

**ELLIS COUNTY RURAL WATER DISTRICT NO. 1, ELLIS  
COUNTY, OKLAHOMA**

**Report on Audit of Financial Statements**

**For the Period Ending October 31, 2023**

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## Independent Auditor's Report

Board of Trustees  
Ellis County Water District No. 1,  
Ellis County, Oklahoma

### **Report on the Audit of the Financial Statements**

#### ***Opinions***

We have audited the modified cash basis financial statements of Ellis County Rural Water District No. 1 (District) as of and for the year ended October 31, 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 October 31, 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 June 26, 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 black ink that reads "Samuel & Williams CPA PC". The signature is written in a cursive, flowing style.

Oklahoma City, Oklahoma

June 26, 2024

**Ellis County Rural Water District No. 1**  
**Statement of Net Position - Modified Cash Basis**  
**For the Year Ended October 31, 2023**

**ASSETS**

Current Assets:

Cash - Unrestricted	21,458.03
Cash - Restricted	70,530.70
Total Current Assets	<u>91,988.73</u>

Non-Current Assets:

Capital Assets, Net	1,059,437.41
Total Assets	<u>\$ 1,151,426.14</u>

**LIABILITIES**

Current Liabilities:

Current Portion of Long-Term Debt	7,850.20
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Long-Term Liabilities:

Notes Payable - USDA, Net of Current Portion	289,613.69
Total Liabilities	<u>297,463.89</u>

**NET POSITION**

Invested in Capital Assets, Net of Related Debt	761,973.52
Unrestricted Assets	91,988.73
Total Net Assets	<u>853,962.25</u>
Total Liabilities & Net Assets	<u>\$ 1,151,426.14</u>

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

**Ellis County Rural Water District No. 1**  
**Statement of Revenues, Expenses, and Change in Net Position -**  
**Modified Cash Basis**  
**For the Year Ended October 31, 2023**

**Operating Revenues:**

Water Service	51,213.71
Total Operating Revenues	<u>51,213.71</u>

**Operating Expenses:**

Automotive	1,738.10
Insurance	4,260.75
Interest	10,349.42
Licenses, Permits, & Fees	207.80
Meter Reading	2,400.00
Office & Postage	227.00
Professional Expenses	2,400.00
Repairs & Maintenance	10,733.59
Utilities	2,266.94
Water Treatment, Environmental	2,754.22
Other Services & Charges	2,000.92
Depreciation	<u>52,024.65</u>
Total Operating Expenses	91,363.39

Operating Income (Loss) (40,149.68)

**Non-Operating Revenue (Expense)**

Interest Income	552.04
Net Non-Operating Revenue (Expense)	<u>552.04</u>

Change in Net Position	(39,597.64)
Net Position, Beginning of Year	<u>893,559.89</u>
Net Position, End of Year	<u><u>\$ 853,962.25</u></u>

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

**Ellis County Rural Water District No. 1**  
**Statement of Cash Flows - Modified Cash Basis**  
**For the Year Ended October 31, 2023**

Cash Flows from Operating Activities:

Cash Received from Customers	51,213.71
Cash Received from Interest	552.04
Cash Paid to Suppliers	<u>(39,338.74)</u>
Net Cash Provided by (used for) Operating Activities	12,427.01

Cash Flows from Financing Activities

Debt Service (Principal)	(7,590.58)
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Cash Flows from Investing Activities

Capital Expenditures	-
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Change in Cash	4,836.43
Beginning Cash	<u>87,152.30</u>
Ending Cash	<u><u>\$ 91,988.73</u></u>

Reconciliation

Operating Income	<u>(39,597.64)</u>
Subtract: Depreciation Expense	<u>52,024.65</u>
Cash Flow Provided by (used for) Operating Activities	<u><u>\$ 12,427.01</u></u>

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



**ELLIS COUNTY RURAL DISTRICT NO. 1,  
ELLIS COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED OCTOBER 31, 2023**

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

**Nature of Organization**

The Ellis County Rural Water District No. 1 (District) was incorporated under the Rural Water District Act, 82 O.S. §1301 et. Seq., as amended. The purpose of the District is to furnish and supply to owners and occupants of property within the corporate limits water and related facilities and services.

