

Hughes County Rural Water District No. 4
Holdenville, Oklahoma

Financial Statements and
Reports of Independent Auditor

June 30, 2016

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, 2016

Chairman

Jim Cates

Vice Chairman

Bill Newman

Secretary/Treasurer

Linda Evans

Members

Lori Ramsey
Josh Polkington

Manager

Sandy Stafford

Hughes County Rural Water District No. 4
Holdenville, Oklahoma
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SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

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, 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

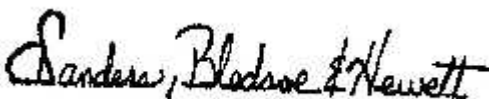
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of June 30, 2016, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

The District has not presented the Management's Discussion and Analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2016 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 District's internal control over financial reporting and compliance.



Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

September 6, 2016



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. 4
Holdenville, 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. 4 (the District), Holdenville, Oklahoma, as of and for the year ended June 30, 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 September 6, 2016.

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.

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.

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. We did identify certain deficiencies in the internal controls, described in the accompanying schedule of audit results as item 16-1.

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*.

The District's response to the findings identified in our audit is described in the accompanying schedule of audit results. 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

September 6, 2016

Hughes County Rural Water District No. 4
Holdenville, Oklahoma
Schedule of Audit Results
June 30, 2016

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.
3. The audit disclosed no instances of noncompliance.

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

16-1 Internal Control – Segregation of Duties

Criteria – The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the District’s assets and ensure accurate financial reporting.

Condition - Presently the same individual performs all accounting functions; receives utility service related payments and is responsible for service billing and adjustment, also makes bank deposits, writes checks and reconciles the monthly bank statements and prepares monthly financial reports.

Cause – The District’s limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

Effect or Potential Effect – Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to the accounting functions, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation - While it may not be cost effective to hire additional administrative staff that would be necessary in order to adequately segregate the responsibilities, the District should consider a formal evaluation of their risks associated with this lack of segregation of duties. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with the lack of segregation of duties.

Management Response – Management agrees with this finding, and will provide adequate staffing once annual collections increase enough to justify the extra expense.

HUGHES COUNTY RURAL WATER DISTRICT NO. 4
Statement of Net Position
June 30, 2016

ASSETS

Current assets:

Cash in bank	\$ 122,852
Receivables	14,184
Prepaid insurance	2,167
Total current assets	<u>139,203</u>

Noncurrent assets:

Note issuance costs	3,702
Deposit - ORWA	1,000
Capital assets:	
Water system and improvements, net of depreciation	195,159
Total noncurrent assets	<u>199,861</u>

Total Assets	<u>339,064</u>
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LIABILITIES

Current liabilities:

Accounts payable	<u>600</u>
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Total Liabilities	<u>600</u>
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NET POSITION

Invested in capital assets, net of related debt	195,159
Unrestricted assets	<u>143,305</u>

Total Net Position	<u>\$ 338,464</u>
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The accompanying notes to the financial statements are an integral part of this statement

HUGHES COUNTY RURAL WATER DISTRICT NO. 4
Statement of Revenues, Expenses and Changes in Net Position
For The Year Ended June 30, 2016

Operating Revenues:	
Water sales	\$ 173,939
Other sources	875
Total revenues from operations	<u>174,814</u>
Operating Expenses:	
Water purchases	83,717
Salaries and taxes	28,064
Depreciation	18,808
Amortization	435
Repairs & maintenance	35,582
Meter readings	5,650
Computer services	2,697
Insurance	11,986
Operating supplies	554
Electricity	360
Water samples	2,084
Professional fees	1,250
Office expenses	1,193
Postage	1,094
Telephone	925
Miscellaneous	703
Total expenses from operations	<u>195,102</u>
Operating Income (Loss)	(20,288)
Non-Operating Revenues (Expenses):	
Reimb for hydrant	4,815
Interest income	63
Total non-operating revenues (expenses)	<u>4,878</u>
Change in Net Position	(15,410)
Total Net Position, beginning of period	<u>353,874</u>
Total Net Position, end of period	<u><u>\$ 338,464</u></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, 2016

Cash flows from operating activities:

Receipts from customers	\$ 173,124
Payments To employees	(29,642)
Payments to vendors	<u>(147,824)</u>
Net cash (used in) provided by operating activities	<u>(4,342)</u>

Cash flows from capital and related financing activities:

Capital assets purchased	(7,440)
Reimbursement for hydrant	<u>4,815</u>
Net cash used in capital and related financing activities	<u>(2,625)</u>

Cash flows from investing activities:

Interest on investments	<u>63</u>
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Net increase (decrease) in cash and cash equivalents (6,904)

