

**HUGHES COUNTY
RURAL WATER DISTRICT NO. 5
HOLDENVILLE, OKLAHOMA**

FINANCIAL STATEMENTS AND AUDITOR'S REPORT

YEAR ENDED JUNE 30, 2021

Audited by

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

BROKEN ARROW, OK

HUGHES COUNTY RURAL WATER DISTRICT NO. 5
BOARD OF DIRECTORS
JUNE 30, 2021

BOARD OF DIRECTORS

Chairman

Travis Black

Secretary/Treasurer

Russell Cox

Members

Clyde Collis

Bernice Haskins

Marchetta Black

Manager

Kelly Huff

Bookkeeper

Jessica Kiker

HUGHES COUNTY RURAL WATER DISTRICT NO. 5
JUNE 30, 2021

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CERTIFIED PUBLIC ACCOUNTANTS, PLLLP

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Hughes County Rural Water District No. 5
Holdenville, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Hughes County Rural Water District No. 5 (the District), Holdenville, Oklahoma, as of and for the year ended June 30, 2021 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of June 30, 2021, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

The District has not presented the Management's Discussion and Analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

The prior year "memorandum only" comparative information and the supplementary information on page 17 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 October 12, 2021 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Bledsoe, Hewett & Gullekson

Bledsoe, Hewett & Gullekson
Certified Public Accountants, PLLP

October 12, 2021



BLED SOE, HEWETT & GULLEKSON

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Hughes County Rural Water District No. 5
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. 5 (the District), Holdenville, Oklahoma, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 12, 2021.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective 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. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in the internal controls that we considered to be 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. We consider the deficiency described in the accompanying schedule of findings and responses as item 21-1, not to be 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*.

District's Response to Findings

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. 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

October 12, 2021

HUGHES COUNTY RURAL WATER DISTRICT NO. 5
DISPOSITION OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2021

20-01 *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. 5
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2021

Section 1 – Summary of Auditor’s Results:

1. An unqualified opinion report was issued on the financial statements.
2. The audit disclosed a reportable condition in the internal controls, which was not considered a material weakness.
3. The audit disclosed no instances of noncompliance.

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

21-1 – Lack of Segregation of Duties

Condition - The inherent limitations resulting from a small number of employees performing functions that would normally be divided among employees were a larger number available prevent a proper segregation of accounting functions, which is necessary in order to assure adequate internal accounting controls.

Criteria - An organization should ensure that there is a proper segregation of duties regarding cash collections and the payment of expenses.

Cause - The District is not large enough to justify the hiring of additional personnel.

Effect - There is always the possibility that not all collections are actually receipted or deposited, and the possibility that funds expended are not used for actual District obligations.

Recommendation - The current procedures should not be changed. However, there should be additional personnel instilled into the collection, receipt, deposit, reconciliation and payment procedures when this becomes economically possible.

Response - Additional personnel will be hired when the actual funds are available.

Hughes County Rural Water District No. 5
Holdenville, Oklahoma
Statement of Net Position
June 30, 2021

	<u>June 30, 2021</u>	<u>-Memorandum- -Only- June 30, 2020</u>
<u>ASSETS</u>		
Current Assets:		
Cash	\$ 179,918	\$ 158,771
Accounts receivable	50,513	45,097
Prepaid insurance	5,712	5,809
Total Current Assets	<u>236,143</u>	<u>209,677</u>
Non-Current Assets:		
Restricted Assets-		
2017 ORWB loan proceeds-		
Debt service fund	22,409	18,593
Debt service reserve fund	48,380	49,003
Total Non-Current Assets	<u>70,789</u>	<u>67,596</u>
Capital Assets:		
Water system and improvements	2,896,936	2,888,436
Office and other equipment	69,372	62,477
Total Capital Assets	2,966,308	2,950,913
Less: accumulated depreciation	(1,181,919)	(1,115,618)
Total Capital Assets (Net of Depreciation)	<u>1,784,389</u>	<u>1,835,295</u>
Debt Issue Costs (Net of Amortization)	<u>56,279</u>	<u>60,148</u>
TOTAL ASSETS	<u>\$ 2,147,600</u>	<u>\$ 2,172,716</u>
 <u>LIABILITIES</u>		
Current Liabilities:		
Accounts payable	\$ 29,120	\$ 24,518
Accrued interest	1,355	1,381
Current maturities of long-term debt	20,000	15,000
Total Current Liabilities	<u>50,475</u>	<u>40,899</u>
Non-Current Liabilities:		
Notes payable-ORWB	<u>765,000</u>	<u>785,000</u>
Total Liabilities	<u>815,475</u>	<u>825,899</u>
 <u>NET POSITION</u>		
Invested in capital assets, net of related debt	999,389	1,035,295
Restricted for debt service	70,789	67,596
Unrestricted	261,947	243,926
Total Net Position	<u>1,332,125</u>	<u>1,346,817</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 2,147,600</u>	<u>\$ 2,172,716</u>

