

BRYAN COUNTY RURAL WATER DISTRICT #7
BENNINGTON, OKLAHOMA
FINANCIAL STATEMENTS AND
AUDITOR'S REPORT THEREON
FOR THE YEAR ENDING JUNE 30, 2022

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Independent Auditor's Report

To the Board of Trustees
Bryan County Rural Water District #7
Bennington, Oklahoma

Report on the Financial Statements

Opinions

We have audited the accompanying modified cash-basis financial statements of the business-type activities of Bryan County Rural Water District #7, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash-basis financial position of the business-type activities of the Bryan County Rural Water District #7, as of June 30, 2022, and the respective changes in modified cash-basis financial position, and, where applicable, cash flows thereof for the year then ended in conformity with the basis of accounting described in Note 1.

Basis for Opinions

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 Bryan County Rural Water District #7 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 opinions.

Basis of Accounting

We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash-basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with the respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 Bryan County Rural Water District #7'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 Bryan County Rural Water District #7'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 Bryan County Rural Water District #7'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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated July 12, 2023, on our consideration of the Bryan County Rural Water District #7'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 and 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 Bryan County Rural Water District #7's internal control over financial reporting and compliance.

Russell + Williams CPAs, P.C.

Oklahoma City, Oklahoma
July 12, 2023

Bryan County Rural Water District #7
Statement of Net Position-Modified Cash Basis
June 30, 2022

ASSETS	
Cash in bank-unrestricted	\$ 45,262.49
Cash in bank-restricted	34,779.75
Total current assets	<u>80,042.24</u>
Capital assets, net	<u>543,458.37</u>
 TOTAL ASSETS	 <u><u>\$ 623,500.61</u></u>
 LIABILITIES AND NET POSITION	
Customer deposits	5,625.00
Current portion LTD	16,707.00
Total current liabilities	<u>22,332.00</u>
Notes Payable	<u>506,760.44</u>
Total Liabilities	<u>529,092.44</u>
 NET POSITION	
Net Investment in capital assets	19,990.93
Restricted for debt service and maintenance	34,779.75
Unrestricted	<u>39,637.49</u>
Total Net Position	<u>94,408.17</u>
 TOTAL LIABILITIES AND NET POSITION	 <u><u>\$ 623,500.61</u></u>

The accompanying notes are an integral part of these financial statements.

Bryan County Rural Water District #7
Statement of Revenues Over Expenses and
Changes in Net Position-Modified Cash Basis
For the Year Ended June 30, 2022

OPERATING REVENUES	
Water Sales	\$ 109,407.99
Billing Fees	<u>6,841.55</u>
TOTAL OPERATING REVENUES	<u>116,249.54</u>
OPERATING EXPENSES	
Trustee fee	1,230.00
Depreciation	30,326.22
Utilities	10,867.85
Salaries and wages	20,671.51
Maintenance and operations	31,024.57
Repairs	35,704.50
Insurance	1,298.48
Legal and accounting	3,850.00
Office supplies and postage	<u>1,815.08</u>
TOTAL OPERATING EXPENSES	<u>136,788.21</u>
OPERATING INCOME (LOSS)	<u>(20,538.67)</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest revenue	28.14
Interest expense	<u>(10,647.71)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(10,619.57)</u>
NET CHANGE IN NET POSITION	(31,158.24)
Beginning net position	<u>125,566.41</u>
Ending net position	<u><u>\$ 94,408.17</u></u>

The accompanying notes are an integral part of these financial statements.

Bryan County Rural Water District #7
Statement of Cash Flows - Modified Cash Basis
For the Year Ending June 30, 2022

Cash flows from operating activities	
Receipts from customers	\$ 116,277.68
Payments to suppliers	(96,438.19)
Payments to employees	<u>(20,671.51)</u>
Net cash provided by operating activities	(832.02)
Cash flows from capital and related financing activities	
Change in meter deposits	-
Principal paid on long term debt	<u>(16,376.29)</u>
Net cash flows from capital and related financing activities	(16,376.29)
Net increase (decrease) in cash	(17,208.31)
Cash, Beginning of the Year	<u>97,250.55</u>
Cash, End of the Year	<u><u>\$ 80,042.24</u></u>

Reconciliation of change in net assets to net cash provided by operations

Change in Net Position	(31,158.24)
Adjustments to reconcile change in net position to net cash provided by operating activities	
Depreciation	<u>30,326.22</u>
Net cash provided by operating activities	<u><u>\$ (832.02)</u></u>

Supplementary Information:

Interest Paid	\$ 10,647.71
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BRYAN COUNTY RURAL WATER DISTRICT #7
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The Bryan County Rural Water District #7, Oklahoma (the “District”) was created pursuant to the Rural Water, Sewer and Solid Waste Management Districts Act of Oklahoma (82 O.S. Sec. 1301-1324) by an order of the Board of County Commissioners of Bryan County, Oklahoma. The purpose of the District is providing an adequate water supply to meet the needs of rural residents within the territory of the district.

