

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

Financial Statements and Auditor's Reports

Year Ended December 31, 2016

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, 2016

**BOARD OF DIRECTORS**

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Roll Bray

**Vice Chairman**

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**BOOKKEEPER**

Wanda Price

Hughes County Rural Water District No. 1  
Wetumka, Oklahoma  
December 31, 2016

TABLE OF CONTENTS

	<u>Page</u>
Board of Directors	1
Table of Contents	2
Independent Auditor's Report	3
Management Discussion and Analysis	5
Report on Internal Control and on Compliance Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	9
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance Required By The Uniform Guidance	11
Disposition of Prior Year's Reportable Conditions	13
Schedule of Audit Results	14
<u>COMBINED FINANCIAL STATEMENTS:</u>	
Statement of Net Position	16
Statement of Revenues, Expenses and Changes in Net Position	17
Statement of Cash Flows	18
Notes to Financial Statements	19
<u>OTHER SUPPLEMENTARY INFORMATION:</u>	
Balance Sheet (comparative)	22
Statement of Revenue, Expenses and Changes in Retained Earnings (comparative)	23
Schedule of Expenditures of Federal Awards	24



# 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, 2016, 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**

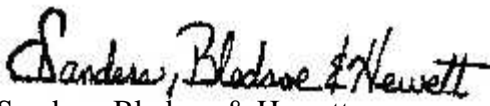
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of December 31, 2016, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### **Other Matters**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 - 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2017 on our consideration of the District'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

March 17, 2017

Hughes County Rural Water District No. 1  
Management's Discussion and Analysis  
December 31, 2016

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, 2016. Please read it in conjunction with the District's financial statements that begin on page 16.

**FINANCIAL HIGHLIGHTS**

- The District's total operating expenses exceeded total operating revenues by \$79,786. Overall, the District had a net loss of (\$116,579), and its cash and cash equivalents decreased by \$309,626 in the current fiscal year. These amounts include \$72,864 in annual depreciation costs.
- The District is now indebted by two notes to the Oklahoma Office of Rural Development. The District was able to pay off the four existing loans in 2015.
- The District was approved for two federal loans in the amount of \$2,579,000 and federal grants in the amount of \$1,544,500 in 2014 for improvements and expansion of the water system and a water treatment plant. The loan proceeds were all received in 2015, \$193,129 of the grant proceeds were received in 2015, and \$1,197,102 of grant proceeds were received in 2016.

**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 Net Position, the Statement of Revenues, Expenses and Changes in Net Position, 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 position – 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 position 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.

### **Net Position, and Changes in Net Position**

The District's Net Position was higher in 2016, increasing from \$1,051,616 to \$2,132,139. Looking at the Net Position and Net Expenses of business-type activities separately, however, two different stories can emerge. Our analysis below focuses on the Net Position (Table 1) and Changes in Net Position (Table 2) of the District's business-type activities.

**Table 1 – Net Position:**

	2016	2015	Variances
Current and other assets	\$ 130,179	439,805	(309,626)
Capital assets, net	4,542,341	3,190,811	1,351,530
Total Assets	<u>\$ 4,672,520</u>	<u>3,630,616</u>	<u>1,041,904</u>
Current liabilities	\$ 42,942	37,138	(5,804)
Long-term liabilities	2,497,439	2,541,862	44,423
Total Liabilities	<u>\$ 2,540,381</u>	<u>2,579,000</u>	<u>38,619</u>
Invest. In capital assets, net			
of related debt	\$ 2,105,249	715,089	1,390,160
Restricted	103,289	103,278	11
Unrestricted	(76,399)	233,249	(309,648)
Total Net Position	<u>\$ 2,132,139</u>	<u>1,051,616</u>	<u>1,080,523</u>

Net Position of the District increased by 102.75 percent (\$2,132,139 compared to \$1,051,616). This increase was due to the \$1,197,102 of grant proceeds received in 2016. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – decreased from \$233,249 to (\$76,399).

