

**Hughes County Rural Water District No. 4
Holdenville, Oklahoma**

Financial Statements and
Reports of Independent Auditor

June 30, 2012

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, 2012

Chairman

Jim Cates

Vice Chairman

Bill Newman

Secretary/Treasurer

Linda Evans

Members

Connie Merriman
Lori Ramsey

Manager

Sandy Stafford

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

Hughes County Rural Water District No. 4
Holdenville, Oklahoma

Table of Contents
June 30, 2012

	<u>Page</u>
Board of Directors	<i>i</i>
Independent Auditor's Report	1
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	2
Schedule of Audit Results	4
Combined Financial Statements:	
Statement of Net Assets.....	5
Statement of Revenues, Expenses and Changes in Net Assets	6
Statement of Cash Flows	7
Notes to the Financial Statements	8
Other Supplementary Information:	
Balance Sheet	12
Statement of Income and Retained Earnings.....	13



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, 2012, 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 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, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management has elected to omit the Management Discussion and Analysis, which is considered required supplementary information that is normally subjected to auditing procedures. Due to this omission, the usefulness and accessibility of the financial statements are limited to the District's management. The omission of this information does not affect the opinion expressed on the financial statements as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 30, 2012, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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 described in Note 1.

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

July 30, 2012



SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

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

Board of Directors
Hughes County Rural Water District No. 4
Holdenville, Oklahoma

We have audited the combined financial statements of Hughes County Rural Water District No. 4 (the District), Holdenville, Oklahoma, as of and for the year ended June 30, 2012, which, except for the omission of the Management Discussion and Analysis, collectively comprise the District's basic financial statements and have issued our report thereon dated July 30, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepting accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements 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 a more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the entity's internal control.

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

Compliance and Other Matters

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 grant agreements, 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*.

This report is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Sanders, Bledsoe & Hewett". The signature is written in a cursive, flowing style.

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

July 30, 2012

Hughes County Rural Water District No. 4
Holdenville, Oklahoma

Schedule of Audit Results

June 30, 2012

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, 2012

ASSETS

Current assets:

Cash in bank	\$ 44,653
Investments	20,000
Receivables	15,422
Prepaid insurance	1,986
Total current assets	<u>82,061</u>

Noncurrent assets:

Restricted cash and cash equivalents	18,771
Note issuance costs	5,442
Deposit - ORWA	1,000

Capital assets:

Water system and improvements, net of depreciation	<u>256,842</u>
Total noncurrent assets	<u>282,055</u>

Total Assets	<u>364,116</u>
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LIABILITIES

Current liabilities:

Accounts payable	440
Accrued interest	61
Current portion of long-term debt	<u>6,530</u>
Total current liabilities	<u>7,031</u>

Noncurrent liabilities:

Notes payable	<u>9,370</u>
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Total Liabilities	<u>16,401</u>
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NET ASSETS

Invested in capital assets, net of related debt	247,472
Restricted for debt service	6,530
Unrestricted assets	<u>93,713</u>

Total Net Assets	<u><u>\$ 347,715</u></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, 2012

Operating Revenues:

Water sales	\$ 184,951
Fees and fines	1,699
Total revenues from operations	<u>186,650</u>

Operating Expenses:

Water purchases	75,570
Salaries and taxes	19,154
Depreciation	18,631
Amortization	435
Repairs & maintenance	6,857
Meter readings	4,200
Computer services	2,488
Insurance	16,187
Operating supplies	1,958
Electricity	166
Water samples	825
Professional fees	34,476
Office expenses	1,529
Postage	1,069
Telephone	804
Miscellaneous	882
Total expenses from operations	<u>185,231</u>

Operating Income (Loss)	1,419
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Non-Operating Revenues (Expenses):

Interest income	249
Interest expense on debt	(243)
Total non-operating revenues (expenses)	<u>6</u>

Change in Net Assets	1,425
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Total Net Assets, beginning of period	<u>346,290</u>
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Total Net Assets, end of period	<u><u>\$ 347,715</u></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 Cash Flows
For the Year Ended June 30, 2012

Cash flows from operating activities:

Receipts from customers	\$ 186,992
Payments To employees	(19,154)
Payments to vendors	<u>(147,352)</u>
Net cash (used in) provided by operating activities	<u>20,486</u>

Cash flows from capital and related financing activities:

Interest paid on debt	(307)
Principal payments on debt	<u>(6,600)</u>
Net cash used in capital and related financing activities	<u>(6,907)</u>

Cash flows from investing activities:

Interest on investments	<u>249</u>
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Net increase (decrease) in cash and cash equivalents	13,828
Cash & cash equivalents, beginning of period	<u>50,825</u>
Cash & cash equivalents, end of period	<u><u>\$ 64,653</u></u>

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

Operating Income	\$ 1,419
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	18,631
Amortization Expense	435
(Increase) decrease in current assets-	
Accounts receivable, net	342
Prepaid expenses	(627)
Increase (decrease) in current liabilities-	
Accounts payable	<u>286</u>
Net Cash Provided by Operating Activities	<u><u>\$ 20,486</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, 2012

Note 1 – Significant Accounting Policies

Basis of Accounting

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

Cash

The District's accounts at June 30, 2012 are comprised as follows:

First United Bank, Holdenville, OK	
Operating Revenue	\$ <u>44,653</u>

The District's cash deposits at June 30, 2012 are categorized to give an indication of the level of risk assumed by the district at year-end.

Investments

The District had the following investments at June 30, 2012:

First United Bank, Holdenville, OK	
Certificate of deposit No. 739634, dated 3-10-12, due 3-10-13	\$ <u>20,000</u>

Accounts Receivable

Billings for accounts receivable at June 30, 2012 were \$15,422. 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	\$ 15,422
31-90	<u>0</u>
Total	\$ <u>15,422</u>

HUGHES COUNTY RURAL WATER DISTRICT NO. 4
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2012

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.

