

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

FINANCIAL STATEMENTS AND AUDITOR'S REPORT

YEAR ENDED JUNE 30, 2016

Audited by

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

BROKEN ARROW, OK

HUGHES COUNTY RURAL WATER DISTRICT NO. 5
BOARD OF DIRECTORS
JUNE 30, 2016

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, 2016

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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, 2016, 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

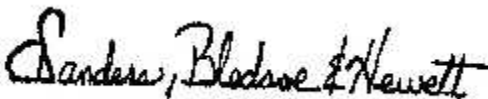
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of June 30, 2016, and the respective changes in financial position and cash flows thereof for the year then ended in 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 1, 2016 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 Authority's internal control over financial reporting and compliance.



Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

August 1, 2016



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, 2016, 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 1, 2016.

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. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in the internal controls that we considered to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 16-1, not to be a material weakness.

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*.

District's Response to Findings

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 1, 2016

HUGHES COUNTY RURAL WATER DISTRICT NO. 5
DISPOSITION OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2016

There were no prior year audit findings.

HUGHES COUNTY RURAL WATER DISTRICT NO. 5
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2016

Section 1 – Summary of Auditor’s Results:

1. An unqualified opinion report was issued on the financial statements.
2. The audit disclosed a reportable condition in the internal controls, which was not considered a material weakness.
3. The audit disclosed no instances of noncompliance.

Section 2 – Findings relating to the financial statements required to be reported in accordance with GAGAS:

16-1 – Lack of Segregation of Duties

Condition-

The inherent limitations resulting from a small number of employees performing functions that would normally be divided among employees were a larger number available prevent a proper segregation of accounting functions, which is necessary in order to assure adequate internal accounting controls.

Criteria-

An organization should ensure that there is a proper segregation of duties regarding cash collections and the payment of expenses.

Cause-

The District is not large enough to justify the hiring of additional personnel.

Effect-

There is always the possibility that not all collections are actually receipted or deposited, and the possibility that funds expended are not used for actual District obligations.

Recommendation-

The current procedures should not be changed. However, there should be additional personnel instilled into the collection, receipt, deposit, reconciliation and payment procedures when this becomes economically possible.

Response-

Additional personnel will be hired when the actual funds are available.

Hughes County Rural Water District No. 5
Holdenville, Oklahoma
Statement of Net Position
June 30, 2016

ASSETS

Current Assets:

Cash	\$ 66,324
Accounts receivable	49,230
Prepaid insurance	5,331
Total Current Assets	<u>120,885</u>

Non-Current Assets:

Restricted Assets-

2002 ORWB loan proceeds-

Debt service reserve fund	<u>45,548</u>
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Capital Assets:

Water system and improvements	2,005,683
Office and other equipment	62,477
Total Capital Assets	2,068,160
Less: accumulated depreciation	(752,968)
Total Capital Assets (Net of Depreciation)	<u>1,315,192</u>

Debt Issue Costs (Net of Amortization)	<u>37,374</u>
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Total Assets	<u>1,518,999</u>
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LIABILITIES

Current Liabilities:

Accounts payable	26,712
Accrued interest	1,559
Current maturities of long-term debt	17,300
Total Current Liabilities	<u>45,571</u>

Non-Current Liabilities:

Notes payable-ORWB	<u>392,300</u>
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Total Liabilities	<u>437,871</u>
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NET POSITION

Invested in capital assets, net of related debt	905,592
Restricted for debt service	45,548
Unrestricted	129,988
Total Net Position	<u>\$ 1,081,128</u>

The accompanying notes are an integral part of the financial statements

Hughes County Rural Water District No. 5
Holdenville, Oklahoma
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2016

