

**CLEVELAND COUNTY RURAL WATER, SEWER, GAS, AND
SOLID WASTE MANAGEMENT DISTRICT NO. 1,
CLEVELAND COUNTY, OKLAHOMA**

Report on Audit of Financial Statements

For the Period Ending June 30, 2023

Table of Contents

Financial Section

Independent Auditor’s Report.....	1-3
Basic Financial Statements	
Statement of Net Position – Modified Cash Basis	4
Statement of Activities – Modified Cash Basis	5
Statement of Cash Flows – Modified Cash Basis	6
Notes to Financial Statements.....	7-11
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	12-13
Schedule of Findings.....	14

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Independent Auditor's Report

Board of Trustees

Cleveland County Rural Water, Sewer, Gas, and Solid Waste Management District No. 1,
Cleveland County, Oklahoma

Report on the Audit of the Financial Statements

Opinions

We have audited the modified cash basis financial statements of Cleveland County Rural Water, Sewer, Gas, and Solid Waste Management District No. 1 (District) as of and for the year ended June 30, 2023, and the related notes to the modified cash basis financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying modified cash basis financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of June 30, 2023, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting as described in Note 1 to the financial statements.

Basis for Opinions

We conducted our 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 (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.

Emphasis of Matter—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 opinions are 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 the modified cash basis of accounting, 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 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 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 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 February 7, 2024 on our consideration of the District'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Snodgrass & Williams CPAs PC".

Oklahoma City, Oklahoma

February 7, 2024

Cleveland County Rural Water District No. 1
Statement of Net Position - Modified Cash Basis
For the Year Ended June 30, 2023

ASSETS

Current Assets:

Cash	93,251.18
Total Current Assets	93,251.18

Non-Current Assets:

Capital Assets, Net	4,078,916.54
Total Assets	\$ 4,172,167.72

LIABILITIES

Current Liabilities:

Current Portion of Long-Term Debt	48,008.41
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Long-Term Liabilities:

Notes Payable - USDA, Net of Current Portion	2,730,224.04
Total Liabilities	2,778,232.45

NET POSITION

Invested in Capital Assets, Net of Related Debt	1,348,692.50
Unrestricted Assets	93,251.18
Total Net Assets	1,393,935.27
Total Liabilities & Net Assets	\$ 4,172,167.72

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

Cleveland County Rural Water District No. 1
Statement of Revenues, Expenses, and Change in Net Position -
Modified Cash Basis
For the Year Ended June 30, 2023

Operating Revenues:

Water Service	172,224.64
Other Income	1,146.01
Total Operating Revenues	173,370.65

Operating Expenses:

Automotive	5,189.78
Contractors	30,000.00
Dues, Subscriptions, Licenses	1,834.00
Insurance	3,797.14
Interest	76,620.23
Job Expenses	1,238.89
Office Expenses	951.60
Other Miscellaneous Expenses	620.19
Repairs & Maintenance	518.09
Utilities, Internet, & Telecommunications	14,768.00
Water Purchases, Testing, & Treatment	10,812.42
Depreciation	214,291.52
Total Operating Expenses	360,641.86

Operating Income (Loss) (187,271.21)

Non-Operating Revenue (Expense)

Interest Income 102.05

Change in Net Position (187,169.16)

Net Position, Beginning of Year 1,581,206.48

Net Position, End of Year \$ 1,393,935.27

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

Cleveland County Rural Water District No. 1
Statement of Cash Flows - Modified Cash Basis
For the Year Ended June 30, 2023

Cash Flows From Operating Activities:	
Cash Received from Customers	173,370.65
Cash Paid to Suppliers	<u>(146,350.34)</u>
Net Cash Provided by (used for) Operating Activities	27,020.31
Cash Flows From Financing Activities	
Debt Service (Principal)	(47,492.23)
Change in Cash	(20,471.92)
Beginning Cash	<u>113,723.10</u>
Ending Cash	<u><u>\$ 93,251.18</u></u>
Reconciliation	
Operating Income	(187,271.21)
Subtract: Depreciation Expense	<u>214,291.52</u>
Cash Flow Provided by (used for) Operating Activities	<u><u>\$ 27,020.31</u></u>

