# RURAL WATER DISTRICT NO. 1
# PAWNEE COUNTY
# Cleveland, Oklahoma

# BASIC FINANCIAL STATEMENTS
# December 31, 2020

RURAL WATER DISTRICT NO. 1
PAWNEE COUNTY
Cleveland, Oklahoma

December 31, 2020

## BOARD OF DIRECTORS

| | |
|---|---|
| President | David Smith |
| Vice-President | Rick Rogers |
| Secretary | Al Wheeler |
| Treasurer | Bob Boyd |
| Member | Bobby Brown |
| Member | James Cannon |
| Member | Todd Weldon |

## GENERAL MANAGER

Zack Rogers

## BOOKKEEPER

Michelle Welch

**RURAL WATER DISTRICT NO. 1**
**PAWNEE COUNTY**
**Cleveland, Oklahoma**

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## INDEPENDENT AUDITOR'S REPORT

November 1, 2021

Board of Directors
Rural Water District No. 1
Pawnee County
Cleveland, Oklahoma

### *Report on the Financial Statements*

We have audited the accompanying financial statements of Rural Water District No. 1, Pawnee County, Cleveland, Oklahoma (the District), as of and for the year ended December 31, 2020, and the related notes to the financial statements, as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Rural Water District No. 1, Pawnee County, Cleveland, Oklahoma as of December 31, 2020, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

The District has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements are not affected by this missing information.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2021, on our consideration of the Rural Water District No. 4'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 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. 4's internal control over financial reporting and compliance.

CBEW Professional Group, LLP

CBEW Professional Group, LLP
Certified Public Accountants
Cushing, Oklahoma

# RURAL WATER DISTRICT #1
# PAWNEE COUNTY
# Cleveland, Oklahoma

## STATEMENT OF NET POSITION
## December 31, 2020

| | | December 31, 2020 |
|---|---|---|
| **Assets:** | | |
| Cash and cash equivalents (Note 1) | $ | 227,701 |
| Investments | | 204,425 |
| Restricted assets: | | |
| Customer deposits (Note 1) | | 94,850 |
| Receivables (net of allowance for uncollectible) | | 58,231 |
| Prepaid expense | | 12,944 |
| **Capital assets:** | | |
| Water system, buildings, improvements and equipment, net of depreciation (Notes 1 & 3) | | 403,111 |
| **Total assets** | | 1,001,262 |
| **Deferred outflows of resources:** | | |
| **Total deferred outflows** | | - |
| **Current liabilities:** | | |
| Accounts payable | | 18,377 |
| Customer deposits | | 94,850 |
| Current portion of notes payable (Note 3) | | - |
| **Total current liabilities** | | 113,227 |
| **Long-term liabilities:** | | |
| Notes payable (Note 3) | | - |
| **Total long-term liabilities** | | - |
| **Total liabilities** | | 113,227 |
| **Deferred inflows of resources:** | | |
| **Total deferred inflows** | | - |
| **Net position:** | | |
| Net investment in capital assets | | 403,111 |
| Temporarily restricted (Note 1) | | - |
| Unrestricted | | 484,924 |
| **Total net position** | | 888,035 |
| **Total liabilities and net position** | $ | 1,001,262 |

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

**RURAL WATER DISTRICT #1**
**PAWNEE COUNTY**
**Cleveland, Oklahoma**

**STATEMENT OF ACTIVITIES**
**For the Year Ended December 31, 2020**

| | | December 31, 2020 |
|---|---|---|
| **Revenues:** | | |
| Water sales | $ | 654,376 |
| Late charges | | 8,812 |
| Miscellaneous income | | 18,994 |
| **Total revenues** | | 682,182 |
| **Expenses:** | | |
| Bank charges | | 6,534 |
| Contract services | | 1,925 |
| Depreciation | | 44,352 |
| Employee benefits | | 5,885 |
| Insurance | | 57,519 |
| Legal and accounting | | 7,092 |
| Licenses and permits | | 3,652 |
| Miscellaneous | | 5,733 |
| Office supplies and postage | | 10,514 |
| Payroll taxes | | 17,093 |
| Rental expense | | 48,939 |
| Repair and maintenance | | 26,252 |
| Salaries and payroll expenses | | 223,439 |
| Supplies | | 39,180 |
| Telephone | | 2,785 |
| Transportation | | 615 |
| Travel | | 2,682 |
| Utilities | | 21,125 |
| Water treatment | | 34,745 |
| **Total expenses** | | 560,061 |
| **Operating income (loss)** | | 122,121 |
| **Other income and expense:** | | |
| Interest income | | 3,284 |
| **Total other income and expense** | | 3,284 |
| **Change in net position - net income (loss)** | | 125,405 |
| **Net position - beginning of year** | | 762,630 |
| **Net position - end of year** | $ | 888,035 |

