

Hughes County Rural Water District No. 3
Holdenville, Oklahoma

Financial Statements and
Reports of Independent Auditor

October 31, 2015

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, 2015

Chairman

Tifford McConnell

Vice Chairman

Kevin Greene

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
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October 31, 2015

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SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

INDEPENDENT AUDITOR'S REPORT

November 19, 2015

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, 2015, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the

reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Opinions

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

Other Matters

The District has not presented the Management's Discussion and Analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2015 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP



SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the accompanying financial statements of the Hughes County Rural Water District No. 3 (the District), Holdenville, Oklahoma, as of and for the year ended October 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 19, 2015.

Internal Control Over Financial Reporting

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

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

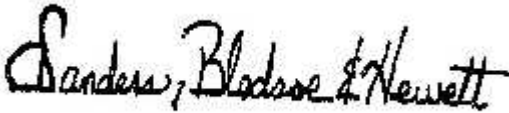
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that

there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance

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

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

November 19, 2015

HUGHES COUNTY RURAL WATER DISTRICT NO. 3
DISPOSITION OF PRIOR YEAR AUDIT FINDINGS
OCTOBER 31, 2015

There were no prior year audit findings.

HUGHES COUNTY RURAL WATER DISTRICT NO. 3
SCHEDULE OF FINDINGS AND RESPONSES
OCTOBER 31, 2015

There were no audit findings.

HUGHES COUNTY RURAL WATER DISTRICT NO. 3
Statement of Net Assets
October 31, 2015

ASSETS

| | |
|--|------------------|
| Current assets: | |
| Cash in bank | \$ 105,842 |
| Investments | 69,766 |
| Receivables | 16,184 |
| Prepaid insurance | 1,313 |
| Total current assets | <u>193,105</u> |
| Noncurrent assets: | |
| Note issuance costs, net of amortization | 1,939 |
| Capital assets: | |
| Water system and improvements, net of depreciation | <u>1,239,466</u> |
| Total noncurrent assets | <u>1,241,405</u> |
| Total Assets | <u>1,434,510</u> |

LIABILITIES

| | |
|-----------------------------------|----------------|
| Current liabilities: | |
| Current portion of long-term debt | <u>9,793</u> |
| Noncurrent liabilities: | |
| Notes payable | <u>641,432</u> |
| Total Liabilities | <u>651,225</u> |

NET ASSETS

| | |
|---|-------------------|
| Invested in capital assets, net of related debt | 588,241 |
| Restricted for debt service | 35,664 |
| Unrestricted assets | <u>159,380</u> |
| Total Net Assets | <u>\$ 783,285</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, 2015

| | |
|---|-------------------|
| Operating Revenues: | |
| Water sales | \$ 211,564 |
| Benefit units | 2,680 |
| Deposits | 1,775 |
| Refunds and reimbursements | 967 |
| Total revenues from operations | <u>216,986</u> |
| Operating Expenses: | |
| Water purchases | 127,737 |
| Utilities and phone | 1,978 |
| Operating supplies | 3,759 |
| Repairs & maintenance | 35,231 |
| Insurance | 2,242 |
| Office expenses | 3,357 |
| Bookkeeping | 5,376 |
| Professional fees | 1,350 |
| Postage | 257 |
| Testing | 2,476 |
| Miscellaneous | 295 |
| Amortization | 162 |
| Depreciation | 36,796 |
| Total expenses from operations | <u>221,016</u> |
| Operating Income (Loss) | (4,030) |
| Non-Operating Revenues (Expenses): | |
| Interest income | 141 |
| Interest expense on debt | (26,254) |
| Total non-operating revenues (expenses) | <u>(26,113)</u> |
| Change in Net Assets | (30,143) |
| Total Net Assets, beginning of period | <u>813,428</u> |
| Total Net Assets, end of period | <u>\$ 783,285</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, 2015

Cash flows from operating activities:

| | |
|---|------------------|
| Receipts from customers | \$ 222,565 |
| Payments to vendors | <u>(184,066)</u> |
| Net cash (used in) provided by operating activities | <u>38,499</u> |

