

Beckham County Rural Water District No. 3

**Independent Auditor's Report
and Financial Statements**

Year Ended December 31, 2022



Beckham County Rural Water District No. 3
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Year Ended December 31, 2022

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Beckham County Rural Water District No. 3

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities of the Beckham County Rural Water District No. 3, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Beckham County Rural Water District No. 3'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 respective financial position of the business-type activities of the Beckham County Rural Water District No. 3, as of December 31, 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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 Beckham County Rural Water District No. 3 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.

Responsibilities 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 Beckham County Rural Water District No. 3'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 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 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 Beckham County Rural Water District No. 3'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 Beckham County Rural Water District No. 3's ability to continue as a going concern for a reasonable period of time.

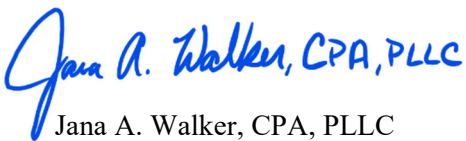
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Management has omitted management 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 our report dated June 5, 2023, on our consideration of the Beckham County Rural Water District No. 3'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 Beckham County Rural Water District No. 3'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 Beckham County Rural Water District No. 3's internal control over financial reporting and compliance.



Jana A. Walker, CPA, PLLC
Woodward, Oklahoma
June 5, 2023

BECKHAM COUNTY RURAL WATER DISTRICT NO. 3**STATEMENT OF NET POSITION****December 31, 2022****ASSETS**

Current Assets:

Cash & Cash Equivalents	\$	387,417
Cash & Cash Equivalents (Temporarily Restricted)		112,214
Accounts Receivable		45,351
Inventory		42,363
Prepaid Assets		10,059
Total current assets		<u>597,404</u>

Certificate of Deposits		811,075
Property, equipment and water system,net (Note 4)		1,690,421
Total Non-current assets		<u>2,501,496</u>

Total Assets	\$	<u><u>3,098,900</u></u>
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LIABILITIES AND NET POSITION

Current Liabilities:

Accounts Payable	\$	268
Accrued Payroll & Taxes		3,838
Current portion of long-term debt		53,843
Total Current Liabilities		<u>57,949</u>

Long-term debt

Notes payable		1,021,523
Total long-term debt		<u>1,021,523</u>

Total Liabilities		<u>1,079,472</u>
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Net Assets

Net investment in capital assets		615,055
Temporarily Restricted		112,214
Unrestricted		1,292,159
Total Net Position		<u>2,019,428</u>

Total Liabilities and Net Position	\$	<u><u>3,098,900</u></u>
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The accompanying report and notes are an integral part of these financial statements

BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended December 31, 2022

Revenues:	
Water sales	\$ 686,147
Other income	1,046
Total Operating Revenue	687,193
Expenses:	
Salaries	197,879
Employee Benefits	1,860
Contract Labor	24,708
Water Purchases	86,456
Insurance	58,260
Utilities	37,925
Operating Supplies	47,760
Office Supplies	5,264
Payroll Taxes	15,994
Professional Fees	11,255
Postage	4,965
Rent	3,045
Repairs and Maintenance	5,203
Directors' Fees	3,390
Telephone	6,603
Fuel	7,789
Dues and Subscriptions	66
Water Testing	989
Depreciation	129,567
Other expense	3,015
Total Operating Expense	651,993
Income (Loss) from Operations	35,200
Other Income/(Expense):	
New benefit units	500
Gain/(Loss) on Sale of Fixed Assets	16,000
Rent income	1,050
Interest income	5,173
Interest expense	(48,805)
Total non-operating revenue (expense)	(26,082)
Change in Net Position	9,118
Net Position, beginning of year	2,010,310
Net Position, end of year	\$ 2,019,428

The accompanying report and notes are an integral part of these financial statements

BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
STATEMENT OF CASH FLOWS
For Year Ended December 31, 2022

Cash flows provided (Used) by operating activities:	
Cash received from customers	676,165
Cash received from other revenues	1,046
Cash payments to employees	(215,567)
Cash payments to suppliers for goods and services	(318,300)
Net Cash Provided (Used) by Operating Activities	143,344
Cash flows from non-capital financing activities: -	
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(73,464)
Proceeds from sale of capital assets	17,500
Cash paid for loans	(51,611)
Cash paid for interest	(48,805)
Other income	1,550
Net Cash Provided (Used) by Investing Activities	(154,830)
Cash flows from investing activities	
Interest on cash and investments	5,173
Net cash provided (used) by investing activities	5,173
Net increase (decrease) in cash and cash equivalents (6,313)	
Beginning Cash and Cash Equivalent Balance	1,317,019
Ending Cash and Cash Equivalent Balance	\$ 1,310,706
Operating income (loss) 35,200	
Reconciliation of operating income (loss) to	
net cash provided (used) by operating activities:	
Depreciation	129,567
Changes in assets and liabilities:	
(Increase) decrease in receivables	(9,982)
(Increase) decrease in inventory	(9,602)
(Increase) decrease in prepaid expenses	(906)
Increase (decrease) in accounts payable	(1,099)
Increase (decrease) in accrued payroll	166
Net cash provided (used) by operating activities	\$ 143,344

The accompanying report and notes are an integral part of these financial statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Beckham County Rural Water District No. 3 was organized and established under the provisions of Title 82 of the laws of the State of Oklahoma. The purpose of this District is to furnish and supply to owners and occupants of property within the corporate limits water and related facilities and services.

