

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

Financial Statements and
Reports of Independent Auditor

October 31, 2024

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, 2024

Chairman

Kevin Green

Vice Chairman

Harold Gordon

Secretary / Treasurer

Roy Woolard

Members

Randy Hollingshead

Cory Lee

Operators

Aaron Taylor

Cliff Taylor

Manager

Phallis Taylor

Hughes County Rural Water District No. 3
Wewoka, Oklahoma

Table of Contents
October 31, 2024

Page

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	4
Disposition of Prior Year's Significant Deficiencies and Material Instances of Noncompliance	6
Schedule of Audit Results, Findings and Questioned Costs	7
Combined Financial Statements:	
Statement of Net Position.....	8
Statement of Revenues, Expenses and Changes in Net Position	9
Statement of Cash Flows.....	10
Notes to the Financial Statements	11



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. 3
Wewoka, Oklahoma

Report on the Audit of the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Hughes County Rural Water District No. 3, Wewoka, Oklahoma (the District), as of and for the year ended October 31, 2024, 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, 2024, 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 January 7, 2025, 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

January 7, 2025



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 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, 2024, 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 7, 2025.

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 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 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 did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that were not 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 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 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 7, 2025

Hughes County Rural Water District No. 3
Wewoka, Oklahoma

Disposition of Prior Year's Significant Deficiencies and Material Instances of
Noncompliance
October 31, 2024

2023-1 Internal Control – Segregation of Duties

Finding – Presently the same individual performs all accounting functions: receives utility service-related payments, is responsible for service billing and adjustment, makes bank deposits, writes checks, 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 – The District has since hired an additional employee to help with the duties of receiving payments, creating receipts and making deposits. This finding has been improved upon.

Hughes County Rural Water District No. 3
Wewoka, Oklahoma
Schedule of Audit Results, Findings and Questioned Costs
October 31, 2024

Section 1 – Summary of Auditor’s Results:

1. An unmodified opinion report was issued on the financial statements.
2. The audit did not identify any material weaknesses and did not report any significant deficiencies not considered to be material weaknesses in the internal controls over financial reporting.
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:

NONE

Hughes County Rural Water District No. 3
Statement of Net Position
October 31, 2024

	October 31,	
	2024	-Memorandum- -Only- 2023
<u>ASSETS</u>		
Current assets:		
Cash in bank	\$ 194,807	\$ 343,761
Investments	205,017	0
Accounts receivable	23,299	24,347
Prepaid insurance	2,589	2,664
Total current assets	<u>425,712</u>	<u>370,772</u>
Noncurrent assets:		
Note issuance costs, net of amortization	481	643
Capital assets:		
Water system and improvements	1,807,108	1,746,478
Less: accumulated depreciation	(804,710)	(765,532)
Total capital assets, net of depreciation	<u>1,002,398</u>	<u>980,946</u>
Total noncurrent assets	<u>1,002,879</u>	<u>981,589</u>
Total Assets	<u>\$ 1,428,591</u>	<u>\$ 1,352,361</u>
<u>LIABILITIES</u>		
Current liabilities:		
Current portion of long-term debt	\$ 14,029	\$ 13,479
Long-term debt:		
Notes payable	533,239	547,268
Total Liabilities	<u>547,268</u>	<u>560,747</u>
<u>NET POSITION</u>		
Net investment in capital assets	455,130	420,199
Restricted for debt service	35,664	35,664
Unrestricted assets	390,529	335,751
Total Net Position	<u>881,323</u>	<u>791,614</u>
Total Liabilities and Net Position	<u>\$ 1,428,591</u>	<u>\$ 1,352,361</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, 2024

	<u>2023-24</u>	<u>-Memorandum- -Only- 2022-23</u>
Operating Revenues:		
Water sales	\$ 251,174	\$ 257,234
Benefit units	4,050	3,998
Late fees	6,004	7,782
Refunds, reimbursements and misc	8,308	9,946
Service line fees	8,255	3,602
Total revenues from operations	<u>277,791</u>	<u>282,562</u>
Operating Expenses:		
Water purchases	76,731	109,784
Utilities and phone	4,699	3,654
Operating supplies	18,077	3,542
Repairs & maintenance	47,706	56,194
System manager	5,255	3,255
Insurance	3,047	2,236
Office (billing and software)	6,473	5,360
Office manager	13,200	13,200
Professional fees and dues	6,273	3,966
Postage	280	123
Testing	2,330	3,590
Miscellaneous	3,006	2,991
Service line expenses	4,687	778
Amortization	162	162
Depreciation	39,178	37,481
Total expenses from operations	<u>231,104</u>	<u>246,316</u>
Operating Revenue over (under) Expenses	46,687	36,246
Non-Operating Revenues (Expenses):		
ARPA grant funds	60,630	59,370
Interest earnings	5,017	0
Interest expense on debt	(22,625)	(22,712)
Total non-operating revenues (expenses)	<u>43,022</u>	<u>36,658</u>
Change in Net Position	89,709	72,904
Total Net Position, beginning of period	<u>791,614</u>	<u>718,710</u>
Total Net Position, end of period	<u><u>\$ 881,323</u></u>	<u><u>\$ 791,614</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, 2024

