

**HUGHES COUNTY  
RURAL WATER DISTRICT NO. 5  
HOLDENVILLE, OKLAHOMA**

**FINANCIAL STATEMENTS AND AUDITOR'S REPORT**

**YEAR ENDED JUNE 30, 2015**

Audited by

**SANDERS, BLEDSOE & HEWETT  
CERTIFIED PUBLIC ACCOUNTANTS, LLP**

**BROKEN ARROW, OK**

HUGHES COUNTY RURAL WATER DISTRICT NO. 5  
BOARD OF DIRECTORS  
JUNE 30, 2015

**BOARD OF DIRECTORS**

**Chairman**

Travis Black

**Vice-Chairman**

Darlene Choate

**Secretary/Treasurer**

Donna Bible

**Member**

Clyde Collis

Jerry Hellman

**Bookkeeper**

Gail Kiker

HUGHES COUNTY RURAL WATER DISTRICT NO. 5  
JUNE 30, 2015

TABLE OF CONTENTS

	<u>Page</u>
Board of Directors	1
Table of Contents	2
Independent Auditor's Report	3
Independent Auditor's 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>	5
Disposition of Prior Year Audit Findings	7
Schedule of Findings and Responses	8
<u>COMBINED FINANCIAL STATEMENTS:</u>	
Statement of Net Assets	9
Statement of Revenues, Expenses and Changes in Net Assets	10
Statement of Cash Flows	11
Notes to the Financial Statements	12
<u>OTHER SUPPLEMENTARY INFORMATION:</u>	
Balance Sheet	16
Income Statement	17



# SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

## INDEPENDENT AUDITOR'S REPORT

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

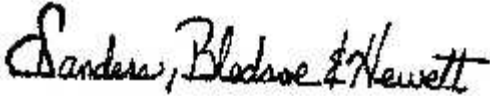
We have audited the accompanying financial statements of the business-type activities of the Hughes County Rural Water District No. 5 (the District), Holdenville, Oklahoma, as of and for the year ended June 30, 2015, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express 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 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, 2015, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 16, 2015, 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 grants 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 should be considered in assessing the results of our audit.

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.

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 16, 2015



# 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. 5  
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. 5 (the District), Holdenville, Oklahoma, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated July 16, 2015.

**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

July 16, 2015

HUGHES COUNTY RURAL WATER DISTRICT NO. 5  
DISPOSITION OF PRIOR YEAR AUDIT FINDINGS  
JUNE 30, 2015

There were no prior year audit findings.



HUGHES COUNTY RURAL WATER DISTRICT NO. 5  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2015

There were no audit findings.

Hughes County Rural Water District No. 5  
Holdenville, Oklahoma  
Statement of Net Assets  
June 30, 2015

ASSETS

Current Assets:

Cash	\$ 135,896
Accounts receivable	52,810
Prepaid insurance	4,699
Total Current Assets	<u>193,405</u>

Non-Current Assets:

Restricted Assets-

2002 ORWB loan proceeds-  
Debt service reserve fund

45,247

Capital Assets:

Water system and improvements	1,871,587
Office and other equipment	62,477
Total Capital Assets	1,934,064
Less: accumulated depreciation	(699,398)
Total Capital Assets (Net of Depreciation)	<u>1,234,666</u>

Debt Issue Costs (Net of Amortization)

39,968

Total Assets

1,513,286

LIABILITIES

Current Liabilities:

Accounts payable	31,324
Accrued interest	1,621
Current maturities of long-term debt	16,400
Total Current Liabilities	<u>49,345</u>

Non-Current Liabilities:

Notes payable-ORWB

409,600

Total Liabilities

458,945

NET ASSETS

Invested in capital assets, net of related debt	808,666
Restricted for debt service	45,247
Unrestricted	200,428
Total Net Assets	<u>\$ 1,054,341</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, 2015

Revenue from Operations:	
Water sales	\$ 539,820
Tap fees	700
Benefit unit sales	3,400
Reimbursements	2,426
Total Revenue from Operations	<u>546,346</u>
Expenses from Operations:	
Water purchased	351,683
Insurance	5,028
Utilities and telephone	10,789
Dues, fees and testing	15,685
Rent and storage	9,000
Repairs and maintenance	54,498
Materials and supplies	20,409
Travel and fuel reimbursements	21,131
Miscellaneous	1,015
Depreciation	51,537
Amortization	2,594
Professional fees	1,450
Contract labor (bookkeeping)	24,795
Office supplies and postage	6,742
Total Expenses from Operations	<u>576,356</u>
Net Income (Loss) from Operations	<u>(30,010)</u>
Other Income:	
Interest income	<u>575</u>
Other Expenses:	
Interest	<u>(4,619)</u>
Net Income (Loss)	(34,054)
Net Assets, Beginning of Period	<u>1,088,395</u>
Net Assets, End of Period	<u><u>\$ 1,054,341</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, 2015

Cash flows from operating activities:	
Receipts from water sales	\$ 559,017
Receipts from tap fees and benefit unit sales	5,300
Payments to vendors	<u>(528,376)</u>
Net cash (used in) provided by operating activities	<u>35,941</u>
Cash flows from capital and related financing activities:	
Increase of capital assets	(36,583)
Interest paid on debt	(4,929)
Principal payments on debt	<u>(11,750)</u>
Net cash used in capital and related financing activities	<u>(53,262)</u>
Cash flows from investing activities:	
Interest on investments	<u>575</u>
Net increase (decrease) in cash and cash equivalents	(16,746)
Cash & cash equivalents, beginning of period	<u>197,889</u>
Cash & cash equivalents, end of period	<u><u>\$ 181,143</u></u>

Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	\$ (30,010)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation and amortization expense	54,131
Change in assets and liabilities:	
Accounts receivable, net	17,971
Prepaid expenses and other assets	(404)
Accounts payable	<u>(5,747)</u>
Net cash (used in) provided by operating activities	<u><u>\$ 35,941</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, 2015

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, 2015 are detailed as follows:

Maintenance and operation account	\$ 77,246
Reserve account (considered unrestricted cash at June 30, 2015)	<u>58,650</u>
Total	<u>\$ 135,896</u>

***Investments***

There were no outstanding investments at June 30, 2015.