The District is a governed entity administered by a Board of Directors that act as the authoritative and legislative body of the entity. The Board is comprised of elected board members.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting for all accounts in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America. The accounting and financial reporting treatment is accounted for on a flow of economic resources measurement focus. With the measurement focus, all assets and liabilities associated with the operation are included in the statement of net position. The operating statements present in the accounting policies of Beckham County Rural Water District No. 3 conform to the basic principles of governmental accounting and financial reporting set forth by the Governmental Accounting Standards Board.

The District is classified as an Enterprise Fund. The costs of providing the water services to the public are financed mainly through user charges. The financial statements of the District have been prepared using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Cash and Investments

Cash and investments 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 State Government, its agencies or instrumentalities; collateralized or insured certificates of deposit; insured savings accounts or savings certificates; or county, municipal or school district direct debt. The District's investments are recorded at cost.

For year ended December 31, 2022 the District recognized \$5,173 of investment income, respectively. Due to minimal rates of return on allowable investments in the current environment, most of the District's deposits are in demand deposits and short-term time deposits.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Cont’d

At December 31, 2022, the District held the following cash and investments:

	12/31/2022
Cash on Hand	\$ 400
Demand Deposits	499,231
Time Deposits	811,075
Total Cash and Investments	\$ 1,310,706

Custodial Credit Risk

Exposure to custodial credit related to deposits exists when the District holds deposits that are uninsured and uncollateralized; collateralized with securities held by the pledging financial institution, or by trust department or agent but not in the District’s name; or collateralized without a written or approved collateral agreement. Exposure to custodial credit risk related to investments exists when the District holds investments that are uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the District’s name. The District’s policy as it relates to custodial credit risk is to secure it uninsured deposits with collateral, valued at no more than market value, at least at a level of 100% of the uninsured deposits accrued interest thereon. On December 31, 2022 the District did not have any uninsured deposits, all cash held is deposited into three different banks and fully covered by the FDIC insurance of \$250,000.

Inventory

Inventory consists of materials and supplies used to make repairs for the District. Inventory is valued at the average cost of the items on hand. Reserves for obsolete inventory are recorded as considered necessary based upon the performance of an annual inventory.

Net Position

Net position presents the difference between assets and liabilities in the statement of net position. Net position of the business-type activity is displayed in the following three components:

1. Invested in Capital Assets, Net of Related Debt – Consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes and other borrowings that are attributable to the acquisition, construction or improvements of those assets.

2. Temporarily Restricted Net Position – Consists of net position with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or law through constitutional provisions or enabling legislation.

- 3. Unrestricted Net Position – All other net position that does not meet the definition of restricted or invested in capital assets, net of related debt.

It is the District’s policy to first use restricted net position prior to the use of the unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Federal Income Tax

The District is exempt from federal and state income taxes.

Capital Assets

Capital assets are valued at cost or, if contributed property, at their estimated acquisition value at the time of contribution. Depreciation of all fixed assets that are recorded as an allocated expense in the Statement of Revenues and Expenses and Changes in Net Position, with accumulated depreciation reflected in the Statement of Net Position. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. The District maintains a capitalization threshold of \$1,000 and an estimated useful life in excel of two years. Depreciation is provided over the assets’ estimated useful life using the straight-line method of depreciation. The range of estimated useful life by type of asset is as follows:

Office Furniture and Fixtures	7 years
Equipment and Tools	7 years
Transportation Equipment	5 years
Building and Improvements	40 years
Lines and Storage	40 years

NOTE 2 – CASH AND CASH EQUIVALENTS

For the purpose of the Statement of Cash Flows, the District considers all highly liquid investments (excluding the reserve accounts) with a maturity of three months or less to be cash equivalents.

NOTE 3 – ACCOUNTS RECEIVABLES

The accounts receivable are amounts due from members for water services. An allowance for doubtful accounts was not computed on these balances because uncollectibles do not have a material effect on the balance sheet. Accounts receivable at December 31, 2022 was \$45,351.

