

MCCLAIN COUNTY RURAL WATER DISTRICT #8
WAYNE, OKLAHOMA
FINANCIAL STATEMENTS AND
AUDITOR'S REPORT THEREON
FOR THE YEAR ENDING JUNE 30, 2023 and 2022

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
McClain County Rural Water District #8
Wayne, Oklahoma

Report on the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities of McClain County RWD#8, as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the McClain County RWD#8, as of June 30, 2023 and 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the years 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 McClain County RWD #8 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 McClain County RWD #8 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 McClain County RWD #8 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 McClain County RWD #8 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 the management's discussion and analysis and budgetary comparison information 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the McClain County RWD #8's basic financial statements. The supporting schedules on pages 10 and 11 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supporting schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 17, 2024, on our consideration of the McClain County RWD#8'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 control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 McClain County RWD#8's internal control over financial reporting and compliance.

Russell + Williams CPAs, P.C.

Oklahoma City, Oklahoma
January 17, 2024

McClain County Rural Water District #8
Statement of Net Position
June 30, 2023 and 2022

	2023	2022
CURRENT ASSETS:		
Cash and cash equivalents - Unrestricted	177,545.91	493,111.04
Cash and cash equivalents - Restricted	184,570.16	181,997.96
Net Receivables	185,240.64	159,500.01
Prepaid Insurance	18,625.08	14,350.02
Materials and Supplies	11,388.53	11,388.53
Total Current Assets	577,370.32	860,347.56
NONCURRENT ASSETS:		
Net Capital Assets	2,095,369.82	1,594,129.56
Total Noncurrent Assets		
TOTAL ASSETS	\$ 2,672,740.14	\$ 2,454,477.12
CURRENT LIABILITIES:		
Accounts Payable	73,629.77	20,317.59
Accrued Expenses	5,634.08	3,757.32
Current Portion of Long Term Debt	102,127.00	100,487.33
Total Current Liabilities	181,390.85	124,562.24
NONCURRENT LIABILITIES:		
Notes Payable	1,338,065.31	1,440,192.31
Total Noncurrent Liabilities		
TOTAL LIABILITIES	1,519,456.16	1,564,754.55
NET POSITION		
Invested in Capital Assets, Net of Related Debt	655,254.10	80,524.88
Unrestricted	498,029.88	809,197.69
Total Net Position	1,153,283.98	889,722.57
TOTAL LIABILITIES AND NET POSITION	\$ 2,672,740.14	\$ 2,454,477.12

The accompanying footnotes are an integral part of these financial statements

McClain County Rural Water District #8
Statement of Revenues, Expenses, and Changes in Net Position
For the Years Ending June 30, 2023 and 2022

	2023	2022
Revenues		
Water Sales	\$ 878,706.31	\$ 901,953.71
Grant Revenue	100,000.00	-
Miscellaneous	96,320.00	29,053.85
Total Revenues	1,075,026.31	931,007.56
Expenses		
Operating Expenses	386,809.80	305,473.54
Wages and Salaries	196,299.33	188,168.96
General and Administrative	131,742.10	144,030.23
Interest	72,417.90	75,493.77
Depreciation	116,913.68	112,913.20
Total Expenses	904,182.81	826,079.70
Excess Revenue Over Expenses Before Non-Operating Items	170,843.50	104,927.86
Interest Income	5,217.91	665.98
Excess Revenue Over Expenses After Non-Operating Items	176,061.41	105,593.84
Beginning Net Position	889,722.57	721,728.73
Contributed Capital	87,500.00	62,400.00
Ending Net Position	\$ 1,153,283.98	\$ 889,722.57

The accompanying notes are an integral part of these financial statements

McClain County Rural Water District #8
Statement of Cash Flows
For the Years Ending June 30, 2023 and 2022

