

Hughes County Rural Water District No. 2
Stuart, Oklahoma

Financial Statements and Auditor's Reports

Year Ended June 30, 2011

Audited by

SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP

BROKEN ARROW, OK
SHAWNEE, OK

Hughes County Rural Water District No. 2
Stuart, Oklahoma
Board of Directors
June 30, 2011

BOARD OF DIRECTORS

Chairman

Jim Wilson

Secretary/Treasurer

Janet Frederick

Members

Raymond Foster

Kevin Morris

Wayne Waldrup

MANAGER

Vivian Moody

Hughes County Rural Water District No. 2
Stuart, Oklahoma
June 30, 2011

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SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Hughes County Rural Water District No. 2
Stuart, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Hughes County Rural Water District No. 2 (the District), Stuart, 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 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 June 30, 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 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 November 12, 2014 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.

A handwritten signature in black ink that reads "Sanders, Bledsoe & Hewett". The script is cursive and somewhat stylized, with the first letters of each name being capitalized and prominent.

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

November 12, 2014

RURAL WATER DISTRICT NO. 2, HUGHES COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

Our discussion and analysis of the Rural Water District No. 2, Hughes County's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2011. Please read it in conjunction with the District's financial statements that begin on page 11.

FINANCIAL HIGHLIGHTS:

- The District's total operating expenses exceeded total operating revenues by \$14,151. Overall, the District's total net assets decreased by \$39,143 in the current fiscal year.
- The District had four outstanding notes in 2011, and paid \$25,055 in interest.
- The District obtained an additional note from Rural Development. These funds will be used to pay off the OWRB outstanding loan and make further improvements on 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 Net Assets, the Statement of Activities, 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 June 30, 2011 the District had \$1,825,578 invested in fixed assets, net of depreciation, including land, the water system, pump station and lines. The District made no large additions to the water system in 2010-11.

Long-Term Debt

The total outstanding loan balances for the District at June 30, 2011 was \$646,476, a decrease of \$33,294 from the prior year.

Economic Factors and Next Year's Budget and Rates

For the upcoming fiscal year ending June 30, 2012, the District's projected budget is fairly consistent with the 2011 fiscal year.

Contacting the District

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, please contact the District Office.



SANDERS, BLEDSOE & HEWETT
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**REPORT ON COMPLAINT 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. 2
Stuart, Oklahoma

We have audited the financial statements of the Hughes County Rural Water District No. 2 (the District), Stuart, Oklahoma, as of and for the year ended June 30, 2011, and have issued our report thereon dated November 12, 2014. 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.

Compliance

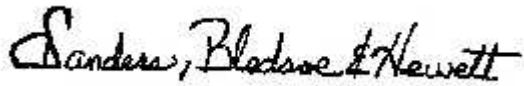
As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the 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 auditing standards generally accepted in the United States.

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. We noted no certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. 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.

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.

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 cursive script that reads "Sanders, Bledsoe & Hewett".

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

November 12, 2014

HUGHES COUNTY RURAL DISTRICT NO. 2
Disposition of Prior Year's Reportable Conditions
June 30, 2011

There were no prior year instances of noncompliance.

HUGHES COUNTY RURAL WATER DISTRICT NO. 2
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

HUGHES COUNTY RURAL WATER DISTRICT NO. 2
Statement of Net Assets
June 30, 2011

ASSETS

Current assets:

Cash	\$ 5,207
Current portion of receivables	24,766
Prepaid expenses	879
Total current assets	<u>30,852</u>

Noncurrent assets:

Restricted cash	55,393
Refundable deposits	35,446
Fixed assets-	
Water system and improvements, net of depreciation	<u>1,825,578</u>
Total noncurrent assets	<u>1,916,417</u>

Other assets:

Utility deposits	<u>170</u>
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Total Assets	<u>1,947,439</u>
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LIABILITIES

Current liabilities:

