

Bryan County Rural Water & Sewer District #5

Independent Auditors Report

**As of and for the Years Ended
August 31, 2022 and 2021**

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Russell & Williams CPA's, P.C.

Casey J. Russell, C.P.A., M.B.A.
Autumn L. Williams, C.P.A., Esq.
Member AICPA & OSCP

2812 NW 57th, Ste. 102
Oklahoma City, Oklahoma 73112

Phone: (405) 607-8743
Fax: (405) 607-8744
Email: caseycpa@hotmail.com

Independent Auditors Report

To the Board of Directors
Bryan County Rural Water & Sewer District #5
Durant, Oklahoma

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities of Bryan County Rural Water & Sewer District #5, as of and for the years ended August 31, 2022 and 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.

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 Bryan County Rural Water & Sewer District #5, as of August 31, 2022 and 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ending in accordance with accounting principles generally accepted in the United States of America.

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 & Sewer District #5 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.

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 & Sewer District #5'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 & Sewer District #5'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 & Sewer District #5'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.

Required Supplementary Information

Management has omitted the management's discussion and analysis and budgetary comparison information that 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 who considers it to be an essential part of 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated August 31, 2022, on our consideration of the Bryan County Rural Water & Sewer District #5'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 & Sewer District #5's internal control over financial reporting and compliance.

Russell + Williams CPAs, P.C.

Oklahoma City, Oklahoma
August 18, 2023

Bryan Co. Rural Water & Sewer Dist. #5

Statement of Net Position

August 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Cash in bank	\$ 2,805,400.38	\$ 2,368,688.54
Certificate of Deposits	360,705.54	360,283.79
Accounts receivable, net	268,176.62	252,097.31
Prepaid Insurance	<u>25,912.50</u>	<u>22,395.67</u>
Total current assets	3,460,195.04	3,003,465.31
Capital assets, net	<u>8,123,068.02</u>	<u>8,439,515.64</u>
TOTAL ASSETS	<u><u>\$ 11,583,263.06</u></u>	<u><u>\$ 11,442,980.95</u></u>
LIABILITIES AND NET ASSETS		
Accounts Payable	\$ 149,350.69	\$ 270,797.72
Accrued Compensated Absences	12,396.52	9,599.46
Refundable Meter Deposits	<u>70,400.30</u>	<u>55,100.00</u>
Total current liabilities	232,147.51	335,497.18
Notes Payable USDA	<u>6,626,560.96</u>	<u>6,781,529.87</u>
Total Liabilities	<u>6,858,708.47</u>	<u>7,117,027.05</u>
NET POSITION		
Net Investment in capital assets	1,496,507.06	1,657,985.77
Restricted for debt service and maintenance	333,741.97	333,384.01
Unrestricted	<u>2,894,305.56</u>	<u>2,334,584.12</u>
Total Net Position	<u>4,724,554.59</u>	<u>4,325,953.90</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 11,583,263.06</u></u>	<u><u>\$ 11,442,980.95</u></u>

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

Bryan Co. Rural Water & Sewer Dist. #5
Statement of Revenues Over Expenses and Changes in Net Position
For the Year Ended August 31, 2022 and 2021