**Table 2 – Changes in Net Position:**

	2016	2015	Variances
Revenues:			
Charges for services	\$ 303,493	339,819	(36,326)
Other fees	8,759	15,614	(6,855)
Interest	35	29	6
Total Revenues	<u>\$ 312,287</u>	<u>355,462</u>	<u>(43,175)</u>
Expenses:			
Water purchases	\$ 149,119	174,792	25,673
Maintenance and repairs	77,928	69,408	(8,520)
Other expenses	92,127	80,619	(11,508)
Depreciation	72,864	72,290	(574)
Interest on debt	91,175	8,553	(82,622)
Total Expenses	<u>\$ 483,213</u>	<u>405,662</u>	<u>(77,551)</u>
Operating Revenue (Loss)	(170,926)	(50,200)	(120,726)
RD, ODOT and FEMA proceeds	<u>1,251,449</u>	<u>193,129</u>	<u>1,058,320</u>
Changes in Net Position	1,080,523	142,929	937,594
Net Position, Beginning	<u>1,051,616</u>	<u>908,687</u>	<u>142,929</u>
Net Position, Ending	<u>\$ 2,132,139</u>	<u>1,051,616</u>	<u>1,080,523</u>

The District's total operating revenues decreased by 12.14 percent (\$43,175). The total cost of all services increased by 19.12 percent (-\$77,551).

### **Fixed Assets**

At December 31, 2016, the District had \$4,542,341 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 \$1,424,394 of improvements to the water system and the water treatment plant during the 2016 fiscal year.

### **Long-Term Debt**

The District was indebted to the USDA, Oklahoma Office of Rural Development on three notes obtained for previously extensive extensions and the current water system. The outstanding principal balances from these loans were paid off with the new USDA/RD loan/grant proceeds received in 2015. The District now has two new 40 year, 2.25% notes, \$2,184,792 and \$355,589, which they began making payments on in early 2016.



### **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 their water sources.

The District's budget for fiscal year 2017 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

**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. 1  
Wetumka, 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. 1 (the District), Wetumka, Oklahoma, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 17, 2017.

**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. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in the internal controls that we considered to be a material weakness.

*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. We consider the deficiency described in the accompanying schedule of findings and responses as item 16-1, to be a material weakness.

#### 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*.

#### District's Response to Findings

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

March 17, 2017



# SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

**REPORT ON COMPLAINE WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY THE UNIFORM GUIDANCE**

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

**Compliance**

We have audited the compliance of Hughes County Rural Water District No. 1, (the District) Wetumka, Oklahoma, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2016. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance)*. Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2016.

### Internal Control Over Compliance

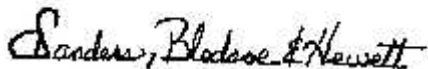
The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program 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 more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be detected or prevented by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

March 17, 2017

**HUGHES COUNTY RURAL DISTRICT NO. 1**  
**Disposition of Prior Year's Significant Deficiencies**  
**December 31, 2016**

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, 2016**

Section 1 – Summary of Auditor’s Results:

1. An unmodified opinion report was issued on the financial statements.
2. The audit disclosed a significant deficiency in the internal controls which was not considered a material weakness.
3. The audit disclosed no instances of noncompliance.
4. The audit disclosed no significant deficiencies in the internal controls over major programs.
5. An unqualified opinion was issued on the compliance of major programs.
6. The audit disclosed no audit findings which are required to be reported under OMB Circular A-133 § 510(a).
7. The program determined to be major is the USDA/Rural Development Grant.
8. The dollar threshold used to determine between Type A and Type B programs was \$750,000.
9. The district was determined not to be a low-risk auditee.

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

16-1 – 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.

Section 3 – Findings and Questioned Costs for Federal Awards:

NONE



HUGHES COUNTY RURAL WATER DISTRICT NO. 1  
STATEMENT OF NET POSITION  
DECEMBER 31, 2016

ASSETS:

Current assets:

Cash-

Operating account	\$	16,473
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Construction account		9,417
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Deposits (ORWA)		1,000
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Total current assets		26,890
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Noncurrent assets:

Restricted cash and cash equivalents		103,289
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Capital assets:

Water distribution system		2,856,386
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Construction in progress		3,373,920
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Equipment		17,371
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Less: accumulated depreciation		(1,705,336)
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Total noncurrent assets		4,645,630
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Total Assets		4,672,520
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LIABILITIES:

Current liabilities:

Current portion of long-term debt		42,942
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Noncurrent liabilities:

Long-term notes payable		2,497,439
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Total Liabilities		2,540,381
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NET POSITION:

Invested in capital assets, net of related debt		2,105,249
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Restricted for debt service		103,289
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Unrestricted		(76,399)
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Total Net Position	\$	2,132,139
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The accompanying notes are an integral part of the financial statements

HUGHES COUNTY RURAL WATER DISTRICT NO. 1  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2016

