

**Rural Water District No. 3,  
Woods County, Oklahoma**

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

**Year Ended September 30, 2023**



**Rural Water District No. 3, Woods County, Oklahoma**  
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**For the Year Ended September 30, 2023**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Rural Water District No. 3, Woods County, Oklahoma

**Opinions**

We have audited the accompanying modified cash basis financial statements of the business-type activities of Rural Water District No. 3, Woods County, Oklahoma, as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the Rural Water District No. 3, Woods County, Oklahoma'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 modified cash basis financial position of the business-type activities of the Rural Water District No. 3, Woods County, Oklahoma, as of September 30, 2023, and the respective changes in modified cash basis financial position, and where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

**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 Rural Water District No. 3, Woods County, Oklahoma, 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 these financial statements in accordance with the modified cash basis of accounting described in Note 1, and for determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible 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.

**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.

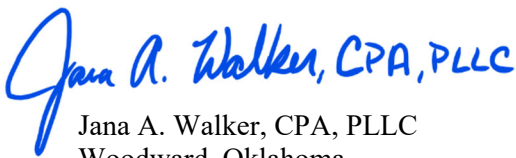
In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- 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 Rural Water District No. 3, Woods County, Oklahoma'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 Rural Water District No. 3, Woods County, Oklahoma'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 January 5, 2024, on our consideration of the Rural Water District No. 3, Woods County, Oklahoma'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 Rural Water District No. 3, Woods County, Oklahoma'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 Rural Water District No. 3, Woods County, Oklahoma's internal control over financial reporting and compliance.



Jana A. Walker, CPA, PLLC  
Woodward, Oklahoma  
January 5, 2024

**Rural Water District No. 3, Woods County, Oklahoma**  
**Statement of Assets, Liabilities, and Net Position-Modified Cash Basis**  
**September 30, 2023**

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ASSETS

Current Assets:	
Cash & Cash Equivalents	\$ 86,825
Certificates of deposit	114,037
Total current assets	200,862
Reserve certificates	3,000
Utility deposits	70
Property, equipment and water system, net (Note 4)	470,320
Total Non-current assets	473,390
Total Assets	\$ 674,252

LIABILITIES AND NET POSITION

Current Liabilities:	
Notes payable, current portion	\$ -
Total Current Liabilities	-
Total Liabilities	-
Net Position	
Net investment in capital assets	470,320
Restricted	-
Unrestricted	203,932
Total Net Position	674,252
Total Liabilities and Net Position	\$ 674,252

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

**Rural Water District No. 3, Woods County, Oklahoma**  
**Statement of Revenues, Expenses and Changes in Net Position-Modified Cash Basis**  
**For the Year Ended September 30, 2023**

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Revenues:	
Water sales	\$ 516,553
Other income	-
Total Operating Revenue	516,553
Expenses:	
Payroll	133,664
Payroll taxes	10,613
Employee benefits	12,863
Contract labor	-
Travel	-
Insurance and bonds	14,864
Professional fees	4,893
Dues and memberships	1,148
Office expenses	4,466
Repairs & Maintenance	44,967
Sampling and fees	876
Utilities	24,063
Telephone and Internet	4,244
Depreciation	56,085
Water purchases	186,340
Other expense	690
Total Operating Expense	499,776
Income (Loss) from Operations	16,777
Other Income/(Expense):	
REAP Grant	37,218
ARPA Grant	39,058
New Benefit Units	-
Interest income	3,564
Gain/(Loss) on Sale of Asset	3,528
Total non-operating revenue (expense)	83,368
Change in Net Position	100,145
Net Position, beginning of year	574,107
Net Position, end of year	\$ 674,252

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

**Rural Water District No. 3, Woods County, Oklahoma**  
**Statement of Cash Flows-Modified Cash Basis**  
**For Year Ended September 30, 2023**

Cash flows provided (Used) by operating activities:	
Cash received from customers	516,553
Cash payments to employees	(157,140)
Cash payments to suppliers for goods and services	(286,551)
Net Cash Provided (Used) by Operating Activities	72,862
Cash flows from non-capital financing activities:	
	-
Cash flows from capital and related financing activities:	
New benefit units	-
Principle payments	(580)
Purchases of capital assets	(14,077)
Proceeds from sale of assets	3,528
Net Cash Provided (Used) by Investing Activities	(11,129)
Cash flows from investing activities	
Interest on cash and investments	3,564
(Increase) decrease in certificates of deposit	(2,612)
Net cash provided (used) by investing activities	952
Net increase (decrease) in cash and cash equivalents	62,685
Beginning Cash and Cash Equivalent Balance	24,140
Ending Cash and Cash Equivalent Balance	\$ 86,825
Operating income (loss)	16,777
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	56,085
Net cash provided (used) by operating activities	\$ 72,862

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

Rural Water District No. 3, Woods County, Oklahoma (the “District”) was organized in January 1977 under the Rural Water, Sewer, Gas and Solid Waste Management District Act, Title 82,1324.3 et seq. 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 accounting policies of Rural Water District No. 3, Woods County, Oklahoma 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 are reported on a modified cash basis of accounting. This basis is a basis of accounting other than accounting principles generally accepted in the United States of America. 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 certain modifications that have substantial support in generally accepted accounting principles. The District has chosen to include adjustments for the following balances arising from cash transactions:

- Capital assets and the depreciation of those assets, where applicable
- Donated capital assets

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected, and accrued revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

As a result of the District’s use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation and sick leave) and compensatory time earned but unpaid at year-end, and any employer-related costs earned and unpaid, are not reflected in the financial statements as liabilities, but are normally reported as a commitment disclosure.



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 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.

