

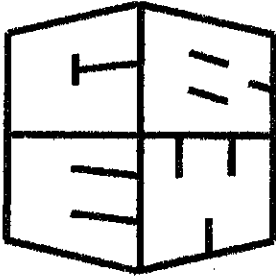
**RURAL WATER DISTRICT NO. 21
OSAGE COUNTY
Shidler, Oklahoma**

**BASIC FINANCIAL STATEMENTS
August 31, 2023**

**RURAL WATER DISTRICT #21
OSAGE COUNTY
Shidler, Oklahoma**

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INDEPENDENT AUDITOR'S REPORT

August 12, 2024

Board of Directors
Rural Water District No. 21
Osage County
Shidler, Oklahoma

Opinions

We have audited the accompanying financial statements of the business-type activities of Rural Water District No. 21, Osage County, Shidler, Oklahoma (the District), as of and for the years ended August 31, 2023 and 2022, and the related notes to the 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 financial position-modified cash basis of the business-type activities of the Rural Water District No. 21, Osage County, Shidler, Oklahoma as of August 31, 2023 and 2022, and the changes in financial position-modified cash basis and cash flows-modified cash basis, thereof for the years then ended in accordance with the basis of accounting as described in Note 1.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis of Accounting

We draw attention to Note 1 of the financial statements, 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. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances; this includes 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 District'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 District'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 District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 12, 2024, on our consideration of the Rural Water District No. 21'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 results of that testing, and not to provide an opinion on the effectiveness of the District'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 the Rural Water District No. 21's internal control over financial reporting and compliance.

CBEW Professional Group, LLP

CBEW Professional Group, LLP
Certified Public Accountants
Cushing, Oklahoma

**RURAL WATER DISTRICT NO. 21
OSAGE COUNTY
Shidler, Oklahoma**

**STATEMENT OF NET POSITION
MODIFIED CASH BASIS
August 31, 2023 and 2022**

	<u>August 31, 2023</u>	<u>August 31, 2022</u>
Current assets:		
Cash and cash equivalents (Note 1)	\$ 96,166	\$ 126,880
Investments	33,818	32,547
Temporarily restricted:		
Cash and cash equivalents (Note 2)	229,153	218,740
Total current assets	<u>359,137</u>	<u>378,167</u>
Capital assets:		
Land	6,000	6,000
Work in Progress	-	15,510
Water system, equipment and vehicles net of depreciation (Note 4)	1,959,570	1,988,361
Total capital assets	<u>1,965,570</u>	<u>2,009,871</u>
Total assets	<u>2,324,707</u>	<u>2,388,038</u>
Current liabilities:		
Current portion of notes payable (Note 3)	81,170	79,421
Total current liabilities	<u>81,170</u>	<u>79,421</u>
Long-term liabilities:		
Notes payable (Note 3)	869,896	951,066
Total long-term liabilities	<u>869,896</u>	<u>951,066</u>
Total liabilities	<u>951,066</u>	<u>1,030,487</u>
Net position:		
Net investment in capital assets	1,095,674	1,058,805
Temporarily restricted (Note 2)	229,153	218,740
Unrestricted	48,814	80,006
Total net position	<u>\$ 1,373,641</u>	<u>\$ 1,357,551</u>

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

**RURAL WATER DISTRICT NO. 21
OSAGE COUNTY
Shidler, Oklahoma**

**STATEMENT OF ACTIVITIES
MODIFIED CASH BASIS
For the Years Ended August 31, 2023 and 2022**

	<u>August 31, 2023</u>	<u>August 31, 2022</u>
Revenues:		
Water sales	\$ 509,051	\$ 430,074
Membership income	9,550	7,000
Other Income	<u>19,064</u>	<u>18,229</u>
Total revenues	<u>537,665</u>	<u>455,303</u>
Expenses:		
Accounting and legal	4,600	4,600
Contract services	140,904	166,172
Depreciation	77,226	77,117
Fees and publications	588	1,840
Insurance	11,328	10,766
Lab tests	4,306	816
Miscellaneous	13,162	17,656
Office supplies and postage	9,371	3,902
Payroll taxes	-	-
Repair and maintenance	103,439	183,405
Salaries	28,331	25,460
Supplies	58,940	77,966
Telephone	1,115	2,222
Utilities	<u>49,626</u>	<u>59,201</u>
Total expenses	<u>502,936</u>	<u>631,123</u>
Operating income (loss)	<u>34,729</u>	<u>(175,820)</u>
Other income and expense:		
Grant income	-	-
Interest income	4,217	468
Interest expense	<u>(22,857)</u>	<u>(24,623)</u>
Total other income and expense	<u>(18,640)</u>	<u>(24,155)</u>
Change in net position - net income (loss)	16,089	(199,975)
Net position - beginning of year	<u>1,357,552</u>	<u>1,557,527</u>
Net position - end of year	<u>\$ 1,373,641</u>	<u>\$ 1,357,552</u>

