

# AUDIT REPORT

LATIMER COUNTY RURAL WATER DISTRICT #3  
LATIMER COUNTY, OKLAHOMA

DECEMBER 31, 2022



April Adams CPA PLLC

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LATIMER COUNTY RURAL WATER DISTRICT #3  
LATIMER COUNTY, OKLAHOMA  
DECEMBER 31, 2022

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LATIMER COUNTY RURAL WATER DISTRICT #3  
LATIMER COUNTY, OKLAHOMA  
DECEMBER 31, 2022

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>
CHARLOTTE ELLIS	CHAIRMAN
JAMIE STEPHENS	SECRETARY/TREASURER
FRANCES BROWN	BOARD MEMBER
ZACH COPELAND	BOARD MEMBER
MARY HESTON	BOARD MEMBER

STAFF

ALISSA MCALISTER	MANAGER/BOOKKEEPER
BUD ELLIS	OPERATOR

Unaudited

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Latimer County Rural Water District #3  
Latimer County, Oklahoma

Report on the Audit of the Financial Statements

### *Opinion*

I have audited the modified cash-basis financial statements of Latimer County Rural Water District #3, as of and for the year ended December 31, 2022, and the related notes to the financial statements, as listed in the table of contents.

In my opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective modified cash-basis financial position of the Latimer County Rural Water District #3 as of December 31, 2022, and the respective changes in modified cash-basis financial position and, where applicable, cash flows thereof for the year then ended in accordance with modified cash basis of accounting described in Note 1.

### *Basis for Opinion*

I conducted my audit in accordance with auditing standards generally accepted in the United States of America (GAAS), and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of the Latimer County Rural Water District #3 and to meet my other ethical responsibilities, in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### *Emphasis of Matter - Basis of Accounting*

I draw attention to Note 1 of the financial statements, which 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. My opinion is not modified with respect to this matter.

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## *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash basis of accounting described in Note 1, and for determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. 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 Responsibilities for the Audit of the Financial Statements*

My 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 my opinion. 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 GAAS 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 GAAS, I

- 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 Latimer County Rural Water District #3'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.

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- Conclude whether, in my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Latimer County Rural Water District #3's ability to continue as a going concern for a reasonable period of time.

I am 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 I identified during the audit.

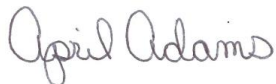
## *Other Matters*

## *Supplementary and Other Information*

The introductory information section listed in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the District. Such additional information has not been subjected to the auditing procedures applied in my audit of the basic financial statements, and accordingly, I do not express an opinion or provide an assurance on it.

## *Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated September 3, 2024, on my consideration of the Latimer County Rural Water District #3's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Latimer County Rural Water District #3's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Latimer County Rural Water District #3's internal control over financial reporting and compliance.



April Adams CPA PLLC  
Ponca City, Oklahoma

September 3, 2024

LATIMER COUNTY RURAL WATER DISTRICT #3  
LATIMER COUNTY, OKLAHOMA  
STATEMENT OF NET POSITION - MODIFIED CASH BASIS  
DECEMBER 31, 2022

<b><u>ASSETS</u></b>	
<b><u>Current Assets:</u></b>	
Cash and Cash Equivalents	\$ 12,134
Investments	61,486
<b><u>Restricted Assets:</u></b>	
Cash - Meter Deposits	7,250
Investment - Reserve Fund	9,046
Total Current Assets	<u>89,917</u>
<b><u>Capital Assets:</u></b>	
Water Distribution System	684,700
Less: Accumulated Depreciation	<u>(469,168)</u>
Total Capital Assets	<u>215,532</u>
<b><u>Other Assets:</u></b>	
ORWA Water Assistance Certificate	<u>1,000</u>
Total Other Assets	<u>1,000</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 306,449</u></b>
 <b><u>LIABILITIES</u></b>	
<b><u>Current Liabilities:</u></b>	
Payroll Taxes Payable	\$ -
Water Deposits Payable	7,250
Current Portion of Long-Term Debt	<u>6,670</u>
Total Current Liabilities	<u>13,920</u>
<b><u>Long-Term Liabilities:</u></b>	
Notes Payable - USDA Rural Development	25,866
Less: Current Portion of Long-Term Debt	<u>(6,670)</u>
Total Long-Term Liabilities	<u>19,195</u>
<b>TOTAL LIABILITIES</b>	<b>33,116</b>
 <b><u>NET POSITION</u></b>	
Net investment in capital assets	189,667
Restricted for debt service	9,046
Unrestricted	<u>74,621</u>
<b>TOTAL NET POSITION</b>	<b><u>273,334</u></b>
<b>TOTAL LIABILITIES &amp; NET POSITION</b>	<b><u>\$ 306,449</u></b>

The accompanying notes are an integral part of the basic financial statements.

