

**Harper County Rural Water District No. 1**  
**Financial Statements and Independent Auditor's Report**  
**August 31, 2023**

**Harper Country Rural Water District No.1**  
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**August 31, 2023**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Harper County Rural Water District No. 1

### Opinion

We have audited the accompanying financial statements of the business-type activities of the Harper County Rural Water District No. 1, (the "District") as of and for the year ended August 31, 2023, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Harper County Rural Water District No. 1, as of August 31, 2023, and the respective changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Harper County Rural Water District No. 1, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### 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.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, 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 Harper County Rural Water District No. 1'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.

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 October 18, 2023, on the consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions, 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 compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*.

**FSW&B CPAs-PLLC**

FSW&B CPA's-PLLC

Stillwater, OK  
October 18, 2023

**Harper County Rural Water District No. 1**  
**Statement of Net Position**  
**As of August 31, 2023**

<u>ASSETS</u>		
<u>Current Assets</u>		
Cash in Bank-(Unrestricted)	\$	343,331
Investments		10,000
Accounts Receivable		33,433
Prepaid Insurance		10,782
Inventory		15,684
Total Current Assets		413,230
<u>Fixed Assets</u>		
Land		300
Construction in Progress	39,250	-
Water System and Building	2,791,867	
Accumulated Depreciation	(1,603,840)	1,227,277
Equipment and Vehicles	432,014	
Accumulated Depreciation	(286,980)	145,034
Total Fixed Assets		1,372,611
<u>Other Assets</u>		
Right-of-Way and Water Rights		82,004
Total Other Assets		82,004
TOTAL ASSETS		1,867,845
<u>LIABILITIES AND NET POSITION</u>		
<u>Current Liabilities</u>		
Accounts Payable		3,128
Payroll Taxes Payable		4,603
Current Portion of Long Term Liabilities		62,220
Total Current Liabilities		69,951
<u>Long-Term Liabilities</u>		
Note Payable		48,871
TOTAL LIABILITIES		118,822
<u>Net Position</u>		
Net Investment in Capital Assets		950,438
Unrestricted		798,585
Total Net Position		1,749,023
TOTAL LIABILITIES AND NET POSITION	\$	1,867,845

See Accompanying Notes to Financial Statements

**Harper County Rural Water District No. 1**  
**Statement of Revenues, Expenses, and Changes in Fund Net Position**  
**For the Year Ended August 31, 2023**

**UNRESTRICTED NET POSITION**

Operating Revenue:

Water Sales	\$	389,783
New Installations		3,350
Membership Fees		4,200
Reconnect Fees		435
Labor		-
Penalties		2,401
Other Income		3,107
Total Operating Revenue		403,276

Expenses:

Program Services		
Bank Charges		600
Depreciation		89,606
Electricity & Utilities		24,572
Insurance		21,532
Legal & Professional		48,154
Miscellaneous Expenses		36,842
Office Supplies		10,293
Payroll Taxes		10,470
Repairs & Maintenance		39,103
Telephone		3,346
Testing & Water Supplies		31,360
Travel		300
Wages & Labor		143,863
Total Expenses		460,041

Excess (Deficit) of Operating Revenue Over Expenses (56,765)

Other Revenue:

Interest Income		4,287
Grant Proceeds		74,058
Total Other Revenue		78,345

Other Expenses:

Interest Expense		2,645
Other Income & Expense		53
Total Other Expenses		2,698

Increase (Decrease) in Net Position 18,882

**NET POSITION AT BEGINNING OF YEAR** 1,730,141

**Prior Period Adjustment**

**NET POSITION AT END OF YEAR** \$ 1,749,023

1,749,023

**Harper County Rural Water District No. 1**  
**Statement of Cash Flow**  
**August 31, 2023**

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**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET  
CASH PROVIDED (USED) BY OPERATING ACTIVITIES**

Operating Income (Loss)	18,882
Adjustment to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Depreciation	89,606
Changes in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	9,187
(Increase) Decrease in Prepaid Expenses	(363)
Increase (Decrease) in Accounts Payable	2,954
Increase (Decrease) in Payroll Taxes Payable	(642)
<b>Net Cash Provided (Used) by Operating Activities</b>	<u><u>119,624</u></u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchase of Capital Assets	(166,223)
<b>Net Cash Provided (Used) by Investing Activities</b>	<u><u>(166,223)</u></u>

**CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES**

Proceeds from Loan	111,091
<b>Net Cash Provided (Used) by Financing Activities</b>	<u><u>111,091</u></u>
Net Increase (Decrease) in Cash and Cash Equivalents	64,492
Beginning Cash and Cash Equivalents	<u>278,839</u>
Ending Cash and Cash Equivalents	<u><u>343,331</u></u>

**Harper County Rural Water District No. 1**  
**Notes to the Financial Statements**  
**For the Year Ended August 31, 2023**

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NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity:

Harper County Water Corporation was a nonprofit corporation incorporated November 24, 1971 under the provisions of Title 18, Oklahoma Statutes Annotated, for the purpose of constructing and operating a water supply distribution system serving water users within the area.

