

**Hughes County Rural Water District No. 5
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. 5
Holdenville, Oklahoma

Board of Directors
June 30, 2012

Chairman

Ricky Poff

Vice Chairman

Richard Lemon

Secretary

Donna Bible

Treasurer

Gail Kiker

Member

Barbara Watters

Hughes County Rural Water District No. 5
Holdenville, Oklahoma

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June 30, 2012

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SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

Independent Auditor's Report

Board of Directors
Hughes County Rural Water District No. 5
Holdenville, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Hughes County Rural Water District No. 5 (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 13, 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 A.

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP
July 13, 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 Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Hughes County Rural Water District No. 5
Holdenville, Oklahoma

We have audited the financial statements of the Hughes County Rural Water District No. 5 (the District), Holdenville, Oklahoma, as of and for the year ended June 30, 2012, and have issued our report thereon dated July 13, 2012. 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.

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.

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 identified no deficiencies in the internal controls 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 over financial reporting.

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 the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

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.



Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

July 13, 2012

Hughes County Rural Water District No. 5
Holdenville, Oklahoma

Disposition of Prior Year's Reportable Conditions
June 30, 2012

There were no prior year reportable conditions.

Hughes County Rural Water District No. 5
Holdenville, Oklahoma

Schedule of Audit Results and Findings
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. 5
Holdenville, Oklahoma
Statement of Net Assets
June 30, 2012

ASSETS

Current Assets:

Cash	\$ 250,931
Accounts receivable	54,977
Prepaid insurance	<u>4,070</u>
Total Current Assets	<u>309,978</u>

Non-Current Assets:

Restricted Assets-

2002 ORWB loan proceeds-	
Debt service reserve fund	<u>39,619</u>

Capital Assets:

Water system and improvements	1,681,969
Office and other equipment	<u>52,363</u>
Total Capital Assets	1,734,332
Less: accumulated depreciation	<u>(548,225)</u>
Total Capital Assets (Net of Depreciation)	<u>1,186,107</u>

Debt Issue Costs (Net of Amortization)	<u>47,750</u>
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Total Assets	<u>1,583,454</u>
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LIABILITIES

Current Liabilities:

Accounts payable	26,400
Accrued interest	1,458
Current maturities of long-term debt	<u>14,000</u>
Total Current Liabilities	<u>41,858</u>

Non-Current Liabilities:

Notes payable-ORWB	<u>456,400</u>
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Total Liabilities	<u>498,258</u>
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NET ASSETS

Invested in capital assets, net of related debt	715,707
Restricted for debt service	19,907
Unrestricted	<u>349,582</u>
Total Net Assets	<u>\$ 1,085,196</u>

The accompanying notes are an integral part of the financial statements

Hughes County Rural Water District No. 5
Holdenville, Oklahoma
Statement of Activities
For the Year Ended June 30, 2012

Revenue from Operations:	
Water sales	\$ 523,833
Tap fees	1,684
Benefit unit sales	2,550
Reimbursements	<u>2,097</u>
Total Revenue from Operations	<u>530,164</u>
Expenses from Operations:	
Water purchased	261,996
Insurance	4,050
Utilities and telephone	10,346
Dues, fees and testing	3,957
Rent	7,200
Repairs and maintenance	61,616
Materials and supplies	21,804
Travel and fuel reimbursements	21,032
Miscellaneous	3,315
Depreciation	45,387
Amortization	2,594
Professional fees	4,341
Contract labor	8,400
Office supplies and postage	<u>6,408</u>
Total Expenses from Operations	<u>462,446</u>
Net Income (Loss) from Operations	<u>67,718</u>
Other Income:	
Interest income	<u>958</u>
Other Expenses:	
Interest	<u>(6,234)</u>
Net Income (Loss)	62,442
Net Assets, Beginning of Period	<u>1,022,754</u>
Net Assets, End of Period	<u><u>\$ 1,085,196</u></u>

The accompanying notes are an integral part of the financial statements

Hughes County Rural Water District No. 5
Holdenville, Oklahoma
Statement of Cash Flows
For the Year Ended June 30, 2012

Cash flows from operating activities:	
Receipts from water sales	\$ 513,090
Receipts from tap fees and benefit unit sales	4,234
Payments to vendors	<u>(412,877)</u>
Net cash (used in) provided by operating activities	<u>104,447</u>
Cash flows from capital and related financing activities:	
Increase of capital assets	(24,934)
Interest paid on debt	(6,543)
Principal payments on debt	<u>(13,200)</u>
Net cash used in capital and related financing activities	<u>(44,677)</u>
Cash flows from investing activities:	
Interest on investments	<u>958</u>
Net increase (decrease) in cash and cash equivalents	60,728
Cash & cash equivalents, beginning of period	<u>190,203</u>
Cash & cash equivalents, end of period	<u><u>\$ 250,931</u></u>

Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	\$ 67,718
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation and amortization expense	47,981
Change in assets and liabilities:	
Accounts receivable, net	(12,840)
Prepaid expenses and other assets	(692)
Accounts payable	<u>2,280</u>
Net cash (used in) provided by operating activities	<u><u>\$ 104,447</u></u>

The accompanying notes are an integral part of the financial statements

Hughes County Rural Water District No. 5
Holdenville, Oklahoma
Notes to Financial Statements
June 30, 2012

Note A – Significant Accounting Policies

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 basis of accounting is in accordance with generally accepted accounting principles.

Cash

The District's accounts are with First United Bank, Holdenville, Oklahoma, and at June 30, 2012 are detailed as follows:

Maintenance and operation account	\$ 188,021
Reserve account (considered unrestricted cash at June 30, 2012)	<u>62,909</u>
Total	<u><u>\$ 250,930</u></u>

Investments

There were no outstanding investments at June 30, 2012.

Restricted Assets

In accordance with the loan agreement with GMAC Commercial Mortgage, the District is required to maintain a reserve fund in an amount equal to one year's loan payments. Accordingly, the District was required to have \$6,372 in the reserve account at June 30, 2002. This loan was paid off by the District in the 2001 - 02 fiscal year. Therefore, these funds, which had a balance of \$62,909 are considered as unrestricted cash at June 30, 2012.

In accordance with the ORWB, two trustee accounts are required to be maintained at the Bank of Oklahoma. One, the debt service fund, for the payment of principal and interest on the note, had a balance of \$0 at June 30, 2012. The other, the debt service reserve fund, had a required balance of \$39,619 at June 30, 2012, which was, in fact, its balance.

Hughes County Rural Water District No. 5
Holdenville, Oklahoma
Notes to Financial Statements
June 30, 2012

Note A – Significant Accounting Policies – cont'd

Statement of Cash Flows

For purposes of the statement of cash flows, the District considers all highly liquid investments, such as certificates of deposit maturing within 60 days of year end, as cash equivalents.

Accounts Receivable

Billings for accounts receivable at June 30, 2012 were \$54,977. No allowance for doubtful accounts has been made since the amount would not be material to the financial statements.

Fixed Assets

Fixed assets are valued at cost, depreciation is computed by use of the straight-line method. The estimated useful lives for fixed assets are detailed as follows:

Water System	40 years
Office and Other Equipment	5 years

Federal Income Tax

The District is exempt from all federal and state income taxes.

Collateral Pledged

It appears that all funds were adequately insured by FDIC as of June 30, 2012.

Note B – Long-term Debt

In March 2002, the District was awarded a loan with the Oklahoma Water Resources Board in the amount of \$575,000. The current interest rate for this loan is 1.23 percent, payable over 30 years. The local trustee for the loan is the Bank of Oklahoma, Oklahoma City, Oklahoma. A debt service fund is used to pay quarterly loan payments of \$4,896. A debt service reserve fund is used to retain a percentage of the loan amount, which was accumulated from the proceeds, in total, at closing in the amount of \$39,619.

Hughes County Rural Water District No. 5
Holdenville, Oklahoma
Notes to Financial Statements
June 30, 2012

Note B – Long-term Debt – cont'd

At June 30, 2012, long-term debt is summarized as follows:

Note FAP-99-0002-L, 1.45 percent mortgage payable to Oklahoma Rural Water Board	\$ <u>470,400</u>
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The estimated maturities for this debt are as follows:

2012 – 13	\$ 14,000
2013 – 14	14,800
2014 – 15	15,600
2015 – 20	91,700
2020 – 25	120,200
2025 – 30	157,700
2030 – 32	<u>56,400</u>
Total	\$ <u>470,400</u>

Note C – Contributed Capital

In February 1986, the District received a grant of \$96,115 from the Oklahoma Water Resources Board and a grant of \$153,700 from Farmer's Home Administration. These grants were given to the District to assist with the construction of a water distribution system. In July 1999, the District received an emergency grant of \$84,991 from the Oklahoma Water Resources Board to assist with the extension of the water distribution system. In March 2002, the District received an emergency grant of \$100,000 from the Oklahoma Water Resources Board to further assist in the extension of water lines. In August 2003, the city of Wewoka contributed \$50,000 to connect to the District's lines. In the 2010-11 fiscal year, the District was awarded an \$85,000 REAP Grant for a line extension project.