Inventory

The Authority does not place a value on any of its inventory for financial statement purposes; consequently, materials, supplies, and replacement parts are not included as assets, and the cost of these items has been charged against income as repairs and maintenance expense at the time of purchase. Expenditures for major renewals and betterments which extend the useful lives of property and equipment are capitalized.

Income Tax

As provided in Title 82, Oklahoma Statutes, the Authority tax-exempt; consequently, no provision has been made for income taxes.

Net Position

Net position presents the difference between assets and liabilities in the statement of net position. Net investment in capital assets is 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.

Compensated Absences

As a result of the Authority's use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation and comp leave) earned but unpaid at year-end are not reflected in the basic financial statements. The compensated absence commitment at September 30, 2023 is \$ 6,514.

Capital Assets

Depreciation of all exhaustible fixed assets is 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. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Machinery and Equipment	3-15 years
Water System	15-40 years
Buildings	15-30 years

**Rural Water District No. 3, Woods County, Oklahoma**  
**Notes to Financial Statements**  
**Year Ended September 30, 2023**

**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 – PROPERTY AND EQUIPMENT:**

Depreciable assets are recorded at cost when purchased, constructed or donated. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life 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 September 30, 2023 was \$ 56,085 The following is a summary by category of changes in property and equipment:

<u>Category</u>	<u>9/30/2022</u>	<u>Additions</u>	<u>Deletions</u>	<u>9/30/2023</u>
Land	\$ 3,014	\$ -	\$ -	\$ 3,014
Buildings	133,679	-	-	133,679
Equipment	155,007	41,114	(3,109)	193,012
Office Equipment	10,867	4,044	-	14,911
Vehicles	38,536	45,195	(22,836)	60,895
Waterline System	1,240,196	-	-	1,240,196
Accumulated Depreciation	(1,145,247)	(56,085)	25,945	(1,175,387)
	<u>\$ 436,052</u>	<u>\$ 34,268</u>	<u>\$ -</u>	<u>\$ 470,320</u>

A total of \$76,276 in fixed assets were paid for by granting agencies and donated to the District. The assets were capitalized and related grant income was reflected in the financial statements as other income from the REAP Grant and ARPA grant.

**NOTE 4 – NOTES PAYABLE**

The District entered into a loan agreement in February 2018 with BancCentral to finance the purchase of a digital read water meters system. The note has an interest rate of 3.9% with a maturity date of February 23, 2022. The monthly payments are \$2,297. A subsequent note was issued on February 14, 2022 in the amount of \$580 with an interest rate of 2.3% to mature on December 31, 2022.

The following is a detail of the loan activity during the year ended September 30, 2023:

<u>Type of Debt</u>	<u>Balance at</u> <u>10/1/2022</u>	<u>Amount</u> <u>Issued</u>	<u>Amount</u> <u>Retired</u>	<u>Balance at</u> <u>9/30/2023</u>	<u>Due Within</u> <u>One Year</u>
Notes Payable	\$ 580	\$ -	\$ 580	\$ -	\$ -

**NOTE 5 - ESTIMATES:**

The preparation of financial statements in conformity with the modified cash basis of accounting 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 6 – 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).

The District’s financial instruments include cash and certificates of deposit. 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 7– 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 8 – CONTINGENCIES:**

As of September 30, 2023 the District did not have any pending litigation or potential non-disclosed liabilities that management believes would have a material effect on the financial statements.

**NOTE 9 – EVALUATION OF SUBSEQUENT EVENTS:**

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

## OTHER SUPPLEMENTARY 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  
Rural Water District No. 3, Woods 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 financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Rural Water District No. 3, Woods County, Oklahoma, as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise Rural Water District No. 3, Woods County, Oklahoma's basic financial statements and have issued our report thereon dated January 5, 2023.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Rural Water District No. 3, Woods County, Oklahoma'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 Rural Water District No. 3, Woods County, Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of Rural Water District No. 3, Woods County, Oklahoma'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 identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2023-001 that we consider to be significant deficiencies.

**Report on Compliance and Other Matters**

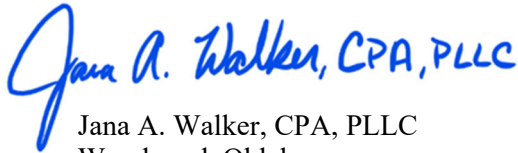
As part of obtaining reasonable assurance about whether Rural Water District No. 3, Woods County, Oklahoma's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with 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*.

**Rural Water District No. 3, Woods County, Oklahoma’s Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the Rural Water District No. 3, Woods County, Oklahoma’s response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The Rural Water District No. 3, Woods County, Oklahoma’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.



Jana A. Walker, CPA, PLLC  
Woodward, Oklahoma  
January 5, 2024

**Rural Water District No. 3, Woods County, Oklahoma**  
**Schedule of Findings and Responses**  
**Year Ended September 30, 2023**

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**FINDING 2023-001 Lack of Segregation of Duties**

Condition: Presently, the same individual is responsible for water service billings and receiving payments; making and recording deposits; maintaining billing registers; and reconciling the monthly bank statements. Only limited oversight is provided over this individual in the conduct of their daily functions.

Criteria: The segregation of duties and responsibilities between different individuals and the reconciliation of those asset accounts is an important control activity needed to adequately safeguard the entity's assets and ensure accurate financial reporting.

Cause: The entity's limited size has made it difficult for management to fully segregate the duties.

Effect or Potential Effect: Without sufficient segregation of duties, the risk significantly increases that errors and/or fraud related to the sales and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: The board should evaluate the risks associated with the lack of segregation of duties and consider implementing controls that could mitigate these risks.

Response: The board has concluded that the cost of correcting the weakness would exceed the benefits that would be derived and will continue to provide oversight as the governing body.