

Hughes County Rural Water District No. 4
Holdenville, Oklahoma

Financial Statements and
Reports of Independent Auditor

June 30, 2014

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, 2014

Chairman

Jim Cates

Vice Chairman

Bill Newman

Secretary/Treasurer

Linda Evans

Members

Lori Ramsey
Josh Polkington

Manager

Sandy Stafford

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

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

CERTIFIED PUBLIC ACCOUNTANTS, LLP

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, 2014, 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

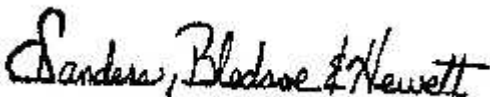
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of June 30, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in 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 August 13, 2014 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



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, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated August 13, 2014.

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. We identified no deficiencies in the internal controls that we considered to be material weaknesses.

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.

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 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

August 13, 2014

Hughes County Rural Water District No. 4
Holdenville, Oklahoma
Schedule of Audit Results
June 30, 2014

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. 4
Statement of Net Assets
June 30, 2014

ASSETS

Current assets:

Cash in bank	\$ 106,371
Receivables	13,620
Prepaid insurance	1,946
Total current assets	<u>121,937</u>

Noncurrent assets:

Note issuance costs	4,572
Deposit - ORWA	1,000
Capital assets:	
Water system and improvements, net of depreciation	<u>225,335</u>
Total noncurrent assets	<u>230,907</u>

Total Assets	<u>352,844</u>
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LIABILITIES

Current liabilities:

Accounts payable	<u>1,049</u>
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Total Liabilities	<u>1,049</u>
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NET ASSETS

Invested in capital assets, net of related debt	225,335
Unrestricted assets	<u>126,460</u>

Total Net Assets	<u>\$ 351,795</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 Activities
For The Year Ended June 30, 2014

Operating Revenues:	
Water sales	\$ 164,689
Fees and fines	1,923
Total revenues from operations	<u>166,612</u>
Operating Expenses:	
Water purchases	70,363
Salaries and taxes	26,104
Depreciation	18,718
Amortization	435
Repairs & maintenance	7,508
Meter readings	6,767
Computer services	2,683
Insurance	17,109
Operating supplies	1,450
Electricity	230
Water samples	2,722
Professional fees	52,917
Office expenses	1,111
Postage	330
Telephone	917
Miscellaneous	1,654
Total expenses from operations	<u>211,018</u>
Operating Income (Loss)	(44,406)
Non-Operating Revenues (Expenses):	
Interest income	44
Court ordered payments	35,287
Interest expense on debt	(166)
Total non-operating revenues (expenses)	<u>35,165</u>
Change in Net Assets	(9,241)
Total Net Assets, beginning of period	<u>361,036</u>
Total Net Assets, end of period	<u><u>\$ 351,795</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, 2014

Cash flows from operating activities:

Receipts from customers	\$ 165,862
Payments To employees	(26,104)
Payments to vendors	<u>(165,024)</u>
Net cash (used in) provided by operating activities	<u>(25,266)</u>

Cash flows from capital and related financing activities:

Capital assets purchased	(5,842)
Liquidation of restricted assets	18,816
Interest paid on debt	(209)
Principal payments on debt	<u>(8,750)</u>
Net cash used in capital and related financing activities	<u>4,015</u>

Cash flows from investing activities:

Court ordered payments received from RWD #6	35,287
Interest on investments	<u>44</u>
Net cash used in investing activities	<u>35,331</u>

Net increase (decrease) in cash and cash equivalents 14,080

Cash & cash equivalents, beginning of period 92,291

Cash & cash equivalents, end of period \$ 106,371

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

Operating Income	\$ (44,406)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	18,718
Amortization Expense	435
(Increase) decrease in current assets-	
Accounts receivable, net	(750)
Prepaid expenses	(5)
Increase (decrease) in current liabilities-	
Accounts payable	<u>742</u>
Net Cash Provided by Operating Activities	<u><u>\$ (25,266)</u></u>

The accompanying notes are an integral part of the financial statements

HUGHES COUNTY RURAL WATER DISTRICT NO. 4
Statement of Cash Flows
For Year Ended June 30, 2007

Cash Flows from Operating Activities:

Receipts from customers	\$ 135,316
Payments To employees	(17,571)
Payments to vendors	(95,244)
Net cash provided by operating activities	<u>22,501</u>

Cash Flows from Financial Activities:

Principal paid on debt	(54,300)
Interest paid on debt	(1,555)
Net cash provided by (used in) financial activities	<u>(55,855)</u>

Cash Flows from Investing Activities:

Interest revenue	3,197
Purchase of investments	(1,002)
Net cash provided by investing activities	<u>2,195</u>

