
Fees and fines	1,591
Deposits	500
Refunds and reimbursements	1,307
Total revenues from operations	<u>174,059</u>

**Operating Expenses:**

Water purchases	107,981
Utilities and phone	3,758
Operating supplies	98
Repairs & maintenance	22,167
Insurance	2,266
Office expenses	3,247
Bookkeeping	5,376
Professional fees	1,496
Postage	246
Testing	1,033
Miscellaneous	1,008
Depreciation	6,689
Total expenses from operations	<u>155,365</u>

Operating Income (Loss)	18,694
-------------------------	--------

**Non-Operating Revenues (Expenses):**

Interest income	288
Rural Development grant proceeds	99,697
Interest expense on debt	<u>(27,316)</u>
Total non-operating revenues (expenses)	<u>72,669</u>

Change in Net Assets	91,363
----------------------	--------

Total Net Assets, beginning of period	<u>564,844</u>
---------------------------------------	----------------

Total Net Assets, end of period	<u><u>\$ 656,207</u></u>
---------------------------------	--------------------------

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

**HUGHES COUNTY RURAL WATER DISTRICT NO. 3**  
**Statement of Cash Flows**  
**For the Year Ended October 31, 2012**

**Cash flows from operating activities:**

Receipts from customers	\$ 169,799
Payments to vendors	<u>(148,652)</u>
Net cash (used in) provided by operating activities	<u>21,147</u>

**Cash flows from capital and related financing activities:**

Capital assets purchased	(92,028)
Contributed capital - Grant proceeds	99,697
Interest paid on debt	(27,316)
Principal payments on debt	<u>(8,348)</u>
Net cash used in capital and related financing activities	<u>(27,995)</u>

**Cash flows from investing activities:**

Interest on investments	<u>288</u>
-------------------------	------------

Net increase (decrease) in cash and cash equivalents (6,560)

Cash & cash equivalents, beginning of period 130,157

Cash & cash equivalents, end of period \$ 123,597

**Reconciliation of operating income (loss) to net cash provided by operating activities:**

Operating Income	\$ 18,694
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	6,689
(Increase) decrease in current assets-	
Accounts receivable, net	(4,260)
Prepaid expenses	<u>24</u>
Net Cash Provided by Operating Activities	<u><u>\$ 21,147</u></u>

The accompanying notes are an integral part of the financial statements

**HUGHES COUNTY RURAL WATER DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR YEAR ENDED OCTOBER 31, 2012**

**Note 1 – Significant Accounting Policies**

Basis of Accounting

The accrual basis of accounting is followed for all accounts. Revenues are recorded when earned and expenses are recognized when incurred. This policy is in accordance with generally accepted accounting principles.

Cash

The District's accounts at October 31, 2012, and are comprised as follows:

First United Bank, Holdenville, OK-	
Revenue Account	\$ 15,531
Oper. & Maint. Account	50,393
Loan Account	7,804
Less: Outstanding Checks	<u>(11,010)</u>
Total Cash	<u>\$ 62,718</u>

The District's cash deposits at October 31, 2012, are categorized to give an indication of the level of risk assumed by the district at year-end.

Investments

The District had the following investments at October 31, 2012:

First United Bank, Holdenville, OK	
Certificate of deposit No. 138995, dated 8-11-12, due 2-11-13	<u>\$ 69,399</u>

Accounts Receivable

Billings for accounts receivable at October 31, 2012, were \$13,551. No computation was made for allowance for doubtful accounts, which is not considered to be material to the financial statements.

**HUGHES COUNTY RURAL WATER DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR YEAR ENDED OCTOBER 31, 2012**

**Note 1 – Significant Accounting Policies – cont'd**

Fixed Assets

Fixed assets are valued at cost, and depreciation is computed by use of the straight-line method. The estimated useful life of these assets is 33 1/3 years.

	Balance Oct. 31, 2011	Additions	Deletions	Balance Oct. 31, 2012
Water System & Equipment	\$ 1,468,000	92,028	-	1,560,028
Less: Accumulated Depreciation	(368,168)	(6,689)	-	(374,857)
Net Fixed Assets	<u>\$ 1,099,832</u>	<u>85,339</u>	<u>-</u>	<u>1,185,171</u>

Restricted Assets

In accordance with the old loan agreement with the Oklahoma Water Resources Board, the District was required to maintain a Debt Service Reserve Fund with a balance of no less than \$18,188 as per the Trust Agreement. The total amount of the restricted assets represents all cash and investments held at BancFirst for the purpose of making future principal and interest payments. The balance at the end of October 31, 2012 was \$15,531. These funds remain in this account as of October 31, 2012.

Prior Year Information

Prior year information is shown on the financial statements for comparative purposes only. No assurance is given on prior year amounts.

