

Rec: 016871

NOV 17 2011

HULAH WATER DISTRICT

No. 20

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED JUNE 30, 2011

HULAH WATER DISTRICT NO. 20

TABLE OF CONTENTS

	PAGE
Independent Auditor's Report	2-3
Management Discussion and Analysis.....	4-7
Financial Statements	
Statement of Net Assets	8
Statement of Revenues, Expenses, and Changes in Net Assets.....	9
Statements of Cash Flows	10
Notes to Financial Statements	11-15
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	16-17

WINGARD, RAGSDALE & LANGLEY

CERTIFIED PUBLIC ACCOUNTANTS, PLLC

18 NORTH VANN STREET, PRYOR, OK 74361

918-825-6441 OFFICE 918-825-6443 FAX

INDEPENDENT AUDITOR'S REPORT

Honorable Chairman and Board of Directors
Hulah Water District No. 20
Osage County, Oklahoma

We have audited the statement of net assets, statement of revenues, expenses and changes in net assets and statement of cash flows, which collectively comprise the basic financial statements of the Hulah Water District No. 20 as of June 30, 2011. These financial statements are the responsibility of the Hulah Water District No. 20'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..

The management's discussion and analysis information on pages 4 through 7 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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 our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hulah Water District No. 20 as of June 30, 2011, and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have issued our report dated November 1, 2011, on our consideration of the Hulah Water District No. 20's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements 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.

That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

Sincerely,

Wingard, Ragsdale Langley, CPAs, PLLC

WINGARD, RAGSDALE & LANGLEY
CERTIFIED PUBLIC ACCOUNTANTS, PLLC
PRYOR, OKLAHOMA

NOVEMBER 1, 2011

**Hulah Water District No. 20
Osage County, Oklahoma
Management's Discussion and Analysis
For the Year Ended June 30, 2011**

Our discussion and analysis of the District'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 which begin on page 8.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at June 30, 2011 by \$209,348
- Total revenues were \$120,943 this fiscal year while total expenses were \$125,995 resulting in the decrease in net assets of \$5,052.
- The District has \$247,835 net of accumulated depreciation invested in fixed assets, as of June 30, 2011.

DISTRICT HIGHLIGHTS

- Our customer base had one addition, for a total of 178 customers.

USING THIS ANNUAL REPORT

This annual report consists of two parts; Management's Discussion and Analysis and the Financial Statements. The Financial Statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Statements

The Financial Statements of the District report information about the District using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The Balance Sheet includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the District's operations over the past year and can be used to determine profitability, credit worthiness and whether the District has successfully recovered all its costs through its user fees and other charges. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and capital and noncapital financing activities and provides answers to such questions as "from where did cash come?," "for what was cash used?," and "what was the change in cash balance during the reporting period?"

**Hulah Water District No. 20
Osage County, Oklahoma
Management's Discussion and Analysis
For the Year Ended June 30, 2011**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

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 Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets report information about the District's activities in a way that will help answer this question. These two statements report the net assets of the District and changes in them. You can think of the District's net assets—the difference between assets and liabilities—as one way to measure 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. However, you will need to also consider other non-financial factors such as changes in economic conditions, population growth, and new or changed legislation.

The District's total Net Assets decreased from last year by \$5,052 or about 2%. Our analysis below focuses on the District's net assets (Table 1) and changes in net assets (Table 2) during the year.

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Current Assets	\$ 47,094	\$ 40,116
Restricted Assets	19,789	19,789
Fixed Assets, net of accumulated depreciation	247,835	272,280
Other Assets	6,075	6,855
Total Assets	<u>320,793</u>	<u>339,040</u>
Liabilities	<u>111,445</u>	<u>124,640</u>
Net Assets, Invested in Capital Assets, Net of Debt	142,985	153,630
Net Assets, Restricted	19,789	13,426
Net Assets, Unrestricted	46,574	47,344
Total Net Assets	<u>\$ 209,348</u>	<u>\$ 214,400</u>

By far, the largest portion of the District's net assets (over 68%) reflects its investment in capital assets (e.g., water system, buildings, machinery and equipment) less any related debt used to acquire those assets still outstanding. The District uses these capital assets to provide services to citizens and consumers; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Hulah Water District No. 20
Osage County, Oklahoma
Management's Discussion and Analysis
For the Year Ended June 30, 2011**

The balance of unrestricted net assets may be used to meet the District's ongoing obligations to citizens, customers and creditors. The District's unrestricted net assets decreased \$770 or approximately 2% during the current year.

Changes in the District's net assets can be determined by reviewing the following condensed Statement of Revenue, Expenses and Changes in Net Assets for the year.