	2022	2021
OPERATING REVENUES		
Water sales	\$ 2,790,643.16	\$ 2,673,117.23
Installation and Tap Fees	144,041.83	136,745.48
Sewer and Trash Collection Fees	22,516.34	22,839.00
TOTAL OPERATING REVENUES	2,957,201.33	2,832,701.71
OPERATING EXPENSES		
Audit	-	10,100.00
Bank Fees	4,775.50	8,325.92
Computer Software and Maintenance	10,033.30	9,421.45
Depreciation	473,592.11	465,776.28
Dues and Fees	5,948.57	7,278.66
Employee Benefits - Health Insurance	59,041.55	68,079.52
Flowers and Gifts	1,131.68	1,022.74
Food and Meeting Expense	2,091.99	2,187.77
Insurance and Bonds	40,729.47	35,072.00
Interest	150,995.09	154,439.77
Legal and Professional	175.00	98,999.64
Medical and Safety Supplies	59.10	125.85
Mileage	1,267.02	1,078.14
Miscellaneous	3,481.56	125.00
Office Supplies and Expense	41,174.31	38,794.24
Payroll Taxes	35,985.11	32,088.15
Pension Plan Expense	7,251.66	17,386.88
Postage	13,951.32	13,306.68
Purchase of Water	1,077,323.79	1,234,902.04
Repairs and Maintenance	183,702.65	151,590.32
Salaries and Wages	432,109.31	418,143.74
Travel and Education	-	62.00
Truck and Tractor Expense	55,176.49	50,492.94
Uncollectible Accounts	12,230.07	9,506.36
Uniforms and Laundry	4,317.28	3,259.67
Utilities and Telephone	51,911.92	55,401.73
Water Tests and Lab Fees	7,285.62	7,948.40
TOTAL OPERATING EXPENSES	2,675,741.47	2,894,915.89
OPERATING INCOME (LOSS)	281,459.86	(62,214.18)
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	1,709.93	1,485.94
Other Income	105,005.90	119,920.73
Memberships	10,425.00	9,000.00
TOTAL NON-OPERATING REVENUES (EXPENSES)	117,140.83	130,406.67
NET INCOME	398,600.69	68,192.49
Beginning Net Position	4,325,953.90	4,257,761.41
Ending Net Position	\$ 4,724,554.59	\$ 4,325,953.90

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

Bryan Co. Rural Water & Sewer Dist. #5
Statement of Cash Flows
For the Year Ending August 31, 2022 and 2021

	2022	2021
Cash Flows From Operating Activities		
Receipts from customers	\$ 2,941,122.02	\$ 2,832,776.81
Payments to suppliers	(1,626,430.20)	(1,783,501.61)
Payments to employees	(531,590.57)	(535,532.63)
Interest Paid	(150,995.09)	(154,439.77)
Net Cash Provided by Operating Activities	632,106.16	359,302.80
Cash Flows From Investing Activities		
Interest Received	1,709.93	1,485.94
Capital Asset Purchases	(157,144.49)	(106,076.75)
Net Cash Provided by Investing Activities	(155,434.56)	(104,590.81)
Cash Flows From Capital and Related Financing Activities		
Recovery of Bad Debts	-	-
Other Income	105,005.90	119,920.73
Membership Income	10,425.00	9,000.00
New Loan Proceeds	-	429,579.85
Principal paid on long term debt	(154,968.91)	(581,104.08)
Net Cash Flows From Capital and Related Financing Activities	(39,538.01)	(22,603.50)
Net Increase (Decrease) in Cash	437,133.59	232,108.49
Cash, Beginning of the Year	2,728,972.33	2,496,863.84
Cash, End of the Year	\$ 3,166,105.92	\$ 2,728,972.33
Cash and Equivalents - Unrestricted	2,832,363.95	2,395,588.32
Cash and Equivalents - Restricted	333,741.97	333,384.01
Total Cash and Equivalents	\$ 3,166,105.92	\$ 2,728,972.33
<i>Reconciliation of change in net position to net cash provided by operations</i>		
Change in Net Position	281,459.86	(62,214.18)
Adjustments to reconcile change in net position to net cash provided (used) by operating activities:		
Depreciation	473,592.11	465,776.28
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	(12,989.28)	(519.59)
Increase (Decrease) in Doubtful Accounts	(3,090.03)	594.69
(Increase) Decrease in Prepaid Expenses	(3,516.83)	(1,384.57)
Increase (Decrease) in Accounts Payable	(121,447.03)	(20,015.49)
Increase (Decrease) in Accrued Compensated Absences	2,797.06	165.66
Increase (Decrease) in Refundable Meter Deposits	15,300.30	(23,100.00)
Net cash provided by operating activities	\$ 632,106.16	\$ 359,302.80

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

RURAL WATER AND SEWER DISTRICT NO. 5
Notes to Basic Financial Statements
August 31, 2022 and 2021

Note 1: Summary of Significant Accounting Policies

Financial Reporting Entity

Rural Water and Sewer District No. 5, Bryan County, Oklahoma (the District) was organized for the purpose of providing water to the rural residents and businesses located in the southern portion of Bryan County, Oklahoma. The water district uses the accrual basis of accounting; consequently, all revenue is included when earned, and all expenses are recognized when the obligation is incurred.