Revenue from Operations:	
Water sales	\$ 366,437
Tap fees	611
Benefit unit sales	4,750
Reimbursements	3,963
Total Revenue from Operations	<u>375,761</u>
Expenses from Operations:	
Water purchased	219,048
Insurance	4,943
Utilities and telephone	12,780
Dues, fees and testing	9,629
Rent and storage	6,000
Repairs and maintenance	73,084
Materials and supplies	16,911
Travel and fuel reimbursements	19,746
Miscellaneous	1,599
Depreciation	53,570
Amortization	2,594
Professional fees	41,767
Contract labor (bookkeeping)	26,634
Office supplies and postage	4,260
Total Expenses from Operations	<u>492,565</u>
Net Income (Loss) from Operations	<u>(116,804)</u>
Other Income:	
Interest income	385
OWRB grant proceeds	118,432
REAP grant proceeds	31,000
Total Other Income	<u>149,817</u>
Other Expenses:	
Interest	<u>(6,226)</u>
Net Income (Loss)	26,787
Net Position, Beginning of Period	<u>1,054,341</u>
Net Position, End of Period	<u><u>\$ 1,081,128</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, 2016

Cash flows from operating activities:	
Receipts from water sales	\$ 372,530
Receipts from tap fees and benefit unit sales	6,811
Payments to vendors	<u>(441,645)</u>
Net cash (used in) provided by operating activities	<u>(62,304)</u>
Cash flows from capital and related financing activities:	
Increase of capital assets	(134,096)
Grant proceeds (ORWB & REAP)	149,432
Interest paid on debt	(6,288)
Principal payments on debt	<u>(16,400)</u>
Net cash used in capital and related financing activities	<u>(7,352)</u>
Cash flows from investing activities:	
Interest on investments	<u>385</u>
Net increase (decrease) in cash and cash equivalents	(69,271)
Cash & cash equivalents, beginning of period	<u>181,143</u>
Cash & cash equivalents, end of period	<u><u>\$ 111,872</u></u>
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	\$ (116,804)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation and amortization expense	56,164
Change in assets and liabilities:	
Accounts receivable, net	3,580
Prepaid expenses and other assets	(632)
Accounts payable	<u>(4,612)</u>
Net cash (used in) provided by operating activities	<u><u>\$ (62,304)</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, 2016

Note A – Significant Accounting Policies

Reporting Entity

The District is recognized as a public, not-for-profit rural water district under Oklahoma Statutes, Title 82. The District is an independent, self-contained reporting entity with no associated component units. It is operated in a manner similar to a private business enterprise where the cost of providing water services is financed through user charges.

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, 2016 are detailed as follows:

Maintenance and operation account	\$ 16,780
Reserve account (considered unrestricted cash at June 30, 2016)	48,873
REAP Grant account	90
CWSRF Loan account	<u>581</u>
Total	<u>\$ 66,324</u>

Investments

There were no outstanding investments at June 30, 2016.

Restricted Assets

In accordance with the prior loan agreement with GMAC Commercial Mortgage, the District was 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 \$48,873 are considered as unrestricted cash at June 30, 2016, but are still kept in the bank account called a "reserve account".

Hughes County Rural Water District No. 5
Holdenville, Oklahoma
Notes to Financial Statements
June 30, 2016

Note A – Significant Accounting Policies – cont'd

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 \$5,929 at June 30, 2016. The other, the debt service reserve fund, had a balance of \$39,619 at June 30, 2016.

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, 2016 were \$49,230. 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	5-20 years

The District purchased \$134,096 of meters in the 2015-16 fiscal year.

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 the \$250,000 of FDIC coverage as of June 30, 2016.

Hughes County Rural Water District No. 5
Holdenville, Oklahoma
Notes to Financial Statements
June 30, 2016

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 \$39,619.

At June 30, 2016, long-term debt is summarized as follows:

Note FAP-99-0002-L, variable percent mortgage payable to Oklahoma Rural Water Board	\$ <u>409,600</u>
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The estimated maturities for this debt are as follows:

2016 – 17	\$ 17,300
2017 – 18	18,300
2018 – 19	19,300
2019 – 24	113,900
2024 – 29	149,300
2029 – 31	<u>91,500</u>
Total	<u>\$ 409,600</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

Hughes County Rural Water District No. 5
Holdenville, Oklahoma
Notes to Financial Statements
June 30, 2016

Note C – Contributed Capital – cont'd

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. In 2015-16, The District was awarded a \$31,000 REAP Grant from ORWA, and a \$133,700 Clean Water SRF Loan (which is scheduled to be forgiven into a grant upon completion in 2016-17) for upgrades and electronic meters.