Accounts payable	4,218
Refundable deposits	35,446
Current maturities of long-term debt	31,380
Total current liabilities	<u>71,044</u>

Noncurrent liabilities:

Notes payable	<u>645,096</u>
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Total Liabilities	<u>716,140</u>
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NET ASSETS

Invested in capital assets, net of related debt	1,149,102
Temporarily restricted assets	55,393
Unrestricted assets	<u>26,804</u>
Total Net Assets	<u>\$ 1,231,299</u>

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

HUGHES COUNTY RURAL WATER DISTRICT NO. 2
Statement of Activities
For The Year Ended June 30, 2011

Operating Revenues:	
Water sales	\$ 253,403
Memberships	1,700
Total revenues from operations	<u>255,103</u>
Operating Expenses:	
Operating supplies and materials	51,700
Salaries and taxes	49,628
Contract labor	20,119
Licences & dues	8,975
Insurance	11,691
Professional fees	3,863
Vehicle expenses	5,148
Office expense	490
Postage	2,504
Telephone	3,210
Utilities	32,452
Water testing	5,100
Miscellaneous	3,972
Depreciation	70,402
Total expenses from operations	<u>269,254</u>
Operating Income (Loss)	(14,151)
Non-Operating Revenues (Expenses):	
Interest income	63
Interest expense on debt	(25,055)
Total non-operating revenues (expenses)	<u>(24,992)</u>
Change in Net Assets	(39,143)
Total Net Assets, beginning of period	<u>1,270,442</u>
Total Net Assets, end of period	<u><u>\$ 1,231,299</u></u>

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

HUGHES COUNTY RURAL WATER DISTRICT NO. 2
Statement of Cash Flows
For Year Ended June 30, 2011

Cash Flows from Operating Activities:	
Receipts from customers	\$ 254,102
Payments to employees	(51,510)
Payments to vendors	(150,421)
Net Cash Provided by Operating Activities	<u>52,171</u>
Cash Flows from Financial Activities:	
Principal paid on debt	(33,295)
Interest paid on debt	(25,163)
Net cash provided by (used in) financial activities	<u>(58,458)</u>
Cash Flows from Investing Activities:	
Interest revenue	<u>63</u>
Net Increase (Decrease) in Cash and Equivalents	(6,224)
Cash and cash equivalents, beginning of period	<u>11,431</u>
Cash and cash equivalents, end of period	<u><u>\$ 5,207</u></u>
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating Income (loss)	\$ (14,151)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	70,402
(Increase) decrease in accounts receivable	(1,001)
(Increase) decrease in prepaid expenses	(168)
Increase (decrease) in accounts payable	(1,029)
Increase (decrease) in payroll taxes payable	(1,882)
Net Cash Provided by Operating Activities	<u><u>\$ 52,171</u></u>

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

HUGHES COUNTY RURAL WATER DISTRICT NO. 2
Notes to Financial Statements
June 30, 2011

Note A – Significant Accounting Policies

Organization

Hughes County Rural Water District No. 2, Stuart, Oklahoma (the District) is recognized as a rural water district under Oklahoma Statutes, Title 82. The purpose of the organization is to provide potable water to residential and commercial customers who are members of the District.

Reporting Entity

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 produces its own water supply.

Basis of Accounting

The accrual basis of accounting is followed for all accounts. Revenues are recorded when earned and accrued liabilities are recognized when incurred. This policy is in accordance with generally accepted accounting principles.

Cash

The District's accounts are with The Bank NA, McAlester, Oklahoma, and are detailed as follows:

	June 30,	
	2011	2010
Operation and Maint. Account	\$ 2,310	3,202
REAP Account	3,891	7,196
Const. & Maint Account	-	1,772
Deposit Account	35,446	34,883
Add: Deposits in transit	-	-
Less: Outstanding checks	(994)	(739)
Total	<u>\$ 40,653</u>	<u>46,314</u>

HUGHES COUNTY RURAL WATER DISTRICT NO. 2
Notes to Financial Statements
June 30, 2011

Note A – Significant Accounting Policies – cont’d

Investments

The District had no outstanding investments.

