

AUDIT REPORT
HUGHES COUNTY RWD NO. 6
ALLEN, OKLAHOMA
FOR THE YEAR ENDED AUGUST 31, 2021



JENKINS & KEMPER
CERTIFIED PUBLIC ACCOUNTANTS, P.C.

**HUGHES COUNTY RURAL WATER DISTRICT NO. 6
ALLEN, OKLAHOMA
AUGUST 31, 2021**

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HUGHES COUNTY RURAL WATER DISTRICT NO. 6
BOARD OF DIRECTORS
AUGUST 31, 2021

BOARD OF DIRECTORS

Chairman	Orval Powell Jr.
Vice-Chairman	Joe Gragert
Secretary/Treasurer	Greg Meyer
Member	Winston Beavert
Member	William Orrock

MANAGER

Sheldon Tatum

BOOKKEEPER

Mary Ann Starkey



JENKINS & KEMPER
CERTIFIED PUBLIC ACCOUNTANTS, P.C.

JACK JENKINS, CPA
MICHAEL KEMPER, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Hughes Co. RWD No. 6
Allen, OK 74825

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Hughes Co. RWD No. 6 (the District), Allen, Oklahoma, as of and for the year ended August 31, 2021, and the related notes to the financial statements, 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 in accordance with accounting principles generally accepted in the United States of America; this includes 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 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 from 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 entity'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 entity'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 audit opinion.

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 Hughes Co. RWD No. 6 as of August 31, 2021, and the respective changes in net position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Hughes Co. RWD No. 6 has not presented the Management's Discussion and Analysis that 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, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on these 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 a report dated December 10, 2021, 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. 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 effectiveness of the District's 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 District's internal control over financial reporting and compliance.

Jenkins & Kemper, CPAs P.C.

Jenkins & Kemper
Certified Public Accountants

December 10, 2021



JENKINS & KEMPER
CERTIFIED PUBLIC ACCOUNTANTS, P.C.

JACK JENKINS, CPA
MICHAEL KEMPER, CPA

**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 Trustees
Hughes Co. RWD No. 6
Allen, Oklahoma 74825

We have audited, in accordance with the 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 financial statements of Hughes Co. RWD No. 6 as of and for the year ended August 31, 2021, 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 10, 2021. Hughes Co. RWD No. 6 has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board requires to supplement, although not be a part of, the basic financial statements.

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 (internal control) to determine the audit procedures that are appropriate in the circumstances 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.

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 misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 one (1) instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings as item 21-01.

Purpose of this Report

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jenkins & Kemper, CPAs P.C.

Jenkins & Kemper
Certified Public Accountants, P.C.

December 10, 2021

HUGHES COUNTY RURAL WATER DISTRICT NO. 6
SCHEDULE OF AUDIT RESULTS
AUGUST 31, 2021

Findings – Financial Statement Audit

21-01 – Payroll Tax Expense

Condition: It appeared federal withholdings and the employee-portion of Social Security and Medicare taxes were recorded as payroll tax expense, causing payroll tax expense to be overstated. A net adjustment of \$41,825.22 was made to payroll tax expense to reflect the actual employer-portion of payroll taxes that are considered an expense.

Criteria: Payroll withholdings and the employee-portion of Social Security and Medicare taxes should be recorded as a liability when withheld from payroll. That liability is then eliminated when the taxes are paid.

Effect: Payroll tax expense could be overstated and net income could be understated.

Recommendation: That payroll withholdings be recognized in a liability account until paid and that only the employer-portion of Social Security and Medicare taxes be recognized as an expense.