NOTE 4 – CAPITAL ASSETS

Depreciable assets are valued at cost or, if contributed property, at their estimated acquisition value at the time of contribution. when purchased or constructed. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend

Beckham County Rural Water District No. 3
Notes to Financial Statements
Year Ended December 31, 2022

CAPITAL ASSETS – Cont’d

the asset's life more than two years are not. Depreciation is calculated on a straight-line basis over the estimated useful lives of the depreciable assets.

Total depreciation for the year ended December 31, 2022 was \$129,567. The following is a summary by category of changes in property and equipment:

<u>Category</u>	<u>12/31/2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/2022</u>
Land	\$ 17,500	\$ -	\$ -	\$ 17,500
Easements	3,000	-	-	3,000
Water Rights	17,000	-	(1,500)	15,500
Buildings	162,535	-	-	162,535
Office Furniture	30,046	-	-	30,046
Equipment and Tools	134,691	-	-	134,691
Transportation Equipment	54,059	69,853	(37,059)	86,853
Lines and Storage	4,420,848	3,611	-	4,424,459
Accumulated Depreciation	(3,091,655)	(129,567)	37,059	(3,184,163)
	<u>\$ 1,748,024</u>	<u>\$ (56,103)</u>	<u>\$ (1,500)</u>	<u>\$ 1,690,421</u>

NOTE 6 – TEMPORARILY RESTRICTED ASSETS

Under the terms of the USDA Rural Development loan agreements, the Beckham County Rural Water District No. 3, Elk City, Oklahoma, must maintain reserve funds. The original loan agreements required the district to deposit \$860 monthly into the reserve fund until a required balance of \$103,200 was reached. In July 1993, Rural Development agreed that the District could defer making transfers to the reserve account until the District received income from the sale of water to Hammon Public Works Authority (PWA). Rural Development also agreed to accept reduced payments until the Hammon PWA income was received. The sale of water to Hammon PWA began in March 1995, the original loan was re-amortized. The District resumed transfers to the reserve account one month after the loan re-amortized.

Under the terms of the new Rural Development loan agreement, the District is to deposit 10% of the monthly payment of \$6,564 into the reserve account until the balance of 120 times the 10% is achieved which equals \$78,768. During the year ended December 31, 2022 the \$78,768 reserve requirement balance was met. The December 31, 2022 ending balance of \$78,768 for the original reserve fund consists of a money market savings account at First National Balance and Trust of Elk City, Oklahoma.

	<u>12/31/2022</u>
Beginning Balance	\$ 78,768
Monthly Deposits	-
Interest	-
Ending Balance	<u>\$ 78,768</u>

NOTE 6 – TEMPORARILY RESTRICTED ASSETS – Cont’d

Under the terms of the Rural Development loan agreement dated June 22, 2011, the District must maintain a second reserve fund. The loan agreement requires the District to deposit 10% of the monthly payment of \$1,804 into this reserve account every month until a balance of \$21,648 is reached. During the year December 31, 2018 the \$21,648 reserve requirement was met. For the years ended December 31, 2022, the Rural Development second reserve fund bank account consists of a money market savings account at First National Bank and Trust of Elk City, Oklahoma.

	<u>12/31/2022</u>
Beginning Balance	\$ 28,877
Monthly Deposits	4,569
Interest	-
Ending Balance	<u>\$ 33,446</u>

NOTE 5 – NOTES PAYABLE

The original Rural Development loan is dated April 11, 1990, for \$1,350,000 at an interest rate of 7.125%. The payment schedule called for monthly payments of \$8,600 beginning April 1991. The District paid \$2,902 principal on the note through December 31, 1994. The balance of principal payments was delinquent at December 31, 1994. Rural Development worked with the District to increase its revenue base in order for the District to be able to fund its debt-service requirements. Rural Development and Hammon Public Works Authority completed negotiations for the construction of a water line to connect the PWA to the District system. Hammon PWA completed the water line to the District’s distribution system and was connect in March 1995.

Dayton K. Watkins, Rural Development acting administrator, approved that after the District was on-line with Hammon for approximately one month (target date April 14, 1995) and Hammon PWA began purchasing water, the District could re-amortize the original loan. With the re-amortization transaction, unpaid interest in the amount of \$111,365 as of the date of closing became principal. The new principal amount will be repaid at an interest rate of 4.5% for 40 years. The first monthly installment was due (May 9, 1995) thirty days from the date of closing. As of April 14, 1995 the new loan balance was \$1,458,462 at an interest rate of 4.5%. The payment schedule called for monthly payments of \$6,564 beginning May 1995. During the year ended December 31, 2022 a total of \$42,466 was applied to the principal of the loan. The balance on December 31, 2022 is \$783,585.

