

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

Financial Statements and
Reports of Independent Auditor

October 31, 2022

Audited by

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

Broken Arrow, Oklahoma

Hughes County Rural Water District No. 3
Wewoka, Oklahoma

Board of Directors
October 31, 2022

Chairman

Kevin Green

Members

Harold Gordon

Roy Wooland

Manager

Aaron Taylor

Bookkeeper

Phallis Taylor

Hughes County Rural Water District No. 3
Wewoka, Oklahoma

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Hughes County Rural Water District No. 3
Wewoka, Oklahoma

Report on the Audit of the Financial Statements

We have audited the accompanying combined fund type and account group financial statements-regulatory basis of the Hughes County Rural Water District No. 3, Wewoka, Oklahoma (the District), as of and for the year ended October 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of October 31, 2022, and the respective changes in financial position and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

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 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 December 19, 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 solely 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.

Bledsoe, Hewett & Gullekson

Bledsoe, Hewett & Gullekson
Certified Public Accountants, PLLLP

December 19, 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 financial statements of the Hughes County Rural Water District No. 3, Wewoka, Oklahoma (the District), as of and for the year ended October 31, 2022 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 19, 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 (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of District's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 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. 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 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 that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we identified one deficiency in internal control that we consider to be a material weakness. This finding is identified as item 22-1 in the accompanying Schedule of Findings and Responses.

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, non-compliance with which could have a direct and material effect on the financial statements. 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 or other matters that are required to be reported under *Government Auditing Standards*.

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.

Bledsoe, Hewett & Gullekson

Bledsoe, Hewett & Gullekson
Certified Public Accountants, PLLLP

December 19, 2022

HUGHES COUNTY RURAL WATER DISTRICT NO. 3
DISPOSITION OF PRIOR YEAR'S SIGNIFICANT DEFICIENCIES
OCTOBER 31, 2022

21-1 *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, 2022

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 22-1, 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:

2022-1 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, 2022

	October 31,	
	2022	-Memorandum- -Only- 2021
<u>ASSETS</u>		
Current assets:		
Cash in bank	\$ 280,739	\$ 182,381
Investments	0	71,126
Accounts receivable	24,534	20,765
Prepaid insurance	1,842	1,713
Total current assets	<u>307,115</u>	<u>275,985</u>
Non-current assets:		
Note issuance costs, net of amortization	805	967
Capital assets:		
Water system and improvements	1,712,540	1,712,540
Less: accumulated depreciation	<u>(728,051)</u>	<u>(691,159)</u>
Total capital assets, net of depreciation	<u>984,489</u>	<u>1,021,381</u>
Total noncurrent assets	<u>985,294</u>	<u>1,022,348</u>
Total Assets	<u>\$ 1,292,409</u>	<u>\$ 1,298,333</u>
<u>LIABILITIES</u>		
Current liabilities:		
Current portion of long-term debt	<u>\$ 12,952</u>	<u>\$ 12,445</u>
Long-term debt:		
Notes payable	<u>560,747</u>	<u>573,702</u>
Total Liabilities	<u>573,699</u>	<u>586,147</u>
<u>NET POSITION</u>		
Net investment in capital assets	410,790	435,234
Restricted for debt service	35,664	35,664
Unrestricted assets	<u>272,256</u>	<u>241,288</u>
Total Net Position	<u>718,710</u>	<u>712,186</u>
Total Liabilities and Net Position	<u>\$ 1,292,409</u>	<u>\$ 1,298,333</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, 2022

