

**Hughes County Rural Water District No. 1  
Wetumka, Oklahoma**

Financial Statements and Auditor's Reports

Year Ended December 31, 2011

Audited by

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

BROKEN ARROW, OK

**Hughes County Rural Water District No. 1**  
**Wetumka, Oklahoma**  
Board of Directors  
December 31, 2011

**BOARD OF DIRECTORS**

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Bobby Ray

**Vice Chairman**

Harvey Price

**Secretary/Treasurer**

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**MANAGER**

John Wilkerson

**BOOKKEEPER**

Wanda Price

**Hughes County Rural Water District No. 1**  
**Wetumka, Oklahoma**  
December 31, 2011

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# SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

## **Independent Auditor's Report**

Board of Directors  
Hughes County Rural Water District No. 1  
Wetumka, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Hughes County Rural Water District No. 1 (the District), Wetumka, Oklahoma, as of and for the year ended December 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 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 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 the 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 December 31, 2011, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting generally accepted in the United States of America.

The Management Discussion and Analysis on pages 5-6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 5, 2012, 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, grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance.

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 generally accepted in the United States of America.

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Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP

March 5, 2012

Hughes County Rural Water District No. 1  
Management's Discussion and Analysis  
December 31, 2011

Our discussion and analysis of the Rural Water District No. 1, Hughes County's financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2011. Please read it in conjunction with the District's financial statements that begin on page 11.

## **FINANCIAL HIGHLIGHTS**

- The District's total operating revenues exceeded total operating expenses by \$51,162. Overall, the District had a net income of \$24,173, and its cash and cash equivalents increased by \$55,678 in the current fiscal year. These amounts include \$67,128 in annual depreciation costs.
- The District is indebted by four notes to the Oklahoma Office of Rural Development. The District was able to pay off additional principal on one note in 2011.
- The District was approved for a federal loan in the amount of \$2,218,000 and a federal grant in the amount of \$430,410 in 2011 for improvements and expansion of the water system.

## **Using This Report**

This report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the District's basis of accounting.

## **Basis of Accounting**

The District has elected to present its financial statements in the accrual basis of accounting. According to the accrual basis, revenues are recorded when earned and expenses are recognized when incurred. This policy is in accordance with generally accepted accounting principles.

## **The Financial Statements**

One of the most important questions asked about the District's finances is, "Is the District as a whole better off or worse off as a result of the year's activities?" The statement of Assets, Liabilities and Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows report information about the District and about its activities in a way that helps answer this question.

These three statements report the District's net assets and the changes in them. You can think of the District's net assets – the difference between assets and liabilities – as one way to

measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in water rates paid or charged and the condition of the District's water system, to assess the overall health of the District.

The District has only one type of fund or activity, which is defined as *Business-type activities*. This is considered a proprietary fund. This means the District charges a fee to customers to help it cover all or most of the cost of certain services it provides.

### **Fixed Assets**

At December 31, 2011, the District had \$1,366,482 invested in fixed assets, net of depreciation, including land, the water system, vehicles, equipment, and construction in progress relating to the water well/filtration project. The District made a few small improvements to the water system during the 2011 fiscal year in the amount of \$23,058, shown on the financial statements as construction in progress.

### **Long-Term Debt**

The District is indebted to the Oklahoma Office of Rural Development on five notes obtained for previously extensive extensions and the current water system. The outstanding principal balance owed on the notes decreased from \$599,928 to \$564,305 during the 2011 fiscal year. The District has satisfied the required reserve account balance required by the loan.

### **Economic Factors and Next Year's Budget and Rates**

The District attempts to absorb water rate increases, but may be forced to increase our customer rates if additional increases are made by the Authority.

The District's budget for fiscal year 2012 will remain much like previous years budgets. Your Board of Directors does anticipate small budget changes made primarily to better allow for office and field personnel operations, without the necessity of hiring additional part-time or permanent employees.

### **Contacting the District's Management**

This report is designed to provide our customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the District Office at P.O. Box 160, Wetumka, OK 74536 or call (918) 569-4326.



# SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

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

Board of Directors  
Hughes County Rural Water District No. 1  
Wetumka, Oklahoma

We have audited the financial statements of the Hughes County Rural Water District (the District) No. 1, Wetumka, Oklahoma, as of and for the year ended December 31, 2011, and have issued our report thereon dated March 5, 2012. 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.

