Hughes County Rural Water District No. 5
Holdenville, Oklahoma

Financial Statements and
Reports of Independent Auditor

June 30, 2011

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, 2011

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, 2011

SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP

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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, 2011, 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, 2011, 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 8, 2011, 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

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP
July 8, 2011

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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, 2011, and have issued our report thereon dated July 8, 2011. 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

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

July 8, 2011

Hughes County Rural Water District No. 5
Holdenville, Oklahoma

Disposition of Prior Year's Reportable Conditions
June 30, 2011

There were no prior year reportable conditions.

Hughes County Rural Water District No. 5
Holdenville, Oklahoma
Schedule of Audit Results and Findings
June 30, 2011

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, 2011

ASSETS	
Current Assets:	
Cash	$ 190,202
Accounts receivable	42,137
Prepaid insurance	3,378
Total Current Assets	235,717
Non-Current Assets:	
Restricted Assets-	
2002 ORWB loan proceeds-	
Debt service fund	1
Debt service reserve fund	39,619
Total Non-Current Assets	39,620
Capital Assets:	
Water system and improvements	1,681,969
Office and other equipment	27,429
Total Capital Assets	1,709,398
Less: accumulated depreciation	(502,838)
Total Capital Assets (Net of Depreciation)	1,206,560
Debt Issue Costs (Net of Amortization)	50,344
Total Assets	1,532,241
LIABILITIES	
Current Liabilities:	
Accounts payable	24,120
Accrued interest	1,767
Current maturities of long-term debt	13,200
Total Current Liabilities	39,087
Non-Current Liabilities:	
Notes payable-ORWB	470,400
Total Liabilities	509,487
NET ASSETS	
Invested in capital assets, net of related debt	722,960
Restricted for debt service	19,907
Unrestricted	279,887
Total Net Assets	$ 1,022,754

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, 2011

Revenue from Operations:	
Water sales	$ 442,224
Tap fees	1,500
Benefit unit sales	7,150
Reimbursements	4,750
Total Revenue from Operations	455,624
Expenses from Operations:	
Water purchased	262,137
Insurance	3,105
Utilities and telephone	8,585
Dues, fees and testing	2,686
Rent	7,200
Repairs and maintenance	67,259
Materials and supplies	20,116
Travel and fuel reimbursements	21,051
Miscellaneous	685
Depreciation	41,970
Amortization	2,594
Professional fees	4,280
Contract labor	8,400
Office supplies and postage	6,339
Total Expenses from Operations	456,407
Net Income (Loss) from Operations	(783)
Other Income:	
Interest income	1,318
Other Expenses:	
Interest	(10,418)
Net Income (Loss)	(9,883)
Net Assets, Beginning of Period	1,032,637
Net Assets, End of Period	$ 1,022,754

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, 2011

Cash flows from operating activities:		
Receipts from water sales	$	460,818
Receipts from tap fees and benefit unit sales		8,650
Payments to vendors		(411,743)
Net cash (used in) provided by operating activities		57,725
Cash flows from capital and related financing activities:		
Increase of capital assets (line extension)		(87,966)
Interest paid on debt		(10,453)
Principal payments on debt		(9,400)
Net cash used in capital and related financing activities		(107,819)
Cash flows from investing activities:		
Interest on investments		1,318
Net increase (decrease) in cash and cash equivalents		(48,776)
Cash & cash equivalents, beginning of period		238,979
Cash & cash equivalents, end of period	$	190,203

Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	$	(783)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation and amortization expense		44,564
Change in assets and liabilities:		
Accounts receivable, net		13,844
Prepaid expenses and other assets		(392)
Accounts payable		492
Net cash (used in) provided by operating activities	$	57,725

The accompanying notes are an integral part of the financial statements

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, 2011 are detailed as follows:

Maintenance and operation account	$ 127,577
Reserve account (considered unrestricted cash At June 30, 2011)	62,625
Total	$ 190,202

Investments

There were no outstanding investments at June 30, 2011.