***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 \$58,650 are considered as unrestricted cash at June 30, 2015, but are still kept in the bank account called a "reserve account".

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 \$5,661 at June 30, 2015. The other, the debt service reserve fund, had a balance of \$39,586 at June 30, 2015.

Hughes County Rural Water District No. 5  
Holdenville, Oklahoma  
Notes to Financial Statements  
June 30, 2015

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, 2015 were \$52,810. 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, 2015.

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 1.51 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 bi-annual loan payments of \$11,316. 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 \$39,591.

Hughes County Rural Water District No. 5  
Holdenville, Oklahoma  
Notes to Financial Statements  
June 30, 2015

Note B – Long-term Debt – cont'd

At June 30, 2015, long-term debt is summarized as follows:

Note FAP-99-0002-L, variable percent mortgage payable to Oklahoma Rural Water Board	\$ <u>426,000</u>
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The estimated maturities for this debt are as follows:

2015 – 16	\$ 16,400
2016 – 17	17,300
2017 – 18	18,300
2018 – 19	19,300
2019 – 24	113,900
2024 – 29	149,300
2029 – 32	<u>91,500</u>
Total	\$ <u>426,000</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, 2015

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, 2015.

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.

Management has evaluated subsequent events through July 16, 2015, 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. 5  
Holdenville, Oklahoma  
Balance Sheet  
June 30, 2015

	June 30,	
	2015	(Memo Only) 2014
<u>ASSETS</u>		
Current Assets:		
Cash	\$ 135,896	160,108
Accounts receivable	52,810	70,781
Prepaid insurance	4,699	4,295
Total Current Assets	<u>193,405</u>	<u>235,184</u>
Restricted Assets:		
Cash and investments		
2002 ORWB loan proceeds-		
Debt service fund	5,661	1
Debt service reserve fund	39,586	37,780
Total Restricted Assets	<u>45,247</u>	<u>37,781</u>
Fixed Assets:		
Water system and improvements	1,871,587	1,844,468
Office and other equipment	62,477	53,013
Total Fixed Assets	<u>1,934,064</u>	<u>1,897,481</u>
Less accumulated depreciation	(699,398)	(647,861)
Total Fixed Assets (Net of Depreciation)	<u>1,234,666</u>	<u>1,249,620</u>
Debt Issue Costs (Net of Amortization)	<u>39,968</u>	<u>42,562</u>
Total Assets	<u>\$ 1,513,286</u>	<u>1,565,147</u>
<u>LIABILITIES AND MEMBER EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 31,324	37,071
Accrued interest	1,621	1,931
Current maturities of long-term debt	16,400	11,750
Total Current Liabilities	<u>49,345</u>	<u>50,752</u>
Long-term Debt, Less Current Maturities:		
Notes payable-OWRB	<u>409,600</u>	<u>426,000</u>
Total Liabilities	<u>458,945</u>	<u>476,752</u>
Member Equity:		
Contributed capital	569,806	569,806
Retained earnings	484,535	518,589
Total Member Equity	<u>1,054,341</u>	<u>1,088,395</u>
Total Liabilities and Member Equity	<u>\$ 1,513,286</u>	<u>1,565,147</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, 2015

	2014-15	(Memo Only) 2013-14
Revenue from Operations:		
Water sales	\$ 539,820	571,728
Tap fees	700	850
Benefit unit sales	3,400	3,200
Reimbursements	2,426	4,550
Total Revenue from Operations	<u>546,346</u>	<u>580,328</u>
Expenses from Operations:		
Water purchased	351,683	370,531
Insurance	5,028	4,492
Utilities and telephone	10,789	10,550
Dues, fees and testing	15,685	6,851
Rent and storage	9,000	7,200
Repairs and maintenance	54,498	60,373
Materials and supplies	20,409	39,714
Travel and fuel reimbursements	21,131	20,237
Miscellaneous	1,015	228
Depreciation	51,537	50,968
Amortization	2,594	2,594
Professional fees	1,450	4,879
Contract labor (bookkeeping)	24,795	3,769
Office supplies and postage	6,742	3,149
Total Expenses from Operations	<u>576,356</u>	<u>585,535</u>
Net Income (Loss) from Operations	<u>(30,010)</u>	<u>(5,207)</u>
Other Income:		
Interest earnings	<u>575</u>	<u>853</u>
Other Expenses:		
Interest on debt	<u>(4,619)</u>	<u>(6,769)</u>
Net Income (Loss)	(34,054)	(11,123)
Retained Earnings, Beginning of Period	<u>518,589</u>	<u>529,712</u>
Retained Earnings, End of Period	<u><u>\$ 484,535</u></u>	<u><u>518,589</u></u>