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, 2016.

Note F – Subsequent Events

The District will be merging with Seminole County Rural Water District No. 5 in the 2016-17 fiscal year. All assets, liabilities and equity of Seminole County RWD #5 will become the property of the District when the consolidation is completed.

Management has evaluated subsequent events through August 1, 2016, 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, 2016

	June 30,	
	2016	(Memo Only) 2015
<u>ASSETS</u>		
Current Assets:		
Cash	\$ 66,324	135,896
Accounts receivable	49,230	52,810
Prepaid insurance	5,331	4,699
Total Current Assets	<u>120,885</u>	<u>193,405</u>
Restricted Assets:		
Cash and investments		
2002 ORWB loan proceeds-		
Debt service fund	5,929	5,661
Debt service reserve fund	39,619	39,586
Total Restricted Assets	<u>45,548</u>	<u>45,247</u>
Fixed Assets:		
Water system and improvements	2,005,683	1,871,587
Office and other equipment	62,477	62,477
Total Fixed Assets	<u>2,068,160</u>	<u>1,934,064</u>
Less accumulated depreciation	(752,968)	(699,398)
Total Fixed Assets (Net of Depreciation)	<u>1,315,192</u>	<u>1,234,666</u>
Debt Issue Costs (Net of Amortization)	<u>37,374</u>	<u>39,968</u>
Total Assets	<u>\$ 1,518,999</u>	<u>1,513,286</u>
<u>LIABILITIES AND MEMBER EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 26,712	31,324
Accrued interest	1,559	1,621
Current maturities of long-term debt	17,300	16,400
Total Current Liabilities	<u>45,571</u>	<u>49,345</u>
Long-term Debt, Less Current Maturities:		
Notes payable-OWRB	<u>392,300</u>	<u>409,600</u>
Total Liabilities	<u>437,871</u>	<u>458,945</u>
Member Equity:		
Contributed capital	719,238	569,806
Retained earnings	361,890	484,535
Total Member Equity	<u>1,081,128</u>	<u>1,054,341</u>
Total Liabilities and Member Equity	<u>\$ 1,518,999</u>	<u>1,513,286</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, 2016

	2015-16	(Memo Only) 2014-15
Revenue from Operations:		
Water sales	\$ 366,437	539,820
Tap fees	611	700
Benefit unit sales	4,750	3,400
Reimbursements	3,963	2,426
Total Revenue from Operations	<u>375,761</u>	<u>546,346</u>
Expenses from Operations:		
Water purchased	219,048	351,683
Insurance	4,943	5,028
Utilities and telephone	12,780	10,789
Dues, fees and testing	9,629	15,685
Rent and storage	6,000	9,000
Repairs and maintenance	73,084	54,498
Materials and supplies	16,911	20,409
Travel and fuel reimbursements	19,746	21,131
Miscellaneous	1,599	1,015
Depreciation	53,570	51,537
Amortization	2,594	2,594
Professional fees	41,767	1,450
Contract labor (bookkeeping)	26,634	24,795
Office supplies and postage	4,260	6,742
Total Expenses from Operations	<u>492,565</u>	<u>576,356</u>
Net Income (Loss) from Operations	<u>(116,804)</u>	<u>(30,010)</u>
Other Income:		
Interest earnings	<u>385</u>	<u>575</u>
Other Expenses:		
Interest on debt	<u>(6,226)</u>	<u>(4,619)</u>
Net Income (Loss)	(122,645)	(34,054)
Retained Earnings, Beginning of Period	<u>484,535</u>	<u>518,589</u>
Retained Earnings, End of Period	<u><u>\$ 361,890</u></u>	<u><u>484,535</u></u>