	<u>2021-22</u>	<u>-Memorandum- -Only- 2020-21</u>
Operating Revenues:		
Water sales	\$ 258,658	\$ 229,502
Benefit units	3,650	2,500
Late fees	4,109	5,017
Refunds and reimbursements	8,969	3,579
Total revenues from operations	<u>275,386</u>	<u>240,598</u>
Operating Expenses:		
Water purchases	115,569	116,193
Utilities and phone	3,445	3,750
Operating supplies	11,037	7,709
Repairs & maintenance	86,028	47,022
System manager	11,220	0
Insurance	2,721	2,268
Office (billing and software)	5,424	5,385
Office manager	13,200	10,950
Professional fees and dues	6,765	4,327
Postage	176	223
Testing	3,593	3,379
Miscellaneous	1,384	669
Amortization	162	162
Depreciation	36,892	36,892
Total expenses from operations	<u>297,616</u>	<u>238,929</u>
Operating Revenue over (under) Expenses	(22,230)	1,669
Non-Operating Revenues (Expenses):		
ODOT line relocation fees	51,970	0
Interest expense on debt	(23,216)	(23,707)
Total non-operating revenues (expenses)	<u>28,754</u>	<u>(23,707)</u>
Change in Net Position	6,524	(22,038)
Total Net Position, beginning of period	<u>712,186</u>	<u>734,224</u>
Total Net Position, end of period	<u><u>\$ 718,710</u></u>	<u><u>\$ 712,186</u></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, 2022

	<u>2021-22</u>	<u>-Memorandum- -Only- 2020-21</u>
Cash flows from operating activities:		
Receipts from customers	\$ 272,217	\$ 237,692
Payments to vendors	(261,291)	(202,191)
Net cash (used in) provided by operating activities	<u>10,926</u>	<u>35,501</u>
Cash flows from capital and related financing activities:		
ODOT line relocation fee	51,970	0
Interest paid on debt	(23,217)	(23,707)
Principal payments on debt	(12,447)	(11,957)
Net cash used in capital and related financing activities	<u>16,306</u>	<u>(35,664)</u>
Cash flows from investing activities:		
Interest on investments	<u>0</u>	<u>0</u>
Net increase (decrease) in cash and cash equivalents	27,232	(163)
Cash & cash equivalents, beginning of period	<u>253,507</u>	<u>253,670</u>
Cash & cash equivalents, end of period	<u><u>\$ 280,739</u></u>	<u><u>\$ 253,507</u></u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating Income	\$ (22,230)	\$ 1,669
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	(3,769)	(2,906)
Prepaid expenses	(129)	(316)
Net Cash Provided by Operating Activities	<u><u>\$ 10,926</u></u>	<u><u>\$ 35,501</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, 2022

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 cash accounts at October 31, 2022 are comprised as follows:

First United Bank, Holdenville, OK-	
Oper. & Maint. Account	<u>\$ 280,739</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 no outstanding investments at October 31, 2022.

HUGHES COUNTY RURAL WATER DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED OCTOBER 31, 2022

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, 2022 were \$24,534. 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 Oct. 31, 2021	Additions	Deletions	Balance Oct. 31, 2022
Water System & Equipment	\$ 1,712,540	-	-	1,712,540
Less: Accumulated Depreciation	(691,159)	(36,892)	-	(728,051)
Net Capital Assets	<u>\$ 1,058,273</u>	<u>(36,892)</u>	<u>-</u>	<u>984,489</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, 2022

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, 2022 the District held deposits of approximately \$281,127 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, 2022

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, 2022 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%.

Note 91-01, November 1, 2021	\$ 586,146
Less: Principal paid 2021-22	<u>(12,447)</u>
Total Long-Term Debt, October 31, 2022	<u>\$ 573,699</u>

The estimated principal maturities for future years are as follows:

2022-23	\$ 12,952
2023-24	13,479
2024-25	14,029
2025-26	14,600
2026-27	15,195
2027-32	85,781
2032-37	104,738
2037-42	127,886
2042-47	156,147
2047-48	<u>28,892</u>
Totals	<u>\$ 573,699</u>

HUGHES COUNTY RURAL WATER DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED OCTOBER 31, 2022

Note 3 – Accumulated Unpaid Vacation and Sick Pay

At October 31, 2022, 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 December 19, 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.