LATIMER COUNTY RURAL WATER DISTRICT #3  
LATIMER COUNTY, OKLAHOMA  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
- MODIFIED CASH BASIS -  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2022

<b><u>Operating Revenues:</u></b>	
Water Sales	\$ 98,058
Membership Fees	4,090
Late Fees & Other Miscellaneous	570
Total Operating Revenues	<u>102,718</u>
<b><u>Operating Expenses:</u></b>	
Salaries	29,166
Payroll Taxes	1,179
Depreciation	18,869
Office Supplies	2,722
Repairs and Maintenance	10,697
Postage	-
Travel Expense	3,168
Insurance & Bonds	2,364
Legal & Professional	4,583
Utilities	4,608
Water Purchases	32,275
Miscellaneous	933
Total Operating Expenses	<u>110,563</u>
Operating Income (Loss)	(7,845)
<b><u>Non-Operating Revenues (Expenses):</u></b>	
Grant Income	-
Interest Income	184
Interest Expense	(1,487)
Total Non-operating Revenues (Expenses)	<u>(1,303)</u>
Change in Net Position	(9,149)
Total Net Position - Beginning	282,483
Total Net Position - Prior Year Adjustment	-
Total Net Position - Ending	<u><u>\$ 273,334</u></u>

The accompanying notes are an integral part of the basic financial statements.



## EXHIBIT C

**LATIMER COUNTY RURAL WATER DISTRICT #3  
LATIMER COUNTY, OKLAHOMA  
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2022**

<b><u>Cash Flows from Operating Activities:</u></b>	
Cash Receipts from Customers	\$ 102,718
Payments to Suppliers for Goods & Services	(61,349)
Payments to Employees	<u>(30,345)</u>
Net Cash Provided (Used) by Operating Activities	<u>11,024</u>
<b><u>Cash Flows from Capital &amp; Related Financing Activities:</u></b>	
Additions to Capital Assets	(7,043)
Grant Income	-
Principal paid on Debt	(7,106)
Interest paid on Debt	<u>(1,487)</u>
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(15,636)</u>
<b><u>Cash Flows from Investing Activities:</u></b>	
(Increase)Decrease in Investments	(123)
(Increase)Decrease in Restricted Investments	(18)
Interest Income	<u>184</u>
Net Cash Provided (Used) by Investing Activities	<u>43</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(4,570)
Cash & Cash Equivalents, Beginning of Year	23,954
Cash & Cash Equivalents, Prior Year Adjustment	<u>-</u>
Cash & Cash Equivalents, End of Year	<u><u>\$ 19,384</u></u>
<b><u>Reconciliation of operating income (loss) to net cash provided</u></b>	
<b><u>operating activities:</u></b>	
Operating Income (Loss)	\$ (7,845)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation	18,869
(Increase)Decrease in Prepaid Expenses	-
Increase(Decrease) in Payroll Tax Payable	<u>-</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 11,024</u></u>

The accompanying notes are an integral part of the basic financial statements.

LATIMER COUNTY RURAL WATER DISTRICT #3  
LATIMER COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1.C, these financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) established by the Governmental Accounting Standards Board (GASB). These modified cash-basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

A. Organization & Reporting Entity

Latimer County Rural Water District #3, Latimer County, Oklahoma, operates as a nonprofit corporation under Oklahoma Statutes, Title 82, Sections 1234.1 through 1234.26, as amended. The District was organized to acquire water and water rights and to build and acquire pipelines and other water distribution facilities, and to operate the same for the purpose of furnishing water to serve the needs of owners and occupants of land located within the District.

B. Basis of Presentation

The accounts of the District are organized on the basis of proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net position, revenues and expenses. Enterprise Funds account for activities (1) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (2) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (3) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

LATIMER COUNTY RURAL WATER DISTRICT #3  
LATIMER COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022

C. Measurement Focus and Basis of Accounting

Measurement Focus

The District utilizes an economic resources measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), net financial position, and cash flows. All assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent or financial or nonfinancial) associated with their activities are generally reported within the limitations of the modified cash basis of accounting.

Basis of Accounting

The financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modifications to the cash basis of accounting to report in the statements of net position cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include investments, and short-term and long-term liabilities arising from cash transactions or events. Revenues are recognized when received and expenses are recorded when paid and depreciation is not included as the District does not maintain capital asset ledgers and depreciation.

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue billed or provided services not yet collected and other accrued revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

LATIMER COUNTY RURAL WATER DISTRICT #3  
LATIMER COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022

If the District utilized the basis of accounting recognized as generally accepted in the United States, the fund financial statements for proprietary fund types would use the accrual basis of accounting.

