

CUSTER COUNTY RURAL WATER  
DISTRICT NO. 3

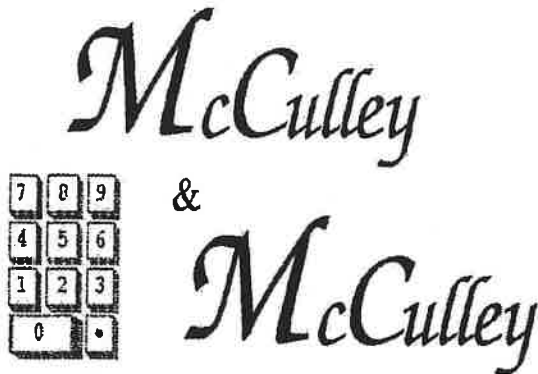
FINANCIAL STATEMENTS  
AND AUDITOR'S REPORT

JUNE 30, 2024 AND 2023

**CUSTER COUNTY RURAL WATER  
DISTRICT NO. 3**

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Custer County Rural Water District No. 3  
Custer, Oklahoma

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the accompanying financial statements of the Custer County Rural Water District No. 3 as of and for the years ended June 30, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the District's basic 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 of Custer County Rural Water District No. 3 as of June 30, 2024 and 2023, and the respective changes in financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

#### Basis for Opinion

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 opinion.

## **Responsibility 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 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 Responsibility 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 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 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 judgement 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:

1. Exercise professional judgment and maintain professional skepticism throughout the audit.
2. 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.
3. 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

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.

4. 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.

5. Conclude whether, in our judgement, 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.

#### **Required Supplementary Information**

The District has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require 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 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 is not affected by this missing information.

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

In accordance with Government Auditing Standards, we have also issued a report dated August 28, 2024, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the District's internal control over financial reporting and compliance.

*McCulley & McCulley*

Weatherford, Oklahoma

August 28, 2024

**CUSTER COUNTY RURAL WATER DISTRICT NO. 3  
BALANCE SHEETS**

	ASSETS	JUNE 30,	
		2024	2023
<b>Current Assets</b>			
Petty Cash		\$ 66	\$ 66
Cash in Bank		338,071	222,970
Certificates of Deposit		569,047	358,919
United States Treasury Bill			204,939
Accounts Receivable, Net		32,852	27,945
Accrued Interest Receivable		9,321	934
Prepaid Expenses		14,671	13,471
<b>Total Current Assets</b>		<u>964,028</u>	<u>829,244</u>
<b>Restricted Assets</b>			
Cash - Meter Deposits		31,822	30,787
<b>Total Restricted Assets</b>		<u>31,822</u>	<u>30,787</u>
<b>Other Assets</b>		<u>1,115</u>	<u>1,115</u>
<b>Capital Assets, Net of Accumulated Depreciation</b>		<u>899,141</u>	<u>889,486</u>
<b>TOTAL ASSETS</b>		<u>\$ 1,896,106</u>	<u>\$ 1,750,632</u>
<b>LIABILITIES AND NET POSITION</b>			
<b>Current Liabilities</b>			
Accounts Payable		\$	\$
Withheld and Accrued Payroll Taxes Payable		375	151
Accrued Compensated Absences		3,562	2,583
Customer Meter Deposits		31,822	30,787
<b>Total Current Liabilities</b>		<u>35,759</u>	<u>33,521</u>
<b>Long-Term Liabilities</b>		<u>0</u>	<u>0</u>
<b>Total Liabilities</b>		<u>35,759</u>	<u>33,521</u>
<b>Net Position</b>			
Net Investment in Capital Assets		899,141	889,486
Unrestricted and Designated		961,206	827,625
<b>Total Net Position</b>		<u>1,860,347</u>	<u>1,717,111</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>		<u>\$ 1,896,106</u>	<u>\$ 1,750,632</u>

The accompanying notes are an integral part of these statements.