HUGHES COUNTY RURAL WATER DISTRICT NO. 6
STATEMENT OF NET POSITION
FOR YEAR ENDED AUGUST 31, 2021

ASSETS

Current assets

Cash	\$ 147,880
Investments	200,028
Accounts receivable	79,691
Prepaid insurance	16,549
Total current assets	<u>444,148</u>

Noncurrent assets

Restricted investments	56,472
Bond organization costs	10,080
Reserve certificate	1,000
Property and Equipment	4,505,932
Less accumulated depreciation	<u>(2,686,043)</u>
Total noncurrent assets	<u>1,887,441</u>

Total Assets	<u><u>2,331,589</u></u>
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LIABILITIES

Current liabilities

Accounts payable	5,645
Restricted deposits and funds	4,526
Current maturities of long-term debt - Note 2	29,638
Total current liabilities	<u>39,809</u>

Noncurrent liabilities

Long-Term Debt, less current maturities	<u>552,965</u>
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Total Liabilities	<u><u>592,774</u></u>
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NET POSITION

Invested in capital assets, net of related debt	1,237,286
Restricted for:	
Debt service - Note 1	56,472
Unrestricted	445,057
Total net position	<u><u>\$ 1,738,815</u></u>

The accompanying notes are an integral part of the financial statement

HUGHES COUNTY RURAL WATER DISTRICT NO. 6
STATEMENT OF ACTIVITIES
FOR YEAR ENDED AUGUST 31, 2021

Operating Revenues:

Water service	\$ 665,361
Late penalties	15,749
Meter setting fees	21,977
Other revenues	35,133
Total operating revenues	<u>738,220</u>

Operating Expenses:

Payroll related	297,618
Water costs	21,603
Water test fees	1,826
Water treatment supplies	7,584
Contract labor	440
Fuel and mileage	15,372
Repairs and maintenance	213,445
Insurance	8,448
Professional fees	6,367
Office supplies and postage	7,321
Utilities	4,935
Telephone	4,483
Other expenses	32,136
Equipment	4,144
Well expenses	28,049
Depreciation and amortization	146,829
Total operating expenses	<u>800,600</u>

Operating income (loss)	(62,380)
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Other income and expenses:

Interest income	580
Benefit units	13,050
OWRB Emergency Grant revenue	39,000
OWRB Emergency Grant expenses	(39,000)
Interest expense	(28,222)
Total other income (expenses)	<u>(14,592)</u>

Net income (loss)	(76,972)
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Total net position, beginning of period	<u>1,815,787</u>
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Total net position, end of period	<u><u>\$ 1,738,815</u></u>
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The accompanying notes are an integral part of the financial statement

HUGHES COUNTY RURAL WATER DISTRICT NO. 6
STATEMENT OF CASH FLOWS
FOR YEAR ENDED AUGUST 31, 2021

Cash Flows from Operating Activities:

Receipts from customers	\$ 674,805
Other operating cash receipts	35,133
Payments to vendors	(364,491)
Payments to employees	(297,618)
Net cash flows from operating activities	<u>47,829</u>

Cash Flows from Investing Activities:

Interest earned	580
Certificates of Deposit purchased	(200,000)
Net cash flows from investing activities	<u>(199,420)</u>

Cash Flows from Financing Activities:

Interest expense on debt	(28,254)
Principal payments on long-term debt	(28,250)
OWRB Emergency Grant revenue	39,000
OWRB Emergency Grant expenses	(39,000)
System development fees	13,050
Increase(decrease) in restricted deposits	(603)
Net cash flows from financing activities	<u>(44,057)</u>

Net increase (decrease) in cash and cash equivalents (195,648)

Cash and cash equivalents, beginning of period 343,528

Cash and cash equivalents, end of period \$ 147,880

Reconciliation of operating income (loss) to net cash provided by operating activities:

Operating income (loss)	\$ (62,380)
Add depreciation/amortization expense	146,829
(Increase)/Decrease in Current Assets	
Accounts receivable	(27,946)
Prepays	(336)
Increase/(Decrease) in Current Liabilities	
Accounts payable	(8,338)
Net cash flows from operating activities	<u><u>\$ 47,829</u></u>

The accompanying notes are an integral part of the financial statements

HUGHES COUNTY RURAL WATER DISTRICT NO. 6
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2021

Note 1 - Significant Accounting Policies

Basis of Accounting

The accrual basis of accounting is followed for all accounts. Revenues are recorded when earned and expenses are recognized when incurred. This policy is in accordance with generally accepted accounting principles.