### **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 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 generally accepted auditing standards.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of



management in the financial statements. This reportable condition is described in the accompanying schedule of audit results as item 11-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that item 11-1 is not a material weakness.

This report is intended solely for the information of management and the Board of Directors, 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

March 5, 2012

**HUGHES COUNTY RURAL DISTRICT NO. 1**  
**Disposition of Prior Year's Reportable Conditions**  
**December 31, 2011**

Lack of Segregation of Duties

The exception that there were inherent limitations resulting from a small number of employees performing functions that would normally be divided among employees were a larger number available which prevented a proper segregation of accounting functions which is necessary to assure adequate internal accounting controls continued in the current fiscal year.

**HUGHES COUNTY RURAL WATER DISTRICT NO. 1**  
**Schedule of Audit Results**  
**December 31, 2011**

Section 1 – Summary of Auditor’s Results:

1. An unqualified opinion report was issued on the financial statements.
2. The audit disclosed a reportable condition in the internal controls which was not considered a material weakness.
3. The audit disclosed no instances of noncompliance.

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

11-1 – Lack of Segregation of Duties

Condition-

The inherent limitations resulting from a small number of employees performing functions that would normally be divided among employees were a larger number available prevent a proper segregation of accounting functions, which is necessary in order to assure adequate internal accounting controls.

Criteria-

An organization should ensure that there is a proper segregation of duties regarding cash collections and the payment of expenses.

Cause-

The District is not large enough to justify the hiring of additional personnel.

Effect-

There is always the possibility that not all collections are actually receipted or deposited, and the possibility that funds expended are not used for actual District obligations.

Recommendation-

The current procedures should not be changed. However, there should be additional personnel instilled into the collection, receipt, deposit, reconciliation and payment procedures when this becomes economically possible.

Response-

Additional personnel will be hired when the actual funds are available.

HUGHES COUNTY RURAL WATER DISTRICT NO. 1  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2011

ASSETS:

Current assets:

Cash	\$ 85,468
Deposits (ORWA)	1,000
Total current assets	<u>86,468</u>

Noncurrent assets:

Restricted cash and cash equivalents	47,076
Capital assets:	
Water distribution system-net	1,343,424
Construction in progress (water well & filtration)	23,058
Total noncurrent assets	<u>1,413,558</u>

Total Assets	<u>1,500,026</u>
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LIABILITIES:

Current liabilities:

Current portion of long-term debt	20,664
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Noncurrent liabilities:

Long-term notes payable	<u>543,641</u>
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Total Liabilities	<u>564,305</u>
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NET ASSETS:

Invested in capital assets, net of related debt	849,253
Restricted for debt service	47,076
Unrestricted	<u>39,392</u>
Total Net Assets	<u>\$ 935,721</u>

The accompanying notes are an integral part of the financial statements

HUGHES COUNTY RURAL WATER DISTRICT NO. 1  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2011

Operating Revenues:	
Water revenue	\$ 370,501
Benefit units	6,400
Other sales and services	13,355
Total operating revenues	<u>390,256</u>
Operating Expenses:	
Water purchases	186,344
Depreciation	67,128
Contract labor	46,726
Electricity	9,349
Repairs and maintenance	20,009
Insurance	3,107
Office	1,645
Professional fees	1,075
Testing and other fees	1,187
Miscellaneous	2,524
Total expenses from operations	<u>339,094</u>
Operating Income (Loss)	51,162
Non-Operating Revenues (Expenses):	
Grant proceeds received	16,700
Interest income	28
Interest paid on long-term debt	(27,017)
Total Non-Operating Revenues (Expenses)	<u>(10,289)</u>
Change in Net Assets	40,873
Total Net Assets, beginning of period	<u>894,848</u>
Total Net Assets, end of period	<u><u>\$ 935,721</u></u>

The accompanying notes are an integral part of the financial statements

HUGHES COUNTY RURAL WATER DISTRICT NO. 1  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2011

Cash Flows from Operating Activities:

Receipts from customers	\$ 390,256
Payments to vendors	<u>(271,966)</u>
Net Cash Provided by (used in) Operating Activities	<u>118,290</u>