Operating Revenues:	
Water revenue	\$ 303,493
Benefit units	900
Other sales and services	7,859
Total operating revenues	<u>312,252</u>
Operating Expenses:	
Water purchases	149,119
Depreciation	72,864
Contract labor	68,183
Electricity	11,053
Repairs and maintenance	45,753
Supplies and materials	20,485
Chemicals	5,659
Insurance	3,702
Office	3,480
Professional fees	3,435
Testing and other fees	6,031
Miscellaneous	2,274
Total expenses from operations	<u>392,038</u>
Operating Income (Loss)	(79,786)
Non-Operating Revenues (Expenses):	
Grant proceeds received	1,197,102
ODOT reimbursements	48,021
FEMA reimbursements	6,326
Interest income	35
Interest paid on long-term debt	(91,175)
Total Non-Operating Revenues (Expenses)	<u>1,160,309</u>
Change in Net Assets	1,080,523
Total Net Position, beginning of period	<u>1,051,616</u>
Total Net Position, end of period	<u><u>\$ 2,132,139</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, 2016

Cash Flows from Operating Activities:

Receipts from customers	\$ 312,252
Payments to vendors	(319,174)
Net Cash Provided by (used in) Operating Activities	<u>(6,922)</u>

Cash Flows from Financing Activities:

Fixed asset additions	(1,424,394)
Principal paid on long-term debt	(38,619)
Interest paid on long-term debt	(91,175)
Net Cash Provided by (used in) Financing Activities	<u>(1,554,188)</u>

Cash Flows from Investing Activities:

ODOT reimbursement	48,021
FEMA reimbursement	6,326
Grant proceeds	1,197,102
Interest earned on investments	35
Net Cash Provided by (used in) Investing Activities	<u>1,251,484</u>

Net increase (decrease) in cash and cash equivalents (309,626)

Cash and cash equivalents, beginning of period 439,805

Cash and cash equivalents, end of period \$ 130,179

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

Operating Income (loss)	\$ (79,786)
Adjustments to reconcile net income to net cash provided (used) by operating activities:	
Depreciation Expense	<u>72,864</u>
Net cash provided by operating activities	<u><u>\$ (6,922)</u></u>

The accompanying notes are an integral part of the financial statements

**HUGHES COUNTY RURAL WATER DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**Note A – Significant Accounting Policies**

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.

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.

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,	
	2016	2015
Citizens Security Bank:		
Operating Account	\$ 16,525	65,247
Construction Account	9,417	270,280
Less: Outstanding checks	(52)	-
ORWA deposit	1,000	1,000
LaSalle St. Securities:		
Money Market Account	103,289	103,278
Balance	<u>\$ 130,179</u>	<u>439,805</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, 2016.

**HUGHES COUNTY RURAL WATER DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**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 \$99,660, 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, 2016, the restricted asset-investment reserve balance was \$103,289.

Inventory

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

**Note B - Fixed Assets**

Any items purchased or constructed in excess of \$1,000 and a useful life of over two years is considered a fixed asset by the District, and will be depreciated over a specific time. 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:

	12/31/2015 Amount	Additions	Deletions	12/31/2016 Amount
Water System & Equipment	\$ 2,856,386	-	-	2,856,386
Construction in Progress				
Water Treatment Plant	1,955,271	1,418,649	-	3,373,920
Equipment	11,626	865	-	12,491
Less: Accumulated Depreciation	(1,632,472)	(72,864)	-	(1,705,336)
Total	<u>\$ 3,190,811</u>	<u>1,346,650</u>	<u>-</u>	<u>4,537,461</u>

**HUGHES COUNTY RURAL WATER DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**Note C – Long-Term Debt**

The District is indebted to the USDA Rural Development Program on two 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:

Note No. 91-14, issued for \$2,218,000, dated 1-28-15, at 2.25% interest, due in monthly installments of \$7,142 for 40 years, or until paid	\$ 2,184,792
Note No. 91-16, issued for \$361,000, dated 1-28-15, at 2.25% interest, due in monthly installments of \$1,163 for 40 years, or until paid;	355,589
Less: Current maturities of long-term debt	<u>(42,942)</u>
Total Long-Term Debt, Less Current Maturities	<u><u>\$ 2,497,439</u></u>

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

Year	Loan 91-14	Loan 91-16	Total
2017	\$ 36,925	6,017	42,942
2018	37,765	6,154	43,919
2019	38,623	6,294	44,917
2020	39,501	6,437	45,938
2021	40,399	6,583	46,982
2022-26	216,198	35,229	251,427
2027-31	241,916	39,421	281,337
2032-36	270,693	44,110	314,803
2037+	<u>1,262,772</u>	<u>205,344</u>	<u>1,468,116</u>
Total	<u><u>\$ 2,184,792</u></u>	<u><u>355,589</u></u>	<u><u>2,540,381</u></u>