	2023	2022
Cash flows from operating activities		
Cash Received from customers	\$ 852,965.68	\$ 865,396.08
Cash Received from other sources	201,537.91	29,719.83
Payments to suppliers	(541,932.68)	(521,904.57)
Payments to employees	<u>(194,422.57)</u>	<u>(186,248.18)</u>
Net cash provided by operating activities	318,148.34	186,963.16
Cash flows from capital and related financing activities		
Common Units Sold	87,500.00	62,400.00
Purchase of Capital Assets	(618,153.94)	(23,433.12)
Principal paid on long term debt	<u>(100,487.33)</u>	<u>(93,931.37)</u>
Net cash flows from capital and related financing activities	(631,141.27)	(54,964.49)
Net increase (decrease) in cash	(312,992.93)	131,998.67
Cash, Beginning of the Year	<u>675,109.00</u>	<u>543,110.33</u>
Cash, End of the Year	<u><u>\$ 362,116.07</u></u>	<u><u>\$ 675,109.00</u></u>
 Reconciliation of Operating Income (Loss) to Net Cash		
Provided (Used) by Operating Activities:		
Excess Revenue over Expenses Before Non-Operating Items	176,061.41	105,593.84
Adjustments to Reconcile Operating Income to Net Cash		
Provided (Used) by Operating Activities:		
Depreciation	116,913.68	112,913.20
(Increase) Decrease in Accounts Receivable	(25,740.63)	(36,557.63)
(Increase) Decrease in Materials & Supplies	-	1,556.68
(Increase) Decrease in Prepaid Expenses	(4,275.06)	(389.74)
Increase (Decrease) in Accounts Payable	53,312.18	3,482.71
Increase (Decrease) in Accrued Expenses	<u>1,876.76</u>	<u>364.10</u>
Net cash provided by operating activities	<u><u>\$ 318,148.34</u></u>	<u><u>\$ 186,963.16</u></u>
Cash and cash equivalents - Unrestricted	177,545.91	493,111.04
Cash and cash equivalents - Restricted	<u>184,570.16</u>	<u>181,997.96</u>
Total Cash	<u><u>\$ 362,116.07</u></u>	<u><u>\$ 675,109.00</u></u>

The accompanying notes are an integral part of these financial statements

MCCLAIN COUNTY RURAL WATER DISTRICT #8
NOTES TO FINANCIAL STATEMENTS
June 30, 2023 and 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The McClain County Rural Water District #8, Oklahoma (the “District”) was created on October 5, 1973, pursuant to the Rural Water, Sewer and Solid Waste Management Districts Act of Oklahoma (82 O.S. Sec. 1301-1324) by an order of the Board of County Commissioners of McClain County, Oklahoma. The purpose of the District is providing an adequate water supply to meet the needs of rural residents within the territory of the district.

Cash and Cash Equivalents – Items classified as cash equivalents in the financial statements include temporary investments in bank certificates of deposit, as well as other highly liquid short-term investments. Restricted cash is cash reserves required by debt covenants.

Depreciation – Waterlines and facilities are depreciated using the straight-line method over the estimated useful lives of forty years. Depreciation of office building and office equipment is computed over the estimated useful lives of five to twenty years.

Income Taxes – No provision is made for income taxes. The District is a public trust and therefore not subject to income taxes under the Internal Revenue Code.

Contributed Capital – The District has received grants from governmental agencies for the construction of the District’s water system. These amounts have been recorded as Contributed Capital to reflect amounts received as equity from events not involving operations of the fund. No amounts were contributed during 2023 and 2022.

Revenue and Expense Recognition – Revenue is recognized when it is earned, which is the point of consumption by the customer and expenses are recognized at the point of sale to the District.

Risk Management - The District is exposed to various risks of losses 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 from commercial insurance companies.

GASB 34 - The District has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements-and Management’s Discussion and Analysis-for State and Local Governments, as of June 30, 2004.

NOTE 2 – COMMON UNITS

The District sells common units to new members. The accumulation of the sale of common units is reflected as part of the equity of the District. During the year ending June 30, 2023, the District sold \$87,500 worth of common units.