**CUSTER COUNTY RURAL WATER DISTRICT NO. 3**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED JUNE 30, 2024 AND 2023**

	<b>JUNE 30,</b>	
	<b>2024</b>	<b>2023</b>
<b>Operating Revenues</b>		
Water Sales	\$ 458,336	\$ 447,840
Membership Income	7,000	3,000
Installation & Connection Charges	2,100	2,100
Late Charges	4,694	4,757
Insurance Rebates		
Other Revenue	1,725	1,326
	<hr/>	<hr/>
<b>Total Operating Revenues</b>	<b>473,855</b>	<b>459,023</b>
	<hr/>	<hr/>
<b>Operating Expenses</b>		
Cost of Water	4,754	10,784
Salaries and Wages	166,562	129,914
Pension Plan	17,313	13,864
Payroll Taxes	14,667	11,214
Depreciation	63,753	55,247
Bad Debt Expense (Recovery)	(381)	
Repairs and Maintenance	24,504	13,688
Insurance	17,970	16,412
Transportation	17,912	16,641
Utilities	18,831	32,162
Operating Supplies	37,729	34,832
Telephone	3,368	4,241
Office Supplies	9,743	9,149
Professional Services	2,700	2,600
Licenses, Dues, and Subscriptions	1,039	677
Director Fees	1,975	1,825
Miscellaneous Expense	1,918	3,879
	<hr/>	<hr/>
<b>Total Operating Expenses</b>	<b>404,357</b>	<b>357,129</b>
	<hr/>	<hr/>
<b>Operating Income Before</b>		
<b>Nonoperating Revenues (Expenses)</b>	<b>69,498</b>	<b>101,894</b>
	<hr/>	<hr/>
<b>Nonoperating Revenues (Expenses)</b>		
Interest Income	30,685	12,923
Damages to Water Line		
Insurance Proceeds	7,303	943
ARPA Grant Income	34,950	34,950
Gain on Disposition of Assets	800	
	<hr/>	<hr/>
<b>Increase in Net Position</b>	<b>\$ 143,236</b>	<b>\$ 150,710</b>
	<hr/>	<hr/>

The accompanying notes are an integral part of these statements.

**CUSTER COUNTY RURAL WATER DISTRICT NO. 3**  
**STATEMENTS OF CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED JUNE 30, 2024 AND 2023**

	<b>JUNE 30,</b>	
	<b>2024</b>	<b>2023</b>
<b>Net Position</b>		
Beginning of Year	\$ 1,717,111	\$ 1,566,401
Increase in Net Position For the Year Then Ended	<u>143,236</u>	<u>150,710</u>
End of Year	<u>\$ 1,860,347</u>	<u>\$ 1,717,111</u>

The accompanying notes are an integral part of these statements.



**CUSTER COUNTY RURAL WATER DISTRICT NO. 3**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2023 AND 2022**

	<b>JUNE 30,</b>	
	<b>2023</b>	<b>2022</b>
<b>Cash Flows from Operating Activities</b>		
Cash Received from Customers	\$ 470,365	\$ 458,011
Cash Paid for Goods and Services	(143,644)	(149,544)
Cash Paid to Employees	(197,339)	(160,664)
<b>Net Cash Provided by Operating Activities</b>	<b>129,382</b>	<b>147,803</b>
<b>Cash Flows from Noncapital Financing Activities</b>		
Proceeds from Insurance Claims	7,303	943
Proceeds from ARPA Grant Income	34,950	34,950
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b>42,253</b>	<b>35,893</b>
<b>Cash Flows From Investing Activities</b>		
Purchase of Capital Assets	(73,408)	(128,988)
Maturity (Purchase) of U. S. Treasury Bill	206,600	(199,956)
Sale of Capital Asset	800	
Interest Received on Cash and Cash Equivalents	20,637	7,006
<b>Net Cash Provided by (Used for) Investing Activities</b>	<b>154,629</b>	<b>(321,938)</b>
<b>Cash Flows from Financing Activities</b>		
<b>Net Cash (Used for) Financing Activities</b>	<b>0</b>	<b>0</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>326,264</b>	<b>(138,242)</b>
<b>Cash and Cash Equivalents</b>		
Beginning of Year	612,742	750,984
End of Year	<u>\$ 939,006</u>	<u>\$ 612,742</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>		
Operating Income	\$ 69,498	\$ 101,894
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	63,753	55,247
Changes in Assets & Liabilities:		
(Increase) in Accounts Receivable	(4,525)	(1,712)
(Decrease) in Allowance for Loss	(382)	(1,907)
(Increase) in Prepaid Expenses	(1,200)	(747)
Increase (Decrease) in Withheld and Accrued Payroll Taxes Pay.	224	(4,860)
Increase (Decrease) in Accrued Compensated Absences	979	(812)
Increase in Customer Meter Deposits	1,035	700
Total Adjustments	59,884	45,909
<b>Net Cash Provided By Operating Activities</b>	<b>\$ 129,382</b>	<b>\$ 147,803</b>

