

**Hughes County Rural Water District No. 4  
Holdenville, Oklahoma**

Financial Statements and  
Reports of Independent Auditor

June 30, 2021

Audited by

**BLEDSON, HEWETT & GULLEKSON  
CERTIFIED PUBLIC ACCOUNTANTS, PLLP**

Broken Arrow, Oklahoma

**Hughes County Rural Water District No. 4**  
**Holdenville, Oklahoma**

Board of Directors  
June 30, 2021

**Chairman**

Jim Cates

**Vice Chairman**

Bill Newman

**Secretary/Treasurer**

Linda Evans

**Members**

Lori Ramsey  
Brian Iker

**Bookkeeper**

Phallis Taylor

**Management**

Taylor Backhoe

**Hughes County Rural Water District No. 4**  
**Holdenville, Oklahoma**

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June 30, 2021

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**BLEDSON, HEWETT & GULLEKSON**  
CERTIFIED PUBLIC ACCOUNTANTS, PLLLP

Eric M. Bledsoe, CPA  
Jeffrey D. Hewett, CPA  
Christopher P. Gullekson, CPA

P.O. BOX 1310 • 121 E. COLLEGE ST. • BROKEN ARROW, OK 74013 • (918) 449-9991 • (800) 522-3831 • FAX (918) 449-9779

## **INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Hughes County Rural Water District No. 4  
Holdenville, Oklahoma

### **Report on Financial Statements**

We have audited the accompanying financial statements of the business-type activities of the Hughes County Rural Water District No. 4 (the District), Holdenville, Oklahoma, as of and for the year ended June 30, 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. 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 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 the District as of June 30, 2021, 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.

The prior year "memorandum only" comparative information and the supplementary information on page 12 are presented for the purposes of additional analysis and are not a required part of the basic financial statements of the District. Such information has not been subjected to the auditing procedures applied in our audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2021 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 District's internal control over financial reporting and compliance.

*Bledsoe, Hewett & Gullekson*

Bledsoe, Hewett & Gullekson  
Certified Public Accountants, PLLLP

September 10, 2021



**BLEDSON, HEWETT & GULLEKSON**  
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**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. 4  
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. 4 (the District), Holdenville, Oklahoma, as of and for the year ended June 30, 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 September 10, 2021.

**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.

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 did identify certain deficiencies in the internal controls, described in the accompanying schedule of audit results as item 21-1, which is not considered 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.

#### 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 District's response to the findings identified in our audit is described in the accompanying schedule of audit results. 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.

*Bledsoe, Hewett & Gullekson*

Bledsoe, Hewett & Gullekson  
Certified Public Accountants, PLLLP

September 10, 2021

**Hughes County Rural Water District No. 4**  
**Holdenville, Oklahoma**  
Schedule of Audit Results  
June 30, 2021

Section 1 – Summary of Auditor’s Results:

1. An unmodified opinion report was issued on the financial statements.
2. The audit disclosed a significant deficiency in the internal controls, item 21-1, which was not considered a material weakness.
3. The audit disclosed no instances of noncompliance which are material to the financial statements.

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

21-1 Internal Control – Segregation of Duties

*Criteria* – The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the District’s assets and ensure accurate financial reporting.

*Condition* - Presently the same individual performs all accounting functions; receives utility service related payments and is responsible for service billing and adjustment, also makes bank deposits, writes checks and reconciles the monthly bank statements and prepares monthly financial reports.

*Cause* – The District’s limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

*Effect or Potential Effect* – Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to the accounting functions, including misappropriation of assets, could occur and not be detected within a timely basis.

*Recommendation* - While it may not be cost effective to hire additional administrative staff that would be necessary in order to adequately segregate the responsibilities, the District should consider a formal evaluation of their risks associated with this lack of segregation of duties. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with the lack of segregation of duties.

*Management Response* – Management agrees with this finding, and will provide adequate staffing once annual collections increase enough to justify the extra expense.



