

**DELAWARE COUNTY**  
**RURAL WATER DISTRICT No. 12**  
ANNUAL FINANCIAL STATEMENTS  
AND ACCOMPANYING  
INDEPENDENT AUDITOR'S REPORTS

FOR THE FISCAL YEAR ENDED  
APRIL 30, 2024

**DAVID CLANIN CPA PLLC**  
35988 HIGHWAY 82, VINITA, OK 74301  
(918) 519-8336 PHONE  
(918) 512-4646 FAX  
DAVID@CLANINCPA.COM

**Delaware County Rural Water District No. 12**  
**Water District Officials**  
**April 30, 2024**

**Board of Directors**

Fred Hammack	Chairperson
Joe Hill	Vice-Chairperson
Carl Putney	Treasurer
Jeff Grissom	Secretary
Christina Stites	Director

**Manager/Operator**

Duane Reardon

**Office Manager/Bookkeeper**

Treasure Dry

**Delaware County Rural Water District No. 12**  
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Office:  
35988 Highway 82  
Vinita, OK 74301  
(918) 782-3773



Mailing:  
PO Box 745  
Langley, OK 74350  
(918) 519-8336

## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Delaware County Rural Water District No. 12

### Opinion

We have audited the accompanying modified cash basis financial statements of the business-type activities of Delaware County Rural Water District No. 12, "the District", as of and for the year ended April 30, 2024, 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 of Delaware County Rural Water District No. 12, as of April 30, 2024, and the changes in its financial position and cash flows for the year then ended in accordance with the modified cash basis of accounting.

### 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.

### 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 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 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 July 21, 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 to describe the scope of our testing of internal controls over financial reporting and compliance and the 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 District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "David Chan CPA PLLC". The signature is written in a cursive, flowing style.

July 21, 2024

Office:  
35988 Highway 82  
Vinita, OK 74301  
(918) 782-3773



Mailing:  
PO Box 745  
Langley, OK 74350  
(918) 519-8336

**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***

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 financial statements of the business-type activities of Delaware County Rural Water District No. 12, Delaware County, Oklahoma, as of and for the year ended April 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 July 21, 2024.

**Report on Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Authority's internal control over financial reporting (internal control) to determine 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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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. However, material weaknesses or significant deficiencies may exist that were not identified.

## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority'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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Handwritten signature of David Chan in black ink, followed by the text "CPA PLLC" in a similar handwritten style.

July 21, 2024

**Delaware County Rural Water District No. 12**  
**Statement of Assets, Liabilities and Net Position – Modified Cash Basis**  
**April 30, 2024**

**Assets**

Current assets:

Cash and cash equivalents	\$ 53,873
Total current assets	<u>53,873</u>

Non-current assets:

Cash and cash equivalents - restricted	<u>7,530</u>
Property and equipment	
Water system	337,648
Buildings	4,500
Machinery and equipment	102,809
Vehicles	8,800
Accumulated depreciation	<u>(367,111)</u>
Total capital assets	<u>86,646</u>
Total non-current assets	<u>94,176</u>
Total assets	<u><u>\$ 148,049</u></u>

**Liabilities and Net Position**

Current liabilities:

Accrued payroll and payroll liabilities	\$ 991
Current portion of long-term debt	<u>-</u>
Total current liabilities	991

Noncurrent liabilities:

Note Payable	-
Customer deposits	<u>3,760</u>
Total liabilities	<u>4,751</u>

Net position:

Net investment in capital assets	86,646
Restricted	7,530
Unrestricted	<u>49,122</u>
Total Net Position	<u><u>\$ 143,298</u></u>

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



**Delaware County Rural Water District No. 12**  
**Statement of Revenues, Expenses, and Changes in Net Position – Modified Cash Basis**  
**For the Year Ended April 30, 2024**