Basis of Presentation, Measurement Focus, and Basis of Accounting

The District is financed and operated in a manner similar to a private business enterprise, where the intent of the governing body is that the costs of providing water to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The District uses one fund which is a proprietary fund of a business-type activity as described above. This fund is reported on the accrual basis of accounting; consequently, all revenue is included when earned, and all expenses are recognized when the obligation is incurred.

Proprietary fund equity is reported as restricted net assets (funds that are restricted to a particular use), unrestricted net assets, and investments in capital assets net of related debt.

Operating revenues and expenses for proprietary funds are those that result from providing water, sewer, and solid waste collection services.

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts in various funds. Actual results could differ from those estimates.

Note 2: Stewardship, Compliance and Accountability

Budget

The District prepares an annual estimated budget of cash receipts and disbursements for the purpose of adjusting water rates if necessary and as a forecast of cash receipts and disbursements required by the USDA Rural Development. This does not meet the definition of a legally required and adopted budget and accordingly is not presented.

Risk Management

The District's business activity is with customers located within a portion of Bryan County, Oklahoma. As of August 31, 2022, and 2021, the District's receivables were \$268,177 and \$252,097, respectively. An overall decline in the economic condition of the area could affect the collection of those receivables.

RURAL WATER AND SEWER DISTRICT NO. 5
Notes to Basic Financial Statements
August 31, 2022 and 2021

The District is exposed to various risks of loss related to theft of and damage to assets, errors and omissions, injuries to employees, and natural disasters. The District purchases commercial insurance to cover these possible liabilities.

Commitments and Contingencies

The District participates in state and federally assisted loan and grant programs. These programs are subject to program compliance audits by grantors or their representatives. Accordingly, the District's compliance with applicable loan and grant requirements will be established at some future date. The amount, if any, of expenses which may be disallowed by the granting agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

Note 3: Detail Notes On Transaction Classes and Accounts

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/expenses.

Cash and Equivalents

For the purpose of the Statement of Net Assets, "cash" includes all demand, savings accounts, and certificates of deposits of the District. For the purpose of the proprietary fund Statement of Cash Flows, "cash and equivalents" includes all demand and savings accounts, and certificates of deposit with an original maturity of three months or less.

Deposits are classified into the following three categories: (1) Insurance or collateralized with securities held by the entity or by its agent or in the entity's name (Category 1); (2) Collateralized with securities held by the pledging financial institutions trust department or agent In the entity's name (Category 2); and (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 (Category 3).

All of the District's cash accounts are considered Category 1. The accounts are covered by FDIC insurance up to \$250,000. The accounts are further collateralized by \$2,500,000 in letters of credit from the Federal Home Loan Bank of Topeka, KS. At August 31, 2022 all accounts were covered by either the federal depository insurance or other collateral.

Accounts Receivable

Accounts receivables consist of all revenues earned at year-end and not yet received. Allowances for doubtful accounts are based on 5% of the accounts receivable balance at the end of the accounting year.

RURAL WATER AND SEWER DISTRICT NO. 5
Notes to Basic Financial Statements
August 31, 2022 and 2021

Capital Assets

Capital assets used in the District's operations are stated at cost less accumulated depreciation. Depreciation is provided on the straight-line method at various rates based on the estimated useful lives of the assets. Generally, estimated useful lives of five years for trucks and tractors, ten years for furniture, fixtures and equipment, and thirty years for the building and water system are used. Maintenance and repairs as well as renewals and betterments of small amounts are charged against Income as incurred whereas major renewals or betterments which extend the life or increase the value of property are capitalized.