The accompanying notes are an integral part of these statements.

**CUSTER COUNTY RURAL WATER DISTRICT NO. 3**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDING JUNE 30, 2024 AND 2023**

**Note 1 - Significant Accounting Policies.**

The accounting policies of the Custer County Rural Water District No. 3 (the District) conform to accounting principles generally accepted in the United States of America applicable to government organizations. 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The following is a summary of the more significant policies.

**A. The Reporting Entity.**

The District provides water to its members within its geographic boundaries. The District is governed by a seven member Board of Directors who are elected by the participating members. These financial statements include all of the funds under the control of the Board of Directors relevant to the operations of the District.

**B. Basis of Presentation.**

The accounts of governmental entities are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund have a separate set of accounts which are comprised of each fund's assets, liabilities, net position, revenues and expenses. The activities of the District are organized into a single fund, an enterprise fund (proprietary fund type).

Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or change in net position is appropriate for capital maintenance, accountability, or other purposes.

**CUSTER COUNTY RURAL WATER DISTRICT NO. 3  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDING JUNE 30, 2024 AND 2023**

**Note 1 - Significant Accounting Policies (continued).**

**C. Basis of Accounting.**

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement focus applied.

Enterprise funds use the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the obligation is incurred.

**D. Accounts Receivable, Net.**

Accounts receivable consists of the amounts owed to the District by customers for water sales, late fees, memberships and supplies paid by the District for the benefit of the customer and to be reimbursed by them, net of any allowance for loss. Allowance for losses on receivables are recorded when management believes a receivable is uncollectible. Management periodically reviews its receivables to determine what is collectible. At June 30, 2024 and 2023, management has set an allowance for loss of \$2,168 and \$2,549, respectively.

**E. Capital Assets.**

All capital assets are valued at historical cost. Capital assets with a historical cost > \$500 are depreciated on the straight-line basis over the estimated useful life of the asset. A summary of the capital assets and the service lives by type of asset at June 30, 2024 and 2023, are as follows:

<u>Estimated Useful Life</u>	
Wells, Lines and Buildings	10 - 65 yrs.
Vehicles	5 yrs.
Furniture and Fixtures	3 - 5 yrs.
Pumps and Equipment	3 - 5 yrs.

**CUSTER COUNTY RURAL WATER DISTRICT NO. 3**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDING JUNE 30, 2024 AND 2023**

**Note 1 - Significant Accounting Policies (continued).**

**F. Accrued Compensated Absences.**

The District has established a compensated absences policy which gives all full time employees compensation for vacation leave. This policy gives two weeks vacation leave for those with one year of continuous employment and three weeks for those with ten years or more. Vacation leave will be paid whether taken or not at the end of the calendar year. Employees may also earn one calendar day per month sick leave which can accumulate to 36 days, along with 3 personal days each year that cannot be accumulated. Unused sick leave or personal days will not be paid to the employee. These financial statements accrue only for the unused vacation leave at June 30, 2024 and 2023.

**G. Net Position.**

Net position is classified into three components:

1. Net investment in capital assets - Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any debt attributable to these assets.
2. Restricted net position - Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional revisions or enabling legislation.
3. Unrestricted net position - All other net position that do not meet the definition of the other two above. These include amounts designated by management for a particular purpose.

**H. Operating Revenues and Expenses.**

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from nonexchange transactions or ancillary activities.