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

**RURAL WATER DISTRICT NO. 21
OSAGE COUNTY
Shidler, Oklahoma**

**STATEMENT OF CHANGES IN NET POSITION
MODIFIED CASH BASIS
For the Years Ended August 31, 2023 and 2022**

	Net Position (Unrestricted)	Net Position (Temporarily Restricted)	Total Net Position
Balance - beginning of year 8-31-22	1,138,811	218,740	1,357,551
Change in net position	<u>5,677</u>	<u>10,413</u>	<u>16,090</u>
Balance - end of year 8-31-23	\$ <u>1,144,488</u>	\$ <u>229,153</u>	\$ <u>1,373,641</u>
Balance - beginning of year 8-31-21	1,346,741	210,786	1,557,527
Change in net position	<u>(207,930)</u>	<u>7,954</u>	<u>(199,976)</u>
Balance - end of year 8-31-22	\$ <u>1,138,811</u>	\$ <u>218,740</u>	\$ <u>1,357,551</u>

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

**RURAL WATER DISTRICT NO. 21
OSAGE COUNTY
Shidler, Oklahoma**

**STATEMENT OF CASH FLOWS
MODIFIED CASH BASIS
For the Years Ended August 31, 2023 and 2022**

	<u>August 31 2023</u>	<u>August 31 2022</u>
Cash flows from operating activities:		
Cash received from customers	\$ 537,665	\$ 459,690
Cash payments to suppliers for goods and contractors and other services	(425,710)	(558,393)
Net cash provided by operating activities	<u>111,955</u>	<u>(98,703)</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(32,925)	(7,510)
Principal paid on debt	1,749	(77,655)
Uses of (payments to) reserve accounts	(10,413)	(7,888)
Grant income	-	-
Interest paid on debt	(104,027)	(24,622)
Net cash used in capital and related financing activities	<u>(145,616)</u>	<u>(117,675)</u>
Cash flows from investing activities:		
(Purchase) Liquidation of investments	(1,270)	(103)
Interest income	4,217	468
Net cash provided by investing activities	<u>2,947</u>	<u>365</u>
Net increase (decrease) in cash	(30,714)	(216,013)
Cash and cash equivalents at beginning of year	<u>126,880</u>	<u>342,893</u>
Cash and cash equivalents at end of year	<u>\$ 96,166</u>	<u>\$ 126,880</u>
Reconciliation of operation income to net cash provided by operating activities:		
Operating income (loss)	\$ 34,729	\$ (175,820)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	77,226	77,117
Changes in assets and liabilities:		
Increase (decrease) in payroll taxes payable	-	-
Total adjustments	<u>77,226</u>	<u>77,117</u>
Net cash provided by operating activities	<u>\$ 111,955</u>	<u>\$ (98,703)</u>

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

**RURAL WATER DISTRICT NO. 21
OSAGE COUNTY
Shidler, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
August 31, 2023 and 2022**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rural Water District No. 21, Osage County, Oklahoma (the District) was created pursuant to Title 82, O.S. 1981, Sections 1324.1-1324.26 inclusive, for the purpose of providing water to the members it serves. Membership in the water district consists of water users who have paid the required membership and connection fees. The District is exempt from federal and state income taxes.

The Board of Directors consists of 7 members, 4 of which are elected as officers of the District. The vacant Board seats are elected at the annual meeting in October, and following, the Board of Directors meet and elect a president, vice-president, and secretary-treasurer. All Board members serve without pay.

The more significant of the government's accounting policies are described below.

A. Reporting Entity

Rural Water District No. 21 is an independent, self-contained reporting entity with no associated component units. It is operated in a manner similar to a private business enterprise where the cost (expenses, including depreciation and amortization) of providing water services is financed through user charges.

B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting

The accompanying financial statements have been 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. The accounting and financial reporting treatment is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation are included on the statement of net position. The operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Depreciation expense is provided for capital assets based upon estimated useful lives. Amortization expense is provided for easements based upon a 40 year life.