**HUGHES COUNTY RURAL WATER DISTRICT NO. 4**  
**Statement of Net Position**  
**June 30, 2021**

	<u>June 30, 2021</u>	<u>-Memorandum- -Only- June 30, 2020</u>
<b><u>ASSETS</u></b>		
Current assets:		
Cash in bank	\$ 91,330	115,146
Accounts receivable	16,816	17,865
Prepaid insurance	1,932	1,986
Total current assets	<u>110,078</u>	<u>134,997</u>
Noncurrent assets:		
Note issuance costs, net of amortization	1,527	1,962
Deposit - ORWA	1,000	1,000
Capital assets:		
Water system and improvements, net of depreciation	125,681	145,745
Total noncurrent assets	<u>128,208</u>	<u>148,707</u>
<b>Total Assets</b>	<b><u>\$ 238,286</u></b>	<b><u>283,704</u></b>
 <b><u>LIABILITIES</u></b>		
Current liabilities:		
Accounts payable	\$ 2,120	1,410
Total Liabilities	<u>2,120</u>	<u>1,410</u>
 <b><u>NET POSITION</u></b>		
Net investment in capital assets	125,681	145,745
Unrestricted assets	110,485	136,549
Total Net Position	<u>236,166</u>	<u>282,294</u>
<b>Total Liabilities and Net Position</b>	<b><u>\$ 238,286</u></b>	<b><u>283,704</u></b>

The accompanying notes to the financial statements are an integral part of this statement

**HUGHES COUNTY RURAL WATER DISTRICT NO. 4**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**For The Year Ended June 30, 2021**

	<u>2020-21</u>	<u>-Memorandum- -Only- 2019-20</u>
<b>Operating Revenues:</b>		
Water sales and services	\$ 202,613	178,955
Other sources	5,461	3,339
Total revenues from operations	<u>208,074</u>	<u>182,294</u>
<b>Operating Expenses:</b>		
Water purchases	125,589	105,943
Management fees	42,289	24,000
Depreciation	20,064	22,417
Amortization	435	435
Repairs & maintenance	43,438	36,906
Meter readings	3,000	5,500
Billing services	3,778	300
Insurance	2,262	2,267
Operating supplies	4,738	4,909
Utilities	1,935	2,952
Water samples	1,330	1,825
Professional fees	2,284	1,450
Office expenses	1,004	1,265
Postage	165	323
Engineering	1,945	1,326
Miscellaneous	0	742
Total expenses from operations	<u>254,256</u>	<u>212,560</u>
Operating Income (Loss)	(46,182)	(30,266)
<b>Non-Operating Revenues (Expenses):</b>		
Interest income	<u>54</u>	<u>143</u>
Change in Net Position	(46,128)	(30,123)
Total Net Position, beginning of period	<u>282,294</u>	<u>312,417</u>
Total Net Position, end of period	<u>\$ 236,166</u>	<u>282,294</u>

The accompanying notes to the financial statements are an integral part of this statement

**HUGHES COUNTY RURAL WATER DISTRICT NO. 4**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2021**

	2020-21	-Memorandum- -Only- 2019-20
<b>Cash flows from operating activities:</b>		
Receipts from customers	\$ 209,122	177,338
Payments to vendors	(232,992)	(189,837)
Net cash (used in) provided by operating activities	(23,870)	(12,499)
<b>Cash flows from investing activities:</b>		
Investment in capital assets	0	(26,752)
Interest on investments	54	143
Net cash used in investing activities	54	(26,609)
Net increase (decrease) in cash and cash equivalents	(23,816)	(39,108)
Cash & cash equivalents, beginning of period	115,146	154,254
Cash & cash equivalents, end of period	\$ 91,330	115,146
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>		
Operating Income	\$ (46,182)	(30,266)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation Expense	20,064	22,417
Amortization Expense	435	435
(Increase) decrease in current assets-		
Accounts receivable, net	1,049	(4,956)
Prepaid expenses	54	0
Increase (decrease) in current liabilities-		
Accounts payable	710	(129)
Net Cash Provided by Operating Activities	\$ (23,870)	(12,499)