Restricted Assets

In accordance with the loan agreement with the Oklahoma Water Resources Board, the District is required to maintain a Debt Service Reserve Fund with a balance of no less than \$18,188 as per the Trust Agreement. The total amount of the restricted assets represents all cash and investments held at Banc Trust for the purpose of making future principal and interest payments. The balance at the end of June 30, 2012 was \$18,771.

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.

Federal Income Tax

The District is exempt from federal and state income taxes.

HUGHES COUNTY RURAL WATER DISTRICT NO. 4
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2012

Note 1 – Significant Accounting Policies – cont'd

Collateral Pledged

Deposit Categories of Credit Risk

- (A) Insured by Federal Deposit Insurance.
- (B) Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.
- (C) Uncollateralized.

Deposit Categories of Credit Risk:

	Category			Bank	Carrying
	(A)	(B)	(C)	Balance	Amount
Cash	\$ 46,368			46,368	44,653
Investments	20,000			20,000	20,000
Totals	<u>\$ 66,368</u>	<u>0</u>	<u>0</u>	<u>66,368</u>	<u>64,653</u>

Note 2 – Long-Term Debt

Long-term debt at June 30, 2012 is detailed as follows:

Series 1997 Promissory Note, \$200,000 to Oklahoma Water Resources Board dated October 17, 1997, quarterly payments due beginning February 15th, 1998 and a final payment on August 15th, 2024. The note currently has a variable interest rate set at 1.37% at June 1, 2011, with an option to convert the note to a fixed interest rate.

OWRB Loan FAP-96-0033-L	<u>\$15,900</u>
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During the 2006-07 fiscal year, the District made an additional \$50,000 payment on this loan, and have continued to make the monthly payments (which is currently \$515 a month).

HUGHES COUNTY RURAL WATER DISTRICT NO. 4
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2012

Note 2 – Long-Term Debt – cont'd

The estimated maturities for the next five (5) years are as follows:

2012-13	\$ 6,530
2013-14	6,620
2014-15	<u>2,750</u>
Totals	<u>\$ 15,900</u>

Note 3 – Accumulated Unpaid Vacation and Sick Pay

At June 30, 2012, no determination of the aggregate dollar value of vacation and sick pay had been made.

HUGHES COUNTY RURAL WATER DISTRICT NO. 4
Balance Sheet
June 30, 2012

	June 30,	
	2012	(Memo only) 2011
<u>ASSETS</u>		
Current Assets:		
Cash in bank	\$ 44,653	30,825
Investments	20,000	20,000
Accounts receivable	15,422	15,764
Prepaid Insurance	1,986	1,359
Total current assets	<u>82,061</u>	<u>67,948</u>
Fixed Assets:		
Water system	620,902	620,902
Less: accumulated depreciation	<u>(364,060)</u>	<u>(345,429)</u>
Total fixed assets (net)	<u>256,842</u>	<u>275,473</u>
Restricted Assets:		
Cash and investments	<u>18,771</u>	<u>18,747</u>
Other Assets:		
Note issuance costs	5,442	5,877
ORWA deposit	<u>1,000</u>	<u>1,000</u>
Total other assets	<u>6,442</u>	<u>6,877</u>
Total Assets	<u><u>\$ 364,116</u></u>	<u><u>369,045</u></u>
<u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 440	154
Accrued interest	61	101
Current maturities of long-term debt	<u>6,530</u>	<u>6,442</u>
Total current liabilities	<u>7,031</u>	<u>6,697</u>
Long-Term Debt, less current maturities		
Notes payable	<u>9,370</u>	<u>16,058</u>
Total Liabilities	<u>16,401</u>	<u>22,755</u>
Fund Equity		
Contributed capital	250,000	250,000
Retained earnings - unrestricted	<u>97,715</u>	<u>96,290</u>
Total fund equity	<u>347,715</u>	<u>346,290</u>
Total Liabilities and Fund Equity	<u><u>\$ 364,116</u></u>	<u><u>369,045</u></u>

HUGHES COUNTY RURAL WATER DISTRICT NO. 4
Statement of Revenue, Expenses and Changes in Retained Earnings
For the Year Ended June 30, 2012

	2012	(Memo only) 2011
Revenue from Operations:		
Water sales	\$ 177,203	138,745
Benefit units	1,750	4,900
Late charges	4,263	3,791
Meter settings	1,735	5,286
Miscellaneous	1,699	1,674
Total revenue from operations	<u>186,650</u>	<u>154,396</u>
Expenses from Operations:		
Water purchases	75,570	62,342
Salaries and taxes	19,154	18,653
Depreciation	18,631	18,631
Amortization	435	435
Repairs & maintenance	6,857	8,398
Meter readings	4,200	4,100
Computer services	2,488	2,347
Insurance	16,187	16,901
Operating supplies	1,958	689
Electricity	166	156
Water samples	825	612
Professional fees	34,476	90,277
Office expenses	1,529	1,102
Postage	1,069	1,170
Telephone	804	698
Miscellaneous	882	696
Total expenses from operations	<u>185,231</u>	<u>227,207</u>
Net Income (Loss) from Operations	1,419	(72,811)
Other Income:		
Interest earnings	<u>249</u>	<u>907</u>
Other Expenses:		
Interest on debt	<u>(243)</u>	<u>(388)</u>
Net Income (Loss)	1,425	(72,292)
Retained earnings, beginning of period	<u>96,290</u>	<u>168,582</u>
Retained earnings, end of period	<u><u>\$ 97,715</u></u>	<u><u>96,290</u></u>