

Hughes County Rural Water District No. 3
Holdenville, Oklahoma

Financial Statements and
Reports of Independent Auditor

October 31, 2014

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, 2014

Chairman

Tifford McConnell

Vice Chairman

Dale Turner

Secretary/Treasurer

Wayne Chambers

Members

Robert Hurst
Kevin Green

Manager

Clifton Taylor

Bookkeeper

Ina Stringfellow

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

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Holdenville, Oklahoma
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October 31, 2014

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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, 2014, 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

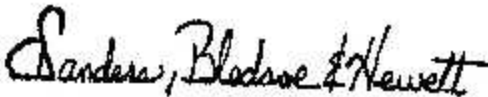
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of October 31, 2014, and the respective changes in financial position and cash flows thereof for the year then ended 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 21, 2014 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



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**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, 2014, 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 21, 2014.

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.

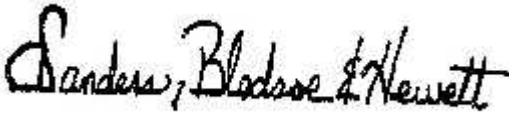
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination 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 21, 2014

HUGHES COUNTY RURAL WATER DISTRICT NO. 3
DISPOSITION OF PRIOR YEAR AUDIT FINDINGS
OCTOBER 31, 2014

There were no prior year audit findings.

HUGHES COUNTY RURAL WATER DISTRICT NO. 3
SCHEDULE OF FINDINGS AND RESPONSES
OCTOBER 31, 2014

There were no audit findings.

HUGHES COUNTY RURAL WATER DISTRICT NO. 3
Statement of Net Assets
October 31, 2014

ASSETS

Current assets:	
Cash in bank	\$ 103,007
Investments	69,625
Receivables	21,763
Prepaid insurance	1,305
Total current assets	<u>195,700</u>
Noncurrent assets:	
Note issuance costs, net of amortization	2,101
Capital assets:	
Water system and improvements, net of depreciation	<u>1,276,262</u>
Total noncurrent assets	<u>1,278,363</u>
Total Assets	<u>1,474,063</u>

LIABILITIES

Current liabilities:	
Current portion of long-term debt	<u>9,410</u>
Noncurrent liabilities:	
Notes payable	<u>651,225</u>
Total Liabilities	<u>660,635</u>

NET ASSETS

Invested in capital assets, net of related debt	615,627
Restricted for debt service	35,664
Unrestricted assets	<u>162,137</u>
Total Net Assets	<u>\$ 813,428</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, 2014

Operating Revenues:	
Water sales	\$ 219,447
Fees and fines	2,383
Refunds and reimbursements	1,681
Total revenues from operations	<u>223,511</u>
Operating Expenses:	
Water purchases	113,625
Utilities and phone	2,424
Operating supplies	3,063
Repairs & maintenance	27,844
Insurance	2,288
Office expenses	3,531
Bookkeeping	5,376
Professional fees	3,325
Postage	170
Testing	2,618
Miscellaneous	581
Amortization	162
Depreciation	36,796
Total expenses from operations	<u>201,803</u>
Operating Income (Loss)	21,708
Non-Operating Revenues (Expenses):	
Interest income	97
Interest expense on debt	(26,622)
Total non-operating revenues (expenses)	<u>(26,525)</u>
Change in Net Assets	(4,817)
Total Net Assets, beginning of period	<u>818,245</u>
Total Net Assets, end of period	<u><u>\$ 813,428</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, 2014

Cash flows from operating activities:

Receipts from customers	\$ 220,331
Payments to vendors	(164,793)
	<hr/>
Net cash (used in) provided by operating activities	55,538
	<hr/>

Cash flows from capital and related financing activities:

Interest paid on debt	(26,622)
Principal payments on debt	(9,042)
	<hr/>
Net cash used in capital and related financing activities	(35,664)
	<hr/>

Cash flows from investing activities:

Interest on investments	97
	<hr/>

Net increase (decrease) in cash and cash equivalents	19,971
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Cash & cash equivalents, beginning of period	152,661
	<hr/>

Cash & cash equivalents, end of period	\$ 172,632
	<hr/> <hr/>

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

Operating Income	\$ 21,708
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	(3,180)
Prepaid expenses	52
	<hr/>
Net Cash Provided by Operating Activities	\$ 55,538
	<hr/> <hr/>

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, 2014

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, 2014, and are comprised as follows:

First United Bank, Holdenville, OK-	
Revenue Account	\$ 20,733
Oper. & Maint. Account	82,836
Loan Account	0
Less: Outstanding Checks	<u>(562)</u>
Total Cash	<u>\$103,007</u>