Accounts Receivable

Billings for accounts receivable at June 30, 2011 were \$24,766. Allowance for doubtful accounts was not computed on this balance because uncollectibles do not have a material effect on the balance sheet.

Collateral Pledged

All District funds were adequately insured by FDIC or other secured collateral as of June 30, 2011.

Fixed Assets

The fixed asset information for the District is shown below:

	6/30/2010 Amount	Additions	Deletions	6/30/2011 Amount
Land	\$ 148,357	-	-	148,357
Water system	2,938,579	-	-	2,938,579
Equipment	59,992	-	-	59,992
Vehicles	20,657	-	-	20,657
Total Fixed Assets	3,167,585	-	-	3,167,585
Less: Accumulated Depreciation	(1,271,605)	(70,402)	-	(1,342,007)
Total	<u>\$ 1,895,980</u>	<u>(70,402)</u>	<u>-</u>	<u>1,825,578</u>

HUGHES COUNTY RURAL WATER DISTRICT NO. 2
Notes to Financial Statements
June 30, 2011

Note A – Significant Accounting Policies – cont’d

Federal Income Tax

The District is exempt from Federal and State income taxes.

Accumulated Unpaid Vacation and Sick Pay

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

Prior Year Information

Prior year information is shown on the financial statements for comparative purposes only. No assurance is given on prior year amounts.

Note B – Long-Term Debt

Long-Term Debt consists of four long-term notes; two to Rural development, one to the Oklahoma Water Resources Board and one to BancFirst;

	June 30,	
	2011	2010
Rural Development note payable, issued for \$280,200, dated 1995, 4.5% interest, paid in monthly payments of \$1,273, until paid;	\$ 223,773	228,039
Rural Development note payable, issued for \$210,000, dated 1995, 4.5% interest, paid in monthly payments of \$954, until paid;	167,728	170,924
Oklahoma Water Resources Board note payable, issued for \$520,000, dated 2010, variable interest, paid in monthly payments of \$2,304, until paid;	273,150	296,100
BancFirst note payable, issued for \$17,657, dated 2009, interest rate of \$9.09%, payable in monthly payments of \$369, until paid;	11,825	14,708
Total Long-Term Debt	<u>\$ 676,476</u>	<u>709,771</u>

HUGHES COUNTY RURAL WATER DISTRICT NO. 2
Notes to Financial Statements
June 30, 2011

Note B – Long-Term Debt

The scheduled maturities for the next five (5) years, and in total thereafter, are detailed as follows:

<u>Year</u>	<u>Total</u>	<u>Rural Dev. (2)</u>	<u>OWRB (1)</u>	<u>BancFirst (1)</u>
2011-12	31,380	9,297	18,591	3,492
2012-13	32,803	9,724	19,262	3,817
2013-14	34,334	10,171	19,957	4,206
2014-15	31,625	10,638	20,677	310
2015-16	31,554	11,130	20,424	
2016-21	183,068	63,785	119,283	
2021-26	134,803	79,847	54,956	
2026-31	99,953	99,953		
2031+	96,956	96,956		
Total	<u>\$ 676,476</u>	<u>391,501</u>	<u>273,150</u>	<u>11,825</u>

Under the provisions of the OWRB Loan Agreements, the District is required to establish, fund, and maintain a debt service reserve account and a debt service sinking fund account with the trustee bank, Bank of Oklahoma. The Debt Service Reserve account was fully funded at the closing of the loan and can be utilized to make principal and interest payments in the event the District defaults on the OWRB loan. At June 30, 2011, the Debt Service Sinking Fund had a balance of \$2,304, and the Debt Service Reserve Fund had a balance of \$46,367.

