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**Hughes County Rural Water District No. 4
Holdenville, Oklahoma**

Financial Statements and
Reports of Independent Auditor

June 30, 2011

Audited by

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

Broken Arrow, Oklahoma

**Hughes County Rural Water District No. 4
Holdenville, Oklahoma**

Board of Directors
June 30, 2011

Chairman

Jim Cates

Vice Chairman

Bill Newman

Secretary/Treasurer

Linda Evans

Members

Connie Merriman
Lori Ramsey

Manager

Sandy Stafford

**3704 N 372 Rd.
Holdenville, Oklahoma 74848
(405) 379-3814**

Hughes County Rural Water District No. 4
Holdenville, Oklahoma

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SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP

Stephen H. Sanders, CPA
Eric M. Bledsoe, CPA
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Independent Auditor's Report

Board of Directors
Hughes County Rural Water District No. 4
Holdenville, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Hughes County Rural Water District No. 4 (the District), Holdenville, Oklahoma, as of and for the year ended June 30, 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 June 30, 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 August 11, 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

August 11, 2011



SANDERS, BLEDSOE & HEWETT
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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. 4
Holdenville, Oklahoma

We have audited the combined financial statements of Hughes County Rural Water District No. 4 (the District), Holdenville, Oklahoma, as of and for the year ended June 30, 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 August 11, 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

August 11, 2011

Hughes County Rural Water District No. 4
Holdenville, Oklahoma
Schedule of Audit Results
June 30, 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

COMBINED FINANCIAL STATEMENTS

HUGHES COUNTY RURAL WATER DISTRICT NO. 4
Statement of Net Assets
June 30, 2011

ASSETS

Current assets:	
Cash in bank	\$ 30,825
Investments	20,000
Receivables	15,764
Prepaid insurance	1,359
Total current assets	<u>67,948</u>
Noncurrent assets:	
Restricted cash and cash equivalents	18,747
Note issuance costs	5,877
Deposit - ORWA	1,000
Capital assets:	
Water system and improvements, net of depreciation	<u>275,473</u>
Total noncurrent assets	<u>301,097</u>
Total Assets	<u>369,045</u>

LIABILITIES

Current liabilities:	
Accounts payable	154
Accrued interest	101
Current portion of long-term debt	6,442
Total current liabilities	<u>6,697</u>
Noncurrent liabilities:	
Notes payable	<u>16,058</u>
Total Liabilities	<u>22,755</u>

NET ASSETS

Invested in capital assets, net of related debt	259,415
Restricted for debt service	6,442
Unrestricted assets	<u>80,433</u>
Total Net Assets	<u>\$ 346,290</u>

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

HUGHES COUNTY RURAL WATER DISTRICT NO. 4
Statement of Activities
For The Year Ended June 30, 2011

Operating Revenues:	
Water sales	\$ 152,722
Fees and fines	1,674
Total revenues from operations	<u>154,396</u>
Operating Expenses:	
Water purchases	62,342
Salaries and taxes	18,653
Depreciation	18,631
Amortization	435
Repairs & maintenance	8,398
Meter readings	4,100
Computer services	2,347
Insurance	16,901
Operating supplies	689
Electricity	156
Water samples	612
Professional fees	90,277
Office expenses	1,102
Postage	1,170
Telephone	698
Miscellaneous	696
Total expenses from operations	<u>227,207</u>
Operating Income (Loss)	(72,811)
Non-Operating Revenues (Expenses):	
Interest income	907
Interest expense on debt	(388)
Total non-operating revenues (expenses)	<u>519</u>
Change in Net Assets	(72,292)
Total Net Assets, beginning of period	<u>418,582</u>
Total Net Assets, end of period	<u>\$ 346,290</u>

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

HUGHES COUNTY RURAL WATER DISTRICT NO. 4
Statement of Cash Flows
For the Year Ended June 30, 2011

Cash flows from operating activities:	
Receipts from customers	\$ 150,312
Payments To employees	(18,653)
Payments to vendors	<u>(193,930)</u>
Net cash (used in) provided by operating activities	<u>(62,271)</u>
 Cash flows from capital and related financing activities:	
Interest paid on debt	(427)
Principal payments on debt	<u>(6,050)</u>
Net cash used in capital and related financing activities	<u>(6,477)</u>
 Cash flows from investing activities:	
Interest on investments	<u>907</u>
Net increase (decrease) in cash and cash equivalents	(67,841)
Cash & cash equivalents, beginning of period	<u>118,666</u>
Cash & cash equivalents, end of period	<u><u>\$ 50,825</u></u>
 Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating Income	\$ (72,811)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	18,631
Amortization Expense	435
(Increase) decrease in current assets-	
Accounts receivable, net	(4,084)
Prepaid expenses	302
Increase (decrease) in current liabilities-	
Accounts payable	(4,700)
Accrued interest	<u>(44)</u>
Net Cash Provided by Operating Activities	<u><u>\$ (62,271)</u></u>

The accompanying notes are an integral part of the financial statements

NOTES TO FINANCIAL STATEMENTS

**HUGHES COUNTY RURAL WATER DISTRICT NO. 4
 NOTES TO FINANCIAL STATEMENTS
 FOR YEAR ENDED JUNE 30, 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 June 30, 2011, and are comprised as follows:

First United Bank, Holdenville, OK	
Operating Revenue	<u>\$ 30,825</u>

The District's cash deposits at June 30, 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 June 30, 2011:

First United Bank, Holdenville, OK	
Certificate of deposit No. 739634, dated 3-10-11, due 3-10-12	<u>\$ 20,000</u>

Accounts Receivable

Billings for accounts receivable at June 30, 2011, were \$15,764. No computation was made for allowance for doubtful accounts, which is not considered to be material to the financial statements. The aging of these accounts is detailed as follows:

00-30	\$ 15,764
31-90	<u>0</u>
Total	<u>\$ 15,764</u>

HUGHES COUNTY RURAL WATER DISTRICT NO. 4
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 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.

