

**Hughes County Rural Water District No. 3
Wewoka, Oklahoma**

Financial Statements and
Reports of Independent Auditor

October 31, 2021

Audited by

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

Broken Arrow, Oklahoma

Hughes County Rural Water District No. 3
Wewoka, Oklahoma

Board of Directors
October 31, 2021

Chairman

Tim McConnell

Vice Chairman

Kathy Hightower

Secretary/Treasurer

Wayne Chambers

Members

Kevin Green

Harold Gordon

Manager

Clifton Taylor (Taylor Backhoe)

Bookkeeper

Phallis Taylor

Hughes County Rural Water District No. 3
Wewoka, Oklahoma

Table of Contents
October 31, 2021

| | <u>Page</u> |
|---|-----------------|
| Board of Directors | <i>i</i> |
| Independent Auditor's Report | 1 |
| 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 | 3 |
| Disposition of Prior Year's Significant Deficiencies..... | 5 |
| Schedule of Audit Results | 6 |
| Combined Financial Statements: | |
| Statement of Net Position..... | 7 |
| Statement of Revenues, Expenses and Changes in Net Position | 8 |
| Statement of Cash Flows | 9 |
| Notes to the Financial Statements | 10 |



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Hughes County Rural Water District No. 3
Wewoka, 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. 3 (the District), Wewoka, Oklahoma, as of and for the year ended October 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. 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 October 31, 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 is presented for the purposes of additional analysis and is 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 January 31, 2022 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

January 31, 2022



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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. 3
Wewoka, 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. 3 (the District), Wewoka, Oklahoma, as of and for the year ended October 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 January 31, 2022.

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.

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.

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.

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

January 31, 2022

HUGHES COUNTY RURAL WATER DISTRICT NO. 3
DISPOSITION OF PRIOR YEAR'S SIGNIFICANT DEFICIENCIES
OCTOBER 31, 2021

20-1 *Finding* – 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. This is considered a lack of segregation of duties.

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.

Disposition – This continues to be a finding.

HUGHES COUNTY RURAL WATER DISTRICT NO. 3
SCHEDULE OF FINDINGS AND RESPONSES
OCTOBER 31, 2021

Section 1 – Summary of Auditor’s Results:

1. An unmodified opinion report was issued on the financial statements.
2. The audit reported one significant deficiency, item 21-1, in the internal controls over financial reporting, which is 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:

2021-1 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. 3
Statement of Net Position
October 31, 2021

| | October 31, | |
|---|----------------------------|--------------------------------|
| | 2021 | -Memorandum- -Only- 2020 |
| <u>ASSETS</u> | | |
| Current assets: | | |
| Cash in bank | \$ 182,381 | 182,544 |
| Investments | 71,126 | 71,126 |
| Receivables | 20,765 | 17,859 |
| Prepaid insurance | 1,713 | 1,397 |
| Total current assets | <u>275,985</u> | <u>272,926</u> |
| Noncurrent assets: | | |
| Note issuance costs, net of amortization | 967 | 1,129 |
| Capital assets: | | |
| Water system and improvements | 1,712,540 | 1,712,540 |
| Less: accumulated depreciation | (691,159) | (654,267) |
| Total capital assets, net of depreciation | <u>1,021,381</u> | <u>1,058,273</u> |
| Total noncurrent assets | <u>1,022,348</u> | <u>1,059,402</u> |
| Total Assets | <u>\$ 1,298,333</u> | <u>1,332,328</u> |
| <u>LIABILITIES</u> | | |
| Current liabilities: | | |
| Current portion of long-term debt | \$ 12,445 | 11,957 |
| Long-term debt: | | |
| Notes payable | <u>573,702</u> | <u>586,147</u> |
| Total Liabilities | <u>586,147</u> | <u>598,104</u> |
| <u>NET POSITION</u> | | |
| Net investment in capital assets | 435,234 | 460,169 |
| Restricted for debt service | 35,664 | 35,664 |
| Unrestricted assets | <u>241,288</u> | <u>238,391</u> |
| Total Net Position | <u>712,186</u> | <u>734,224</u> |
| Total Liabilities and Net Position | <u>\$ 1,298,333</u> | <u>1,332,328</u> |