Table 2

	June 30, 2011	June 30, 2010
Total Operating Revenues	\$ 120,896	\$ 101,123
Operating Expenses	(99,106)	(96,580)
Depreciation Expense	(25,214)	(26,029)
Operating Income	(3,424)	(21,486)
Other Non Operating Revenues (Expenses)	(1,628)	8,815
Net Income	(5,052)	(12,671)
Net Assets, Beginning of Year	214,400	227,071
Net Assets, End of Year	\$ 209,348	\$ 214,400

The District's primary source of revenue is the sale of water that comprises most of the operating revenues. Operating revenues increased by \$15,767 (15%) over the prior year.

Operating expenses increased by \$1,711 (1.4%) over the past year. This increase is attributed mostly to water testing.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2011, the District had \$247,835 net of accumulated depreciation invested in capital assets, including the water storage and distribution system, buildings, improvements, machinery and equipment. This amount represents a net decrease (including additions, deletions and depreciation) of \$24,445 or 8.98%. These changes are presented in detail in Note 6 to the financial statements on page 14 of this report.

Additions to capital assets during the current fiscal year included an air compressor at a total cost of \$769.

**Hulah Water District No. 20
Osage County, Oklahoma
Management's Discussion and Analysis
For the Year Ended June 30, 2011**

Debt

The District's total obligations decreased by \$13,800 during the fiscal year as a result of normal repayment of principal. The balance of the note with Oklahoma Water Resources Board was \$104,850 at the end of the fiscal year.

Additional information on the District's long-term debt can be found in Note 7 on page 15 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

A product of an ongoing examination of how the District does business, our budget emphasizes outcomes or results for the community and allows for longer-term financial planning decisions.

In considering the District's budget for the fiscal year 2011/2012, the Board estimates that revenues and expenses in the coming year will approximate actual revenues and expenses for the past fiscal year. Therefore, net assets are expected to decrease slightly.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Board of Directors at Hulah Water District No. 20, 302 SE Osage, Bartlesville, OK 74003.

HULAH WATER DISTRICT NO. 20
STATEMENT OF NET ASSETS
 JUNE 30,

Assets	<u>2011</u>
Current Assets	
Cash and Cash Equivalents	\$ 25,715
Accounts Receivable, net	10,781
Inventory	<u>10,598</u>
Total Current Assets	<u>47,094</u>
Restricted Assets	
Cash and Cash Equivalents	<u>19,789</u>
Capital Assets	<u>247,835</u>
Other Assets	
Prepaid Expense	3,922
Loan Costs	6,639
Accumulated Amortization	<u>(4,486)</u>
Total Restricted Assets	<u>6,075</u>
Total Assets	<u><u>320,793</u></u>
Liabilities and Net Assets	
Current Liabilities	
Accounts Payable	5,592
Accrued Payroll Taxes	1,003
Note Payable - Current	<u>14,300</u>
Total Current Liabilities	<u>20,895</u>
LongTerm Liabilities	
Note Payable - Long Term	<u>90,550</u>
Total Long Term Liabilities	<u>90,550</u>
Net Assets	
Invested in capital assets, net of related debt	142,985
Restricted	19,789
Unrestricted	<u>46,574</u>
Total Net Assets	<u>209,348</u>
Total Liabilities and Net Assets	<u><u>\$ 320,793</u></u>

The accompanying notes are an integral part of these financial statements.

HULAH WATER DISTRICT NO. 20
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
 JUNE 30,

	<u>2011</u>
Support and Revenue	
Water Income	\$ 107,353
Capital Contributions	750
Other Income	<u>12,793</u>
Total Support and Revenue	<u>120,896</u>
Expenses	
Labor	30,498
Depreciation	25,214
Water Testing	16,123
Chemicals and supplies	9,918
Accountant	9,054
Utilities	8,807
Reparis & Maintenance	7,048
Insurance	5,624
Dues & Memberships	4,452
Payroll Taxes	2,460
Legal & Professional	2,200
Office Supplies & Postage	1,348
Loan Trustee Fees	1,000
Amortization	444
Miscellaneous	<u>130</u>
Total Expenses	<u>124,320</u>
Net Operating Income (Loss)	<u>(3,424)</u>
Non-Operating Revenue (Expense)	
Interest Expense	(1,675)
Interest Income	<u>47</u>
Total Support and Revenue	<u>(1,628)</u>
Increase (Decrease) in Net Assets	(5,052)
Net Assets, beginning of year	<u>214,400</u>
Net Assets, end of year	<u><u>\$ 209,348</u></u>

The accompanying notes are an integral part of these financial statements.

HULAH WATER DISTRICT NO. 20
STATEMENT OF CASH FLOWS
 June 30,

	<u>2011</u>
Cash flows from operating activities	
Receipts from customers	\$ 119,383
Payments to employees	(23,798)
Payments to suppliers	<u>(74,488)</u>
Net cash provided by operating activities	<u>21,097</u>
 Cash flows from capital and related financing activities	
Principal paid on capital debt	(13,800)
Interest paid on capital debt	<u>(1,627)</u>
Net cash provided (used) by capital and related financing activities	<u>(15,427)</u>
 Cash flows from investing activities	<u>(769)</u>
 Net increase (decrease) in cash and cash equivalents	<u>4,901</u>
 Cash and cash equivalents, beginning of year	<u>40,603</u>
 Cash and cash equivalents, end of year	<u>\$ 45,504</u>
 Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income (loss)	(3,424)
Adjustments to reconcile operating income to net cash provided (used) by operating activities	
Depreciation/amortization expense	25,658
Change in assets and liabilities	
Receivables, net	(2,076)
Prepaid Expenses	336
Inventory	-
Accounts and other payables	<u>603</u>
 Net cash provided by operating activities	<u>\$ 21,097</u>

The accompanying notes are an integral part of these financial statements.