**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 October 31, 2023 was \$48,672. The balances for depreciable assets by major category are as follows:

	Balance, 10/31/2022	Additions	Subtractions	Balance, 10/31/2023
<b>Capital Assets:</b>				
Non-Depreciable:				
Land	2,000.00	-	-	2,000.00
Works In Progress	4,000.00	-	-	4,000.00
Depreciable:				-
Water System	1,739,255.00			1,739,255.00
Machinery & Equipment	41,637.78	-	-	41,637.78
Vehicles	20,466.00	-	-	20,466.00
Total Capital Assets	1,807,358.78	-	-	1,807,358.78
Accumulated Depreciation	(695,896.72)	(52,024.65)	-	(747,921.37)
Net Capital Assets	<u>\$ 1,111,462.06</u>			<u>\$ 1,059,437.41</u>

## Note 4 – Notes Payable

On July 23, 2008 the District entered into note agreements with USDA Rural Development for funds to construct a water system. The following schedule detail these notes:

Note 91-01 was issued on 7/23/2008 in the amount of \$183,000, with an annual interest rate of 4.125%. This obligation matures in 2048, and requires monthly payments of \$797. Amounts required to amortize this obligation are as follows:

	Principal	Interest		
2024	3,540.32	6,023.68	Beginning Balance	151,036.91
2025	3,689.14	5,874.86	Principal Paid	<u>3,397.48</u>
2026	3,844.22	5,719.78	Ending Balance	\$ 147,639.43
2027	4,005.83	5,558.17		
2028	4,174.25	5,389.75	Interest Paid	<u><u>\$ 6,166.52</u></u>
2029-2033	23,655.61	24,164.39		
2034-2038	29,063.92	18,756.08		
2039-2043	35,708.67	12,111.33		
2044-2048	39,957.47	3,973.20		
	<u>\$ 147,639.43</u>	<u>\$ 87,571.24</u>		

Note 91-04 was issued on 7/23/2008 in the amount of \$197,000, with an interest rate 2.75%. This obligation requires monthly payments in the amount of \$698. Amounts required to amortize this obligation are as follows:

	Principal	Interest		
2024	4,309.88	4,066.12	Beginning Balance	158,097.05
2025	4,429.91	3,946.09	Principal Paid	<u>4,079.49</u>
2026	4,553.28	3,822.72	Ending Balance	\$ 154,017.56
2027	4,680.09	3,695.91		
2028	4,810.42	3,565.58	Interest Paid	<u><u>\$ 4,296.51</u></u>
2029-2033	26,137.80	15,742.20		
2034-2038	29,985.84	11,894.16		
2039-2043	34,400.43	7,479.57		
2044-2048	36,516.81	2,324.84		
	<u>\$ 149,824.46</u>	<u>\$ 56,537.19</u>		

## Note 5 – Estimates

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

## **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 June 26, 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 – Reserve Accounts:**

The terms and conditions of the notes payable to the United States Department of Agriculture – Rural Development require monies to be held in reserve accounts. These reserve funds are to equal the note payments for one year. To be fully funded, these reserve funds must total \$17,940. As of October 31, 2023, these reserve funds totaled \$25,154.

The terms and conditions of the notes payable to the United States Department of Agriculture – Rural Development require monies to be set aside in a short-lived assets account. The amount to

be reserved each year is \$2,267. To be fully funded these reserve funds must total \$11,335. The balance of this account as of October 31, 2023 was \$21,616.

**Note 10 – Evaluation of Subsequent Events**

The District has evaluated subsequent events through June 26, 2024, the date which the financial statements were available to be issued.

# Russell & Williams, CPAs, P.C.

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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

EllisCounty Rural Water District No. 1, Ellis 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 Ellis County Rural Water District No.1, Ellis County, Oklahoma (the District), as of and for the year ended October 31, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 26, 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 item 2023-1.

## **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.

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

Oklahoma City, Oklahoma

June 26, 2024

## **SCHEDULE OF FINDINGS AND RECOMMENDATIONS**

### **Current Year Findings**

#### **2023-1 – Segregation of Duties - Accounting**

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 to reduce the risk of fraud or error.

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 – Segregation of Duties – Deposits**

CONDITION: The same person who accepts payments in cash or check also makes the deposits. This person also performs the billing function.

CRITERIA: Best practice for purpose of internal control would be to segregate the above-listed duties to the greatest possible extent to reduce the risk of fraud or error.

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