The accompanying notes are an integral part of the financial statements

Hughes County Rural Water District No. 5
Holdenville, Oklahoma
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2021

	<u>2020-21</u>	<u>-Memorandum- -Only- 2019-20</u>
Revenue from Operations:		
Water sales and services	\$ 491,137	\$ 423,984
Expenses from Operations:		
Water purchased	117,440	126,035
Insurance	6,320	5,910
Utilities and telephone	22,319	20,503
Dues, fees and testing	10,800	7,573
Rent and storage	2,000	2,400
Repairs and maintenance	124,110	81,126
Materials and supplies	43,180	22,685
Travel and fuel reimbursements	14,991	15,136
Miscellaneous	747	2,011
Depreciation	66,301	65,724
Amortization	3,869	3,869
Professional fees	2,200	2,750
Contract services - bookkeeping	30,688	30,400
Contract services - office manager	30,000	20,540
Office supplies and postage	2,748	3,348
Total Expenses from Operations	<u>477,713</u>	<u>410,010</u>
Net Income (Loss) from Operations	13,424	13,974
Other Income and Expenses:		
Interest income	549	1,030
Interest on debt	<u>(28,665)</u>	<u>(29,621)</u>
Total Other Income and Expenses	<u>(28,665)</u>	<u>(29,621)</u>
Net Income (Loss)	(14,692)	(14,617)
Net Position, Beginning of Period	<u>1,346,817</u>	<u>1,361,434</u>
Net Position, End of Period	<u><u>\$ 1,332,125</u></u>	<u><u>\$ 1,346,817</u></u>

The accompanying notes are an integral part of the financial statements

Hughes County Rural Water District No. 5
Holdenville, Oklahoma
Statement of Cash Flows
For the Year Ended June 30, 2021

	2020-21	-Memorandum- -Only- 2019-20
Cash flows from operating activities:		
Receipts from water sales	\$ 485,721	\$ 449,805
Payments to vendors	(402,844)	(339,424)
Net cash (used in) provided by operating activities	<u>82,877</u>	<u>110,381</u>
Cash flows from capital and related financing activities:		
Capital assets purchased	(15,395)	(7,722)
Interest paid on debt	(28,691)	(29,321)
Principal payments on debt	(15,000)	(15,000)
Net cash used in capital and related financing activities	<u>(59,086)</u>	<u>(52,043)</u>
Cash flows from investing activities:		
Interest on investments	<u>549</u>	<u>1,030</u>
Net increase (decrease) in cash and cash equivalents	24,340	59,368
Cash & cash equivalents, beginning of period	<u>226,367</u>	<u>166,999</u>
Cash & cash equivalents, end of period	<u>\$ 250,707</u>	<u>\$ 226,367</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 13,424	\$ 13,974
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation and amortization expense	70,170	69,593
Change in assets and liabilities:		
Accounts receivable, net	(5,416)	25,821
Prepaid expenses and other assets	97	(419)
Accounts payable	4,602	1,412
Net cash (used in) provided by operating activities	<u>\$ 82,877</u>	<u>\$ 110,381</u>

The accompanying notes are an integral part of the financial statements

Hughes County Rural Water District No. 5

Holdenville, Oklahoma

Notes to Financial Statements

June 30, 2021

Note A – Significant Accounting Policies

Reporting Entity

Hughes County Rural Water District No. 5 (the “District”) was created under the provisions of Title 82, Oklahoma Statutes, Sections 1324.1-1324.26 inclusive, for the purpose of providing water to the members of the District it serves. Membership in the water district consists of water users who have paid the required membership and connection fees. The District is exempt from federal and state income taxes.