Note 2 - Summary of Significant Accounting Policies (continued)

Assets are depreciated on the straight-line method. Depreciation is calculated using the following estimated useful lives:

	<u>Years</u>
Land and Buildings	10 - 30
Water System	10 - 75
Furniture and Fixtures	5-10
Equipment	3-10
Vehicles	10

Long Term Obligations - Long-term obligations are reported at face value, net of applicable premiums and discounts.

Revenues and Rate Structure - Revenues from water services are recognized on the accrual basis and as earned. Services are supplied to customers under a rate structure designed to produce revenues sufficient to provide for operating and maintenance costs, capital outlay, debt service, reserves and debt service coverage.

Capital Contributions - Contributions are recognized in the Statement of Revenues, Expenses and changes in Net Assets when earned. Contributions include tap fees, capital grants, and other supplemental support by federal, state and local grants in support of system improvements.

Net Assets - Net assets comprise the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net assets are classified in the following three components: invested in capital assets, net of related liabilities; Restricted for capital activity and debt service; and unrestricted net assets. Invested in capital assets, net of related debt, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from determination. Restricted for capital activity and debt service consists of net assets for which constraints are placed by external parties, such as lenders, grantors, contributors, laws, regulations, legislation, including self-imposed legal mandates, less any related liabilities. Unrestricted consists of all other assets not included in the above categories.

Note 3 - Deposits and Investments

Deposits include demand deposits and certificates of deposit in financial institutions. All bank balances are covered by federal depository insurance or by collateral held by the bank and pledged to the District.

HULAH WATER DISTRICT NO. 20
 NOTES TO FINANCIAL STATEMENT
 June 30, 2011

Note 4 - Accounts Receivable

Accounts receivable are composed of unpaid billings for services rendered as of the end of the fiscal year. The uncollectible accounts are written off to bad debts after 90 days. After a members overdue bill is determined uncollectible and written off the associated membership is cancelled. For service to be reconnected to the related property a new membership along with non refundable membership fee is required. This minimizes the loss the District may incur due to nonpayment of service billings.

Note 5 – Restricted Assets

The components of the restricted assets at year end were as follows:

	2011
OWRB Debt Service Reserve Fund	\$ 16,613
Engineering Grant	3,176
Total Restricted Assets	<u>\$ 19,789</u>

All restricted funds are invested in securities issued by the United States Government.

Note 6 - Capital Assets

Capital asset activity during the year was as follows:

	2010	Additions	Disposals	2011
Land and Buildings	45,246			\$ 45,246
Water System	708,536	-		708,536
Furniture and Fixtures	11,432			11,432
Equipment	24,159	769		24,928
Software	795	-		795
Total Property Plant and Equipment	790,167	769	-	790,936
Accumulated Depreciation	(517,887)	(25,214)		(543,101)
Total Capital Assets (net accum. depreciation)	<u>272,280</u>	<u>(24,445)</u>	<u>-</u>	<u>\$ 247,835</u>

Note 7 - Long-Term Debt

The District executed a \$200,000 mortgage note payable to Oklahoma Water Resources Board with interest at a variable rate based on the rate of interest on OWRB's State Loan Program Revenue Bonds, Series 2001 plus applicable program costs that are reset quarterly. The note matures in September of 2017. The note is secured by the water system having a book value of \$247,835 and a pledge and assignment of revenues and receipts of the District. The rate of interest currently charged on this variable rate loan is 1.45%. The balance of the note as of June 30, 2011 is \$104,850.

Note balance includes a payment made on June 30, 2011 in the amount of \$3,550 that was in-transit as of June 30, 2011.

Principal payments on the notes are required as follows:

	<u>2011</u>
Year 1	14,300
Year 2	15,000
Year 3	16,000
Year 4	16,800
Year 5	17,800
Thereafter	24,950

Note 8 – DEQ Consent Order Case No. 06-384

On March 14, 2007, the Oklahoma Department of Environmental Quality (DEQ) issued Consent Order- Case No. 06-384. This consent order details certain actions the District is to take to improve the quality of the water it supplies its customers. A timetable is also provided to the District as to when certain actions are to be completed. The consent order contains penalties to be assessed to the District in the event recommended actions are not completed within the time granted. Due to grant funds received during 2011 and approval of the REAP grant for fiscal year 2012, the project is proceeding and management intends to meet these quality standards.