Cash flows from capital and related financing activities:

| | |
|---|-----------------|
| Interest paid on debt | (26,254) |
| Principal payments on debt | <u>(9,410)</u> |
| Net cash used in capital and related financing activities | <u>(35,664)</u> |

Cash flows from investing activities:

| | |
|-------------------------|------------|
| Interest on investments | <u>141</u> |
|-------------------------|------------|

Net increase (decrease) in cash and cash equivalents 2,976

Cash & cash equivalents, beginning of period 172,632

Cash & cash equivalents, end of period \$ 175,608

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

| | |
|--|-------------------------|
| Operating Income | \$ (4,030) |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | |
| Depreciation Expense | 36,796 |
| Amortization Expense | 162 |
| (Increase) decrease in current assets- | |
| Accounts receivable, net | 5,579 |
| Prepaid expenses | <u>(8)</u> |
| Net Cash Provided by Operating Activities | <u><u>\$ 38,499</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, 2015

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, 2015, and are comprised as follows:

| | |
|-------------------------------------|------------------|
| First United Bank, Holdenville, OK- | |
| Revenue Account | \$ 22,151 |
| Oper. & Maint. Account | 83,691 |
| Less: Outstanding Checks | <u>(0)</u> |
| Total Cash | <u>\$105,842</u> |

The District's cash deposits at October 31, 2015, 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, 2015:

| | |
|---|------------------|
| First United Bank, Holdenville, OK | |
| Certificate of deposit No. 138995, dated 8-11-15, | |
| due 2-11-16 | <u>\$ 69,766</u> |

Accounts Receivable

Billings for accounts receivable at October 31, 2015 were \$16,184. 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, 2015

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, 2014 | Additions | Deletions | Balance Oct. 31, 2015 |
|-----------------------------------|--------------------------|-----------------|-----------|--------------------------|
| Water System & Equipment | \$ 1,709,657 | - | - | 1,709,657 |
| Less: Accumulated Depreciation | <u>(433,395)</u> | <u>(36,796)</u> | <u>-</u> | <u>(470,191)</u> |
| Net Fixed Assets | <u>\$ 1,276,262</u> | <u>(36,796)</u> | <u>-</u> | <u>1,239,466</u> |

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, 2015

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:

| | <u>Category</u> | | | <u>Bank</u> | <u>Carrying</u> |
|-------------|-------------------|------------|------------|----------------|-----------------|
| | <u>(A)</u> | <u>(B)</u> | <u>(C)</u> | <u>Balance</u> | <u>Amount</u> |
| Cash | \$ 105,842 | | | 105,842 | 105,842 |
| Investments | 69,766 | | | 69,766 | 69,766 |
| Totals | <u>\$ 175,608</u> | <u>0</u> | <u>0</u> | <u>175,608</u> | <u>175,608</u> |

Note 2 – Long-Term Debt

Long-term debt at October 31, 2015, is detailed as follows:

Promissory Note, \$711,000 to Rural Development, dated April 23, 2008, monthly payments of \$2,972, due with a final payment around August, 2048. The note has an interest rate set at 4.00%.

| | |
|--------------------------------------|-------------------|
| Rural Development Note 91-01 | \$ 651,225 |
| Less: Current Maturities | <u>(9,793)</u> |
| Total Long-Term Debt Less Maturities | <u>\$ 641,432</u> |

HUGHES COUNTY RURAL WATER DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED OCTOBER 31, 2015

Note 2 – Long-Term Debt – cont'd

The estimated principal maturities for future years are as follows:

| | |
|---------|-------------------|
| 2015-16 | \$ 9,793 |
| 2016-17 | 10,192 |
| 2017-18 | 10,607 |
| 2018-23 | 59,883 |
| 2023-28 | 73,117 |
| 2028-33 | 89,276 |
| 2033-38 | 109,005 |
| 2038-43 | 133,095 |
| 2043-48 | <u>156,257</u> |
| Totals | <u>\$ 651,224</u> |

Note 3 – Accumulated Unpaid Vacation and Sick Pay

At October 31, 2015, no determination of the aggregate dollar value of vacation and sick pay had been made.