The District's cash deposits at October 31, 2014, 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, 2014:

First United Bank, Holdenville, OK	
Certificate of deposit No. 138995, dated 8-11-14, due 2-11-15	<u>\$ 69,625</u>

Accounts Receivable

Billings for accounts receivable at October 31, 2014 were \$21,763. 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, 2014

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, 2013	Additions	Deletions	Balance Oct. 31, 2014
Water System & Equipment	\$ 1,709,657	-	-	1,709,657
Less: Accumulated Depreciation	<u>(396,599)</u>	<u>(36,796)</u>	<u>-</u>	<u>(433,395)</u>
Net Fixed Assets	<u>\$ 1,313,058</u>	<u>(36,796)</u>	<u>-</u>	<u>1,276,262</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, 2014 was \$0.

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, 2014

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	\$ 103,569			103,569	103,006
Investments	69,625			69,625	69,625
Totals	<u>\$ 173,194</u>	<u>0</u>	<u>0</u>	<u>173,194</u>	<u>172,631</u>

Note 2 – Long-Term Debt

Long-term debt at October 31, 2014, 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	\$ 660,635
Less: Current Maturities	<u>(9,410)</u>
Total Long-Term Debt Less Maturities	<u>\$ 651,225</u>

HUGHES COUNTY RURAL WATER DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED OCTOBER 31, 2014

Note 2 – Long-Term Debt – cont'd

The estimated principal maturities for future years are as follows:

2014-15	\$ 9,410
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>\$ 660,635</u>

Note 3 – Accumulated Unpaid Vacation and Sick Pay

At October 31, 2014, 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 21, 2014, 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, 2014

	October 31,	
	2014	(Memo only) 2013
<u>ASSETS</u>		
Current Assets:		
Cash in bank	\$ 103,007	83,133
Investments	69,625	69,528
Accounts receivable	21,763	18,583
Prepaid Insurance	1,305	1,357
Total current assets	<u>195,700</u>	<u>172,601</u>
Fixed Assets:		
Water system	1,709,657	1,709,657
Less: accumulated depreciation	<u>(433,395)</u>	<u>(396,599)</u>
Total fixed assets (net)	<u>1,276,262</u>	<u>1,313,058</u>
Other Assets:		
Organizational costs, less amortization	<u>2,101</u>	<u>2,263</u>
Total Assets	<u><u>\$ 1,474,063</u></u>	<u><u>1,487,922</u></u>
<u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Current maturities of long-term debt	<u>\$ 9,410</u>	<u>9,041</u>
Long-Term Debt, less current maturities		
Notes payable	<u>651,225</u>	<u>660,636</u>
Total Liabilities	<u>660,635</u>	<u>669,677</u>
Fund Equity		
Contributed capital	499,800	499,800
Retained earnings - unrestricted	313,628	318,445
Total fund equity	<u>813,428</u>	<u>818,245</u>
Total Liabilities and Fund Equity	<u><u>\$ 1,474,063</u></u>	<u><u>1,487,922</u></u>

HUGHES COUNTY RURAL WATER DISTRICT NO. 3
Statement of Revenue, Expenses and Changes in Retained Earnings
For the Year Ended October 31, 2014

	2013-14	(Memo only) 2012-13
Revenue from Operations:		
Water sales	\$ 219,447	202,111
Benefit units	2,383	1,524
Deposits	0	750
Refunds and reimbursements	1,681	528
Total revenue from operations	<u>223,511</u>	<u>204,913</u>
Expenses from Operations:		
Water purchases	113,625	94,768
Utilities and phone	2,424	3,184
Operating supplies	3,063	213
Repairs & maintenance	27,844	23,492
Insurance	2,288	2,355
Office expenses	3,531	3,320
Bookkeeping	5,376	5,376
Professional fees	3,325	1,275
Postage	170	114
Testing	2,618	605
Miscellaneous	581	1,247
Amortization	162	162
Depreciation	36,796	21,742
Total expenses from operations	<u>201,803</u>	<u>157,853</u>
Net Income (Loss) from Operations	21,708	47,060
Other Income:		
Interest earnings	<u>97</u>	<u>137</u>
Other Expenses:		
Interest on debt	<u>(26,622)</u>	<u>(26,977)</u>
Net Income (Loss)	(4,817)	20,220
Retained earnings, beginning of period	<u>318,445</u>	<u>298,225</u>
Retained earnings, end of period	<u><u>\$ 313,628</u></u>	<u><u>318,445</u></u>