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

Financial Statements and  
Reports of Independent Auditor

October 31, 2011

Audited by

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

Broken Arrow, Oklahoma

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

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**SANDERS, BLEDSOE & HEWETT**  
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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, 2011, 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, 2011, 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 December 2, 2011, 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*

Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP

December 2, 2011



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**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, 2011, 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 December 2, 2011. 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.



Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP

December 2, 2011

**Hughes County Rural Water District No. 3**  
**Holdenville, Oklahoma**  
Schedule of Audit Results  
October 31, 2011

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, 2011**

**ASSETS**

Current assets:	
Cash in bank	\$ 60,998
Investments	69,159
Receivables	17,811
Prepaid insurance	1,332
Total current assets	<u>149,300</u>
Noncurrent assets:	
Note issuance costs	2,425
Capital assets:	
Construction in progress	962,637
Water system and improvements, net of depreciation	137,194
Total noncurrent assets	<u>1,102,256</u>
Total Assets	<u>1,251,556</u>

**LIABILITIES**

Current liabilities:	
Current portion of long-term debt	<u>8,348</u>
Noncurrent liabilities:	
Notes payable	<u>678,364</u>
Total Liabilities	<u>686,712</u>

**NET ASSETS**

Invested in capital assets, net of related debt	421,467
Restricted for debt service	8,348
Unrestricted assets	<u>135,069</u>
Total Net Assets	<u>\$ 564,884</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, 2011**

<b>Operating Revenues:</b>	
Water sales	\$ 186,490
Fees and fines	5,620
Total revenues from operations	192,110
<b>Operating Expenses:</b>	
Water purchases	113,208
Utilities and phone	4,769
Repairs & maintenance	30,369
Insurance	2,167
Office expenses	3,038
Bookkeeping	5,376
Professional fees	1,260
Postage	352
Testing	864
Miscellaneous	2,232
Depreciation	6,688
Total expenses from operations	170,323
Operating Income (Loss)	21,787
<b>Non-Operating Revenues (Expenses):</b>	
Interest income	407
Rural Development grant proceeds	258,285
Interest expense on debt	(26,780)
Total non-operating revenues (expenses)	231,912
Change in Net Assets	253,699
Total Net Assets, beginning of period	311,145
Total Net Assets, end of period	\$ 564,844

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, 2011**

<b>Cash flows from operating activities:</b>	
Receipts from customers	\$ 187,371
Payments to vendors	<u>(163,751)</u>
Net cash (used in) provided by operating activities	<u>23,620</u>
 <b>Cash flows from capital and related financing activities:</b>	
Capital assets purchased	(523,642)
Contributed capital	258,285
Loan proceeds	78,280
Interest paid on debt	(26,780)
Principal payments on debt	<u>(8,884)</u>
Net cash used in capital and related financing activities	<u>(222,741)</u>
 <b>Cash flows from investing activities:</b>	
Interest on investments	<u>407</u>
Net increase (decrease) in cash and cash equivalents	(198,714)
Cash & cash equivalents, beginning of period	<u>328,871</u>
Cash & cash equivalents, end of period	<u><u>\$ 130,157</u></u>
 <b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>	
Operating Income	\$ 21,787
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	6,688
(Increase) decrease in current assets-	
Accounts receivable, net	(4,739)
Prepaid expenses	<u>(116)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 23,620</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, 2011**

**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, 2011, and are comprised as follows:

First United Bank, Holdenville, OK-	
Revenue Account	\$ 18,510
Oper. & Maint. Account	54,762
Loan Account	126,860
Less: Outstanding Checks	<u>(139,134)</u>
Total Cash	<u>\$ 60,998</u>

The District's cash deposits at October 31, 2011, 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, 2011:

First United Bank, Holdenville, OK	
Certificate of deposit No. 138995, dated 8-11-11, due 2-11-12	<u>\$ 69,159</u>

Accounts Receivable

Billings for accounts receivable at October 31, 2011, were \$17,811. 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, 2011**

**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 <u>Oct. 31, 2010</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>Oct. 31, 2011</u>
Water System & Equipment	\$ 944,358	523,642	-	1,468,000
Less: Accumulated Depreciation	<u>(361,480)</u>	<u>(6,688)</u>	<u>-</u>	<u>(368,168)</u>
Net Fixed Assets	<u>\$ 582,878</u>	<u>516,954</u>	<u>-</u>	<u>1,099,832</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, 2011 was \$18,510. These funds remain in this account as of October 31, 2011.