Operating revenues	
Water revenues	\$ 307,555
Other revenues	-
	<u>307,555</u>
Operating expenses	
Automobile Expense	16,168
Bank Service Charges	742
Chemicals	5,410
Computer and Internet Expenses	5,138
Depreciation Expense	7,793
Dues and Subscriptions	3,047
Equipment Rental	820
Insurance Expense	18,431
Lab Fees	2,825
Miscellaneous	1,440
Office Expense and Supplies	4,352
Payroll Expenses	113,828
Postage	3,220
Professional Fees	10,925
Purchased Water	4,990
Repairs and Maintenance	43,995
Telephone Expense	5,805
Utilities	24,319
Total operating expenses	<u>273,248</u>
Operating income (loss)	<u>34,307</u>
Non-operating revenues (expenses)	
Interest income	103
Interest expense	(116)
Total non-operating revenues (expenses)	<u>(13)</u>
Change in net position	34,294
Net position, beginning of year	<u>109,004</u>
Net position, end of year	<u><u>\$ 143,298</u></u>

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

**Delaware County Rural Water District No. 12**  
**Statement of Cash Flows – Modified Cash Basis**  
**For the Year Ended April 30, 2024**

**Cash flows from operating activities:**

Cash receipts from customers	\$ 307,555
Cash paid for goods and services	(147,480)
Cash paid for salaries, benefits and payroll taxes	(117,624)
Net cash provided by (used in) operating activities	<u>42,451</u>

**Cash flows from capital and related financing activities:**

Purchases of property and equipment	(30,000)
Net cash provided by (used in) capital and related financing activities	<u>(30,000)</u>

**Cash flows from investing activities:**

Cash received for interest	103
Cash paid for interest	(116)
Principal payments on long-term debt	(7,716)
Net cash provided by investing activities	<u>(7,729)</u>

**Net cash inflow (outflow) from all activities** 4,722

Cash and cash equivalents at beginning of year, as restated	56,681
Cash and cash equivalents at end of year	<u><u>\$ 61,403</u></u>

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

Operating income (loss)	\$ 34,307
Depreciation	7,793
Increase/Decrease in:	
Accounts payable and accrued liabilities	351
Net cash provided by (used in) by operating activities	<u><u>\$ 42,451</u></u>

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

**Delaware County Rural Water District No. 12**  
**Notes to the Financial Statements**  
**For the Year Ended April 30, 2024**

**Note 1 - Summary of Significant Accounting Policies**

Delaware County Rural Water District No.12, (the “District”) was created in June 2016 for the purpose of providing water to the members of the District it serves.

The District’s customers receive the right to buy water by purchasing a member benefit unit. Each member benefit unit entitles the customer to one voting right. A voting right allows the member to vote at the annual meeting. Members elect the board of directors who serve three-year terms. The Board of Directors consists of five members that must be participating members of the District.

**A. Financial Reporting Entity**

The Authority’s fund is an enterprise fund. Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

The District considered all potential component units in determining what organizations should be included in the financial statements. There are no component units to include in the District’s financial statements.

**B. Basis of Presentation**

The accompanying financial statements have been prepared on the modified cash basis of accounting. The modified cash basis of accounting is based on the recording of cash and cash equivalents and changes therein, and only recognizes revenues, expenses, assets and liabilities resulting from cash transactions adjusted for modifications that have substantial support in generally accepted accounting principles. These modifications include adjustments for the following balances arising from cash transactions:

- Capital assets and the depreciation of those assets, where applicable
- Long-term debt
- Cash-based receivables and payables
- Utility deposit liabilities

**C. Measurement Focus and Basis of Accounting**

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 they are received, and expenses are recorded at the time liabilities are paid.

**Measurement Focus**

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied.

The proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

**Delaware County Rural Water District No. 12**  
**Notes to the Financial Statements**  
**For the Year Ended April 30, 2024**

**C. Measurement Focus and Basis of Accounting (continued)**

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**D. Assets, Liabilities and Net Position**

**1. Cash and Cash Equivalents**

For purposes of the statement of cash flows, the District considers all cash on hand, demand deposits, and highly liquid investments, with an original maturity of three months or less when purchased, to be cash and cash equivalents.

**2. Capital Assets**

Capital assets include property, plant and equipment. The District does not have a formal capitalization policy. The board determines on an item by item basis to capitalize or expense.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

All reported capital assets are depreciated on the straight-line basis over the following estimated useful lives: buildings (20-30 years); vehicles and equipment (5-10 years).

