

**MAYES COUNTY RURAL WATER
DISTRICT No. 3**

ANNUAL FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2024

DAVID CLANIN CPA PLLC

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Mayes County Rural Water District No. 3
Water District Officials
June 30, 2024

Board of Directors

Curtiss Bailey	Chairperson
Ty Morton	Vice-Chairman
Jim Locke	Treasurer
Dan Ziemann	Secretary
Dave Swanson	Director
Ray Morey	Director
Ed McCullough	Director
Amy Flanagan	Director

Manager

David Harding

Office Manager/Bookkeeper

Mavonne LaRue

Mayes County Rural Water District No. 3
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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying financial statements of the business-type activities of Mayes County Rural Water District No. 3 as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Mayes 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 financial position of Mayes County Rural Water District No. 3, as of June 30, 2024, and the 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 Mayes 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 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 standards 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 District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our 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 and *Governmental 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Management has omitted the management's discussion and analysis and budgetary 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2024, on our consideration of the Mayes 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 to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 the Mayes County Rural Water District No. 3's internal control over financial reporting and compliance.



David Clamm CPA PLLC

September 9, 2024

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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
Mayes County Rural Water District No. 3

We have audited 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, the financial statements of the business-type activities of the Mayes County Rural Water District No. 3, as of and for the year ended June 30, 2024, and the related notes to the financial statements which collectively comprise Mayes County Rural Water District No. 3's financial statements, and have issued our report thereon dated September 9, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Mayes County Rural Water District No. 3, Oklahoma'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 Mayes County Rural Water District No. 3's internal control. Accordingly, we do not express an opinion on the effectiveness of the Mayes 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 may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Mayes 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 determination 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 Mayes County Rural Water District No. 3's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mayes County Rural Water District No. 3's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

 CPA PLLC

September 9, 2024

Mayes County Rural Water District No. 3
Statement of Net Position
June 30, 2024

Assets

Current assets:

Cash and cash equivalents	\$ 571,258
Accounts receivable	31,773
Inventory	19,108
Total current assets	<u>622,139</u>

Non-current assets:

Cash and cash equivalents - restricted	<u>155,274</u>
Capital assets	
Non-Depreciable: Land	26,242
Property and equipment, net	2,216,676
Total capital assets	<u>2,242,918</u>
Total non-current assets	<u>2,398,192</u>
Total assets	<u><u>\$ 3,020,331</u></u>

Liabilities and Net Position

Current liabilities:

Accounts payable	\$ 3,765
Accrued interest payable	8,178
Accrued payroll liabilities	8,980
Current portion of long-term debt	108,222
Total current liabilities	<u>129,145</u>

Noncurrent liabilities:

Customer deposits	52,735
Notes payable, net of current portion	574,974
Total liabilities	<u>756,854</u>

Net position:

Net investment in capital assets	1,559,722
Restricted	155,274
Unrestricted	548,481
Total Net Position	<u><u>\$ 2,263,477</u></u>

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

Mayes County Rural Water District No. 3
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2024

Operating revenues	
Water revenues	\$ 636,695
Other revenues	22,797
	<u>659,492</u>
Operating expenses	
Water purchases	10,578
Depreciation	101,324
Salaries and wages	228,889
Chemicals	47,840
Maintenance and repairs	42,525
Operating supplies	17,974
Office expense	15,875
Utilities	41,813
Directors expense	4,320
Professional fees	6,000
Vehicle expenses	9,608
Miscellaneous	1,825
Insurance	25,129
Workshops and training	55
Payroll taxes	18,537
Lab testing and supplies	7,935
Miscellaneous	97
Employee benefits	41,417
Total operating expenses	<u>621,741</u>
Operating income (loss)	<u>37,751</u>
Non-operating revenues (expenses)	
Interest income	6,522
Interest expense	(25,496)
Loan administration fees	(3,011)
Tap fees	27,620
Total non-operating revenues (expenses)	<u>5,635</u>
Change in net position	43,386
Net position, beginning of year	<u>2,220,091</u>
Net position, end of year	<u><u>\$ 2,263,477</u></u>

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

Mayes County Rural Water District No. 3
Statement of Cash Flows
For the Year Ended June 30, 2024

Cash flows from operating activities:

Cash receipts from customers	\$ 685,055
Cash paid for goods and services	(233,819)
Cash paid for salaries, benefits and payroll taxes	(288,843)
Net cash provided by (used in) operating activities	<u>162,393</u>

Cash flows from capital and related financing activities:

Purchases of property and equipment	(51,721)
Cash paid for loan administration fees	(3,011)
Principal paid on capital debt	(102,578)
Interest paid on capital debt	(25,496)
Net cash provided by (used in) capital and related financing activities	<u>(182,806)</u>

Cash flows from investing activities:

Cash received for meter taps	27,620
Cash received (returned) for meter deposits	5,199
Interest received from investments	6,408
Net cash provided by investing activities	<u>39,341</u>

Net cash inflow (outflow) from all activities 18,928

Cash and cash equivalents at beginning of year	<u>707,604</u>
Cash and cash equivalents at end of year	<u>\$ 726,532</u>

Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:

Operating income (loss)	\$ 37,751
Depreciation	101,324
(Increase) decrease in:	
Accounts receivable	25,563
Inventory	(6,404)
Increase (decrease) in:	
Accounts payable and accrued liabilities	<u>4,159</u>
Net cash provided by (used in) by operating activities	<u>\$ 162,393</u>

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

Mayes County Rural Water District No. 3
Notes to the Financial Statements
For the Year Ended June 30, 2024

The following notes to the financial statements are an integral part of Mayes County Rural Water District No. 3's financial statements.

I. Description of the Entity

Mayes County Rural Water District No. 3, (the "District") was organized by the Board of County Commissioners of Mayes County, Oklahoma. Its purpose is to process and provide for the use and benefit of its members a water processing and distribution system, including physical facilities for its operations and maintenance. The District is exempt from federal and state income taxes.

II. Summary of Significant Accounting Policies

The accounting policies of the District conform to generally accepted accounting principles applicable to governmental units. The District complies with generally accepted accounting principles and applies all relevant Government Accounting Standards Board (GASB) pronouncements.

A. Financial Reporting Entity

The District complies with GASB Statement No. 14, "*The Financial Reporting Entity*," and subsequent related pronouncements. These Statements establishes standards for defining and reporting on the financial reporting entity. It defines component units as legally separate organizations for which the elected officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The District considered all potential component units in determining what organization should be included in the financial statements. Based on these criteria, there are no component units to include in the District's financial statements.

B. Basis of 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. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

Mayes County Rural Water District No. 3
Notes to the Financial Statements
For the Year Ended June 30, 2024

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe *which* transactions are recorded within the various financial statements. Basis of accounting refers to *when* transactions are recorded regardless of the measurement focus applied.

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 assets (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 assets.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred, or economic asset used.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperational* items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the District’s enterprise fund is charges to customers for sales and services. The District also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperational revenues and expenses.

D. Assets, Liabilities and Net Assets

1. Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all cash on hand, demand deposits, and highly liquid investments, with an original maturity of three months or less when purchased, to be cash and cash equivalents.

2. Investments

Investments consist of certificates of deposit maturing in the following fiscal year with interest paid quarterly or biannually at varying rates.

3. Fair Value of Financial Instruments

The District’s financial statements include cash and investments. The District’s estimates of the fair value of all financial instruments do not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

4. Inventory of Supplies and Materials

The District has an inventory of pipe and other miscellaneous repair parts on hand at any one time, but no physical inventory is taken and accordingly, the inventory is not reflected in the financial statements.

Mayes County Rural Water District No. 3
Notes to the Financial Statements
For the Year Ended June 30, 2024

5. Accounts Receivable

Accounts receivable consists primarily of charges for water sales. Management has not established a provision for uncollectible accounts. Such amounts are written off in the month in which management determines they are uncollectible.

6. Capital Assets

The water storage and delivery system and equipment are recorded at cost. Donated capital assets are reported at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. All reported capital assets are depreciated on the straight-line basis over the estimated useful lives ranging from five to fifty years.

Management determines on an item-by-item basis to capitalize or expense purchases.

7. Restricted Cash

Restricted assets include cash and investments of the proprietary fund that are legally restricted as to their use. Financial requirements of the promissory notes with Oklahoma Water Resource Board require that funds be held in a reserve account. Under the terms and provisions of the promissory notes, these funds are maintained in separate accounts and are not subject to lien or attachment by any other creditors. These funds are to be maintained so long as the notes are outstanding.

8. Equity Classifications

Equity is classified as net assets and displayed in three components:

- a. Net invested in capital assets --- Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- b. Restricted net assets --- Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets --- All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

9. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Mayes County Rural Water District No. 3
Notes to the Financial Statements
For the Year Ended June 30, 2024

III. Detailed Notes

A. Cash and Investments

Authorized investments – The District’s policy for eligible investments is governed by State statutes which, in general, allow the District to invest in obligations of the United States and insured or collateralized Certificate of Deposits.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The District’s cash deposits, including interest-bearing certificates of deposit, are maintained in financial institutions and all balances are covered by Federal Depository Insurance or by collateral held by the bank and pledged to the District. As of June 30, 2024, \$342,843 was exposed to custodial credit risk.