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, 2011**

**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 Balance	Carrying Amount
	(A)	(B)	(C)		
Cash	\$ 60,998			60,998	200,132
Investments	69,159			69,159	69,159
<b>Totals</b>	<b>\$ 130,157</b>	<b>-</b>	<b>0</b>	<b>130,157</b>	<b>269,291</b>

**Note 2 – Long-Term Debt**

Long-term debt at October 31, 2011, 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	\$ 686,712
Less: Current Maturities	<u>(8,348)</u>
<b>Total Long-Term Debt Less Maturities</b>	<b><u>\$ 678,364</u></b>

**HUGHES COUNTY RURAL WATER DISTRICT NO. 3  
NOTES TO FINANCIAL STATEMENTS  
FOR YEAR ENDED OCTOBER 31, 2011**

**Note 2 – Long-Term Debt – cont'd**

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

2011-12	\$ 8,348
2012-13	8,688
2013-14	9,041
2014-15	9,410
2015-16	9,465
Thereafter	<u>641,760</u>
Totals	<u>\$ 686,712</u>

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

At October 31, 2011, 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, 2011**

	October 31,	
<u>ASSETS</u>	2011	(Memo only) 2010
Current Assets:		
Cash in bank	\$ 60,998	260,072
Investments	69,159	68,799
Accounts receivable	17,811	13,072
Prepaid Insurance	1,332	1,216
Total current assets	149,300	343,159
Fixed Assets:		
Water system	505,362	505,362
Construction in progress	962,637	438,995
Less: accumulated depreciation	(368,168)	(361,480)
Total fixed assets (net)	1,099,831	582,877
Other Assets:		
Organizational costs	2,425	2,425
Total Assets	\$ 1,251,556	928,461
<u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Current maturities of long-term debt	\$ 8,348	11,175
Long-Term Debt, less current maturities		
Notes payable	678,364	606,141
Total Liabilities	686,712	617,316
Fund Equity		
Contributed capital	258,285	0
Retained earnings - unrestricted	306,559	311,145
Total fund equity	564,844	311,145
Total Liabilities and Fund Equity	\$ 1,251,556	928,461

**HUGHES COUNTY RURAL WATER DISTRICT NO. 3**  
**Statement of Revenue, Expenses and Changes in Retained Earnings**  
**For the Year Ended October 31, 2011**

	2010-11	(Memo only) 2009-10
Revenue from Operations:		
Water sales	\$ 186,490	158,783
Benefit units	5,620	11,000
Total revenue from operations	<u>192,110</u>	<u>169,783</u>
Expenses from Operations:		
Water purchases	113,208	87,966
Utilities and phone	4,769	2,613
Operating supplies		143
Repairs & maintenance	30,369	21,057
Insurance	2,167	2,618
Office expenses	3,038	2,888
Bookkeeping	5,376	5,376
Professional fees	1,260	2,573
Postage	352	222
Testing	864	743
Miscellaneous	2,232	1,149
Depreciation	6,688	6,689
Total expenses from operations	<u>170,323</u>	<u>134,037</u>
Net Income (Loss) from Operations	21,787	35,746
Other Income:		
Sale of water well		14,950
Interest earnings	407	781
Total other income	<u>407</u>	<u>15,731</u>
Other Expenses:		
Interest on debt	<u>(26,780)</u>	<u>(8,833)</u>
Net Income (Loss)	(4,586)	42,644
Retained earnings, beginning of period	<u>311,145</u>	<u>268,501</u>
Retained earnings, end of period	<u>\$ 306,559</u>	<u>311,145</u>