Net increase (decrease) in cash (31,159)

Cash and cash equivalents, beginning of period 37,466

Cash and cash equivalents, end of period \$ 6,307

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

Operating Income	\$ 4,274
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	18,501
Amortization Expense	435
(Increase) decrease in current assets-	
Accounts receivable, net	(756)
Prepaid expenses	(77)
Increase (decrease) in current liabilities-	
Accounts payable	60
Accrued interest	10
Net Cash Provided by Operating Activities	<u><u>\$ 22,447</u></u>

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

29,946

HUGHES COUNTY RURAL WATER DISTRICT NO. 4
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2014

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, 2014 are comprised as follows:

First United Bank, Holdenville, OK	
Operating Revenue	<u>\$ 106,371</u>

The District's cash deposits at June 30, 2014 are categorized to give an indication of the level of risk assumed by the district at year-end.

Investments

The District had no investments at June 30, 2014.

Accounts Receivable

Billings for accounts receivable at June 30, 2014 were \$13,620. 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	\$ 13,620
31-90	<u>0</u>
Total	<u>\$ 13,620</u>

HUGHES COUNTY RURAL WATER DISTRICT NO. 4
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2014

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, 2014

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

In 2013-14, The District paid off their Series 1997 Promissory Note, \$200,000 to Oklahoma Water Resources Board dated October 17, 1997, quarterly payments due beginning February 15th, 1998.

Note 3 – Accumulated Unpaid Vacation and Sick Pay

At June 30, 2014, 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 August 13, 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. 4
Balance Sheet
June 30, 2014

	June 30,	
	2014	(Memo only) 2013
<u>ASSETS</u>		
Current Assets:		
Cash in bank	\$ 106,371	72,151
Investments	0	20,140
Accounts receivable	13,620	12,870
Prepaid Insurance	1,946	1,941
Total current assets	<u>121,937</u>	<u>107,102</u>
Fixed Assets:		
Water system	626,744	620,902
Less: accumulated depreciation	(401,409)	(382,691)
Total fixed assets (net)	<u>225,335</u>	<u>238,211</u>
Restricted Assets:		
Cash and investments	<u>0</u>	<u>18,816</u>
Other Assets:		
Note issuance costs	4,572	5,007
ORWA deposit	1,000	1,000
Total other assets	<u>5,572</u>	<u>6,007</u>
Total Assets	<u>\$ 352,844</u>	<u>370,136</u>
<u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 1,049	307
Accrued interest	0	43
Current maturities of long-term debt	0	7,450
Total current liabilities	<u>1,049</u>	<u>7,800</u>
Long-Term Debt, less current maturities		
Notes payable	<u>0</u>	<u>1,300</u>
Total Liabilities	<u>1,049</u>	<u>9,100</u>
Fund Equity		
Contributed capital	250,000	250,000
Retained earnings - unrestricted	101,795	111,036
Total fund equity	<u>351,795</u>	<u>361,036</u>
Total Liabilities and Fund Equity	<u>\$ 352,844</u>	<u>370,136</u>

HUGHES COUNTY RURAL WATER DISTRICT NO. 4
Statement of Revenue, Expenses and Changes in Retained Earnings
For the Year Ended June 30, 2014

	2013-14	(Memo only) 2012-13
Revenue from Operations:		
Water sales	\$ 159,237	159,343
Benefit units	1,050	1,750
Late charges	3,416	3,413
Meter settings	986	2,006
Miscellaneous	1,923	2,669
Total revenue from operations	<u>166,612</u>	<u>169,181</u>
Expenses from Operations:		
Water purchases	70,363	65,775
Salaries and taxes	26,104	23,862
Depreciation	18,718	18,631
Amortization	435	435
Repairs & maintenance	7,508	10,324
Meter readings	6,767	5,400
Computer services	2,683	2,606
Insurance	17,109	16,769
Operating supplies	1,450	45
Electricity	230	200
Water samples	2,722	674
Professional fees	52,917	7,597
Office expenses	1,111	950
Postage	330	1,097
Telephone	917	830
Miscellaneous	1,654	727
Total expenses from operations	<u>211,018</u>	<u>155,922</u>
Net Income (Loss) from Operations	(44,406)	13,259
Other Income:		
Court ordered payments	35,287	0
Interest earnings	44	253
Total other income	<u>35,331</u>	<u>253</u>
Other Expenses:		
Interest on debt	<u>(166)</u>	<u>(191)</u>
Net Income (Loss)	(9,241)	13,321
Retained earnings, beginning of period	<u>111,036</u>	<u>97,715</u>
Retained earnings, end of period	<u><u>\$ 101,795</u></u>	<u><u>111,036</u></u>