Note 4 – Subsequent Events

Management has evaluated subsequent events through November 19, 2015, which is the date the financial statements were available to be issued and have determined that no additional information needs to be added to the financial statements.

HUGHES COUNTY RURAL WATER DISTRICT NO. 3
Balance Sheet
October 31, 2015

| | October 31, | |
|---|----------------------------|-------------------------|
| | 2015 | (Memo only) 2014 |
| <u>ASSETS</u> | | |
| Current Assets: | | |
| Cash in bank | \$ 105,842 | 103,007 |
| Investments | 69,766 | 69,625 |
| Accounts receivable | 16,184 | 21,763 |
| Prepaid Insurance | 1,313 | 1,305 |
| Total current assets | <u>193,105</u> | <u>195,700</u> |
| Fixed Assets: | | |
| Water system | 1,709,657 | 1,709,657 |
| Less: accumulated depreciation | <u>(470,191)</u> | <u>(433,395)</u> |
| Total fixed assets (net) | <u>1,239,466</u> | <u>1,276,262</u> |
| Other Assets: | | |
| Organizational costs, less amortization | <u>1,939</u> | <u>2,101</u> |
| Total Assets | <u><u>\$ 1,434,510</u></u> | <u><u>1,474,063</u></u> |
| <u>LIABILITIES AND FUND EQUITY</u> | | |
| Current Liabilities: | | |
| Current maturities of long-term debt | <u>\$ 9,793</u> | <u>9,410</u> |
| Long-Term Debt, less current maturities | | |
| Notes payable | <u>641,432</u> | <u>651,225</u> |
| Total Liabilities | <u>651,225</u> | <u>660,635</u> |
| Fund Equity | | |
| Contributed capital | 499,800 | 499,800 |
| Retained earnings - unrestricted | 283,485 | 313,628 |
| Total fund equity | <u>783,285</u> | <u>813,428</u> |
| Total Liabilities and Fund Equity | <u><u>\$ 1,434,510</u></u> | <u><u>1,474,063</u></u> |

HUGHES COUNTY RURAL WATER DISTRICT NO. 3
Statement of Revenue, Expenses and Changes in Retained Earnings
For the Year Ended October 31, 2015

| | 2014-15 | (Memo only) 2013-14 |
|--|--------------------------|------------------------|
| Revenue from Operations: | | |
| Water sales | \$ 211,564 | 219,447 |
| Benefit units | 2,680 | 2,383 |
| Deposits and meter settings | 1,775 | - |
| Refunds and reimbursements | 736 | 1,681 |
| Miscellaneous | 231 | - |
| Total revenue from operations | <u>216,986</u> | <u>223,511</u> |
| Expenses from Operations: | | |
| Water purchases | 127,737 | 113,625 |
| Utilities and phone | 1,978 | 2,424 |
| Operating supplies | 3,759 | 3,063 |
| Repairs & maintenance | 35,231 | 27,844 |
| Insurance | 2,242 | 2,288 |
| Office expenses | 3,357 | 3,531 |
| Bookkeeping | 5,376 | 5,376 |
| Professional fees | 1,350 | 3,325 |
| Postage | 257 | 170 |
| Testing | 2,476 | 2,618 |
| Miscellaneous | 295 | 581 |
| Amortization | 162 | 162 |
| Depreciation | 36,796 | 36,796 |
| Total expenses from operations | <u>221,016</u> | <u>201,803</u> |
| Net Income (Loss) from Operations | (4,030) | 21,708 |
| Other Income: | | |
| Interest earnings | <u>141</u> | <u>97</u> |
| Other Expenses: | | |
| Interest on debt | <u>(26,254)</u> | <u>(26,622)</u> |
| Net Income (Loss) | (30,143) | (4,817) |
| Retained earnings, beginning of period | <u>313,628</u> | <u>318,445</u> |
| Retained earnings, end of period | <u><u>\$ 283,485</u></u> | <u><u>313,628</u></u> |