

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

Financial Statements and
Reports of Independent Auditor

June 30, 2022

Audited by

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

Broken Arrow, Oklahoma

Hughes County Rural Water District No. 4
Holdenville, Oklahoma

Board of Directors

June 30, 2022

Chairman

Jim Cates

Vice Chairman

Bill Newman

Secretary/Treasurer

Lori Ramsey

Members

Sandy Stafford
Brian Iker

Bookkeeper

Phallis Taylor

Management

Taylor Backhoe

Hughes County Rural Water District No. 4
Holdenville, Oklahoma

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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, 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.

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, 2022, 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 2, 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

September 2, 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. 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, 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 September 2, 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.

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 22-1, 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 2, 2022

Hughes County Rural Water District No. 4
Holdenville, Oklahoma
Schedule of Audit Results
June 30, 2022

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 22-1, 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:

22-1 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, 2022

	<u>June 30, 2022</u>	<u>-Memorandum- -Only- June 30, 2021</u>
<u>ASSETS</u>		
Current assets:		
Cash in bank	\$ 117,119	91,330
Accounts receivable	17,864	16,816
Prepaid insurance	<u>2,023</u>	<u>1,932</u>
Total current assets	<u>137,006</u>	<u>110,078</u>
Noncurrent assets:		
Note issuance costs, net of amortization	1,092	1,527
Deposit - ORWA	1,000	1,000
Capital assets:		
Water system and improvements, net of depreciation	<u>105,618</u>	<u>125,681</u>
Total noncurrent assets	<u>107,710</u>	<u>128,208</u>
Total Assets	<u>\$ 244,716</u>	<u>238,286</u>
<u>LIABILITIES</u>		
Current liabilities:		
Accounts payable	<u>\$ 0</u>	<u>2,120</u>
Total Liabilities	<u>0</u>	<u>2,120</u>
<u>NET POSITION</u>		
Net investment in capital assets	105,618	125,681
Unrestricted assets	<u>139,098</u>	<u>110,485</u>
Total Net Position	<u>244,716</u>	<u>236,166</u>
Total Liabilities and Net Position	<u>\$ 244,716</u>	<u>238,286</u>

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, 2022

	<u>2021-22</u>	<u>-Memorandum- -Only- 2020-21</u>
Operating Revenues:		
Water sales and services	\$ 229,481	202,613
Other sources	1,459	5,461
Total revenues from operations	<u>230,940</u>	<u>208,074</u>
Operating Expenses:		
Water purchases	114,997	125,589
Management fees	50,803	42,289
Depreciation	20,063	20,064
Amortization	435	435
Repairs & maintenance	11,584	43,438
Meter readings	0	3,000
Billing services	3,590	3,778
Insurance	2,163	2,262
Operating supplies	6,509	4,738
Utilities	1,003	1,935
Water samples	1,810	1,330
Professional fees	6,757	2,284
Office expenses	1,494	1,004
Postage	158	165
Engineering	1,100	1,945
Miscellaneous	0	0
Total expenses from operations	<u>222,466</u>	<u>254,256</u>
Operating Income (Loss)	8,474	(46,182)
Non-Operating Revenues (Expenses):		
Interest income	<u>76</u>	<u>54</u>
Change in Net Position	8,550	(46,128)
Total Net Position, beginning of period	<u>236,166</u>	<u>282,294</u>
Total Net Position, end of period	<u><u>\$ 244,716</u></u>	<u><u>236,166</u></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, 2022

	2021-22	-Memorandum- -Only- 2020-21
Cash flows from operating activities:		
Receipts from customers	\$ 229,907	209,122
Payments to vendors	(204,179)	(232,992)
Net cash (used in) provided by operating activities	<u>25,728</u>	<u>(23,870)</u>
Cash flows from investing activities:		
Investment in capital assets	0	0
Interest on investments	61	54
Net cash used in investing activities	<u>61</u>	<u>54</u>
Net increase (decrease) in cash and cash equivalents	25,789	(23,816)
Cash & cash equivalents, beginning of period	<u>91,330</u>	<u>115,146</u>
Cash & cash equivalents, end of period	<u><u>\$ 117,119</u></u>	<u><u>91,330</u></u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating Income	\$ 8,550	(46,182)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation Expense	20,063	20,064
Amortization Expense	435	435
(Increase) decrease in current assets-		
Accounts receivable, net	(1,048)	1,049
Prepaid expenses	(91)	54
Increase (decrease) in current liabilities-		
Accounts payable	<u>(2,120)</u>	<u>710</u>
Net Cash Provided by Operating Activities	<u><u>\$ 25,789</u></u>	<u><u>(23,870)</u></u>

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, 2022

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, 2022 are comprised as follows:

First United Bank, Holdenville, OK	
Operating Revenue	<u>\$ 117,119</u>

The District's cash deposits at June 30, 2022 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, 2022.

Accounts Receivable

Billings for accounts receivable at June 30, 2022 were \$17,864. 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	\$ 17,864
31-90	<u>0</u>
Total	<u>\$ 17,864</u>

HUGHES COUNTY RURAL WATER DISTRICT NO. 4
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2022

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:

	7/1/2021 Amount	Additions	Deletions	6/30/2022 Amount
Water system	\$ 653,428	-	-	653,428
Other equipment	10,182	-	-	10,182
Total Capital Assets	663,610	-	-	663,610
Less: Accumulated Depreciation	(537,929)	(20,063)	-	(557,992)
Total	<u>\$ 125,681</u>	<u>(20,063)</u>	<u>-</u>	<u>105,618</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, 2022

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, 2022, 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 2, 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.

HUGHES COUNTY RURAL DISTRICT NO. 4
Schedule of Water Rates and Customers
-Unaudited Information-
June 30, 2022

Water Rates

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

Customers

The District had 303 customers at the close of the fiscal year.

Current membership fee is \$1,500.