Cash Flows from Financing Activities:

Fixed asset addition	(23,058)
Principal paid on long-term debt	(35,623)
Interest paid on long-term debt	<u>(27,017)</u>
Net Cash Provided by (used in) Financing Activities	<u>(85,698)</u>

Cash Flows from Investing Activities:

Grant proceeds	16,700
Interest earned on investments	<u>28</u>
Net Cash Provided by (used in) Investing Activities	<u>16,728</u>

Net increase (decrease) in cash and cash equivalents 49,320

Cash and cash equivalents, beginning of period 84,224

Cash and cash equivalents, end of period \$ 133,544

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

Operating Income (loss)	\$ 51,162
Adjustments to reconcile net income to net cash provided (used) by operating activities:	
Depreciation Expense	<u>67,128</u>
Net cash provided by operating activities	<u><u>\$ 118,290</u></u>

The accompanying notes are an integral part of the financial statements

# HUGHES COUNTY RURAL WATER DISTRICT NO. 1

## BALANCE SHEET DECEMBER 31, 2011

	DECEMBER 31,	
	2011	(memo only) 2010
<u>ASSETS</u>		
Current Assets:		
Cash in bank	\$ 85,468	36,148
Deposits (ORWA)	1,000	1,000
Total Current Assets	<u>86,468</u>	<u>37,148</u>
Fixed Assets:		
Water distribution system	2,685,113	2,685,113
Construction in progress (water well & filtration)	23,058	0
Equipment	7,226	7,226
Less: accumulated depreciation	<u>(1,348,915)</u>	<u>(1,281,787)</u>
Total Fixed Assets (net of depreciation)	<u>1,366,482</u>	<u>1,410,552</u>
Restricted Assets:		
Investment reserves	<u>47,076</u>	<u>47,076</u>
Total Assets	<u><u>\$ 1,500,026</u></u>	<u><u>1,494,776</u></u>
 <u>LIABILITIES AND EQUITY</u>		
Current Liabilities:		
Current maturities of long-term debt	\$ 20,664	19,696
Long-Term Debt, less current maturities:		
Notes payable	<u>543,641</u>	<u>580,232</u>
Total Liabilities	<u>564,305</u>	<u>599,928</u>
Equity:		
Contributed capital	16,700	0
Retained earnings	<u>919,021</u>	<u>894,848</u>
Total Equity	<u>935,721</u>	<u>894,848</u>
Total Liabilities and Equity	<u><u>\$ 1,500,026</u></u>	<u><u>1,494,776</u></u>

**HUGHES COUNTY RURAL WATER DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011**

**Note A – 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 accordance with generally accepted accounting principles.

Reporting Entity

The District is recognized as a public, not-for-profit rural water district under Oklahoma Statutes, Title 82. The District is an independent, self-contained reporting entity with no associated component units. It is operated in a manner similar to a private business enterprise where the cost of providing water services is financed through user charges. The District purchases water primarily from the City of Wetumka.

Cash and cash equivalents

The District's cash and cash equivalents, shown in the financial statements, are amounts that are not subject to fluctuations and have a maturity of less than three months. Cash and investments are detailed as follows:

	December 31,	
	2011	2010
Citizens Security Bank:		
Operating Account	\$ 62,573	31,974
Construction Account	20,837	
Less: Outstanding checks	(2,121)	
ORWA deposit	1,000	1,000
LaSalle St. Securities:		
Money Market Account	51,255	51,250
Balance	<u>\$ 133,544</u>	<u>84,224</u>

Collateral Pledged

It appears that all funds were adequately insured by the \$250,000 of FDIC coverage and additional collateral pledged by the banking institution as of December 31, 2011.



**HUGHES COUNTY RURAL WATER DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011**

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

Restricted Asset – Investment Reserves

In compliance with the United States Department of Agriculture Rural Development regulations, cash reserves have been established to collect up to one year's payments on the notes payable, or \$47,076, at which time deposits in the reserve can be suspended. The reserve account funds have been deposited in an interest bearing savings account at LaSalle St. Securities which is insured by the federal government. At December 31, 2011, the restricted asset-investment reserve balance was \$47,076.