Financial activity is accounted for on the flow of economic resources measurement focus using the modified cash basis of accounting. Under this method, revenues are recorded when received and expenditures are recorded when paid.

C. Assets, Liabilities and Equity

1. Deposits and Investments

Oklahoma Statutes authorize the District to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the District can invest in direct debt securities of the United States unless such an investment is expressly prohibited by law.

For financial statement presentation and for purposes of statements of cash flows, the District's cash and cash equivalents are considered to be cash on hand, demand deposits and certificates of deposit with a maturity date of three months or less.

Custodial Credit Risk

At August 31, 2023 and 2022, the District held deposits of approximately \$359,137 and \$378,167 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit, are entirely 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.

**RURAL WATER DISTRICT NO. 21
OSAGE COUNTY
Shidler, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
August 31, 2023 and 2022**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities and Equity (Continued)

1. Deposits and Investments (Continued)

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 District.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

The cash and investments held at August 31, 2023 are as follows:

Type	Weighted Average Maturity (Months)	Credit Rating	Market Value	Cost
Investments				
Certificate of deposit	12.00	N/A	33,818	33,818
Total investments			<u>\$ 33,818</u>	<u>\$ 33,818</u>

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 Certificates of deposit (\$33,818).

**RURAL WATER DISTRICT NO. 21
OSAGE COUNTY
Shidler, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
August 31, 2023 and 2022**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities and Equity (Continued)

2. Restricted Cash and Investments

The restricted cash is the result of financial requirements of various note indentures between the District and the Oklahoma Water Resources Board (OWRB) consist of funds held in reserve funds. Under the terms and provisions of the OWRB promissory note, these special funds are maintained with the Trustee bank for the benefit of the holders of the bond and are not subject to lien or attachment by any other creditors. Monies contained in the funds held by the Trustee are required to be continuously invested in authorized securities that mature not later than the respective dates when the funds shall be required for the purpose intended by the bonds. The funds are temporarily restricted but with prior written approval from OWRB, the funds can also be used for making improvements to the water system or for debt service. Under the terms and provisions of the promissory note, these funds may be maintained so long as the notes are outstanding. In addition, certain funds are restricted for customer deposits and are reflected as an asset and a corresponding liability.

3. Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

4. Capital Assets

Additions to the water treatment and delivery system and other equipment are recorded at cost or, if contributed property, at their estimated acquisition value at time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. The District maintains a capitalization threshold of \$1,000 and an estimated useful life in excess of two (2) years.

The District reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the property and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the implement to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. There were no impairment losses recognized in 2023 and 2022.

Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Water treatment and delivery system	35-40 years
Buildings and improvements	10-40 years
Machinery and equipment	5-10 years
Office equipment	3-7 years
Boat ramps and docks	15-30 years

**RURAL WATER DISTRICT NO. 21
OSAGE COUNTY
Shidler, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
August 31, 2023 and 2022**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities and Equity (Continued)

5. Net Position

In the basic financial statements, net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws or other governments, or are imposed by law through constitutional provisions or enabling legislation. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

6. Resource Use Policy

It is in the District's policy for all funds that when an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources, including net positions, are available, the District considers restricted amounts to be spent first before any unrestricted amounts are used.

D. Revenues, Expenses and Other Changes in Net Position

1. Operating Revenues and Expenses

Operating revenues and expenses are principally from water sales and connection fees charged to new system subscribers. Customer water consumption is determined by monthly meter readings taken by the District personnel. The water sales from subscriber water consumption received by the District's year-end are recognized as revenue in the current year. Operating expense consist of those costs necessary to operate and maintain the water distribution system and for general administration of the District.

2. Non-Operating Revenue and Expenses

Non-operating revenues and expenses consist of investment earnings, interest expense incurred on the District's notes payable and gains and losses on sales or the abandonment of long-lived assets.

2. LONG-TERM DEBT

Long-term debt consists of two notes with the United States Department of Agriculture, Rural Development. The note is secured by the water system, water treatment plant and revenues.

The notes are listed as follows:

Loan OWRB – Original amount of \$1,600,000, \$1,538,974 of which has been received, payable in semi-annual installments of varying amounts of principal and semi-annual installments of interest for 20 years at a fixed interest rate of 1.73% to construct a water treatment plant, maturing in September of 2033. As of June 25, 2015, the remaining loan funds of \$46,026 have been de-obligated.