	<u>2023-24</u>	<u>-Memorandum- -Only- 2022-23</u>
Cash flows from operating activities:		
Receipts from customers	\$ 278,839	\$ 282,562
Payments to vendors	(192,129)	(209,308)
Net cash provided by (used in) provided by operating activities	<u>86,710</u>	<u>73,254</u>
Cash flows from capital and related financing activities:		
ARPA grant funds	60,630	59,370
Purchase of capital assets	(60,630)	(33,938)
Interest paid on debt	(22,625)	(22,712)
Principal payments on debt	(13,039)	(12,952)
Net cash provided by (used in) capital and related financing activities	<u>(35,664)</u>	<u>(10,232)</u>
Cash flows from investing activities:		
Interest earnings	<u>5,017</u>	<u>0</u>
Net increase (decrease) in cash and cash equivalents	56,063	63,022
Cash & cash equivalents, beginning of period	<u>343,761</u>	<u>280,739</u>
Cash & cash equivalents, end of period	<u><u>\$ 399,824</u></u>	<u><u>\$ 343,761</u></u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating Income	\$ 46,687	\$ 36,246
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation Expense	39,178	37,481
Amortization Expense	162	162
(Increase) decrease in current assets-		
Accounts receivable	1,048	187
Prepaid expenses	75	(822)
Prior period adjustment to principal paid on debt	<u>(440)</u>	<u>0</u>
Net Cash Provided by Operating Activities	<u><u>\$ 86,710</u></u>	<u><u>\$ 73,254</u></u>

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

Hughes County Rural Water District No. 3
Notes to the Financial Statements
For the Year Ended October 31, 2024

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, 2024, are comprised as follows:

First United Bank, Holdenville, OK-	
Operating & Maintenance Account	<u>\$ 343,761</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's investment accounts at October 31, 2024, are comprised as follows:

Security State Bank, Wewoka, OK-	
Certificate of Deposit, interest rate of 5%,	
dated 02/06/24, matures 02/06/25	<u>\$ 205,017</u>

Hughes County Rural Water District No. 3 **Notes to the Financial Statements** **For the Year Ended October 31, 2024**

Note 1 – Significant Accounting Policies – cont’d

Accounts Receivable

Billings for accounts receivable at October 31, 2024, were \$23,299. 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 with an estimated useful life of over two years is considered a capital asset by the District. Capital assets will be depreciated over a specific time period. Capital assets are valued at cost and depreciation is computed by use of the straight-line method. The estimated useful life of these assets range from 5-40 years.

	Balance Oct. 31, 2023	Additions	Deletions	Balance Oct. 31, 2024
Water System & Equipment	\$ 1,746,478	60,630	-	1,807,108
Less: Accumulated Depreciation	<u>(765,532)</u>	<u>(39,178)</u>	<u>-</u>	<u>(804,710)</u>
Net Capital Assets	<u>\$ 980,946</u>	<u>21,452</u>	<u>-</u>	<u>1,002,398</u>

Federal Income Tax

The District is exempt from federal and state income taxes.

Hughes County Rural Water District No. 3
Notes to the Financial Statements
For the Year Ended October 31, 2024

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 the *Statement of Cash Flows*, the District considers all cash accounts, including highly liquid investments, such as certificates of deposit and savings accounts, as cash and cash equivalents.

Custodial Credit Risk - At October 31, 2024, the District held deposits of approximately \$400,024 at financial institutions. The District’s cash deposits 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 the Financial Statements

For the Year Ended October 31, 2024

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

A brief description of the outstanding long-term debt at October 31, 2024, is set forth below:

Promissory Note with USDA Rural Development, dated April 23, 2008, totaling \$711,000, interest rate of 4.00% with monthly payments of \$2,972, final payment due August 15, 2048.

Note 91-01 dated November 1, 2023	\$ 560,307
Less: Principal paid during 2023-24	<u>(13,039)</u>
Total long-term debt, October 31, 2024	<u>\$ 547,268</u>

The estimated principal maturities for future years are as follows:

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>\$ 547,268</u>

Hughes County Rural Water District No. 3
Notes to the Financial Statements
For the Year Ended October 31, 2024

Note 3 – Contributed Capital

During the 2022-23 fiscal year, the District received \$59,370 in American Rescue Plan Act (ARPA) federal funds that was awarded to Hughes County and passed through to the District. The District spent a portion of the funds during the 2022-23 fiscal year on meters, a laptop and dirt work for water lines.

During the 2023-24 fiscal year, the District received \$60,630 in additional ARPA funding. The District expended these funds during the fiscal year on meters and installations.

Note 4 – Subsequent Events

Management has evaluated subsequent events through January 7, 2025, 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.