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

HUGHES COUNTY RURAL WATER DISTRICT NO. 3
Statement of Revenues, Expenses and Changes in Net Position
For The Year Ended October 31, 2021

| | 2020-21 | -Memorandum- -Only- 2019-20 |
|---|-------------------|-----------------------------------|
| Operating Revenues: | | |
| Water sales | \$ 229,502 | 217,604 |
| Benefit units | 2,500 | 500 |
| Late fees | 5,017 | 4,160 |
| Refunds and reimbursements | 3,579 | 3,891 |
| Total revenues from operations | <u>240,598</u> | <u>226,155</u> |
| Operating Expenses: | | |
| Water purchases | 116,193 | 103,615 |
| Utilities and phone | 3,750 | 3,713 |
| Operating supplies | 7,709 | 5,864 |
| Repairs & maintenance | 47,022 | 31,772 |
| Insurance | 2,268 | 2,378 |
| Office (billing and software) | 5,385 | 4,466 |
| Bookkeeping | 10,950 | 10,200 |
| Professional fees and dues | 4,327 | 2,965 |
| Postage | 223 | 214 |
| Testing | 3,379 | 4,445 |
| Miscellaneous | 669 | 657 |
| Amortization | 162 | 162 |
| Depreciation | 36,892 | 36,892 |
| Total expenses from operations | <u>238,929</u> | <u>207,343</u> |
| Operating Revenue over (under) Expenses | 1,669 | 18,812 |
| Non-Operating Revenues (Expenses): | | |
| Interest income | 0 | 333 |
| Interest expense on debt | (23,707) | (24,175) |
| Total non-operating revenues (expenses) | <u>(23,707)</u> | <u>(23,842)</u> |
| Change in Net Position | (22,038) | (5,030) |
| Total Net Position, beginning of period | <u>734,224</u> | <u>739,254</u> |
| Total Net Position, end of period | <u>\$ 712,186</u> | <u>734,224</u> |

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

HUGHES COUNTY RURAL WATER DISTRICT NO. 3
Statement of Cash Flows
For the Year Ended October 31, 2021

| | <u>2020-21</u> | <u>-Memorandum- -Only- 2019-20</u> |
|--|--------------------------|--|
| Cash flows from operating activities: | | |
| Receipts from customers | \$ 237,692 | 225,992 |
| Payments to vendors | (202,191) | (170,304) |
| Net cash (used in) provided by operating activities | <u>35,501</u> | <u>55,688</u> |
| Cash flows from capital and related financing activities: | | |
| Capital assets purchased | 0 | (2,883) |
| Interest paid on debt | (23,707) | (24,175) |
| Principal payments on debt | (11,957) | (11,489) |
| Net cash used in capital and related financing activities | <u>(35,664)</u> | <u>(38,547)</u> |
| Cash flows from investing activities: | | |
| Interest on investments | <u>0</u> | <u>333</u> |
| Net increase (decrease) in cash and cash equivalents | (163) | 17,474 |
| Cash & cash equivalents, beginning of period | <u>253,670</u> | <u>236,196</u> |
| Cash & cash equivalents, end of period | <u><u>\$ 253,507</u></u> | <u><u>253,670</u></u> |
| Reconciliation of operating income (loss) to net cash provided by operating activities: | | |
| Operating Income | \$ 1,669 | 18,812 |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | |
| Depreciation Expense | 36,892 | 36,892 |
| Amortization Expense | 162 | 162 |
| (Increase) decrease in current assets- | | |
| Accounts receivable | (2,906) | (163) |
| Prepaid expenses | (316) | (15) |
| Net Cash Provided by Operating Activities | <u><u>\$ 35,501</u></u> | <u><u>55,688</u></u> |

The accompanying notes are an integral part of the financial statements

HUGHES COUNTY RURAL WATER DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED OCTOBER 31, 2021

Note 1 – Significant Accounting Policies

Nature of Organization

The Hughes County Rural Water District No. 3 (the District) was created under the provision of Title 82 of Oklahoma Statutes, Section 1324.1 – 1324.35 and the Laws of the State of Oklahoma. The purpose of this District is to provide water service to its users.