**RURAL WATER DISTRICT NO. 21
OSAGE COUNTY
Shidler, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
August 31, 2023 and 2022**

2. LONG-TERM DEBT (Continued)

The following is a summary of long-term debt transactions during the year:

	Balance August 31, 2022	Additions	Reductions	Balance August 31, 2023	Current Portion
OWRB	\$ 1,030,487	\$ -	\$ 79,421	\$ 951,066	\$ 81,170
Total	\$ 1,030,487	\$ -	\$ 79,421	\$ 951,066	\$ 81,170

Annual cash requirements to amortize these notes are as follows:

Year Ending August 31,	Payments Due
2024	\$ 97,546
2025	97,972
2026	98,395
2027	98,830
2028	99,265
2028-2032	401,718
2033-2034	152,652
Total	1,046,378
Less interest	(95,312)
Note balance	\$ 951,066

**RURAL WATER DISTRICT NO. 21
OSAGE COUNTY
Shidler, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
August 31, 2023 and 2022**

3. CAPTIAL ASSETS

The following is a summary of changes in property, plant and equipment.

	Balance August 31, 2022	Additions	Deletions	Balance August 31, 2023
Non-depreciable assets:				
Land	\$ 6,000	\$ -	\$ -	\$ 6,000
Work in process	15,510	-	15,510	-
Total non-depreciable assets	<u>21,510</u>	<u>-</u>	<u>15,510</u>	<u>6,000</u>
Depreicable assets:				
Water System & Equipment	5,060,863	48,435	-	5,109,298
Buildings & Improvements	28,367	-	-	28,367
Office Equipment	8,339	-	-	8,339
Total depreciable assets	<u>5,097,569</u>	<u>48,435</u>	<u>-</u>	<u>5,146,004</u>
Less accumulated depreication	<u>(3,109,208)</u>	<u>(77,226)</u>	<u>-</u>	<u>(3,186,434)</u>
Net depreciable assets	<u>1,988,361</u>	<u>(28,791)</u>	<u>-</u>	<u>1,959,570</u>
Total net capital assets	<u>\$ 2,009,871</u>	<u>\$ (28,791)</u>	<u>\$ 15,510</u>	<u>\$ 1,965,570</u>

	Balance August 31, 2021	Additions	Deletions	Balance August 31, 2022
Non-depreciable assets:				
Land	\$ 6,000	\$ -	\$ -	\$ 6,000
Work in process	8,000	7,510	-	15,510
Total non-depreciable assets	<u>14,000</u>	<u>7,510</u>	<u>-</u>	<u>21,510</u>
Depreicable assets:				
Water System & Equipment	5,060,863	-	-	5,060,863
Buildings & Improvements	28,367	-	-	28,367
Office Equipment	8,339	-	-	8,339
Total depreciable assets	<u>5,097,569</u>	<u>-</u>	<u>-</u>	<u>5,097,569</u>
Less accumulated depreication	<u>(3,032,091)</u>	<u>(77,117)</u>	<u>-</u>	<u>(3,109,208)</u>
Net depreciable assets	<u>2,065,478</u>	<u>(77,117)</u>	<u>-</u>	<u>1,988,361</u>
Total net capital assets	<u>\$ 2,079,478</u>	<u>\$ (69,607)</u>	<u>\$ -</u>	<u>\$ 2,009,871</u>

**RURAL WATER DISTRICT NO. 21
OSAGE COUNTY
Shidler, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
August 31, 2023 and 2022**

4. RISK MANAGEMENT

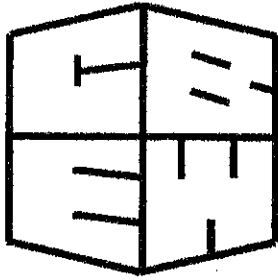
The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District continues to carry commercial insurance for these risks, including general and auto liability, property damage, and public officials liability. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

5. RESTATEMENT OF NET POSITION

Due to the change from GAAP to modified-cash basis, the 2022 beginning net position was increased by \$32,956 for changes to prepaid insurance, accounts receivable, accounts payable and interest payable.

**RURAL WATER DISTRICT NO. 21
OSAGE COUNTY
Shidler, Oklahoma**

**REPORT REQUIRED BY *GOVERNMENT AUDITING STANDARDS*
August 31, 2023**



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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

August 12, 2024

Board of Directors
Rural Water District No. 21
Osage County
Shidler, 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 modified cash basis financial statements of the business-type activities of the Rural Water District No. 21, Osage County, Shidler, Oklahoma (the District), as of and for the year ended August 31, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated August 12, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses as finding 2023-001 and 2023-002.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and 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 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*.

