

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

FINANCIAL STATEMENTS AND AUDITOR'S REPORT

YEAR ENDED JUNE 30, 2014

Audited by

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

BROKEN ARROW, OK

HUGHES COUNTY RURAL WATER DISTRICT NO. 5
BOARD OF DIRECTORS
JUNE 30, 2014

BOARD OF DIRECTORS

Chairman

Travis Black

Vice-Chairman

Darlene Choate

Secretary

Donna Bible

Member

Barbara Watters

**Treasurer/
Bookkeeper**

Gail Kiker

HUGHES COUNTY RURAL WATER DISTRICT NO. 5
JUNE 30, 2014

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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

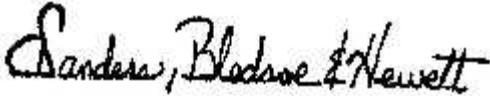
We have audited the accompanying financial statements of the business-type activities of the Hughes County Rural Water District No. 5 (the District), Holdenville, Oklahoma, as of and for the year ended June 30, 2014, which collectively comprise the District's basic financial statements as listed in the 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, 2014, 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 December 29, 2014, 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

December 29, 2014



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, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 29, 2014.

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.

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

December 29, 2014

HUGHES COUNTY RURAL WATER DISTRICT NO. 5
DISPOSITION OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2014

There were no prior year audit findings.

HUGHES COUNTY RURAL WATER DISTRICT NO. 5
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2014

There were no audit findings.

Hughes County Rural Water District No. 5
Holdenville, Oklahoma
Statement of Net Assets
June 30, 2014

ASSETS

Current Assets:

Cash	\$ 160,108
Accounts receivable	70,781
Prepaid insurance	4,295
Total Current Assets	<u>235,184</u>

Non-Current Assets:

Restricted Assets-

2002 ORWB loan proceeds-
Debt service reserve fund

37,781

Capital Assets:

Water system and improvements	1,844,468
Office and other equipment	53,013
Total Capital Assets	1,897,481
Less: accumulated depreciation	(647,861)
Total Capital Assets (Net of Depreciation)	<u>1,249,620</u>

Debt Issue Costs (Net of Amortization)

42,562

Total Assets

1,565,147

LIABILITIES

Current Liabilities:

Accounts payable	37,071
Accrued interest	1,931
Current maturities of long-term debt	11,750
Total Current Liabilities	<u>50,752</u>

Non-Current Liabilities:

Notes payable-ORWB

426,000

Total Liabilities

476,752

NET ASSETS

Invested in capital assets, net of related debt	811,870
Restricted for debt service	37,781
Unrestricted	238,744
Total Net Assets	<u>\$ 1,088,395</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, 2014

Revenue from Operations:	
Water sales	\$ 571,728
Tap fees	850
Benefit unit sales	3,200
Reimbursements	4,550
Total Revenue from Operations	<u>580,328</u>
Expenses from Operations:	
Water purchased	370,531
Insurance	4,492
Utilities and telephone	10,550
Dues, fees and testing	6,851
Rent	7,200
Repairs and maintenance	60,373
Materials and supplies	39,714
Travel and fuel reimbursements	20,237
Miscellaneous	228
Depreciation	50,968
Amortization	2,594
Professional fees	4,879
Contract labor	3,769
Office supplies and postage	3,149
Total Expenses from Operations	<u>585,535</u>
Net Income (Loss) from Operations	<u>(5,207)</u>
Other Income:	
Interest income	<u>853</u>
Other Expenses:	
Interest	<u>(6,769)</u>
Net Income (Loss)	(11,123)
Net Assets, Beginning of Period	<u>1,099,518</u>
Net Assets, End of Period	<u><u>\$ 1,088,395</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, 2014

Cash flows from operating activities:	
Receipts from water sales	\$ 562,913
Receipts from tap fees and benefit unit sales	4,650
Payments to vendors	<u>(529,550)</u>
Net cash (used in) provided by operating activities	<u>38,013</u>
Cash flows from capital and related financing activities:	
Increase of capital assets	(75,649)
Interest paid on debt	(5,110)
Principal payments on debt	<u>(15,000)</u>
Net cash used in capital and related financing activities	<u>(95,759)</u>
Cash flows from investing activities:	
Interest on investments	<u>853</u>
Net increase (decrease) in cash and cash equivalents	(56,893)
Cash & cash equivalents, beginning of period	<u>217,001</u>
Cash & cash equivalents, end of period	<u><u>\$ 160,108</u></u>
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	\$ (5,207)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation and amortization expense	53,562
Change in assets and liabilities:	
Accounts receivable, net	(12,765)
Prepaid expenses and other assets	(188)
Accounts payable	<u>2,611</u>
Net cash (used in) provided by operating activities	<u><u>\$ 38,013</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, 2014

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, 2014 are detailed as follows:

Maintenance and operation account	\$ 96,706
Reserve account (considered unrestricted cash at June 30, 2014)	<u>63,402</u>
Total	<u>\$ 160,108</u>

Investments

There were no outstanding investments at June 30, 2014.