D. Financial Position

Cash & Cash Equivalents

For the purpose of financial reporting, "cash & cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less.

Inventories

Supplies inventory is not recorded in the financial statements as the value of supplies at December 31, 2022 is not material to the financial statements.

Capital Assets

Property and equipment, consisting of a water distribution system, are stated at cost and are depreciated over the estimated useful life of such assets. Useful lives are range from 7-40 years. Depreciation is computed using the straight-line method.

Capitalization Policy - Purchases of capital items in excess of \$1,000.00 that increase the capacity or operation efficiency or extend the useful life of any asset are capitalized. Repairs and maintenance are expensed as incurred.

Long-Term Debt

Long-term debt is reported at face value, net of applicable discounts and deferred loss on refunding. Costs related to the issuance of debt are deferred and amortized over the lives of various debt issues.

Equity Classification

Equity is classified as net position and displayed in three components:

LATIMER COUNTY RURAL WATER DISTRICT #3  
LATIMER COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022

1. Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.
2. Restricted – Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted – Net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

It is the District's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

E. Revenues, expenditures & expenses

Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

F. Income Tax Status

The District is exempt from income taxes under Section 501(c)(6) of the Internal Revenue Code.

G. Enterprise Fund

The Enterprise Fund is used to account for the operations of the District that are financed and operated in a manner similar to private business enterprises where the intent is that costs of

LATIMER COUNTY RURAL WATER DISTRICT #3  
LATIMER COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022

providing goods or services be recovered in whole or part through user fees or charges.

H. Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting used by the District requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

NOTE 2 - CASH AND INVESTMENTS

Custodial Credit Risk

At December 31, 2022, the District held deposits of approximately \$89,917 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name.

Investment Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The District has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.

LATIMER COUNTY RURAL WATER DISTRICT #3  
LATIMER COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022

- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

Concentration of Investment Credit Risk

The District places no limit on the amount it may invest in any one issuer. The District has the following credit risk: 100% in CDs (\$77,783).

NOTE 3 - RESTRICTED ASSETS

The loan agreement with the United States Department of Agriculture Rural Development (USDA) requires the District to set aside into a Reserve Account an accumulated amount equal to the sum of the annual installment (\$7,812), after which deposits may be suspended, except to replace withdrawals. The District cannot withdraw funds from the reserve account without USDA approval. As of December 31, 2022, the District was required to have at least \$7,812.00 set aside in the reserve account; as of that date the account balance for the reserve account was \$9,046.49, which complies with the covenants of the loan agreement.

NOTE 4 - CAPITAL ASSETS

Capital asset activity, resulting from the modified cash basis transactions, for the fiscal year ended December 31, 2022, was as follows:

LATIMER COUNTY RURAL WATER DISTRICT #3  
LATIMER COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022

	Balance at Dec. 31, 2021	Additions	Deductions	Balance at Dec. 31, 2022
Water Line & Pump Station	\$ 651,924	\$ 7,043	\$ -	\$ 658,967
New Pumps	25,733	-	-	25,733
Subtotal	677,656	7,043	-	684,700
Less: Accum. Depr.	(450,298)	(18,869)	-	(469,168)
Total Capital Assets (Net of Depreciation)	<u>\$ 227,358</u>	<u>\$ (11,826)</u>	<u>\$ -</u>	<u>\$ 215,532</u>

NOTE 5 - LONG-TERM DEBT

The District has a note payable with to the United States Department of Agriculture Rural Development (USDA), payable in 480 monthly installments of \$651.00 until maturity, including interest at 5.00%. The note was dated August 10, 1990 in the original amount of \$132,500.00. The note is secured by all facilities of the District.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended December 31, 2022:

	Balance at Dec. 31, 2021	Additions	Deductions	Balance at Dec. 31, 2022
Notes Payable - USDA RD	\$ 32,971.81	\$ -	\$ 7,106.25	\$ 25,865.56
Total Long-Term Debt	<u>\$ 32,971.81</u>	<u>\$ -</u>	<u>\$ 7,106.25</u>	<u>\$ 25,865.56</u>

Debt Services Requirements to Maturity

The annual debt service requirements to maturity, including principal and interest, for long-term debt, as of December 31, 2022, are as follows:

Year Ended December 31,	Principal	Interest	Total
2023	\$ 6,670	\$ 1,142	\$ 7,812
2024	7,011	801	7,812
2025	7,370	442	7,812
2026	4,814	86	4,900
2027	-	-	-
Total	<u>\$ 25,866</u>	<u>\$ 2,470</u>	<u>\$ 28,336</u>



LATIMER COUNTY RURAL WATER DISTRICT #3  
LATIMER COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022

NOTE 6 - CONTINGENCIES

Litigation

According to management there were no known contingent liabilities at December 31, 2022, which would have a material effect on the financial statements.