Basis of Accounting

The accrual basis of accounting is followed for all accounts. Revenues are recorded when earned and accrued liabilities are recognized when incurred. This basis of accounting is in accordance with generally accepted accounting principles.

Cash

The District’s accounts are with First United Bank, Holdenville, Oklahoma, and at June 30, 2021 are detailed as follows:

Maintenance and operation account	\$ 100,056
Reserve account (considered unrestricted cash at June 30, 2021)	<u>79,862</u>
Total	<u>\$ 179,918</u>

Investments

There were no outstanding investments at June 30, 2021.

Restricted Assets

In accordance with the prior loan agreement with GMAC Commercial Mortgage, the District was required to maintain a reserve fund in an amount equal to one year’s loan payments. Accordingly, the District was required to have \$6,372 in the reserve account at June 30, 2002. This loan was paid off by the District in the 2001 - 02 fiscal year. Therefore, these funds, which had a balance of \$79,862 are considered as unrestricted cash at June 30, 2021, but are still kept in the bank account called a “reserve account”.

Hughes County Rural Water District No. 5
Holdenville, Oklahoma
Notes to Financial Statements
June 30, 2021

Note A – Significant Accounting Policies – cont'd

In accordance with the ORWB, two trustee accounts are required to be maintained at the Bank of Oklahoma. One, the debt service fund, for the payment of principal and interest on the note, had a balance of \$22,409 at June 30, 2021. The other, the debt service reserve fund, had a balance of \$48,380 at June 30, 2021. The District also had a project fund that was closed in the 2020-21 fiscal year.

Accounts Receivable

Billings for accounts receivable at June 30, 2021 were \$50,513. No allowance for doubtful accounts has been made since the amount would not be material to the financial statements.

Capital Assets

Capital (fixed) assets are defined as items purchased or constructed by the District, in excess of \$500, that have a useful life of more than three years. Capital assets are valued at cost, depreciation is computed by use of the straight-line method. The estimated useful lives for fixed assets are detailed as follows:

Water System	40 years
Office and Other Equipment	5-20 years

The capital asset information for the District is shown below:

	7/1/2020 Amount	Additions	Deletions	6/30/2021 Amount
Water system	\$ 2,888,436	8,500	-	2,896,936
Other equipment	62,477	6,895	-	69,372
Total Capital Assets	2,950,913	15,395	-	2,966,308
Less: Accumulated Depreciation	(1,115,618)	(66,301)	-	(1,181,919)
Total	<u>\$ 1,835,295</u>	<u>(50,906)</u>	<u>-</u>	<u>1,784,389</u>

Hughes County Rural Water District No. 5
Holdenville, Oklahoma
Notes to Financial Statements
June 30, 2021

Note A – 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 maturing within 60 days of year end, as cash equivalents.

Federal Income Tax

The District is exempt from all federal and state income taxes.

Collateral Pledged

It appears that all funds were adequately insured by the \$250,000 of FDIC coverage as of June 30, 2021.

Note B – Long-term Debt

In June 2017, the District was awarded a loan with the Oklahoma Water Resources Board in the amount of \$835,000. This loan was used to pay off the 2002 OWRB loan, and make water system improvements. The current interest rate for this loan is 2.20 percent, payable over 30 years. The local trustee for the loan is the Bank of Oklahoma, Oklahoma City, Oklahoma. A debt service fund is used to pay variable bi-annual loan payments. A debt service reserve fund is used to retain a percentage of the loan amount, which was accumulated from the proceeds, in total, at closing in the amount of \$48,376.