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 \$63,402 are considered as unrestricted cash at June 30, 2014, 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 \$1 at June 30, 2014. The other, the debt service reserve fund, had a balance of \$37,780 at June 30, 2014.

Hughes County Rural Water District No. 5
Holdenville, Oklahoma
Notes to Financial Statements
June 30, 2014

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, 2014 were \$70,781. 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, 2014.

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 1.75 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 \$5,517. 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, 2014

Note B – Long-term Debt – cont'd

At June 30, 2014, long-term debt is summarized as follows:

Note FAP-99-0002-L, variable percent mortgage payable to Oklahoma Rural Water Board	\$ <u>437,750</u>
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The estimated maturities for this debt are as follows:

2014 – 15	\$ 11,750
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>437,750</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, 2014

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, 2014.

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 December 29, 2014, 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, 2014

	June 30,	
	2014	(Memo Only) 2013
<u>ASSETS</u>		
Current Assets:		
Cash	\$ 160,108	217,001
Accounts receivable	70,781	58,016
Prepaid insurance	4,295	4,107
Total Current Assets	<u>235,184</u>	<u>279,124</u>
Restricted Assets:		
Cash and investments		
2002 ORWB loan proceeds-		
Debt service fund	1	1
Debt service reserve fund	37,780	39,590
Total Restricted Assets	<u>37,781</u>	<u>39,591</u>
Fixed Assets:		
Water system and improvements	1,844,468	1,769,469
Office and other equipment	53,013	52,363
Total Fixed Assets	<u>1,897,481</u>	<u>1,821,832</u>
Less accumulated depreciation	<u>(647,861)</u>	<u>(596,893)</u>
Total Fixed Assets (Net of Depreciation)	<u>1,249,620</u>	<u>1,224,939</u>
Debt Issue Costs (Net of Amortization)	<u>42,562</u>	<u>45,156</u>
Total Assets	<u>\$ 1,565,147</u>	<u>1,588,810</u>
<u>LIABILITIES AND MEMBER EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 37,071	34,460
Accrued interest	1,931	2,082
Current maturities of long-term debt	11,750	14,800
Total Current Liabilities	<u>50,752</u>	<u>51,342</u>
Long-term Debt, Less Current Maturities:		
Notes payable-OWRB	<u>426,000</u>	<u>437,950</u>
Total Liabilities	<u>476,752</u>	<u>489,292</u>
Member Equity:		
Contributed capital	569,806	569,806
Retained earnings	518,589	529,712
Total Member Equity	<u>1,088,395</u>	<u>1,099,518</u>
Total Liabilities and Member Equity	<u>\$ 1,565,147</u>	<u>1,588,810</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, 2014

	2013-14	(Memo Only) 2012-13
Revenue from Operations:		
Water sales	\$ 571,728	561,368
Tap fees	850	1,350
Benefit unit sales	3,200	1,317
Reimbursements	4,550	6,167
Total Revenue from Operations	<u>580,328</u>	<u>570,202</u>
Expenses from Operations:		
Water purchased	370,531	327,145
Insurance	4,492	4,438
Utilities and telephone	10,550	15,726
Dues, fees and testing	6,851	1,459
Rent	7,200	7,200
Repairs and maintenance	60,373	66,973
Materials and supplies	39,714	39,883
Travel and fuel reimbursements	20,237	20,458
Miscellaneous	228	186
Depreciation	50,968	48,668
Amortization	2,594	2,594
Professional fees	4,879	5,825
Contract labor	3,769	11,390
Office supplies and postage	3,149	1,510
Total Expenses from Operations	<u>585,535</u>	<u>553,455</u>
Net Income (Loss) from Operations	<u>(5,207)</u>	<u>16,747</u>
Other Income:		
Interest earnings	<u>853</u>	<u>934</u>
Other Expenses:		
Interest on debt	<u>(6,769)</u>	<u>(7,009)</u>
Net Income (Loss)	(11,123)	10,672
Retained Earnings, Beginning of Period	<u>529,712</u>	<u>519,040</u>
Retained Earnings, End of Period	<u><u>\$ 518,589</u></u>	<u><u>529,712</u></u>