Effective July 22, 2014, the corporation was restructured by dissolving the existing corporation and reforming as a rural water district under the provisions of 82 O.S. §§ 1324.1 et. seq, Oklahoma Statutes Annotated. The new organization's name is Harper County Rural Water District No. 1 (the "District").

Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

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

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

The fund financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles (GAAP).

Bank Deposits and Investments:

All bank deposits and investments are in institutions insured by the Federal Government's appropriate agency. All investments are presented at their cost. Funds not covered by insurance could be at risk.

Cash and Cash Equivalents:

For purposes of the statement of cash flows, the District considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Accounts Receivable:

Accounts receivable consists of the amounts owed to the District by customers for water sales, late fees, and memberships. Billings for accounts receivable at August 31, 2023 were \$33,433. Allowance for doubtful accounts was not computed on this balance because uncollectibles do not have a material effect on the balance sheet.

Property and Equipment:

Purchased property and equipment are recorded at cost and consist of the water system, building, and equipment. Donated property and equipment is recorded at fair market value at the date of donation. Depreciation is computed on the straight-line method based on estimated useful lives.

Deferred Revenue:

Deferred revenue is used to account for prepaid service fees. As services are used, revenue is recognized.



**Harper County Rural Water District No. 1**  
**Notes to the Financial Statements**  
**For the Year Ended August 31, 2023**

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NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –  
Continued

Inventories:

Inventories are stated at the lower of cost (determined on a first-in, first-out basis) or market.

Income Tax:

The District is exempt from Federal and state income taxes under IRS Code Section 115(a) as an agency of the State of Oklahoma.

Net Position:

Net position is displayed in three components as follows:

*Net investment in capital assets-* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of any debt or other borrowings that are attributable to the acquisition, construction, or improvements of these assets.

*Restricted-* consists of net position with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) through constitutional provisions or enabling legislation.

*Unrestricted-* all other net position that does not meet the definitions of “net investment in capital assets” or “restricted”.

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

Operating Revenues and Expenses:

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services.

Budgets and Budgetary Accounting:

The District is not required to submit a legally binding budget. They did not prepare a budget for fiscal year 2023.

NOTE B – INVESTMENTS

Certificates of Deposit and Investment:

	<u>Amount</u>
RWAAG	<u>\$10,000</u>
Total Investments	<u>\$10,000</u>

**Harper County Rural Water District No. 1**  
**Notes to the Financial Statements**  
**For the Year Ended August 31, 2023**

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NOTE C – CONTINGENCIES

Grants require the fulfillment of certain conditions as set forth in the grant instrument. Failure to fulfill the conditions could result in the return of funds to the grantor. Although that is a possibility, the Board deems the contingency remote, since by accepting the grants and their terms; it has accomplished the objectives of the Corporation to the provisions of the grant.

NOTE D – FIXED ASSETS

Investment in property and equipment, at August 31, 2023, was as follows:

	Balance 09/01/22	Additions	Dispositions	Balance 8/31/2023
Property & Equipment	\$ 3,096,908	\$ 166,223	\$ -	\$ 3,263,131
Accumulated Depreciation	<u>(1,801,214)</u>	<u>(89,606)</u>	<u>-</u>	<u>(1,890,820)</u>
Net Property & Equipment	<u>1,295,694</u>	<u>76,617</u>	<u>-</u>	<u>1,372,311</u>
Land	300			300
Total Net Assets	<u>\$ 1,295,994</u>	<u>\$ 76,617</u>	<u>\$ -</u>	<u>\$ 1,372,611</u>

Donated assets are the estimated fair market value at the date of transfer. During the year ended August 31, 2023, there were no donated assets.

NOTE E – NOTES PAYABLE

The District has a loan at Seiling State Bank, Seiling, OK, in the amount of \$125,095. The District utilized the Loan on June 14, 2023 in the amount of \$12,000 and on August 10, 2023 in the amount of \$23,750. The note has an interest rate of 5.25% on the unpaid principal balance. The loan was made in anticipation of receipt of a grant to pay for the Isolation Value Project. The note was used to pay for \$12,000 in engineering costs related to the Isolation Value Project. The note was also used to pay for \$23,750 in Water and Sewer Line and Related Structures Construction costs.

Total Long Term Debt as of 08/31/2023

Year Ending June 30	Principal	Interest	Total
2024	62,220	4,362	66,582
2025	<u>48,871</u>	<u>1,077</u>	<u>49,948</u>
	<u>\$ 111,091</u>	<u>\$ 5,440</u>	<u>\$ 116,530</u>

**Harper County Rural Water District No. 1**  
**Notes to the Financial Statements**  
**For the Year Ended August 31, 2023**

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NOTE F- SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 18, 2023, the financial statements were available to be issued. In March 2020, the State of Oklahoma issued a state of emergency due to the COVID-19 pandemic following CDC guidelines. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the District's financial condition or operations. At the time of issue date, the District has had no difficulty continuing operations.



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  
Harper County Rural Water District No. 1

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 the Harper County Rural Water District No. 1, (the "District") as of and for the year ended August 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 October 18, 2023.

**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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 have not been identified. We did not identify any deficiencies or material weaknesses.

**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*.

## **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.

**FSW&B CPAs-PLLC**

FSW&B CPAs-PLLC

Stillwater, Oklahoma

October 18, 2023