Restricted Assets

In accordance with the loan agreement with the Oklahoma Water Resources Board, the District is 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 Banc Trust for the purpose of making future principal and interest payments. The balance at the end of June 30, 2011 was \$18,747.

Other Assets

- a. There were note issuance costs totaling \$11,750 incurred during the 1997-98 fiscal year as part of processing the OWRB loan. This amount consisted of the following: Legal fees - \$8,500, Rating fees - \$2,500, and Acceptance fees - \$750. These loan fees will be recognized as amortization expenses over the life of the 27 year promissory note.
- b. The District maintains a \$1,000 deposit with the Oklahoma Water Resources Board Assurance Group in lieu of a membership fee. Interest is paid to the district on this deposit.

Contributed Capital

Hughes County Rural Water District No. 4 has received grant proceeds to assist in the construction of the water system from the Oklahoma Water Resources Board in the amount of \$175,000 in the 1997-98 fiscal year and \$75,000 in the 1999-00 fiscal year.

Federal Income Tax

The District is exempt from federal and state income taxes.

**HUGHES COUNTY RURAL WATER DISTRICT NO. 4
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 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	\$ 32,820			32,820	30,825
Investments	20,000			20,000	20,000
Totals	\$ 114,245	0	0	155,723	152,566

Note 2 – Long-Term Debt

Long-term debt at June 30, 2011, is detailed as follows:

Series 1997 Promissory Note, \$200,000 to Oklahoma Water Resources Board dated October 17, 1997, quarterly payments due beginning February 15th, 1998 and a final payment on August 15th, 2024. The note currently has a variable interest rate set at 1.37% at June 1, 2011, with an option to convert the note to a fixed interest rate.

OWRB Loan FAP-96-0033-L	<u>\$22,500</u>
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During the 2006-07 fiscal year, the District made an additional \$50,000 payment on this loan, and have continued to make the monthly payments (which is currently \$515 a month).

**HUGHES COUNTY RURAL WATER DISTRICT NO. 4
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2011**

Note 2 – Long-Term Debt – cont'd

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

2011-12	\$ 6,442
2012-13	6,530
2013-14	6,620
2014-15	<u>2,908</u>
Totals	<u>\$ 22,500</u>

Note 3 – Accumulated Unpaid Vacation and Sick Pay

At June 30, 2011, no determination of the aggregate dollar value of vacation and sick pay had been made.

OTHER SUPPLEMENTARY INFORMATION

HUGHES COUNTY RURAL WATER DISTRICT NO. 4
Balance Sheet
June 30, 2011

	June 30,	
<u>ASSETS</u>	2011	(Memo only) 2010
Current Assets:		
Cash in bank	\$ 30,825	38,666
Investments	20,000	80,000
Accounts receivable	15,764	11,680
Prepaid Insurance	1,359	1,661
Total current assets	67,948	132,007
Fixed Assets:		
Water system	620,902	620,902
Less: accumulated depreciation	(345,429)	(326,798)
Total fixed assets (net)	275,473	294,104
Restricted Assets:		
Cash and investments	18,747	18,708
Other Assets:		
Note issuance costs	5,877	6,312
ORWA deposit	1,000	1,000
Total other assets	6,877	7,312
Total Assets	\$ 369,045	452,131
<u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 154	4,854
Accrued interest	101	145
Current maturities of long-term debt	6,442	5,842
Total current liabilities	6,697	10,841
Long-Term Debt, less current maturities		
Notes payable	16,058	22,708
Total Liabilities	22,755	33,549
Fund Equity		
Contributed capital	250,000	250,000
Retained earnings - unrestricted	96,290	168,582
Total fund equity	346,290	418,582
Total Liabilities and Fund Equity	\$ 369,045	452,131

HUGHES COUNTY RURAL WATER DISTRICT NO. 4
Statement of Revenue, Expenses and Changes in Retained Earnings
For the Year Ended June 30, 2011

	2011	(Memo only) 2010
Revenue from Operations:		
Water sales	\$ 138,745	123,813
Benefit units	4,900	1,400
Late charges	3,791	3,750
Meter settings	5,286	2,200
Miscellaneous	1,674	1,018
Total revenue from operations	<u>154,396</u>	<u>132,181</u>
Expenses from Operations:		
Water purchases	62,342	69,983
Salaries and taxes	18,653	17,928
Depreciation	18,631	18,630
Amortization	435	435
Repairs & maintenance	8,398	9,581
Meter readings	4,100	4,200
Computer services	2,347	2,260
Insurance	16,901	15,459
Operating supplies	689	989
Electricity	156	144
Water samples	612	1,105
Professional fees	90,277	32,964
Office expenses	1,102	2,891
Postage	1,170	766
Telephone	698	641
Miscellaneous	696	2,409
Total expenses from operations	<u>227,207</u>	<u>180,385</u>
Net Income (Loss) from Operations	(72,811)	(48,204)
Other Income:		
Interest earnings	<u>907</u>	<u>2,771</u>
Other Expenses:		
Interest on debt	<u>(388)</u>	<u>(599)</u>
Net Income (Loss)	(72,292)	(46,032)
Retained earnings, beginning of period	<u>168,582</u>	<u>214,614</u>
Retained earnings, end of period	<u>\$ 96,290</u>	<u>168,582</u>