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

**CLEVELAND COUNTY RURAL WATER, SEWER, GAS, AND SOLID
WASTE MANAGEMENT DISTRICT NO. 1,
GARFIELD COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023**

Note 1 – Summary of Significant Accounting Policies

Nature of Organization

The Cleveland County Rural Water, Sewer, Gas, and Solid Waste Management District No. 1 (District) was incorporated in November, 2003. The District was created under the Rural Water District Act, 82 O.S. §1301 et. Seq., as amended. The purposes of the District are to acquire water and water rights, to build and acquire pipelines and other facilities, to operate the same for the purpose of furnishing water to serve the needs of owners and occupants of land located within the District, and others as authorized by the by-laws.

Basis of Accounting

The accounting policies of the District conform to the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Under the modified cash basis of accounting, revenues are recognized when collected and expenses are recognized when paid. Receivables and payables are not recognized, but long-term debt is recognized on the financial statements.

The District is classified as an Enterprise Fund. The costs of providing the water services to the public are financed mainly through user charges.

Cash and Deposits

Cash and deposits are maintained in financial institutions which provide coverage to depositors through the Federal Deposit Insurance Corporation. The State of Oklahoma allows government entities to invest in the following: direct obligations of the United States Governments, its agencies or instrumentalities; collateralized or insured certificates of deposit, insured savings accounts or savings certificates, or county, municipal, or school district direct debt.

Net Position

Net position presents the difference between assets and liabilities in the statement of net position. Net investments in capital assets are reduced by the outstanding balances of any borrowing used

for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are legal limitations imposed on their use by District legislation or external restrictions by creditors, grantors, laws or regulations of other governments.

Note 2 – Cash and Cash Equivalents

The District considers all checking and savings accounts (except restricted accounts) and deposits with a maturity of three months or less to be cash equivalents.

Note 3 – Water System and Equipment

Depreciable assets are recorded at cost when purchased. Assets donated are recorded at fair market value when received. Depreciation is calculated on a straight-line basis over the estimated useful life of the respective depreciable asset. Total depreciation for the year ended June 30, 2023 was \$214,291.52. The balances for depreciable assets by major category are as follows:

	Balance, June 30, 2022	Additions	Subtractions	Balance, June 30, 2023
Water Lines	3,596,659.07			3,596,659.07
Water Wells	777,152.09			777,152.09
Standpipe	499,981.29	711.46		500,692.75
Telemetry Equipment	57,842.75	65.00		57,907.75
Land	49,042.84			49,042.84
Buildings	140,023.00			140,023.00
Furniture, Fixtures, and Equip	19,098.47			19,098.47
Totals	\$ 5,139,799.51	776.46	-	\$5,140,575.97
Accumulated Depreciation	(847,367.91)	(214,291.52)		(1,061,659.43)
Net Capital Assets	<u>\$ 4,292,431.60</u>			<u>\$4,078,916.54</u>

Note 4 – Notes Payable

During the year ended June 30, 2018, the District was granted a note payable from the United States Department of Agriculture. The note was issued at an original principal amount of \$399,000, with payments due monthly in the amount of \$1,385, and an interest rate of 2.625%. Interest-only payments were due on July 25, 2019 and July 25, 2020, with the first regular payment coming due August 25, 2020. Amounts required to amortized this obligation are as follows:

Fiscal Year(s)	Principal	Interest	2023 Activity	
2024	6,715.18	9,904.82	Beginning Balance	386,931.83
2025	6,893.57	9,726.43	Principal Payments	<u>6,541.35</u>
2026	7,076.73	9,543.27	Balance, June 30, 2023	\$380,390.48
2027	7,264.74	9,355.26		
2028	7,457.75	9,162.25	Interest	\$ 10,078.65
2029-2033	40,368.21	42,731.79		
2034-2038	46,023.35	37,076.65		
2039-2043	52,470.70	30,629.30		
2044-2048	59,821.34	23,278.66		
2049-2053	68,201.70	14,898.30		
2054-2058	78,097.21	5,343.99		
	<u>\$ 380,390.48</u>	<u>\$ 201,650.72</u>		