**3. Liabilities**

Liabilities are displayed in two components:

- a) Current Liabilities: 1) Accrued Payables include payroll liabilities withheld from employee for insurance, retirement, cafeteria plan and garnishments.
- b) Noncurrent Liabilities: 1) Meter Deposits, includes amounts paid by members to establish water service.

**Delaware County Rural Water District No. 12**  
**Notes to the Financial Statements**  
**For the Year Ended April 30, 2024**

**D. Assets, Liabilities and Net Position (continued)**

**4. Equity Classifications**

Equity is classified as net position and displayed in three components:

- a) Net investment in capital assets --- Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- b) 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 provisions or enabling legislation.
- c) Unrestricted net position --- All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

**5. Estimates**

The preparation of financial statements 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 2 - Detailed Notes Concerning the Fund**

**A. Cash and Investments**

*Authorized Investments* – The Districts’ policy for eligible investments is governed by State statutes which, in general, allow the District to invest in obligations of the United States and insured or collateralized Certificate of Deposits.

*Custodial Credit Risk* – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The District’s cash deposits, including interest-bearing certificates of deposit, are maintained in financial institutions. The District does not have a deposit policy for custodial credit risk. As of the fiscal year end none of the District’s deposits were exposed to custodial credit risk.

*Interest rate risk* - This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. 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.

**Delaware County Rural Water District No. 12**  
**Notes to the Financial Statements**  
**For the Year Ended April 30, 2024**

**Note 2 - Detailed Notes Concerning the Fund (continued)**

**B. Capital Assets**

Capital asset activity for the year was as follows:

	May 1, 2023	Additions	Deletions	April 30, 2024
Water system	307,648	30,000	-	337,648
Buildings	4,500	-	-	4,500
Machinery and equipment	102,809	-	-	102,809
Vehicles	8,800	-	-	8,800
Total Depreciable Assets	423,757	30,000	-	453,757
Accumulated Depreciation	(359,318)	(7,793)	-	(367,111)
	64,439	22,207	-	86,646

**C. Long-Term Debt**

In November 2019, the District entered into a loan agreement for the purchase of a backhoe. The original loan amount was \$30,000 bearing 4% interest with monthly payments of \$608. The note was paid in full during the fiscal year ended April 30, 2024

Changes in long-term debt for the fiscal year ended April 30, 2024 were as follows:

	Balance May 1, 2022	Advances	Payments	Balance April 30, 2023	Due Within One Year
Backhoe Loan	7,716	-	7,716	-	-
	\$ 7,716	\$ -	\$ 7,716	\$ -	\$ -

**D. Lease Agreement with Lakemont Shores Property Owners Association**

The District entered into a lease agreement with Lakemont Shores POA for the water system. Under the terms of the lease, the District is responsible for improving and administering the water system and providing water services to the members. The lease term is 50 years with a one-time payment of \$10. The District is responsible for all maintenance, improvements and insurance for the water system.

**E. 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. Operating expense consist of those costs necessary to operate and maintain the water distribution system and for general administration of the District.

**F. Non-Operating Revenues and Expenses**

Non-operating revenues and expenses consist of investment earnings, interest expense, new customer tap fees and gains and losses on sales or the abandonment of long-lived assets.

**Delaware County Rural Water District No. 12**  
**Notes to the Financial Statements**  
**For the Year Ended April 30, 2024**

**G. Resource Use Policy**

It is the District's policy for all funds that when expenditures are 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.

**Note 3 - Other Information**

**A. 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 purchases commercial insurance to cover these risks, including general and auto liability, property damage, and public officials' liability. There were no significant reductions in insurance coverage from the prior year.

**B. Subsequent Events**

Management has evaluated subsequent events through the date of the auditor's report, which is the date the financial statements were available to be issued and have determined that no additional information needs to be added to the financial statements.

**C. Prior Period Restatement**

The Statement of Revenues, Expenses, and Changes in Net Position reflects a change to the beginning of year net position and the Statement of Cash Flows reflects a change in beginning of year cash and cash equivalents. Both amounts were increased by \$25,474 due to an omission in the April 30, 2023 financial statements. The change had no affect on current or prior year change in position.