On June 22, 2011, the District obtained an additional loan from Rural Development, loan number 91-06, the amount of \$415,600 for the purpose of providing a portion of the cost of acquiring and constructing improvements to the District’s water distribution system. The interest reate for this loan is 4.25%. The loan terms call for monthly payments of \$1,804 beginning July 22, 2011, and each month thereafter until the principal and interest are fully paid, except that the final installment of the entire indebtedness, if not sooner paid, shall be due and payable 40 years. During the year ended December 31, 2022 a total of \$6,895 was applied to the principal on this loan.

Beckham County Rural Water District No. 3
Notes to Financial Statements
Year Ended December 31, 2022

NOTE 5 – NOTES PAYABLE – Cont’d

The following is a summary of the long-term debt transactions for the year and a breakdown of the current and long-term portions of the Rural Development loans by year:

	Rural Development Notes Payable		
	Loan #91-03	Loan #91-06	Totals
Beginning Balance 1/1/2022	\$ 783,585	\$ 343,392	\$ 1,126,977
Less Principal	(44,418)	(7,193)	(51,611)
Ending Balance 12/31/2022	<u>\$ 739,167</u>	<u>\$ 336,199</u>	<u>\$ 1,075,366</u>
Curent Portion of Long-Term Debt	46,362	7,481	53,843
Long-Term Debt	692,805	328,718	1,021,523
Total Debt	<u>\$ 739,167</u>	<u>\$ 336,199</u>	<u>\$ 1,075,366</u>

The following is a summary of debt service requirements for the Rural Development loan #91-03:

Year Ending	Rural Development Loan #91-03		
	Principal	Interest	Total
December 31, 2023	46,362	32,406	78,768
December 31, 2024	48,492	30,276	78,768
December 31, 2025	50,719	28,049	78,768
December 31, 2026	53,049	25,719	78,768
December 31, 2027-31	304,123	89,717	393,840
December 31, 2032-35	236,422	18,080	254,502
	<u>\$ 739,167</u>	<u>\$ 224,247</u>	<u>\$ 963,414</u>

NOTE 5 – NOTES PAYABLE – Cont’d

The following is a summary of debt service requirements for the Rural Development loan #91-06:

Year Ending	Rural Development Loan #91-06		Total
	Principal	Interest	
December 31, 2023	7,480	14,168	21,648
December 31, 2024	7,804	13,844	21,648
December 31, 2025	8,143	13,505	21,648
December 31, 2026	8,496	13,152	21,648
December 31, 2027-31	48,333	59,907	108,240
December 31, 2032-36	59,754	48,486	108,240
December 31, 2037-41	73,874	34,366	108,240
December 31, 2042 + thereafter	122,315	17,840	140,155
	\$ 336,199	\$ 215,268	\$ 551,467

The total interest paid on all debt for the year ended December 31, 2022 was \$48,805.

NOTE 6 - ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosure about the use of fair value measurements in an effort to make the measurement of fair value more consistent and comparable.

Level 1: Quoted prices in active markets for identical securities.

Level 2: Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment spread and credit risk).

Level 3: Significant unobservable inputs (including the District’s own assumptions in determining the fair value of investments).

NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS – Cont'd

The District's financial instruments include cash and cash equivalents, 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 amount of these financial instruments approximates fair value because of the short maturity of these instruments.

NOTE 8 – COMPENSATED ABSENCES

At December 31, 2022 no determination of aggregate dollar value of vacation or sick pay had been made.

NOTE 9 – REVENUES, EXPENSES AND OTHER CHANGES IN NET POSTION

Operating Revenues and Expenses

Operating revenues and expenses are principally from water sales and connections fees charged to new customers. Customer water consumption is determined by monthly meter readings. The water sales from customers water consumption billed but unpaid at the District's year-end are recognized as revenue in the current year and reported in the statement of net position as accounts receivable. Operating expenses consist of those costs necessary to operate and maintain the water distribution system and for general administration of the District.

Non-Operating Revenues and Expenses

Non-operating revenues and expenses consist of interest earnings, interest expense incurred on the District's notes payable and gains and losses on sales of long-lived assets.

Bad Debts

The District uses the direct write-off method for recognizing bad debts. Under the direct write-off method, accounts receivables are charged to expense during the period they are determined to be uncollectible. The use of this method does not result in a material difference from the valuation method required by generally accepted accounting principles.

NOTE 10 – 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. In determining claims, events that might create claims, but for which none have been reported, are considered.

NOTE 11 – CONTINGENCIES:

As of December 31, 2022, 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 12 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through June 5, 2023, the date which the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

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
Beckham County Rural Water District No. 3

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Beckham County Rural Water District No. 3, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise Beckham County Rural Water District No. 3's basic financial statements, and have issued our report thereon dated June 5, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Beckham County Rural Water District No. 3's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Beckham County Rural Water District No. 3's internal control. Accordingly, we do not express an opinion on the effectiveness of Beckham County Rural Water District No. 3's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Beckham County Rural Water District No. 3'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 an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jana A. Walker, CPA, PLLC

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