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 October 31, 2021, and are comprised as follows:

| | |
|-------------------------------------|-------------------|
| First United Bank, Holdenville, OK- | |
| Oper. & Maint. Account | <u>\$ 182,381</u> |

All daily collections for water services and any other sources are deposited into the Operation & Maintenance Account. All expenses are paid from this account.

Investments

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

| | |
|-------------------------|------------------|
| Bank check on hand (0%) | <u>\$ 71,126</u> |
|-------------------------|------------------|

HUGHES COUNTY RURAL WATER DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED OCTOBER 31, 2021

Note 1 – 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 and savings accounts, as cash equivalents.

Accounts Receivable

Billings for accounts receivable at October 31, 2021 were \$20,765. No computation was made for allowance for doubtful accounts, which is not considered to be material to the financial statements.

Capital Assets

Any items purchased or constructed in excess of \$1,000 and a useful life of over two years is considered a capital asset by the District, and will be depreciated over a specific time. Capital assets 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.

| | Balance <u>Oct. 31, 2020</u> | <u>Additions</u> | <u>Deletions</u> | Balance <u>Oct. 31, 2021</u> |
|-----------------------------------|---------------------------------|------------------|------------------|---------------------------------|
| Water System & Equipment | \$ 1,712,540 | - | - | 1,712,540 |
| Less: Accumulated Depreciation | <u>(654,267)</u> | <u>(36,892)</u> | <u>-</u> | <u>(691,159)</u> |
| Net Capital Assets | <u>\$ 1,058,273</u> | <u>(36,892)</u> | <u>-</u> | <u>1,021,381</u> |

Federal Income Tax

The District is exempt from federal and state income taxes.

HUGHES COUNTY RURAL WATER DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED OCTOBER 31, 2021

Note 1 – Significant Accounting Policies – cont’d

Deposits and Investments

Oklahoma Statutes authorize the District to invest in certificates of deposit, repurchase agreements, passbooks, bankers’ acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the District can invest in direct debt securities of the United States unless such an investment is expressly prohibited by law.

Bank deposits are held at several financial institutions and are carried at cost. For purposes of statements of cash flows, the District considers cash and all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Custodial Credit Risk - At October 31, 2021, the District held deposits of approximately \$253,507 at financial institutions. 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.

Investment Interest Rate Risk - The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk – The District has no policy that limits its investment choices other than the limitations of state law, as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.

HUGHES COUNTY RURAL WATER DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED OCTOBER 31, 2021

Note 1 – Significant Accounting Policies – cont'd

- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a-d).

Fair Value of Financial Instruments – The District's financial instruments include cash and cash equivalents, accounts receivable, accounts payable and notes payable. The District's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of net position. The carrying amount of these financial instruments approximates fair values because of the short maturity of these instruments.

Note 2 – Long-Term Debt

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

Promissory Note, \$711,000 to Rural Development, dated April 23, 2008, monthly payments of \$2,972, due with a final payment around August, 2048. The note has an interest rate set at 4.00%.

| | |
|--------------------------------------|--------------------------|
| Rural Development Note 91-01 | \$ 586,147 |
| Less: Current Maturities | <u>(12,445)</u> |
| Total Long-Term Debt Less Maturities | <u><u>\$ 573,702</u></u> |

The estimated principal maturities for future years are as follows:

| | |
|---------|--------------------------|
| 2021-22 | \$ 12,445 |
| 2022-23 | 12,952 |
| 2023-24 | 13,479 |
| 2024-25 | 14,029 |
| 2025-26 | 14,600 |
| 2026-31 | 82,423 |
| 2031-36 | 100,637 |
| 2036-41 | 122,880 |
| 2041-46 | 150,034 |
| 2046+ | <u>62,668</u> |
| Totals | <u><u>\$ 586,147</u></u> |

HUGHES COUNTY RURAL WATER DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED OCTOBER 31, 2021

Note 3 – Accumulated Unpaid Vacation and Sick Pay

At October 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 January 31, 2022, 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.