Hughes County Rural Water District No. 5
Holdenville, Oklahoma
Notes to Financial Statements
June 30, 2012

Note D – Debt Issue Costs

The amount paid by the District in 2001 – 02 to obtain the loans and grants to extend the water lines was \$56,113. This amount will be amortized using the straight-line method over the life of the ORWB loan (30 years) at 3.333 percent per year. For the first fiscal year (2001 – 02), only 75 percent of .0333 percent was amortized. In the 2002 – 03 year, the District paid \$11,500 in loan origination fees. The amount that will be amortized each fiscal year will be \$2,254. In the 2010-11 year, the District paid \$5,100 in loan origination fees. The amount that will be amortized each fiscal year will be \$340.

Note E – Insurance and Surety Bond Coverage

The District appears to have had adequate insurance to cover all major perils at June 30, 2012.

Note F – Subsequent Events

The District was awarded an additional loan from the Oklahoma Water Resources Board to accompany the \$85,000 REAP grant. The loan will be for approximately \$426,000. These funds will be used for system improvements and expansion.

Hughes County Rural Water District No. 5
Holdenville, Oklahoma
Balance Sheet
June 30, 2012

	June 30,	
	2012	(Memo Only) 2011
<u>ASSETS</u>		
Current Assets:		
Cash	\$ 250,931	190,202
Accounts receivable	54,977	42,137
Prepaid insurance	4,070	3,378
Total Current Assets	<u>309,978</u>	<u>235,717</u>
Restricted Assets:		
Cash and investments		
2002 ORWB loan proceeds-		
Debt service fund	0	1
Debt service reserve fund	39,619	39,619
Total Restricted Assets	<u>39,619</u>	<u>39,620</u>
Fixed Assets:		
Water system and improvements	1,681,969	1,681,969
Office and other equipment	52,363	27,429
Total Fixed Assets	1,734,332	1,709,398
Less accumulated depreciation	(548,225)	(502,838)
Total Fixed Assets (Net of Depreciation)	<u>1,186,107</u>	<u>1,206,560</u>
Debt Issue Costs (Net of Amortization)	<u>47,750</u>	<u>50,344</u>
Total Assets	<u>\$ 1,583,454</u>	<u>1,532,241</u>
<u>LIABILITIES AND MEMBER EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 26,400	24,120
Accrued interest	1,458	1,767
Current maturities of long-term debt	14,000	13,200
Total Current Liabilities	<u>41,858</u>	<u>39,087</u>
Long-term Debt, Less Current Maturities:		
Notes payable-OWRB	<u>456,400</u>	<u>470,400</u>
Total Liabilities	<u>498,258</u>	<u>509,487</u>
Member Equity:		
Contributed capital	569,806	569,806
Retained earnings	515,390	452,948
Total Member Equity	<u>1,085,196</u>	<u>1,022,754</u>
Total Liabilities and Member Equity	<u>\$ 1,583,454</u>	<u>1,532,241</u>

Hughes County Rural Water District No. 5
Holdenville, Oklahoma
Statement of Income, Expenditures and Changes in Retained Earnings
For the Year Ended June 30, 2012

	2011-12	(Memo Only) 2010-11
Revenue from Operations:		
Water sales	\$ 523,833	442,224
Tap fees	1,684	1,500
Benefit unit sales	2,550	7,150
Reimbursements	2,097	4,750
Total Revenue from Operations	<u>530,164</u>	<u>455,624</u>
Expenses from Operations:		
Water purchased	261,996	262,137
Insurance	4,050	3,105
Utilities and telephone	10,346	8,585
Dues, fees and testing	3,957	2,686
Rent	7,200	7,200
Repairs and maintenance	61,616	67,259
Materials and supplies	21,804	20,116
Travel and fuel reimbursements	21,032	21,051
Miscellaneous	3,315	685
Depreciation	45,387	41,970
Amortization	2,594	2,594
Professional fees	4,341	4,280
Contract labor	8,400	8,400
Office supplies and postage	6,408	6,339
Total Expenses from Operations	<u>462,446</u>	<u>456,407</u>
Net Income (Loss) from Operations	<u>67,718</u>	<u>(783)</u>
Other Income:		
Interest earnings	<u>958</u>	<u>1,318</u>
Other Expenses:		
Interest on debt	<u>(6,234)</u>	<u>(10,418)</u>
Net Income (Loss)	62,442	(9,883)
Retained Earnings, Beginning of Period	<u>452,948</u>	<u>462,831</u>
Retained Earnings, End of Period	<u><u>\$ 515,390</u></u>	<u><u>452,948</u></u>