NOTE 3 - DEPOSIT COLLATERAL

The cash accounts of the District are required by state law to be secured by collateral pledged by the financial institution and/or FDIC deposit insurance. In accordance with GASB No. 3, deposits are to be classified into the following three categories:

1. Insured or collateralized with securities held by the entity or by its agent or in the entity's name. (Referred to as category 1)
2. Collateralized with securities held by pledging financial institution's trust department or agent in the entity's name. (Referred to as category 2)
3. Uncollateralized, including any bank balance that is collateralized with securities held by the pledging institution, or by its trust department or agent but not in the entity's name. (Referred to as category 3)

The District's cash accounts would be classified as category 1 for the portion that was insured by FDIC and category 3 for the portion not covered by FDIC. As of June 30, 2023, the District had \$362,116 secured as category 1 and \$-0- secured as category 2. For the year end the District had an overall under pledged collateral amount of \$-0-.

NOTE 4 – LONG TERM DEBT

During the year ending June 30, 2014, the District refinanced their existing Rural Development loans through the Oklahoma Water Resource Board. This loan is being administered by BancFirst. The excess loan proceeds were used for capital improvements. This loan calls for semi-annual payments and matures in September 2033. This loan carries a variable interest rate ranging from 2.1% to 2.4%. Principal and interest paid during the year ending June 30, 2023 was \$70,000 and \$45,439, respectively. Principal and interest required to amortize this note till maturity is as follows:

	<u>Principal</u>	<u>Interest</u>		
2023/2024	70,000	42,359	Balance Beginning of Year	\$ 1,040,000
2024/2025	75,000	39,356	Principal Paid During of Year	<u>70,000</u>
2025/2026	75,000	36,384	Balance End of Year	<u><u>\$ 970,000</u></u>
2026/2027	80,000	33,115		
2027/2028	85,000	29,485		
2028/2033	475,000	82,568		
2033/2034	110,000	5,253		
	<u>\$ 970,000</u>	<u>\$ 268,519</u>		

Collateral for these obligations is the water system and revenues generated by the system. The District also had restricted cash of \$184,570 as of June 30, 2023 for debt service and remaining loan proceeds.

During the year ending June 30, 2022, the District took out a loan with the Oklahoma Rural Development Finance Corporation for \$581,000. Proceeds from this loan were used to rehab the water plant. This loan carries a 5.25% interest rate and requires monthly payments of \$4,670.53. The balance of this note as of June 30 was \$470,192. Principal and interest required to amortize this note till maturity is as follows:

	<u>Principal</u>	<u>Interest</u>		
2023/2024	32,127	23,919	Balance Beginning of Year	\$ 500,680
2024/2025	33,855	22,192	Principal Paid During of Year	<u>30,487</u>
2025/2026	35,676	20,371	Balance End of Year	<u><u>\$ 470,193</u></u>
2026/2027	37,594	18,452		
2027/2028	39,616	16,430		
2028/2030	291,325	15,391		
	<u>\$ 470,193</u>	<u>\$ 116,755</u>		

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2023 was as follows:

	<u>Beginning</u>			<u>Ending</u>
	Balance	Increases	Decreases	Balance
Water Lines and Plant	3,758,077	570,155	-	4,328,232
Equipment and Fixtures	484,702	47,999	-	532,701
Total	4,242,779			4,860,933
Accumulated Depreciation	(2,648,651)	(116,913)		(2,765,564)
Net Capital Assets	<u>\$ 1,594,128</u>			<u>\$ 2,095,369</u>

Management decides which purchases are capitalized on a case by case basis.

NOTE 6 – INSURANCE COVERAGE

The District maintains insurance coverage through the Oklahoma Rural Water Association Assurance Group (ORWA). The policy coverage period is 6/01/2023 to 6/01/2023. The policy agreement number is 10298. The policy provides the following coverage:

Property and General Liability

\$25,000	Each Property Damage Loss per Occurrence	\$1,000,000	Aggregate Per Occurrence
\$125,000	Each Other Loss per Occurrence	\$1,000,000	Annual Aggregate

Worker's Compensation and Employment Related Practices Liability

\$500,000	Per Occurrence Including Attorney Fees	\$1,000,000	Annual Aggregate
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Position Fidelity Bond

\$10,000	Blanket Coverage
\$71,000	Per Position on the Board
\$10,000	Money Securities

NOTE 7 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through January 17, 2024 which is the date the financial statements were made available.