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

**RURAL WATER DISTRICT #1**
**PAWNEE COUNTY**
**Cleveland, Oklahoma**

## STATEMENT OF CHANGES IN NET POSITION
**For the Year Ended December 31, 2020**

| | Net Position (Unrestricted) | Net Position (Temporarily Restricted) | Total Net Assets |
|---|---|---|---|
| **Balance - beginning of year 12-31-19** | $ 762,630 | $ - | $ 762,630 |
| Change in net position | 125,405 | - | 125,405 |
| **Balance - end of year 12-31-20** | $ 888,035 | $ - | $ 888,035 |

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

**RURAL WATER DISTRICT #1**
**PAWNEE COUNTY**
**Cleveland, Oklahoma**

**STATEMENT OF CASH FLOWS**
**For the Year Ended December 31, 2020**

| | | December 31, 2020 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Cash received from customers | $ | 674,944 |
| Cash payments to suppliers for goods & contractors & other services | | (520,757) |
| **Net cash provided by operating activities** | | 154,187 |
| **Cash flows from capital and related financing activities:** | | |
| Acquisition & construction of capital assets | | (4,450) |
| Principal paid on debt | | (28,518) |
| Net change in meter deposits | | 10,525 |
| **Net cash used in capital and related financing activities** | | (22,443) |
| **Cash flows from investing activities:** | | |
| (Purchase) liquidation of investments - unrestricted | | (3,236) |
| Interest income | | 3,284 |
| **Net cash provided by investing activities** | | 48 |
| **Net increase (decrease) in cash** | | 131,792 |
| **Cash and cash equivalents at beginning of year** | | 190,759 |
| **Cash and cash equivalents at end of year** | $ | 322,551 |
| **Reconciliation of operation income to net cash provided by operating activities:** | | |
| Operating income (loss) | $ | 122,121 |
| **Adjustments to reconcile net income to net cash provided by operating activities:** | | |
| Depreciation | | 44,352 |
| Changes in assets and liabilities: | | |
| (Increase) decrease in accounts receivable | | (7,238) |
| (Increase) decrease in prepaid expenses | | (6,000) |
| Increase (decrease) in accounts payable | | 952 |
| **Total adjustments** | | 32,066 |
| **Net cash provided by operating activities** | $ | 154,187 |

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

**RURAL WATER DISTRICT NO. 1**
**PAWNEE COUNTY**
**Cleveland, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**
**December 31, 2020**

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rural Water District No. 1, Pawnee County, Oklahoma (the District), was created under the provisions of Title 82, O.S. 1981, Sections 1301-1321 on the 2nd day of January, 1970. The purpose of the District is to acquire water and water rights; to build and acquire pipelines and other facilities; and to operate the same for the purpose of providing water to serve the needs of owner and occupants of land located withing the District, and others as authorized by the by-laws. The District is exempt from federal and state income taxes.

The District is a governed by a Board of Directors that acts as the authoritative and legislative body of the entity. The Board of Directors is comprised of elected board members. 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. 1 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) 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 accrual basis of accounting in accordance with Generally Accepted Accounting Principles (GAAP) promulgated 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.

Financial activity is accounted for on the flow of economic resources measurement focus using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

### 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.

All the bank deposits are held at one financial institution and are carried at cost. For purposes of statements of cash flows, the District considers cash and all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### C. Assets, Liabilities and Equity (Continued)

#### 1. Deposits and Investments (Continued)

*Custodial Credit Risk*

At December 31, 2020, the District held deposits of approximately $526,976 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. The District was under collateralized by $71,987 at December 31, 2020.

*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.).

The investments held at December 31, 2020 are as follows:

| Type | Weighted Average Maturity (Months) | Credit Rating | Market Value | Cost |
|---|---|---|---|---|
| Investments | | | | |
| Money Market | N/A | AAAm | $ 322,551 | $ 322,551 |
| CDs | 18 Months | | 204,425 | 204,425 |
| Total investments | | | $ 526,976 | $ 526,976 |

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### C. Assets, Liabilities and Equity (Continued)

#### 1. Deposits and Investments (Continued)

*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: 61% in Money Market funds ($322,551) and 9% in CDs ($204,425).

#### 2. Restricted Cash and Investments

The restricted cash is the result of certain funds are restricted for customer deposits and are reflected as an asset and a corresponding liability.