At June 30, 2021, long-term debt is summarized as follows:

2017 Promissory Note, variable percent mortgage payable to Oklahoma Rural Water Board	\$ <u>785,000</u>
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Hughes County Rural Water District No. 5
Holdenville, Oklahoma
Notes to Financial Statements
June 30, 2021

Note B – Long-term Debt – cont'd

The scheduled maturities for the next five (5) years, and in total thereafter, are detailed as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021-22	\$ 20,000	28,056	48,056
2022-23	20,000	27,316	47,316
2023-24	20,000	26,576	46,576
2024-25	20,000	25,936	45,936
2025-26	20,000	25,296	45,296
2026-31	110,000	113,962	223,962
2031-36	135,000	90,337	225,337
2036-41	160,000	65,628	225,628
2041-46	190,000	34,568	224,568
2046+	90,000	3,330	93,330
Totals	<u>\$ 785,000</u>	<u>441,005</u>	<u>1,226,005</u>

Note C – Contributed Capital

In February 1986, the District received a grant of \$96,115 from the Oklahoma Water Resources Board and a grant of \$153,700 from Farmer's Home Administration. These grants were given to the District to assist with the construction of a water distribution system. In July 1999, the District received an emergency grant of \$84,991 from the Oklahoma Water Resources Board to assist with the extension of the water distribution system. In March 2002, the District received an emergency grant of \$100,000 from the Oklahoma Water Resources Board to further assist in the extension of water lines. In August 2003, the city of Wewoka contributed \$50,000 to connect to the District's lines. In the 2010-11 fiscal year, the District was awarded an \$85,000 REAP Grant for a line extension project. In 2015-16, The District was awarded a \$31,000 REAP Grant from ORWA, and a \$133,700 Clean Water SRF Loan (which was forgiven into a grant upon completion in 2020-20) for upgrades and electronic meters. The remainder of this grant was received in 2016-17. The District added the contributed capital from Seminole Co. Rural Water District No. 5 during the 2016-17 fiscal year in the amount of \$199,769.

Hughes County Rural Water District No. 5
Holdenville, Oklahoma
Notes to Financial Statements
June 30, 2021

Note D – Debt Issue Costs

The amount paid by the District in 2001 – 02 to obtain the loans and grants to extend the water lines was \$56,113. This amount will be amortized using the straight-line method over the life of the ORWB loan (30 years) at 3.333 percent per year. For the first fiscal year (2001 – 02), only 75 percent of .0333 percent was amortized. In the 2002 – 03 year, the District paid \$11,500 in loan origination fees. The amount that will be amortized each fiscal year will be \$2,254. In the 2010-11 year, the District paid \$5,100 in loan origination fees. The amount that will be amortized each fiscal year will be \$340. In 2016-17, the District paid \$38,250 in debt costs, which will be amortized over 30 years, at an annual cost of \$1,275.

Note E – Insurance and Surety Bond Coverage

The District appears to have had adequate insurance to cover all major perils at June 30, 2021.

Note F – Major Suppliers

The District purchases their water from the City of Holdenville, the City of Wewoka, and a private well owner, and are subject to water rate increases from these water sources.

Note G – Subsequent Events

Management has evaluated subsequent events through October 12, 2021, which is the date the financial statements were available to be issued and have determined that no additional information needs to be added to the financial statements.

HUGHES COUNTY RURAL DISTRICT NO. 5
Schedule of Water Rates and Customers
-Unaudited Information-
June 30, 2021

Water Rates:

Minimum bill	=	\$18.50
1,000 gallons +	=	\$6.00 per 1,000 gallons

Water Loss:

	<u>2020-21</u>	<u>2019-20</u>
Total gallons purchased	69,362,400	75,568,900
Total gallons sold to District customers	<u>(64,223,242)</u>	<u>(62,092,930)</u>
Total water loss	<u>5,139,158</u>	<u>13,475,970</u>
Percentage of water loss	<u>7.41%</u>	<u>17.83%</u>

(Source – Monthly Sales Loss Reports)

Customers:

The District had 382 customers at the end of the fiscal year, per 6/28/21 Billing Register.

Current membership fee is \$950.