**CUSTER COUNTY RURAL WATER DISTRICT NO. 3  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDING JUNE 30, 2024 AND 2023**

**Note 2 - Cash in Bank and Certificates of Deposit.**

Cash in bank includes the District's demand deposits and savings accounts. The District's certificates of deposit are recorded at cost, which approximates market value. Certificates of deposit are authorized investments for the District. The District uses the state statutes as a deposit policy for custodial credit risk. The District has custodial credit risk which is defined as the risk that in the event of a bank failure, the District's deposits may not be returned to it. All of the District's deposits at June 30, 2024 and 2023, are secured by federal deposit insurance or collateralized by the bank as noted below.

	JUNE 30	
	2024	2023
Carrying Balance	\$938,940	\$612,676
Bank Balance	948,093	633,898
Insured	831,050	608,957
Not Insured but		
Collateralized by Bank	117,043	24,941
Not Insured or		
Collateralized		

For the purpose of the Statement of Cash Flows, the District considers cash and cash equivalents to be petty cash, cash in bank, certificates of deposit, and restricted assets - cash.

**Note 3 - Restricted Assets.**

Restricted assets consist of cash and accounts receivable restricted for customer deposits and which are offset by a related liability payable.

**Note 4 - United States Treasury Bill.**

United States Treasury Bill is recorded at its par value of \$206,600 less unamortized discount of \$1,661. Net is \$204,939. This matured on 9/7/2023 and proceeds used to purchase a certificate of deposit.

**CUSTER COUNTY RURAL WATER DISTRICT NO. 3**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDING JUNE 30, 2024 AND 2023**

**Note 5 - Capital Assets.**

Capital assets and its changes consist of the following:

	June 30, 2023	Additions	Deletions	June 30, 2024
Tank Sites - Land *	\$ 5,000	\$	\$	\$ 5,000
Office Building - Land *	2,154			2,154
Wells, Lines & Buildings	2,009,163	34,950		2,044,113
Vehicles	65,929	38,458	(19,300)	85,087
Furniture and Fixtures	13,219			13,219
Pumps and Equipment	131,925		( 444)	131,481
Total Capital Assets	<u>2,227,390</u>	<u>73,408</u>	<u>(19,744)</u>	<u>2,281,054</u>
Less Accumulated Depreciation for:				
Wells, Lines & Buildings	(1,230,275)	(43,309)		(1,273,584)
Vehicles	(30,957)	(11,890)	19,300	(23,547)
Furniture and Fixtures	(12,500)	( 376)		(12,876)
Pumps and Equipment	(64,172)	(8,178)	444	(71,906)
Total Accumulated Depr.	<u>(1,337,904)</u>	<u>(63,753)</u>	<u>19,744</u>	<u>(1,381,913)</u>
Net Capital Assets	<u>\$ 889,486</u>	<u>\$ 9,655</u>	<u>\$ ( 0 )</u>	<u>\$ 899,141</u>
	June 30, 2022	Additions	Deletions	June 30, 2023
Tank Sites - Land *	\$ 5,000	\$	\$	\$ 5,000
Office Building - Land *	2,154			2,154
Wells, Lines & Buildings	1,941,326	82,930	(15,093)	2,009,163
Vehicles	65,929			65,929
Furniture and Fixtures	13,219			13,219
Pumps and Equipment	85,867	46,058		131,925
Total Capital Assets	<u>2,113,495</u>	<u>128,988</u>	<u>(15,093)</u>	<u>2,227,390</u>
Less Accumulated Depreciation for:				
Wells, Lines & Buildings	(1,207,433)	(37,935)	15,093	(1,230,275)
Vehicles	(21,631)	(9,326)		(30,957)
Furniture and Fixtures	(11,908)	( 592)		(12,500)
Pumps and Equipment	(56,778)	(7,394)		(64,172)
Total Accumulated Depr.	<u>(1,297,750)</u>	<u>(55,247)</u>	<u>15,093</u>	<u>(1,337,904)</u>
Net Capital Assets	<u>\$ 815,745</u>	<u>\$ 73,741</u>	<u>\$ ( -0- )</u>	<u>\$ 889,486</u>

\* non-depreciable assets

**CUSTER COUNTY RURAL WATER DISTRICT NO. 3**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDING JUNE 30, 2024 AND 2023**

**Note 6 - Other Assets.**

Other assets consist of a reserve certificate issued by the Oklahoma Rural Water Association Assurance Group. It earns a variable rate of interest and can be redeemed by the District upon written demand (providing the net position of the Oklahoma Rural Water Association Assurance Group equals or exceeds 125,000). The total amount of this reserve certificate is \$1,000. The balance of other assets is utility deposits paid.

