

AUDIT REPORT

DELAWARE COUNTY RURAL WATER DISTRICT #1

FEBRUARY 29, 2024

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DELAWARE COUNTY RURAL WATER DISTRICT #1
FEBRUARY 29, 2024

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DELAWARE COUNTY RURAL WATER DISTRICT #1
FEBRUARY 29, 2024

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>	<u>TERM EXPIRATION</u>
PATRICK SANDERS	CHAIRMAN	FEBRUARY 2025
HEATH JOHNSTON	VICE CHAIRMAN	FEBRUARY 2024
BRIAN LANE	SECRETARY/TREASURER	FEBRUARY 2026
LARRY SLOAN	MEMBER	FEBRUARY 2026
JIM RENO	MEMBER	FEBRUARY 2025

Unaudited

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Delaware County Rural Water District #1
Delaware County, Oklahoma

Report on the Audit of the Financial Statements

Opinion

I have audited the accompanying modified cash basis financial statements of Delaware County Rural Water District #1, Delaware County, Oklahoma, (the "District"), as of and for the year ended February 29, 2024, as listed in the table of contents and the related notes to the financial statements.

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 Delaware County Rural Water District #1 as of February 29, 2024, 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 Delaware County Rural Water District #1 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

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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.

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 Delaware County Rural Water District #1'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

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

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- 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 Delaware County Rural Water District #1'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 my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Delaware County Rural Water District #1'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 Information

Management is responsible for the other information included in the annual financial report. The other information comprises the introductory section listed in the accompanying table of contents but does not include the basic financial statements and my auditor's report thereon. My opinion on the basic financial statements does not cover the other information, and I do not express an opinion or any form of assurance thereon.

In connection with my audit of the basic financial statements, my responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, I

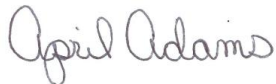
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conclude that an uncorrected material misstatement of the other information exists, I am required to describe it in my report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated October 23, 2024, on my consideration of the Delaware County Rural Water District #1'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 Delaware County Rural Water District #1'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 Delaware County Rural Water District #1's internal control over financial reporting and compliance.



April Adams CPA PLLC
Ponca City, Oklahoma

October 23, 2024

DELAWARE COUNTY RURAL WATER DISTRICT #1
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
FEBRUARY 29, 2024

ASSETS

Current Assets:

Cash and cash equivalents	\$ 37,884
Investments	102,201
Accounts Receivable	-
Prepaid Insurance	-
Total Current Assets	140,086

Restricted Assets:

BOK Debt Service Fund - Nt 2011	5,449
Total Restricted Assets	5,449

Capital Assets:

Land	12,652
Building	88,218
Machinery & Equipment	24,659
Water System	2,623,889
Construction in Progress	363,480
Less: Accumulated Depreciation	(1,462,433)
Total Capital Assets	1,650,465

TOTAL ASSETS	\$ 1,796,000
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LIABILITIES & NET POSITION

LIABILITIES:

Current Liabilities:

Accounts Payable	\$ -
Accrued Interest Payable	-
Current Portion of Long-Term Debt	6,688
Total Current Liabilities	6,688

Long-Term Liabilities:

Notes Payable - OWRB	169,317
Less: Current Portion of Long-Term Debt	(6,688)
Total Long-Term Liabilities	162,629

TOTAL LIABILITIES	169,317
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NET POSITION:

Net investment in capital assets	1,481,148
Restricted for debt service	5,449
Unrestricted	140,086

TOTAL NET POSITION	1,626,683
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TOTAL LIABILITIES & NET POSITION	\$ 1,796,000
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The accompanying notes are an integral part of the basic financial statements.

EXHIBIT B

DELAWARE COUNTY RURAL WATER DISTRICT #1
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2024

Operating Revenues:

Water Sales, including penalties	\$ 470,750
Membership Fees	12,225
Other Income	4,500
Total Operating Revenues	487,475

Operating Expenses:

Water Purchases	319,542
Accounting & Legal	2,876
Contract Labor	42,460
Director's Fees	1,525
Depreciation Expense	74,400
Dues & Subscriptions	3,264
Insurance	11,660
Mileage	7,246
Repairs & Maintenance	29,562
Miscellaneous	10,991
Office Expense	1,743
Postage	2,869
Salaries & Wages	46,204
Payroll Tax Expense	4,240
Telephone & Internet	949
Utilities	13,986
Total Operating Expenses	573,518
Operating Income (Loss)	(86,043)

Non-Operating Revenues (Expenses):

Interest Income	3,154
Interest Expense	(5,660)
Total Non-operating Revenues (Expenses)	(2,506)
Net Income (Loss) Before Contributions	(88,550)

Capital Contributions	298,875
Change in Net Position	210,325
Total Net Position - Beginning	1,416,358
Total Net Position - Ending	\$ 1,626,683

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

**DELAWARE COUNTY RURAL WATER DISTRICT #1
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2024**

Cash Flows from Operating Activities:

Cash Receipts from Customers	\$ 487,475
Payments to Suppliers for Goods & Services	(410,454)
Payments to Employees & Laborers	<u>(88,664)</u>