#### 3. Fair Value of Financial Instruments

The District's financial instruments include cash and cash equivalents, accounts receivable, accounts payable and notes payable. The District's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of net position. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

#### 4. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

#### 5. Inventories

Inventories consist primarily of water stored in lines for use in the distribution process. Inventory is expensed when purchased.

#### 6. Capital Assets

Additions to the water storage 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 $500 and an estimated useful life in excess of two (2) years.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### C. Assets, Liabilities and Equity (Continued)

#### 6. Capital Assets (Continued)

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

| | |
|---|---|
| Water system | 50 years |
| Buildings | 39 years |
| Equipment | 5-7 years |
| Vehicles | 5 years |
| Office equipment | 5 years |

#### 7. Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused vacation time. Full-time employees are granted vacation and sick leave benefits in varying amounts to specified maximums depending on tenure. The District has not accrued compensated absences because the amount, if any, would not be material to the financial statements.

#### 8. Net Position

In the basic financial statements, net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt, 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.

#### 9. 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 customer and once annually by District personnel. The water sales from subscriber water consumption billed but unpaid at the District's year-end are recognized as revenue in the current year and reported in the statement of net position as accounts receivable. 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. CAPTIAL ASSETS

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

| | Balance December 31, 2019 | Additions | Deletions | Balance December 31, 2020 |
|---|---|---|---|---|
| Land | $ - | $ - | $ - | $ - |
| Construction in progress | - | - | - | - |
| Water system | 1,165,764 | - | - | 1,165,764 |
| Buildings | 137,704 | - | - | 137,704 |
| Equipment | 115,753 | 4,450 | - | 120,203 |
| Vehicles | 83,475 | - | - | 83,475 |
| Office equipment | 26,137 | - | - | 26,137 |
| Total | 1,528,833 | 4,450 | - | 1,533,283 |
| Less accumulated depreciation | 1,085,820 | 44,352 | - | 1,130,172 |
| Net | $ 443,013 | $ (39,902) | $ - | $ 403,111 |

## 3. LONG-TERM DEBT

Long-term debt consists of a note with Cunningham Sandblasting, in the original amount of $86,966. The note was issued on October 30, 2018 with a maturity of October 30, 2020, interest is at 0%. A payment of $2,851.79 for principal and interest is due each month. The note is secured by the water revenues derived from operations.

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

| | Balance December 31, 2019 | Additions | Reductions | Balance December 31, 2020 | Current Portion |
|---|---|---|---|---|---|
| Cunningham | $ 28,518 | $ - | $ 28,518 | $ - | $ - |
| Total | $ 28,518 | $ - | $ 28,518 | $ - | $ - |

## 4. RISK MANAGEMENT

Rural Water District No. 1 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. DEFERRRED COMPENSATION AND PENSION PLAN

The District offers a simple individual retirement plan for employees. The District has approved a contribution to the employee's Simple IRA account each month. Employees are allowed to contribute a portion of their own salary each month with a 3% match by the District. All amounts are 100% vested at the date of contribution. The District's contributions to the plan for the year were $5,885.

## 6. UNRECORDED RECEIVABLE

In April 2013, embezzlement took place and the amount was estimated to be $98,625. The court ordered restitution payback in the amount of $46,000. The District received $4,000 in 2020 in restitution payments. The balance of the restitution as of December 31, 2020 is $26,710. There is a probability that some or all of the remaining monies will not be recovered in future years so the receivable does not appear within the financial statements but income is recognized when received.

## 7. SUBSEQUENT EVENTS

Management has evaluated subsequent events and transactions through the date of the audit report, which is the date the financial statements were available to be issued. Management is currently evaluating the impact of the COVID-19 pandemic on the District and has concluded that while it is reasonably possible that the virus could have a negative effect on the District's financial position and results of its operations, the specific impact is not readily determinable as of the date of these financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

# RURAL WATER DISTRICT NO. 1
# PAWNEE COUNTY
# Cleveland, Oklahoma

# REPORT REQUIRED BY *GOVERNMENT AUDITING STANDARDS*
# December 31, 2020

**CBEW Professional Group, LLP**
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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*

November 1, 2021

Board of Directors
Rural Water District No. 1
Pawnee County
Cleveland, 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 financial statements of the business-type activities of the Rural Water District No. 1, Pawnee County, Cleveland, Oklahoma (the District), as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 1, 2021. The District did not present the Management's Discussion and Analysis required by the Governmental Accounting Standards Board.

### *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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the 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*.

### ***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

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Certified Public Accountants
Cushing, Oklahoma