**Note 7 - Pension Plan.**

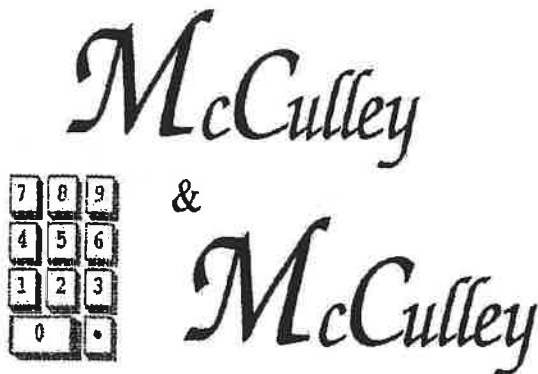
On August 4, 1992, the Board of Directors approved a Simplified Employee Pension plan for any full-time employee. The District has established a monthly contribution of 15% to comply with Internal Revenue Service regulations. The employees' length of service requirement to be eligible for this plan is six months. Employees are not required to contribute to this plan. For the fiscal year ending June 30, 2024 and 2023, the total employer contributions amounted to \$17,343 and \$13,864, respectively. Covered salaries for fiscal year 2024 and 2023 totaled \$115,421 and \$ 92,425, respectively. Total salaries for fiscal year 2024 and 2023 were \$176,908 and \$135,501, respectively.

**Note 9 - Risk Management.**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters. The District purchases commercial insurance to reduce their risk of loss. This insurance has a \$1,000 deductible for capital assets (except for the generators), personal injuries, and errors & omissions. The generators have a \$250 deductible.

**Note 10 - Net Position - Designated or Restricted.**

On November 4, 1997, the District's Board of Directors designated the District's savings accounts and certificate of deposits to be used for system improvements, expansions, and emergencies. Designated net position totaled \$606,451 and \$393,578 for the year ending June 30, 2024 and 2023, respectively.



*Certified Public Accountants*

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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**

Board of Directors  
Custer County Rural Water District No. 3  
Custer, Oklahoma

We have audited, 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, the financial statements of the Custer County Rural Water District No. 3 as of and for the year ended June 30, 2024 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 28, 2024. The District has not presented the management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be, a part of the basic financial statements.

**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 opinion 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. Therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed in the Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses. We considered the deficiencies described in the accompanying Schedule of Findings and Responses as item 1 to be a material weakness.

#### **Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not the objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance or other matters that are required to be reported under Government Auditing Standards.

#### **District 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 and described in the accompanying Schedule of Findings and Responses. The District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on the response.

#### **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.

*McCulley & McCulley*

Weatherford, Oklahoma

August 28, 2024

**CUSTER COUNTY RURAL WATER DISTRICT NO. 3**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**JUNE 30, 2024**

**1. Lack of Segregation of Duties.**

**CONDITION AND EFFECT** - The District does not have adequate segregation of duties since it only has one office employee. Material errors or fraud could occur and not be found in a timely manner.

**RECOMMENDATION** - The District should segregate the duties to the extent possible should new employees be hired.

**RESPONSE** - The District has surety bond insurance to reduce any risk of loss. The District believes the cost of hiring additional employees is not economically feasible.

**CUSTER COUNTY RURAL WATER DISTRICT NO. 3  
UPDATE ON PRIOR YEAR'S SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2024**

**1. Lack of Segregation of Duties.**

**CONDITION AND EFFECT** - The District does not have adequate segregation of duties since it only has one office employee. Material errors or fraud could occur and not be found in a timely manner.

**RECOMMENDATION** - The District should segregate the duties to the extent possible should new employees be hired.

**RESPONSE** - The District has surety bond insurance to reduce any risk of loss. The District believes the cost of hiring additional employees is not economically feasible.

**UPDATED COMMENT** - Situation is the same. Comment repeated.