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, 2001. The balance in the reserve account was $37,241 at June 30, 2001. This loan was paid off by the District in the 2001 - 02 fiscal year. Therefore, these funds, which had a balance of $62,625 are considered as unrestricted cash at June 30, 2011.

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 $1 at June 30, 2011. The other, the debt service reserve fund, had a required balance of $39,619 at June 30, 2011, which was, in fact, its balance.

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, 2011 were $39,619. 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, 2011.

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 1.45 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 $5,003. 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, 2011

Note B – Long-term Debt – cont'd

At June 30, 2011, long-term debt is summarized as follows:

Note FAP-99-0002-L, 1.45 percent mortgage payable to Oklahoma Rural Water Board	$ 483,600

The estimated maturities for this debt are as follows:

2011 – 12	$ 13,200
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	56,400
Total	$ 483,600

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.

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, 2011.

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, 2011

		June 30,	
		2011	(Memo Only) 2010
ASSETS			
Current Assets:			
Cash	$	190,202	238,978
Accounts receivable		42,137	55,981
Prepaid insurance		3,378	2,986
Total Current Assets		235,717	297,945
Restricted Assets:			
Cash and investments			
2002 ORWB loan proceeds-			
Debt service fund		1	1
Debt service reserve fund		39,619	39,619
Total Restricted Assets		39,620	39,620
Fixed Assets:			
Water system and improvements		1,681,969	1,596,694
Office and other equipment		27,429	24,738
Total Fixed Assets		1,709,398	1,621,432
Less accumulated depreciation		(502,838)	(460,868)
Total Fixed Assets (Net of Depreciation)		1,206,560	1,160,564
Debt Issue Costs (Net of Amortization)		50,344	52,938
Total Assets	$	1,532,241	1,551,067
LIABILITIES AND MEMBER EQUITY			
Current Liabilities:			
Accounts payable	$	24,120	23,628
Accrued interest		1,767	1,802
Current maturities of long-term debt		13,200	9,400
Total Current Liabilities		39,087	34,830
Long-term Debt, Less Current Maturities:			
Notes payable-OWRB		470,400	483,600
Total Liabilities		509,487	518,430
Member Equity:			
Contributed capital		569,806	569,806
Retained earnings		452,948	462,831
Total Member Equity		1,022,754	1,032,637
Total Liabilities and Member Equity	$	1,532,241	1,551,067

Hughes County Rural Water District No. 5
Holdenville, Oklahoma
Statement of Income, Expenditures and Changes in Retained Earnings
For the Year Ended June 30, 2011

		2009-11	(Memo Only) 2009-10
Revenue from Operations:			
Water sales	$	442,224	480,590
Tap fees		1,500	1,225
Benefit unit sales		7,150	2,187
Reimbursements		4,750	11,212
Total Revenue from Operations		455,624	495,214
Expenses from Operations:			
Water purchased		262,137	265,064
Insurance		3,105	2,927
Utilities and telephone		8,585	8,598
Dues, fees and testing		2,686	3,935
Rent		7,200	7,200
Repairs and maintenance		67,259	47,382
Materials and supplies		20,116	20,350
Travel and fuel reimbursements		21,051	20,631
Miscellaneous		685	100
Depreciation		41,970	40,828
Amortization		2,594	2,594
Professional fees		4,280	21,391
Contract labor		8,400	8,400
Office supplies and postage		6,339	5,818
Total Expenses from Operations		456,407	455,218
Net Income (Loss) from Operations		(783)	39,996
Other Income:			
Interest earnings		1,318	944
Other Expenses:			
Interest on debt		(10,418)	(7,893)
Net Income (Loss)		(9,883)	33,047
Retained Earnings, Beginning of Period		462,831	429,784
Retained Earnings, End of Period	$	452,948	462,831