Capital asset activity for the year ended August 31, 2022 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Water System	13,202,974	-	-	13,202,974
Land	36,575	-	-	36,575
Trucks & Tractors	558,151	66,982	-	625,133
Office Building	664,431	90,162	-	754,593
Office Furniture & Equipment	91,320	-	-	91,320
Total	14,553,451	157,144	-	14,710,595
Less: Accumulated Depreciation	(6,113,935)	(473,592)		(6,587,527)
Net Capital Assets	<u>\$ 8,439,516</u>			<u>\$ 8,123,068</u>

Capital asset activity for the year ended August 31, 2021 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Water System	13,135,026	67,948	-	13,202,974
Land	36,575	-	-	36,575
Trucks & Tractors	541,849	38,129	(21,827)	558,151
Office Building	664,431	-	-	664,431
Office Furniture & Equipment	91,320	-	-	91,320
Total	14,469,201	106,077	(21,827)	14,553,451
Less: Accumulated Depreciation	(5,669,985)	(443,949)		(6,113,934)
Net Capital Assets	<u>\$ 8,799,216</u>			<u>\$ 8,439,516</u>

Debt

During the year ending August 31, 2022, the District entered into a new loan agreement with Rural Development. The total amount of the new loan with Rural Development was \$8,043,100. This loan carries an interest rate of 2.25% and requires monthly payments of \$25,497. The balance of this loan as of yearend was \$6,626,561. Principal paid during the year was \$154,969. Principal and Interest until maturity is as follows:

RURAL WATER AND SEWER DISTRICT NO. 5
Notes to Basic Financial Statements
August 31, 2022 and 2021

Year	Principal	Interest		
2023	158,786.59	147,177.41	Balance, Beginning of Year	6,781,529.87
2024	162,396.33	143,567.67	Loan Advances during Year	-
2025	166,088.17	139,875.83	Principal Paid	(154,968.91)
2026	169,863.93	136,100.07	Balance, End of Year	<u>\$ 6,626,560.96</u>
2027	173,725.52	132,238.48		
2027-2032	929,695.02	600,124.98		
2032-2037	1,040,286.31	489,533.69		
2037-4042	1,164,032.95	365,787.05		
2042-4047	1,302,499.76	227,320.24		
2047-2052	1,359,186.38	72,704.01		
	<u>\$ 6,626,560.96</u>	<u>\$ 2,454,429.43</u>		

Retirement Plan

On January 10, 1997 the water district adopted the National Association of Counties Deferred Compensation Program for its full-time employees through a joint contributory defined contribution plan. The water district's total payroll for the year was \$432,109 and the covered payroll was \$92,217. The water district's contributions for the year were \$7,252 and the employee's contributions were \$6,085. There were no related party transactions in the plan during the year. Employer contributions to the plan vest at the time contributions are made. The employee may elect the time at which distributions under the Plan are to commence by designating the month and year during which the first distribution is to be made. The earliest distribution commencement date that may be elected by the employee shall be the earlier of (a) the date on which the employee separates from services; or (b) the date on which the employee attains age 70 1/2 or terminates deferrals under this plan, whichever is later.

Restricted Assets

The USDA Rural Development required an amount equal to the note payments for one year be set aside and controlled by them. The District has continued to hold these accounts as restricted until the new loan is fully funded and the new loan requirements have been met.

Subsequent Events

Subsequent events have been evaluated through August 18, 2023 which is the date the financial statements were issued.

Russell & Williams CPA's, P.C.

Casey J. Russell, C.P.A., M.B.A.
Autumn L. Williams, C.P.A., Esq.
Member AICPA & OSCP

2812 NW 57th, Ste. 102
Oklahoma City, Oklahoma 73112

Phone: (405) 607-8743
Fax: (405) 607-8744
Email: caseycpa@hotmail.com

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 Directors
Bryan County Rural Water & Sewer District #5
Durant, Oklahoma

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 financial statements of the business-type activities of the Bryan County Rural Water & Sewer District #5, as of and for the year ended August 31, 2022, and the related notes to the financial statements, which collectively comprise the Bryan County Rural Water & Sewer District #5's basic financial statements, and have issued our report thereon dated August 18, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Bryan County Rural Water & Sewer District #5'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 the Bryan County Rural Water & Sewer District #5's internal control. Accordingly, we do not express an opinion on the effectiveness of the Bryan County Rural Water & Sewer District #5'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Bryan County Rural Water & Sewer District #5'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
August 18, 2023