Cash

The District's accounts at August 31st, and are comprised as follows:

Cash drawer, 716 Elder St. Gerty, OK	
Cash in drawer	\$ 150
Farmers State Bank, Allen, OK	
Operating account	28,682
Depreciation account	63,857
Fire Department Relief account	665
Benefits units - renter's deposits	3,078
Security State Bank, Wewoka, OK	
Operating account	51,348
OWRB Emergency Grant	<u>100</u>
Total	\$ <u>147,880</u>

Investments

The District had the following investments at August 31, 2021:

Security State Bank, Wewoka, OK	
Certificate of deposit No. 7010, dated 12-17-20, matures 12-17-21;	100,000
Certificate of deposit No. 7011, dated 12-17-20, matures 12-17-21;	100,000
Farmers State Bank, Allen, OK	
Certificate of deposit No. 9359, dated 11-14-02, matures 10-27-20;	\$ <u>56,500</u>
Total	\$ <u>256,500</u>

HUGHES COUNTY RURAL WATER DISTRICT NO. 6
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2021

Note 1 - Significant Accounting Policies - cont'd

Collateral Pledged

The District's cash deposits, including interest-bearing certificates of deposit, are entirely covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name.

Accounts Receivable

Billings for accounts receivable at August 31, 2021, were \$79,691. No computation was made for allowance for doubtful accounts, which is not considered to be material to the financial statements. The aging of these accounts is detailed as follows:

00-30	\$ 79,691
31-90	<u>0</u>
Total	\$ <u>79,691</u>

Restricted Assets

Restricted assets are assets held for various special purposes.

Debt Service: Restricted assets with fiscal agent for debt service represents amounts required by debt covenant to be segregated for debt payments and accrued interest on the notes. United States Department of Agriculture-Rural Development requires monies to be held in reserve accounts. These reserve funds are equal to the note payments for one year. To be fully funded, these reserve funds must total \$56,472. As of August 31, 2021, these reserves were fully funded.

Fixed Assets

Fixed assets are valued at cost, and depreciation is computed by use of the straight-line method. The estimated useful life of these assets is 40 years for the water system, 35 years for the office building and 5-7 years for the vehicles and the equipment.

Bond Organization Costs

The attorney costs associated with the organization of the rural water district's loans and grants totaled \$32,256. Amortization of these costs over 40 years results in \$806 per year.

HUGHES COUNTY RURAL WATER DISTRICT NO. 6
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2021

Note 1 - Significant Accounting Policies - cont'd

Federal Income Tax

The District is exempt from federal and state income taxes.

Note 2 - Long-Term Debt

Long-term debt at August 31, 2021, is detailed as follows:

Note 01, 5.00% mortgage payable to Rural Economic & Community Development, 40 years, monthly payments of \$2,210;	\$ 220,630
Note 03, 5.00% mortgage payable to Rural Economic & Community Development, 40 years, monthly payments of \$327;	32,194
Note 05, 4.50% mortgage payable to Rural Economic & Community Development, 40 years, monthly payments of \$216;	25,387
Note 07, 4.50% mortgage payable to Rural Economic & Community Development, 40 years, monthly payments of \$1,953;	<u>304,392</u>
Total long-term debt	582,603
Less current maturities	<u>(29,638)</u>
	<u>\$ 552,965</u>

The estimated maturities for the next five (5) years and thereafter are as follows:

Year-ending	Principal	Interest	Total
<u>June 30</u>			
2022	\$ 29,638	26,834	56,472
2023	31,095	25,377	56,472
2024	32,624	23,848	56,472
2025	34,227	22,245	56,472
2026	35,910	20,562	56,472
2027-2031	207,846	74,514	282,360
2032-2036	114,960	32,763	147,723
2037-2041	<u>96,303</u>	<u>10,379</u>	<u>106,682</u>
	<u>\$ 582,603</u>	<u>236,522</u>	<u>819,125</u>

HUGHES COUNTY RURAL WATER DISTRICT NO. 6
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2021

Note 3 - Accumulated Unpaid Vacation and Sick Pay

At August 31, 2021, no determination of the aggregate dollar value of vacation and sick pay had been made.

Note 4 – Subsequent Events

Management has evaluated subsequent events through the date of the audit report, 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.