B. Accounts Receivable

Accounts receivable is comprised of unpaid billings for services rendered as of the end of the fiscal year. Accounts are considered uncollectible and written off to bad debt after 90 days. After a member’s bill is determined to be uncollectible and written off the associated customer deposit is applied to the overdue bill and the associated membership is canceled.

C. Restricted Cash

The Oklahoma Water Resources Board has provided three notes to the District. The funds were used to finance expansions and major improvements to the water system. Bank of Oklahoma is the Trustee of all funds associated with the notes. Monthly payments are made to a debt service fund and semiannual or quarterly the monthly payments and investment earnings are used to make the principal and interest payments on the notes. Additionally, ten percent of the loan balance administered by the Trustee were set aside and used to fund a debt service reserve fund. The debt service reserve fund account was established to make up any potential future deficiency in debt service fund payments. All reserve funds are invested in government backed securities. As of June 30, 2024, Debt Service Fund balances totaled \$40,223 and Debt Service Reserve Fund balances totaled \$105,981.

Also included in restricted cash are the funds in checking and savings accounts for meter deposits held for customers in the approximate amount of \$9,070.

Mayes County Rural Water District No. 3
Notes to the Financial Statements
For the Year Ended June 30, 2024

D. Changes in Capital Assets

Capital Assets activity for the year was as follows:

	<u>July 1, 2023</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2024</u>
Non-Depreciable				
Land	26,242	-	-	26,242
Depreciable Capital Assets				
Buildings	153,922	-	-	153,922
Water system	4,045,043	51,721	-	4,096,764
Furniture and fixtures	9,363	-	-	9,363
Equipment	266,358	-	-	266,358
Vehicles	104,742	-	-	104,742
Total Depreciable Assets	4,579,428	51,721	-	4,631,149
Accumulated Depreciation	(2,313,149)	(101,324)	-	(2,414,473)
	<u>2,266,279</u>	<u>(49,603)</u>	<u>-</u>	<u>2,216,676</u>

E. Long-Term Debt

The District has three notes payable to the Oklahoma Water Resources Board. The notes require monthly payments to a debt service fund held by the Trustee, Bank of Oklahoma. The monthly payments are invested by the loan trustee and the trustee makes quarterly or semi-annual payments on the notes depending on the requirements of the note.

Below is a summary of the notes payable:

	<u>Original Amount</u>	<u>Origination Date</u>	<u>Monthly Payment</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
Note #2	\$ 465,000.00	6/17/1998	\$ 2,404.18	8/15/2026	5.93%
Note #3	845,000.00	12/17/2003	3,019.65	9/15/2032	5.93%
Note #4	900,000.00	12/15/2009	3,408.10	9/15/2030	1.63%

	<u>Balance</u>			<u>Balance</u>	<u>Due Within</u>
	<u>June 30, 2023</u>	<u>Advances</u>	<u>Payments</u>	<u>June 30, 2024</u>	<u>One Year</u>
Note #2	105,500	-	32,400	73,100	35,000
Note #3	424,500	-	35,100	389,400	37,100
Note #4	255,774	-	35,078	220,696	36,122
	<u>\$ 785,774</u>	<u>\$ -</u>	<u>\$ 102,578</u>	<u>\$ 683,196</u>	<u>\$ 108,222</u>

Mayes County Rural Water District No. 3
Notes to the Financial Statements
For the Year Ended June 30, 2024

E. Long-Term Debt, continued

Summary of future principal and interest payments:

Year Ending June 30,	Principal	Interest	Total
2025	108,222	30,744	138,966
2026	114,178	25,874	140,052
2027	79,767	20,736	100,503
2028	82,981	17,195	100,176
2029	82,981	13,511	96,492
Thereafter	215,067	15,190	230,257
	<u>\$ 683,196</u>	<u>\$ 123,250</u>	<u>\$ 806,446</u>

F. Retirement Plan

The District offers a retirement plan to all eligible employees. Employer contributions were \$34,400 for the year ended June 30, 2024.

IV. Other Information

A. Risk Management

The District is exposed to various risks of loss 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 to cover these risks, including general and auto liability, property damage, and public officials liability. There were no significant reductions in insurance coverage from the prior year. Settle claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

B. Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

C. Subsequent Events

Management has evaluated subsequent events through the date of the auditor's report and have determined that no additional information needs to be added to the financial statements.