Basis of Presentation – The District utilizes the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under the modified cash basis of accounting assets, liabilities and related revenues and expenses are recorded when they result from cash transactions with an adjustment for depreciation.

Cash and Cash Equivalents – Items classified as cash equivalents in the financial statements include temporary investments in bank certificates of deposit, as well as other highly liquid short term investments.

Capital Assets – Capital assets are capitalized at cost for items over \$2,500. Waterlines and facilities are depreciated using the straight-line method over the estimated useful lives of forty years. Depreciation of office building and office equipment is computed over the estimated useful lives of five to twenty years.

Income Taxes – The District is a body politic (corporate and an agency) and legally constituted authority of the State of Oklahoma. Based upon this status, the District should be exempt from federal income taxes and from filing requirements of the Internal Revenue Service. As discussed in Note 5, organizations covered by Section 501(c)(12) of the Internal Revenue Code and subject to imposition of income taxes on income from non-members and (2) subject to filing requirements of the Internal Revenue Service.

Revenue and Expense Recognition – Revenue is recognized when it is collected and expenses are recognized when paid.

Risk Management - The District is exposed to various risks of losses related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The District purchases commercial insurance from commercial insurance companies.

Restricted Cash – Restricted cash consists of funds reserved for debt service and emergency repairs.

NOTE 2 - DEPOSIT COLLATERAL

The cash accounts of the District are required by state law to be secured by collateral pledged by the financial institution and/or FDIC deposit insurance. In accordance with GASB No. 3, deposits are to be classified into the following three categories:

1. Insured or collateralized with securities held by the entity or by its agent or in the entity's name. (Referred to as category 1)
2. Collateralized with securities held by pledging financial institution's trust department or agent in the entity's name. (Referred to as category 2)
3. Uncollateralized, including any bank balance that is collateralized with securities held by the pledging institution, or by its trust department or agent but not in the entity's name. (Referred to as category 3)

The District's cash accounts would be classified as category 1 for the portion that was insured by FDIC and category 3 for the portion not covered by FDIC.

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2022 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Water Distribution System	985,379	-	-	985,379
Accumulated Depreciation	(415,595)	(30,326)	-	(445,921)
Net Capital Assets	<u>\$ 569,784</u>			<u>\$ 539,458</u>

NOTE 4 – NOTES PAYABLE

The District had one note payable with Rural Development. This note carries an interest rate of 2%. This note calls for monthly payments of \$2,252. The proceeds from this loan was used for a new water well. As of June 30, 2022, the balance of this note was \$523,467. The District paid \$16,377 in principal and \$10,647 in interest payments for the year. Principal required for the next five years and in five-year increments until maturity is as follows:

	Principal	Interest		
2022/2023	16,707	10,317	Beginning Balance	\$ 539,844
2023/2024	17,045	9,979	Principal Payments	<u>(16,377)</u>
2024/2025	17,389	9,635	Ending Balance	<u>\$ 523,467</u>
2025/2026	17,740	9,284		
2026/2027	18,098	8,926		
2027/2032	96,117	39,003		
2032/2037	106,217	28,903		
2037/2042	117,378	17,742		
2042/2046	116,778	18,342		
	<u>\$ 523,467</u>	<u>\$ 152,132</u>		

NOTE 5 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through July 12, 2023, which is the date the financial statements were issued.

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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

To the Board of Trustees
Bryan Co. Rural Water District #7

We have audited, in accordance with the 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 modified cash basis financial statements of the business-type activities of Bryan Co. Rural Water District #7, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise Bryan Co. Rural Water District #7's basic financial statements, and have issued our report thereon dated July 12, 2023.

The report was a special report on the District's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Bryan Co. Rural Water District #7's internal control over financial reporting (internal control) to determine the 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 Bryan Co. Rural Water District #7's internal control. Accordingly, we do not express an opinion on the effectiveness of Bryan Co. Rural Water District #7'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 did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal

control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. 2022-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bryan Co. Rural Water District #7's financial statements are free from 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 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 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.

Russell + Williams CPAs, P.C.

Oklahoma City, Oklahoma
July 12, 2023

Schedule of Current Findings and Responses

2022-1 Lack of Segregation of Duties (Repeat Finding)

CONDITION: During our review of the internal control structure, we noted that several procedures lacks the control of having duties segregated. We understand that due to the size of the District and number of personnel, many aspects related to segregation of duties cannot be implemented. However, we noted that certain bank accounts required only one signature. Furthermore, the utility billing is performed and collected by the same person.

CRITERIA: We believe that internal control procedures would be strengthened by reviewing the individual tasks to determine whether internal control procedures could be improved. We also believe that the District should purchase new utility billing software to help insure that all billings are being done correctly and processed properly.

CAUSE OF CONDITION: Limited personnel

EFFECT OF CONDITION: Unknown

MANAGEMENT RESPONSE: All checks now require two signatures whether there are two signature lines or not. In many cases due to our limited resources, controls will be limited. We will look into getting a utility billing software.