Federal Income Tax

The District is exempt from federal and state income taxes.

**HUGHES COUNTY RURAL WATER DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR YEAR ENDED OCTOBER 31, 2012**

**Note 1 – Significant Accounting Policies – cont'd**

Collateral Pledged

Deposit Categories of Credit Risk

(A) Insured by Federal Deposit Insurance

(B) Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name

(C) Uncollateralized

Deposit Categories of Credit Risk:

	Category			Bank	Carrying
	(A)	(B)	(C)	Balance	Amount
Cash	\$ 62,718			62,718	73,728
Investments	69,399			69,399	69,399
Totals	<u>\$ 132,117</u>	<u>-</u>	<u>0</u>	<u>132,117</u>	<u>143,127</u>

**Note 2 – Long-Term Debt**

Long-term debt at October 31, 2012, is detailed as follows:

Promissory Note, \$632,720 to Rural Development, dated April 23, 2008, monthly payments of \$2,972 due beginning March 18, 2010 and a final payment on March 18, 2040. The note has an interest rate set at 4.00%.

Rural Development Note 91-01	\$ 678,364
Less: Current Maturities	<u>(8,688)</u>
Total Long-Term Debt Less Maturities	<u>\$ 669,676</u>

**HUGHES COUNTY RURAL WATER DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR YEAR ENDED OCTOBER 31, 2012**

**Note 2 – Long-Term Debt – cont'd**

The estimated maturities for the next five (5) years are as follows:

2012-13	\$ 8,688
2013-14	9,041
2014-15	9,410
2015-16	9,793
2016-17	9,830
Thereafter	<u>631,602</u>
Totals	<u>\$ 678,364</u>

**Note 3 – Accumulated Unpaid Vacation and Sick Pay**

At October 31, 2012, no determination of the aggregate dollar value of vacation and sick pay had been made.

# HUGHES COUNTY RURAL WATER DISTRICT NO. 3

## Balance Sheet October 31, 2012

	October 31,	
	2012	(Memo only) 2011
<u>ASSETS</u>		
Current Assets:		
Cash in bank	\$ 62,718	60,998
Investments	69,399	69,159
Accounts receivable	13,551	17,811
Prepaid Insurance	1,308	1,332
Total current assets	<u>146,976</u>	<u>149,300</u>
Fixed Assets:		
Water system	505,362	505,362
Construction in progress	1,054,665	962,637
Less: accumulated depreciation	<u>(374,857)</u>	<u>(368,168)</u>
Total fixed assets (net)	<u>1,185,170</u>	<u>1,099,831</u>
Other Assets:		
Organizational costs	<u>2,425</u>	<u>2,425</u>
Total Assets	<u>\$ 1,334,571</u>	<u>1,251,556</u>
<u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Current maturities of long-term debt	<u>\$ 8,688</u>	<u>8,348</u>
Long-Term Debt, less current maturities		
Notes payable	<u>669,676</u>	<u>678,364</u>
Total Liabilities	<u>678,364</u>	<u>686,712</u>
Fund Equity		
Contributed capital	357,982	258,285
Retained earnings - unrestricted	298,225	306,559
Total fund equity	<u>656,207</u>	<u>564,844</u>
Total Liabilities and Fund Equity	<u>\$ 1,334,571</u>	<u>1,251,556</u>

**HUGHES COUNTY RURAL WATER DISTRICT NO. 3**  
**Statement of Revenue, Expenses and Changes in Retained Earnings**  
**For the Year Ended October 31, 2012**

	2011-12	(Memo only) 2010-11
Revenue from Operations:		
Water sales	\$ 170,661	186,490
Benefit units	1,591	5,620
Deposits	500	0
Refunds and reimbursements	1,307	0
Total revenue from operations	<u>174,059</u>	<u>192,110</u>
Expenses from Operations:		
Water purchases	107,981	113,208
Utilities and phone	3,758	4,769
Operating supplies	98	0
Repairs & maintenance	22,167	30,369
Insurance	2,266	2,167
Office expenses	3,247	3,038
Bookkeeping	5,376	5,376
Professional fees	1,496	1,260
Postage	246	352
Testing	1,033	864
Miscellaneous	1,008	2,232
Depreciation	6,689	6,688
Total expenses from operations	<u>155,365</u>	<u>170,323</u>
Net Income (Loss) from Operations	18,694	21,787
Other Income:		
Interest earnings	<u>288</u>	<u>407</u>
Other Expenses:		
Interest on debt	<u>(27,316)</u>	<u>(26,780)</u>
Net Income (Loss)	(8,334)	(4,586)
Retained earnings, beginning of period	<u>306,559</u>	<u>311,145</u>
Retained earnings, end of period	<u><u>\$ 298,225</u></u>	<u><u>306,559</u></u>