The accompanying notes are an integral part of the financial statements

**HUGHES COUNTY RURAL WATER DISTRICT NO. 4**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR YEAR ENDED JUNE 30, 2021**

**Note 1 – Significant Accounting Policies**

Business Activity

Hughes County Rural Water District No. 4 (the District) was formed under the provisions of Title 82, O.S. 1981, Sections 1324.1-1324.26 inclusive. The District operates as a nontaxable government agency to service residents of the Hughes County Rural Water District No. 4. The District's primary income is from the sale of water to its members in an area around Holdenville, Oklahoma.

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 June 30, 2021 are comprised as follows:

First United Bank, Holdenville, OK	
Operating Revenue	<u>\$ 91,330</u>

The District's cash deposits at June 30, 2021 are categorized to give an indication of the level of risk assumed by the district at year-end. All funds are covered by the \$250,000 of FDIC coverage.

Investments

The District had no investments at June 30, 2021.

Accounts Receivable

Billings for accounts receivable at June 30, 2021 were \$16,816. 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	\$ 16,816
31-90	<u>0</u>
Total	<u>\$ 16,816</u>

**HUGHES COUNTY RURAL WATER DISTRICT NO. 4**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR YEAR ENDED JUNE 30, 2021**

**Note 1 – Significant Accounting Policies – cont'd**

Capital Assets

Capital (fixed) assets are defined as any items purchased or built in excess of \$1,000, and with a useful life of two year or more. They are valued at cost, and depreciation is computed by use of the straight-line method. The estimated useful life of these assets is 33 1/3 years.

The capital asset information for the District is shown below:

	7/1/2020 Amount	Additions	Deletions	6/30/2021 Amount
Water system	\$ 653,428	-	-	653,428
Other equipment	10,182	-	-	10,182
Total Capital Assets	663,610	-	-	663,610
Less: Accumulated Depreciation	(517,865)	(20,064)	-	(537,929)
Total	<u>\$ 145,745</u>	<u>(20,064)</u>	<u>-</u>	<u>125,681</u>

Other Assets

- a. There were note issuance costs totaling \$11,750 incurred during the 1997-98 fiscal year as part of processing the OWRB loan. This amount consisted of the following: Legal fees - \$8,500, Rating fees - \$2,500, and Acceptance fees - \$750. These loan fees will be recognized as amortization expenses over the life of the 27 year promissory note.
- b. The District maintains a \$1,000 deposit with the Oklahoma Water Resources Board Assurance Group in lieu of a membership fee. Interest is paid to the district on this deposit.

Inventories

The District does not carry a significant inventory of materials and supplies. The cost of such items is recorded as an expense when purchased.

**HUGHES COUNTY RURAL WATER DISTRICT NO. 4**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR YEAR ENDED JUNE 30, 2021**

**Note 1 – Significant Accounting Policies – cont’d**

Income Taxes

The District is recognized as a tax-exempt organization under the Internal Revenue Code. Because the District is exempt from federal income tax, no provision for taxes has been made in the financial statements.

Insurance

The District had adequate insurance to cover all major perils at June 30, 2021, and has had no significant claims against insurance coverage in the previous three years.

**Note 2 – Long-Term Debt**

The District has no outstanding long-term debt.

**Note 2 – Contingencies**

Subsequent Events

Management has evaluated subsequent events through September 10, 2021, 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 DISTRICT NO. 4**  
**Schedule of Water Rates and Customers**  
**-Unaudited Information-**  
**June 30, 2021**

**Water Rates**

Minimum bill	=	\$32.00
1,000 gallons +	=	\$8.00 per 1000 gallons

**Customers**

The District had 299 customers at the close of the fiscal year.

Current membership fee is \$1,500.