Inventory

The District does not maintain inventory records of parts and supplies, but charges these purchases to maintenance or supplies, as they are needed.

Prior Year Information

Prior year financial statement information is included in the other supplementary information section for comparative purposes only. No opinions are issued on these amounts, and are included as memorandum.

**Note B - Fixed Assets**

Fixed assets and additions are recorded at cost. Depreciation of the waterworks system and improvements is provided using the straight-line method based on a forty-year life. Equipment is depreciated over a five-year life. Depreciation expense for the year is presented as an operating expense and closed, along with other operating expenses, directly to retained earnings.

The fixed asset information for the District is shown below:

	12/31/2010 Amount	Additions	Deletions	12/31/2011 Amount
Water System & Equipment	\$ 2,692,339	-	-	2,692,339
Contruction in Progress Water Well & Filtration	-	23,058	-	23,058
Less: Accumulated Depreciation	(1,281,787)	(67,128)	-	(1,348,915)
Total	<u>\$ 1,410,552</u>	<u>(67,128)</u>	<u>-</u>	<u>1,366,482</u>

**HUGHES COUNTY RURAL WATER DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011**

**Note C – Long-Term Debt**

The District is indebted to the USDA Rural Development Program on four notes obtained to finance system improvements. The notes are secured by system revenues and property, plant and equipment. Long-term debt at December 31 is summarized as follows:

	<u>2011</u>	<u>2010</u>
Note No. 91-02, issued for \$260,500, dated 2-12-81, at 5.00% interest, due in monthly installments of \$1,280 until paid;	\$ 107,915	117,614
Note No. 91-05, issued for \$80,000, dated 3-14-89, at 5.00% interest, due in monthly installments of \$393, until paid;	26,733	45,174
Note No. 91-10, issued for \$87,500, dated 5-1-96, at 4.50% interest, due in monthly installments of \$398 until paid;	70,274	71,849
Note No. 91-12, issued for \$407,800, dated 1-17-01, at 4.50% interest, due in monthly installments of \$1,852 until paid;	359,383	365,291
Less: Current maturities of long-term debt	<u>(20,664)</u>	<u>(19,696)</u>
Total Long-Term Debt, Less Current Maturities	<u><u>\$ 543,641</u></u>	<u><u>580,232</u></u>

The estimated maturities for the next five years, based on the required monthly payments, are detailed as follows:

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 20,664	26,412	47,076
2013	21,681	25,395	47,076
2014	22,747	24,329	47,076
2015	23,866	23,210	47,076
2016	25,041	22,035	47,076
2017-2021	117,232	90,115	207,347
2022-2026	67,210	67,789	134,999
2027-2031	84,134	50,866	135,000
2032-2036	101,227	29,751	130,978
2037-2041	80,503	7,540	88,043
Total	<u><u>\$ 564,305</u></u>	<u><u>367,442</u></u>	<u><u>931,747</u></u>

HUGHES COUNTY RURAL WATER DISTRICT NO. 1  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS  
FOR YEAR ENDED DECEMBER 31, 2011

	2011	(memo only) 2010
Revenue from operations:		
Water revenue	\$ 370,501	342,467
Benefit units	6,400	9,800
Reimbursements	12,501	12,914
Miscellaneous	854	300
Total revenue from operations	<u>390,256</u>	<u>365,481</u>
Expenses from operations:		
Water purchases	186,344	172,490
Depreciation	67,128	67,850
Contract labor	46,726	53,764
Electricity	9,349	9,156
Repairs and maintenance	20,009	44,206
Insurance	3,107	3,108
Office	1,645	1,591
Professional fees	1,075	1,450
Testing and other fees	1,187	2,129
Miscellaneous	2,524	3,729
Total expenses from operations	<u>339,094</u>	<u>359,473</u>
Net Income (Loss) From Operations	51,162	6,008
Non-operating revenue:		
Interest earnings	<u>28</u>	<u>921</u>
Non-operating expenses:		
Interest paid on long-term debt	<u>(27,017)</u>	<u>(28,712)</u>
Net Income (Loss)	24,173	(21,783)
Retained earnings, beginning of period	<u>894,848</u>	<u>916,631</u>
Retained earnings, end of period	<u><u>\$ 919,021</u></u>	<u><u>894,848</u></u>