Grant Program Involvement

In the normal course of operations, the District participates in various federal or state/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

NOTE 7 - RETIREMENT AND DEFERRED COMPENSATION PLAN

The District has no retirement or deferred compensation plan for employees.

NOTE 8 - WATER PURCHASES

The District purchases its water from the Talihina Public Works Authority.

NOTE 9 - SUBSEQUENT EVENTS

The District did not have any subsequent events through September 3, 2024, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending December 31, 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*

To the Board of Directors  
Latimer County Rural Water District #3  
Latimer County, Oklahoma

I 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 modified cash basis financial statements of the Latimer County Rural Water District #3, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles, and have issued my report thereon dated September 3, 2024.

### Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Latimer County Rural Water District #3's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Latimer County Rural Water District #3's internal control. Accordingly, I do not express an opinion on the effectiveness of Latimer County Rural Water District #3'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 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.

My 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that

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I consider to be material weaknesses. I did identify certain deficiencies in internal control described in the accompanying Schedule of Findings as Items 2022-01 and 2022-02 that I consider to be significant deficiencies.

## Compliance and Other Matters

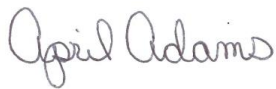
As part of obtaining reasonable assurance about whether the Latimer County Rural Water District #3's financial statements are free of material misstatement, I performed tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is included in the Schedule of Findings as Item 2022-03. The results of my tests disclosed no instances of other matters that are required to be reported under *Government Auditing Standards*.

## Latimer County Rural Water District #3's Response to Findings

Latimer County Rural Water District #3's response to the findings identified in my audit is described in the accompanying Schedule of Findings. Latimer County Rural Water District #3's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

## Purpose of this Report

The purpose of this report is solely to describe the scope of my 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.



April Adams CPA PLLC  
Ponca City, Oklahoma

September 3, 2024

LATIMER COUNTY RURAL WATER DISTRICT #3  
LATIMER COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS  
DECEMBER 31, 2022

SIGNIFICANT DEFICIENCIES OF INTERNAL CONTROL:

Item 2022-01: Segregation of Duties

Criteria: A good system of internal control requires a proper segregation of duties to prevent one person from being in a position to authorize, execute, and record the same transaction.

Condition: Due to the size of the District's major areas of internal control, that would be prevalent in a larger District, such segregation of duties is not available for this size operation. Duties are concentrated in the hands of a few individuals, who are responsible for all phases of the accounting functions. Because of this lack of division of responsibility, internal control is determined to be weak.

Cause/Effect: Due to the limited number of personnel, a breach of internal controls could occur and not be detected in the normal course of operations.

Recommendation: The Board should continue to be actively involved in the operations of the organization.

Response: The Board continues to be actively involved in the operations of the District.

Item 2022-02: Internal Control over Financial Reporting

Criteria: Per government auditing and accounting standards management must designate an individual or individuals that possess skill, knowledge and experience to the extent they can perform year-end closing adjustments and evaluate any non-attest services or audit adjustments performed by the independent auditor.

Condition: Material adjusting journal entries were required to arrive at the final adjusted trial balance.

Cause/Effect: The District relied on the auditor to propose entries after audit procedures. The District was not able to report accurate financial information without the required adjustments.

LATIMER COUNTY RURAL WATER DISTRICT #3  
LATIMER COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS  
DECEMBER 31, 2022

Recommendation: The District should consider making required yearend adjusting entries without auditor assistance when preparing the financial statements.

Response: Management will take into consideration the Auditor's recommendation and will work to improve performance in this area.

SIGNIFICANT DEFICIENCIES OF COMPLIANCE:

Item 2022-03: Payroll Reporting and Compliance

Criteria: The District is required to withhold one half social security tax and applicable federal and state income tax from gross wages and timely remit such funds to the United States Treasury, the Oklahoma Tax Commission and the OESC. Reporting payroll activity on IRS forms 941, Oklahoma forms OW-8, OES-3 is required at various periods during the year, monthly, quarterly or annually.

Condition: Payroll tax returns for the current year were not filed in a timely manner.

Cause/Effect: The late filings leave the District out of compliance with the requirements of the taxing agencies and subject to penalties.

Recommendation: The District needs to get in compliance with the federal and state payroll tax requirements.

Response: The District is aware of the problems and has remedied them going forward.

Current Status: Item 2022-01 is repeated from the previous year.