According to the loan agreements with Rural Development, the District is required to make monthly deposits of \$227 to a designated account known as a reserve account. A total balance of \$26,724 is to be accumulated in the reserve account, which represents a balance equal to one annual payment on each loan. At June 30, 2011, the Reserve account had a balance of \$6,722.

Note C – Insurance and Surety Bond Coverage

The District appears to have had adequate insurance to cover all major perils at June 30, 2011.

Note D – Subsequent Events

Management has evaluated subsequent events through November 12, 2014, which is the date the financial statements were available to be issued and have determined that no additional information needs to be added to the financial statements.

HUGHES COUNTY RURAL WATER DISTRICT NO. 2
Balance Sheet
June 30, 2011

	JUNE 30,	
	2011	(memo only) 2010
<u>ASSETS</u>		
Current Assets:		
Cash in bank	\$ 5,207	11,431
Accounts receivable	24,766	23,765
Prepaid insurance	879	711
Total current assets	<u>30,852</u>	<u>35,907</u>
Fixed Assets:		
Land	148,357	148,357
Water system and improvements	2,938,579	2,938,579
Equipment	59,992	59,992
Vehicles	20,657	20,657
Total fixed assets	<u>3,167,585</u>	<u>3,167,585</u>
Less: accumulated depreciation	<u>(1,342,007)</u>	<u>(1,271,605)</u>
Total fixed assets (net)	<u>1,825,578</u>	<u>1,895,980</u>
Other Assets:		
Restricted cash	55,393	55,285
Refundable customers deposits	35,446	34,883
Utility deposits	170	170
Total other assets	<u>91,009</u>	<u>90,338</u>
Total Assets	<u>\$ 1,947,439</u>	<u>2,022,225</u>
<u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 4,218	5,247
Payroll taxes payable	0	1,882
Refundable deposits	35,446	34,883
Current maturities of long-term debt	31,380	29,182
Total current liabilities	<u>71,044</u>	<u>71,194</u>
Long-Term Debt, less current maturities-		
Notes payable	<u>645,096</u>	<u>680,589</u>
Total Liabilities	<u>716,140</u>	<u>751,783</u>
Fund Equity:		
Retained earnings	<u>1,231,299</u>	<u>1,270,442</u>
Total Liabilities and Fund Equity	<u>\$ 1,947,439</u>	<u>2,022,225</u>

HUGHES COUNTY RURAL WATER DISTRICT NO. 2
Statement of Revenue, Expenses and Changes in Retained Earnings
For Years Ended June 30, 2011

	2010-11	(memo only) 2009-10
Revenue from Operations:		
Water sales	\$ 253,403	248,368
Memberships	1,700	2,200
Total revenue from operations	<u>255,103</u>	<u>250,568</u>
Expenses from Operations:		
Operating supplies and materials	51,700	79,622
Salaries and taxes	49,628	75,199
Contract labor	20,119	25,349
Licences & dues	8,975	5,511
Insurance	11,691	14,723
Professional fees	3,863	2,100
Engineering fees	0	18,800
Vehicle expenses	5,148	8,882
Office expense	490	654
Postage	2,504	2,880
Telephone	3,210	3,589
Utilities	32,452	32,061
Water testing	5,100	1,790
Miscellaneous	3,972	3,292
Depreciation	70,402	69,728
Total expenses from operations	<u>269,254</u>	<u>344,180</u>
Net Income (Loss) from Operations	(14,151)	(93,612)
Other Income:		
Interest earnings	63	72
Grant proceeds	0	100,000
Total other income	<u>63</u>	<u>100,072</u>
Other Expenses:		
Interest on debt	<u>(25,055)</u>	<u>(28,801)</u>
Net Income (Loss)	(39,143)	(22,341)
Retained earnings, beginning of period	<u>1,270,442</u>	<u>1,292,783</u>
Retained earnings, end of period	<u><u>\$ 1,231,299</u></u>	<u><u>1,270,442</u></u>