District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

CBEW Professional Group, LLP

CBEW Professional Group, LLP
Certified Public Accountants

**RURAL WATER DISTRICT NO. 21
OSAGE COUNTY
Shidler, Oklahoma**

**SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended August 31, 2023**

FINDINGS - FINANCIAL STATEMENT AUDIT

2023-001. Internal Control – Segregation of Duties

Criteria: The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets and reconciliation of those asset accounts is an important control activity needed to adequately protect the District's assets and ensure accurate financial reporting.

Condition: Presently the same individual that receives utility service-related cash payments is also responsible for service billing and adjustment, also balances the daily cash drawer, posts payments to subsidiary accounts receivable ledger and reconciles the monthly bank statements. In addition, only limited oversight is provided over this individual in the conduct of their daily functions. This finding was also noted in 2022.

Cause: The District's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

Effect or Potential Effect: Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to utility billing and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: We recommend that management and the board should consider a formal evaluation of their risks associated with this lack of duties segregation over utility cash and receivables. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with lack of segregation of duties, such as providing increased management oversight and an independent reconciliation of accounts. For example, the District might consider soliciting the assistance of independent volunteer labor to perform certain functions including acting as compensating procedures where applicable.

Responsible Official's Response: The District concurs with the recommendation, although, the cost to correct this condition might exceed the benefit, the District has made certain changes in procedures that will improve the overall lack of segregation of duties and has implemented compensating procedures as appropriate.

2023-002. Internal Control – Material Adjusting Journal Entries

Criteria: The District's management is responsible for internal controls over accounting and financial reporting. This responsibility includes the design and implementation of controls over the fair and complete presentation of the District's annual financial statements in accordance with the modified cash basis of accounting from trial balances derived from the District's accounting records. For trial balances to be both complete and accurate, the District must have effective internal controls over recording, processing, summarizing, and adjusting accounting data. As evidence of effective internal controls over accounting and financial reporting, there should generally be few, if any, material adjustments to the trial balances required that are detected and corrected solely as a result of the financial statement audit. In other words, District management should not rely on the external auditor to detect and correct material misstatements in the books and records as part of its internal controls, but rather should have its own procedures designed and in place that are independent of the external auditor to provide reasonable, although not absolute, assurance that material misstatements will be detected and corrected in its trial balances prior to audit.

**RURAL WATER DISTRICT NO. 21
OSAGE COUNTY
Shidler, Oklahoma**

**SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended August 31, 2023**

Condition: The District's trial balances for the year ended August 31, 2023, required a number of material adjusting journal entries in order for the financial statements to be prepared in accordance with the modified cash basis of accounting. These necessary adjusting entries, identified solely as a result of the financial statement audit, included such adjustments as the following: fixed asset purchases, depreciation, amortization, note payments and interest expense. This finding was also noted in 2022.

Cause: Although the District's accounting and financial reporting staff and board possess the necessary skills and experience to review and understand the financial statement presentation, they don't spend sufficient time in balancing and/or reconciling specific accounts at year end to provide assurance that the trial balances used for preparing modified cash basis financial statements are complete and accurate prior to audit. As a result, management has had to rely on the external auditors to identify and correct a number of material misstatements in the trial balances. However, management was able to review, understand and accept the adjusting entries proposed by the auditor in order to take responsibility for them and the financial statements.

Effect or Potential Effect: As a result of this condition, the District has not adhered to its internal controls over the completeness and accuracy of the trial balances that are used in the preparation of its financial statements in accordance with the modified cash basis and instead place reliance on its external auditors. This condition can result in undetected and uncorrected material misstatements in the financial statements that are not detected by management and may also not be detected by the financial statement audit. In addition, if management's intentions are to continue to rely on the external auditor to detect and correct material misstatements, this condition could place the auditor in a questionable position regarding auditor independence as required by the GAO "Yellow Book."

Recommendation: The Board should reevaluate its internal controls over the completeness and accuracy of trial balances and adhere to its policy of having a Board member to periodically review the interim financial statements in sufficient depth (particularly at year end) to ensure that material adjusting journal entries are made timely. Additionally accounting staff should strive to obtain the necessary expertise through continuing education to apply the modified cash basis of accounting in the development of working trial balances that will be used to prepare the District's annual financial statements. This could also be achieved through employment of additional qualified accounting staff or the outsourcing of these control activities to a qualified accounting firm other than the external auditor.

Responsible Official's Response: The District concurs with the recommendation, and will strive to prepare and post material adjusting journal entries to the financial statements.