McClain County Rural Water District #8
Supporting Schedule of Operating Expenses
For the Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Chemicals	4,066.00	3,791.00
Contract Hire	30,506.00	-
Expense on System	153,451.78	127,943.73
Uniforms	6,944.96	10,234.50
System Repairs	88,379.20	83,640.96
Electricity	67,064.63	52,502.63
Workmen's Comp Insurance	2,912.00	3,078.00
Automobile Expense	33,485.23	24,282.72
Total Operating Expenses	<u>\$ 386,809.80</u>	<u>\$ 305,473.54</u>

McClain County Rural Water District #8
Supporting Schedule of General and Administrative Expenses
For the Years Ended June 30, 2023 and 2022

	2023	2022
Accounting and Legal	20,610.00	4,110.00
Insurance and Bonding	51,508.39	62,904.48
Miscellaneous	11,231.05	34,983.96
Office Supplies	27,096.12	25,002.97
Postage	3,714.00	2,650.00
Telephone	12,357.43	9,528.06
Natural Gas	3,557.36	3,295.26
Water	1,667.75	1,555.50
Total General & Administrative Expenses	\$ 131,742.10	\$ 144,030.23

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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 of
McClain County RWD #8

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 McClain County RWD #8, as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise McClain County RWD #8's basic financial statements and have issued our report thereon dated January 17, 2024.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered McClain County RWD #8'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 McClain County RWD #8's internal control. Accordingly, we do not express an opinion on the effectiveness of McClain County RWD #8'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. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. 2023-1, 2023-3.

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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 2023-2.

McClain County RWD #8's Response to Findings

McClain County RWD #8's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. McClain County RWD #8'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 CPA's P.C.

Oklahoma City, Oklahoma
January 17, 2024

Schedule of Current Findings and Responses

2023-1 Lack of Segregation of Duties (Repeat Finding)

CONDITION: During our review of the internal control structure, we noted that several procedures lack the control of having duties segregated. We understand that due to the size of the District and number of personnel, many aspects related to segregation of duties cannot be implemented. Currently, there is only one person in the office to pay bills, collect revenue, post payments, and maintain all of the accounts.

CRITERIA: We believe that internal control procedures would be strengthened by reviewing the individual tasks to determine whether internal control procedures could be improved.

CAUSE OF CONDITION: Limited personnel

EFFECT OF CONDITION: Unknown

MANAGEMENT RESPONSE: All checks require two signatures whether there are two signature lines or not. Board has approval of all expenditures. In many cases due to our limited resources, controls will be limited. However, a policy of not accepting cash payments has been implemented.

2023-2 Annual Audits Not Completed on Time (Repeat Finding)

CONDITION: Annual audits are not being completed within the required time frame.

CRITERIA: Title 82 Sec. 1324.18(B)(1) states that annual audits should be completed within 6 months after the close of the fiscal year.

CAUSE OF CONDITION: Limited personnel and failure to prioritize audit requirements.

EFFECT OF CONDITION: Not only is this a violation of state statute but by not having the annual audits completed on time it jeopardizes potential grant applications and limits the ability for an independent third party to review the financials.

MANAGEMENT RESPONSE: Management will make sure all audits are caught up and are performed within the statutory requirement.

2023-1 Utility Billing Accuracy Issues

CONDITION: During the course of our audit we noted that a significant amount of utility billing adjustments had to be made during the year. Further analysis and discussion with district management determined that these adjustments were due to employees not properly performing meter reads.

CRITERIA: We believe that internal control procedures would be strengthened by reviewing the individual tasks to determine whether internal control procedures could be improved.

CAUSE OF CONDITION: Limited personnel

EFFECT OF CONDITION: Inaccurate meter reads can result in loss revenue to the district furthermore constant adjustments to utility billings can increase the likelihood of embezzlement.

MANAGEMENT RESPONSE: Management is aware of the issue. At the end of FY23, the district switched to smart meters so that all meters could be electronically read to reduce the likelihood of human error or employees missing meters. Management feels that this should have corrected the issue.