**Note D – Subsequent Events**

Management has evaluated subsequent events through March 17, 2017, 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. 1  
BALANCE SHEET  
DECEMBER 31, 2016

	DECEMBER 31,	
	2016	(memo only) 2015
<u>ASSETS</u>		
Current Assets:		
Cash-		
Operating account	\$ 16,473	\$ 65,247
Construction account	9,417	270,280
Deposits (ORWA)	1,000	1,000
Total Current Assets	<u>26,890</u>	<u>336,527</u>
Fixed Assets:		
Water distribution system	2,856,386	2,856,386
Construction in progress (water treatment plant)	3,373,920	1,955,271
Equipment	17,371	11,626
Less: accumulated depreciation	(1,705,336)	(1,632,472)
Total Fixed Assets (net of depreciation)	<u>4,542,341</u>	<u>3,190,811</u>
Restricted Assets:		
Investment reserves	<u>103,289</u>	<u>103,278</u>
Total Assets	<u>\$ 4,672,520</u>	<u>\$ 3,630,616</u>
<u>LIABILITIES AND EQUITY</u>		
Current Liabilities:		
Current maturities of long-term debt	\$ 42,942	\$ 37,138
Long-Term Debt, less current maturities:		
Notes payable	<u>2,497,439</u>	<u>2,541,862</u>
Total Liabilities	<u>2,540,381</u>	<u>2,579,000</u>
Equity:		
Contributed capital	1,406,931	209,829
Retained earnings	725,208	841,787
Total Equity	<u>2,132,139</u>	<u>1,051,616</u>
Total Liabilities and Equity	<u>\$ 4,672,520</u>	<u>\$ 3,630,616</u>

HUGHES COUNTY RURAL WATER DISTRICT NO. 1  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS  
FOR YEAR ENDED DECEMBER 31, 2016

	2016	(memo only) 2015
Revenue from operations:		
Water revenue	\$ 303,493	339,819
Benefit units	900	2,700
Reimbursements	5,309	11,714
Miscellaneous	2,550	1,200
Total revenue from operations	<u>312,252</u>	<u>355,433</u>
Expenses from operations:		
Water purchases	149,119	174,792
Depreciation	72,864	72,290
Contract labor	68,183	55,041
Electricity	11,053	8,873
Repairs and maintenance	45,753	64,826
Supplies and materials	20,485	0
Chemicals	5,659	0
Insurance	3,702	3,890
Office	3,480	8,029
Professional fees	3,435	1,200
Testing and other fees	6,031	4,582
Miscellaneous	2,274	3,586
Total expenses from operations	<u>392,038</u>	<u>397,109</u>
Net Income (Loss) From Operations	(79,786)	(41,676)
Non-operating revenue:		
Interest earnings	35	29
ODOT reimbursemet	48,021	0
FEMA reimbursement	6,326	0
Total non-operating revenue	<u>54,382</u>	<u>29</u>
Non-operating expenses:		
Interest paid on long-term debt	<u>(91,175)</u>	<u>(8,553)</u>
Net Income (Loss)	(116,579)	(50,200)
Retained earnings, beginning of period	<u>841,787</u>	<u>891,987</u>
Retained earnings, end of period	<u><u>\$ 725,208</u></u>	<u><u>841,787</u></u>



HUGHES COUNTY RURAL WATER DISTRICT NO. 1  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2016

<u>Federal Grantor / Pass Through Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Grantor's/ Pass-through No.</u>	<u>Program or Award Amount</u>	<u>Balance at 1/1/16</u>	<u>Revenue Collected</u>	<u>Total Expenditures</u>	<u>Balance at 12/31/16</u>
<u>United States Dept. of Agriculture-</u>							
<u>Passed Through the Okla. Office of Rural Development:</u>							
Rural Development Loan	10.760	91-14	\$ 2,218,000	0	0	0	0
		91-16	361,000	76,695	0	76,695	0
Rural Development Grant	10.760		<u>1,554,500</u>	<u>193,129</u>	<u>1,197,102</u>	<u>1,390,231</u>	<u>164,269</u>
			<u>\$ 4,133,500</u>	<u>269,824</u>	<u>1,197,102</u>	<u>1,466,926</u>	<u>164,269</u>