Cash & cash equivalents, beginning of period 129,756

Cash & cash equivalents, end of period \$ 122,852

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

Operating Income	\$ (20,288)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	18,808
Amortization Expense	435
(Increase) decrease in current assets-	
Accounts receivable, net	(1,690)
Prepaid expenses	(29)
Increase (decrease) in current liabilities-	
Accounts payable	<u>(1,578)</u>
Net Cash Provided by Operating Activities	<u><u>\$ (4,342)</u></u>

The accompanying notes are an integral part of the financial statements

HUGHES COUNTY RURAL WATER DISTRICT NO. 4
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2016

Note 1 – Significant Accounting Policies

Business Activity

Hughes County Rural Water District No. 4 (the District) was formed under the provisions of Title 82, O.S. 1981, Sections 1324.1-1324.26 inclusive. The District operates as a nontaxable government agency to service residents of the Hughes County Rural Water District No. 4. The District's primary income is from the sale of water to its members in an area around Holdenville, Oklahoma.

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, 2016 are comprised as follows:

First United Bank, Holdenville, OK	
Operating Revenue	<u>\$ 122,852</u>

The District's cash deposits at June 30, 2016 are categorized to give an indication of the level of risk assumed by the district at year-end. All funds are covered by the \$250,000 of FDIC coverage.

Investments

The District had no investments at June 30, 2016.

Accounts Receivable

Billings for accounts receivable at June 30, 2016 were \$14,184. 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	\$ 14,184
31-90	<u>0</u>
Total	<u>\$ 14,184</u>

HUGHES COUNTY RURAL WATER DISTRICT NO. 4
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2016

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.

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.

Inventories

The District does not carry a significant inventory of materials and supplies. The cost of such items is recorded as an expense when purchased.

Income Taxes

The District is recognized as a tax-exempt organization under the Internal Revenue Code. Because the District is exempt from federal income tax, no provision for taxes has been made in the financial statements.

HUGHES COUNTY RURAL WATER DISTRICT NO. 4
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2016

Note 1 – Significant Accounting Policies – cont'd

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 2 – Long-Term Debt

The District has no outstanding long-term debt.

Note 3 – Accumulated Unpaid Vacation and Sick Pay

At June 30, 2016, no determination of the aggregate dollar value of vacation and sick pay had been made.

Note 4 – Subsequent Events

Management has evaluated subsequent events through September 6, 2016, 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. 4
Balance Sheet
June 30, 2016

	June 30,	
	2016	(Memo only) 2015
<u>ASSETS</u>		
Current Assets:		
Cash in bank	\$ 122,852	129,756
Accounts receivable	14,184	12,494
Prepaid Insurance	2,167	2,138
Total current assets	<u>139,203</u>	<u>144,388</u>
Fixed Assets:		
Water system	634,184	626,744
Less: accumulated depreciation	(439,025)	(420,217)
Total fixed assets (net)	<u>195,159</u>	<u>206,527</u>
Other Assets:		
Note issuance costs	3,702	4,137
ORWA deposit	1,000	1,000
Total other assets	<u>4,702</u>	<u>5,137</u>
Total Assets	<u>\$ 339,064</u>	<u>356,052</u>
 <u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 600	2,178
Fund Equity		
Contributed capital	250,000	250,000
Retained earnings - unrestricted	88,464	103,874
Total fund equity	<u>338,464</u>	<u>353,874</u>
Total Liabilities and Fund Equity	<u>\$ 339,064</u>	<u>356,052</u>

HUGHES COUNTY RURAL WATER DISTRICT NO. 4
Statement of Revenue, Expenses and Changes in Retained Earnings
For the Year Ended June 30, 2016

	2015-16	(Memo only) 2014-15
Revenue from Operations:		
Water sales	\$ 165,178	156,635
Benefit units	1,750	1,050
Late charges	4,019	4,608
Meter settings	2,992	3,939
Miscellaneous	875	815
Total revenue from operations	<u>174,814</u>	<u>167,047</u>
Expenses from Operations:		
Water purchases	83,717	77,930
Salaries and taxes	28,064	27,551
Depreciation	18,808	18,808
Amortization	435	435
Repairs & maintenance	35,582	7,262
Meter readings	5,650	5,095
Computer services	2,697	2,682
Insurance	11,986	17,434
Operating supplies	554	432
Electricity	360	446
Water samples	2,084	1,454
Professional fees	1,250	2,828
Office expenses	1,193	1,229
Postage	1,094	535
Telephone	925	705
Miscellaneous	703	225
Total expenses from operations	<u>195,102</u>	<u>165,051</u>
Net Income (Loss) from Operations	(20,288)	1,996
Other Income:		
Reimb for hydrant	4,815	0
Interest earnings	63	83
Total other income	<u>4,878</u>	<u>83</u>
Net Income (Loss)	(15,410)	2,079
Retained earnings, beginning of period	<u>103,874</u>	<u>101,795</u>
Retained earnings, end of period	<u><u>\$ 88,464</u></u>	<u><u>103,874</u></u>