Net Cash Provided (Used) by Operating Activities (11,643)

Cash Flows from Capital & Related Financing Activities:

Additions to Capital Assets	(315,930)
Grant Income / Capital Contributions	298,875
Loan Proceeds	-
Principal paid on Debt	(6,481)
Interest paid on Debt	<u>(5,660)</u>

Net Cash Provided (Used) by Capital & Related Financing Activities (29,197)

Cash Flows from Investing Activities:

(Increase)Decrease in Restricted Assets	(141)
(Increase)Decrease in Investments	43,358
Interest Income	<u>3,154</u>

Net Cash Provided (Used) by Investing Activities 46,371

Net Increase (Decrease) in Cash and Cash Equivalents 5,531

Cash & Cash Equivalents, Beginning of Year 32,353

Cash & Cash Equivalents, End of Year \$ 37,884

**Reconciliation of operating income (loss) to net cash provided
operating activities:**

Operating Income (Loss)	\$ (86,043)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation Expense	74,400
(Increase)Decrease in Accounts Receivable	-
(Increase)Decrease in Prepaid Expenses	-
Increase(Decrease) in Accounts Payable	-
Increase(Decrease) in Payroll Liabilities	<u>-</u>

Net Cash Provided (Used) by Operating Activities \$ (11,643)

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

DELAWARE COUNTY RURAL WATER DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2024

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. Reporting Entity

The Delaware County Rural Water District #1 is a non-profit governmental organization. The organization was incorporated on February 22, 1977. Its purpose is to provide for the use and benefit of its members a water processing and distribution system, including physical facilities necessary for its operations and maintenance.

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 assets, 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).

C. Measurement Focus and Basis of Accounting

Measurement Focus

DELAWARE COUNTY RURAL WATER DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2024

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, capital assets and related depreciation, and short-term and long-term liabilities arising from cash transactions or events.

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.

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.

DELAWARE COUNTY RURAL WATER DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2024

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.

Capital Assets

The District's fixed assets are stated at cost. Depreciation is computed using the straight-line method over the estimated useful life of the assets. Expenditures for major renewals and betterments which extend the useful lives of the fixed assets are capitalized. Purchases of capital items in excess of \$500.00 that increase the capacity or operation efficiency or extend the useful life of any asset are capitalized. Expenditures for maintenance and repairs are expensed as incurred.

<u>Class of Asset</u>	<u>Estimated Useful Life</u>
Water Distribution Systems	40 years
Buildings	25 years
Equipment	5 years

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:

1. Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding

DELAWARE COUNTY RURAL WATER DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2024

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.

NOTE 2 - CASH AND INVESTMENTS

Custodial Credit Risk

At February 29, 2024, the District held deposits of approximately \$145,534 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.

DELAWARE COUNTY RURAL WATER DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2024

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.
- 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 of credit risk: 100% in certificate of deposit (\$102,201).

DELAWARE COUNTY RURAL WATER DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2024

NOTE 3 - RESTRICTED ASSETS

The loan agreement with the Oklahoma Water Resources Board for the District's basic financing requires that certain monies be put in a trust type account. These funds are restricted to servicing the loan with the OWRB. Monthly payments are made to a debt service account and then invested upon receipt by the loan trustee, Bank of Oklahoma NA. Semi-annual payments are then made by the trustee from this account to OWRB. Additionally, another account was required to be maintained from which note payments could be made if the District was unable to make its scheduled monthly payments. This is the debt service reserve account. When funds are received by the Trustee they are immediately invested in securities guaranteed by the United States Government. The earnings from the debt service and the debt service reserve account are accumulated in the debt service reserve account.

Balance of each account at February 29, 2024 is:

Debt Service Fund - Nt 2011	\$ 5,448.85
Total Restricted Funds	\$ 5,448.85

NOTE 4 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended February 29, 2024, was as follows:

	Balance at 2/28/2023	Additions	Deductions	Balance at 2/29/2024
Land	\$ 12,652	\$ -	\$ -	\$ 12,652
Construction in Progress	60,150	303,330	-	363,480
Buildings	88,218	-	-	88,218
Machinery, equipment, furniture and fixtures	24,659	-	-	24,659
Water Systems	2,611,289	12,600	-	2,623,889
Subtotal	2,796,969	315,930	-	3,112,899
Less: Accum. Depr.	(1,388,033)	(74,400)	-	(1,462,433)
Total Capital Assets (Net of Depreciation)	<u>\$ 1,408,936</u>	<u>\$ 241,529</u>	<u>\$ -</u>	<u>\$ 1,650,465</u>

NOTE 5 - LONG-TERM DEBT

On December 15, 2011, the District entered into a loan agreement with Oklahoma Water Resource Board. This loan is a Series 2011 Drinking Water SRF Promissory Note with an original loan amount of \$260,000.00, which was reduced to \$234,177.33. The proceeds of this Note will be used by the District to construct improvements to the drinking water

DELAWARE COUNTY RURAL WATER DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2024

system benefiting the customers of the District. The fixed assets, accounts receivable and assignment revenues are pledged as security on this note. The loan has an interest rate of 2.86% per annum plus an administrative fee at the rate of 0.5% per annum on the outstanding balance of disbursed loan proceeds. This loan will mature March 15, 2042.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended February 29, 2024:

	Balance at 2/28/23	Additions	Deductions	Balance at 2/29/24
OWRB ORF-11-0007-DW	\$ 175,798.13	\$ -	\$ 6,481.32	\$ 169,316.81
Total Long-Term Debt	\$ 175,798.13	\$ -	\$ 6,481.32	\$ 169,316.81

Debt Services Requirements to Maturity

The annual debt service requirements to maturity, including principal and interest for the fixed rate loan, for long-term debt, as of February 29, 2024, are as follows:

OWRB ORF-11-0007-DW:

Year Ended February 28,	Principal	Interest	Admin	Total
2025	\$ 6,688	\$ 4,874	\$ 852	\$ 12,415
2026	6,934	4,665	816	12,415
2027	7,172	4,462	780	12,415
2028	7,418	4,253	743	12,415
2029	7,660	4,047	708	12,415
2030-2034	42,494	16,666	2,914	62,073
2035-2039	50,316	10,008	1,750	62,073
2040-2043	40,636	2,396	419	43,450
Total	\$ 169,317	\$ 51,371	\$ 8,981	\$ 229,669

NOTE 6 - CONTINGENCIES

Litigation

According to the District's management, there is no pending litigation.

DELAWARE COUNTY RURAL WATER DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2024

Grant 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 - RISK MANAGEMENT

The District is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District manages this risk through the purchase of commercial insurance policies. Claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. There have been no significant reductions in insurance coverage during the year ended February 29, 2024.

NOTE 8 - ECONOMIC DEPENDENCE

Delaware County Rural Water District #1 is dependent upon the City of Jay, Oklahoma for the District's water supply. The District has entered into a water purchase contract with this entity. The District purchases water for resale to customers.

NOTE 9 - EMPLOYEE RETIREMENT PLAN

The District does not provide an employee retirement plan.

NOTE 10 - SUBSEQUENT EVENTS

The District did not have any subsequent events through the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending February 29, 2024.

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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
Delaware County RWD #1
Delaware 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 Delaware County Rural Water District #1, as of and for the year ended February 29, 2024, 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 October 23, 2024.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Delaware County Rural Water District #1'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 Delaware County Rural Water District #1's internal control. Accordingly, I do not express an opinion on the effectiveness of Delaware County Rural Water District #1'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 2024-01, 2024-02 & 2024-03 that I consider to be significant deficiencies.

Compliance and Other Matters

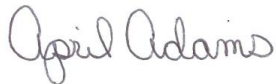
As part of obtaining reasonable assurance about whether the Delaware County Rural Water District #1's financial statements are free of material misstatement, I performed tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have 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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Delaware County Rural Water District #1's Response to Findings

Delaware County Rural Water District #1's response to the findings identified in my audit is described in the accompanying Schedule of Findings. Delaware County Rural Water District #1'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

October 23, 2024

DELAWARE COUNTY RURAL WATER DISTRICT 1
SCHEDULE OF FINDINGS
FEBRUARY 29, 2024

INTERNAL CONTROL FINDINGS

Item 2024-01 - Segregation of Duties:

Criteria - The segregation of duties is important to have adequate control over financial assets.

Condition - The District has the same employees performing work normally segregated between two or more employees, including receiving funds and posting those funds to the District's books.

Cause - The District's small size limits the amount of staffing needed to properly segregate the accounting functions.

Effect - The lack of segregation of duties could increase the risk that misstatements material to the financial statements could occur and not be detected within a timely manner.

Recommendation - The lack of segregation of duties is a common deficiency in District's the size of Delaware County RWD #1. The governing body should be aware of the increased risk and develop policies and procedures to reduce the effect of the internal control deficiency.

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

Current Status:

This is a repeat finding from the previous audit.

Item 2024-02: Accounts Receivable

Criteria: Internal control refers to the methods and procedures used to provide reasonable assurance regarding the achievement of objectives in the following categories: Safeguarding assets, ensuring validity of financial records and reports, promoting adherence to policies, procedures, regulations and laws, and promoting effectiveness and efficiency of operations. Internal control also refers to how an entity processes, summarizes and records the financial transactions. In general terms, internal controls are simply good business practices.

Condition: The District did not have strong internal controls in place for promoting effectiveness and efficiency of operations. The utility billing program improperly accumulates delinquent customer

DELAWARE COUNTY RURAL WATER DISTRICT 1
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late fees beyond the delinquent "shut off" date, causing accounts receivable to increase in perpetuity on uncollectible accounts receivable.

Cause/Effect: Due to the weak internal control system, the District had a large balance of accounts receivables due from customers. This balance is not reflected in the modified cash basis financial statements.

Recommendation: Methodology should be employed to determine the amount of adjustments for late fees and bad debt expense by adjusting receivables for late fees and uncollectible accounts. The District needs to make efforts to reduce the large outstanding balance.

Response: The District is aware of the problem.

Current Status:

This is a repeat finding from the previous audit.

Item 2024-03: 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.

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.

COMPLIANCE FINDINGS:

None