During the year ended June 30, 2018, the District was granted a note payable from the United States Department of Agriculture. The note was issued at an original principal amount of \$2,512,000, with payments due monthly in the amount of \$8,893, and an interest rate of 2.750%. Interest-only payments were due on July 25, 2019 and July 25, 2020, with the first regular payment coming due August 25, 2020. Amounts required to amortized this obligation are as follows:

Fiscal Year(s)	Principal	Interest	2023 Activity	
2024	41,293.23	65,422.77	Beginning Balance	2,438,016.39
2025	42,443.20	64,272.80	Principal Payments	<u>40,174.42</u>
2026	43,625.23	63,090.77	Balance, June 30, 2023	\$2,397,841.97
2027	44,840.17	61,875.83		
2028	46,088.93	60,627.07	Interest	\$ 66,541.58
2029-2033	250,427.85	283,152.15		
2034-2038	287,296.14	246,283.86		
2039-2043	329,592.20	203,987.80		
2044-2048	378,115.16	155,464.84		
2049-2053	433,781.74	99,798.26		
2054-2058	500,338.12	35,936.40		
	<u>\$ 2,397,841.97</u>	<u>\$1,339,912.55</u>		

Note 5 – Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Note 6 – 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. Events that might create claims, but for which none have been reported, are considered in determining claims.

Note 7 – Fair Value of Financial Instruments

Generally Accepted Accounting Principles establish a fair value framework which uses a hierarchy for categorizing the inputs used in determining the fair value of an asset or liability. The level of the fair value hierarchy is required to be disclosed for each class of assets and liabilities measured at fair value.

The hierarchy consists of the following outputs:

Level 1: Quotes prices in active markets for identical assets or liabilities;

Level 2: Observable inputs other than the quoted prices included in Level 1;

Level 3: unobservable inputs.

The District's financial instruments include cash and cash equivalents, certificates of deposit, inventory, accounts receivable and accounts payable. The District's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying statement of net position. The carrying value of these financial instruments approximates fair value because of their short maturity, and therefore all financial instruments are categorized as Level 1 in the hierarchy.

Note 8 – Contingencies

As of February 7, 2024, the District did not have any pending litigation or potential non-disclosed liabilities that management believes would have a material effect on the financial statements.

Note 9 – Evaluation of Subsequent Events

The District has evaluated subsequent events through February 7, 2024, the date which the financial statements were available to be issued.

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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
Cleveland County Rural Water, Sewer, Gas, and Solid Waste Management District No. 1,
Cleveland County, Oklahoma.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the accompanying modified cash basis financial statements of Cleveland County Rural Water, Sewer, Gas, and Solid Waste Management District No.1, Oklahoma County, Oklahoma (the District), as of and for the year ended June 30, 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 February 7, 2024.

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 the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. See items 2023-1 and 2023-2.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Cleveland County Rural Water District No. 1's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. 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.

Russell & Williams, CPAs, P.C.



Oklahoma City, Oklahoma

February 7, 2024

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

Current Year Findings

2023-1 – Segregation of Duties

CONDITION: All accounting functions are performed by the same person, who also performs the billing function.

CRITERIA: Best practice for purposes of internal control would be to segregate the above-listed duties to the greatest possible extent.

CAUSE OF THE CONDITION: The District is small and has limited resources to use for the additional personnel necessary for proper segregation of duties.

2023-2 – Cash Balances, Recording Revenues

CONDITION: During the course of our audit we found that the cash balance in the District's operating account and utility revenues were under-reported by a significant amount.

CRITERIA: Proper internal control over financial reporting dictates that all cash balances and revenues be properly recorded so that the financial statements can accurately reflect net position and change in net position for the year;

CAUSE OF CONDITION: Unknown

RECOMMENDATION: We recommend that the bookkeeper regularly reconcile revenue and expense reports to cash balances, as well as reconcile the checking accounts to the general ledger to ensure that they substantially agree.