

**PITTSBURG COUNTY RURAL WATER DISTRICT NO. 5
MCALESTER, OKLAHOMA
ANNUAL FINANCIAL REPORT
SEPTEMBER 30, 2023**

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AMY M HALE
CERTIFIED PUBLIC ACCOUNTANT

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Independent Auditor's Report

The Honorable Members of the Board of Trustees
Pittsburg County Rural Water District No. 5
McAlester, Oklahoma

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the business-type activities of Pittsburg County Rural Water District No. 5, as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the basic financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the business-type activities of Pittsburg County Rural Water District No. 5 of September 30, 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (GAS), 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 Pittsburg County Rural Water District No. 5 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 Pittsburg County Rural Water District No. 5's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and GAS 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 GAAS and GAS, 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 Pittsburg County Rural Water District No. 5, McAlester, 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 Pittsburg County Rural Water District No. 5, McAlester, 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.

Required Supplementary Information

Management has omitted 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 opinions on the basic financial statements are 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 July 11, 2024 on our consideration of Pittsburg County Rural Water District No. 5, McAlester, 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 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 Pittsburg County Rural Water District No. 5, McAlester, Oklahoma's internal control over financial reporting and compliance.



Amy M Hale, CPA, PLLC
Bristow, Oklahoma
July 11, 2024

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 5
MCALESTER, OKLAHOMA
STATEMENT OF NET POSITION
SEPTEMBER 30, 2023

	<u>Total</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 580,377
Accounts receivable, net	55,328
Prepaid expenses	<u>7,526</u>
Total current assets	<u>643,231</u>
Non-current assets:	
Restricted assets:	
Restricted for capital purchases	<u>-</u>
Total restricted assets	<u>-</u>
Capital assets:	
Other capital assets	1,218,470
Accumulated depreciation	<u>(1,001,935)</u>
Capital assets, net accumulated depreciation	<u>216,535</u>
Total non-current assets	<u>216,535</u>
Total assets	<u>859,766</u>
LIABILITIES	
Current liabilities:	
Accounts payable	57,524
Accrued payroll expenses	17,571
Notes payable, current	<u>10,484</u>
Total current liabilities	<u>85,579</u>
Non-current liabilities:	
Notes payable, non-current	<u>117,787</u>
Total non-current liabilities	<u>117,787</u>
Total liabilities	<u>203,366</u>
NET POSITION	
Invested in capital assets, net related debt	120,472
Restricted for capital purchases	-
Unrestricted	<u>535,928</u>
Net position	<u><u>\$ 656,400</u></u>

The accompanying notes are an integral part of this financial statement.

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 5
MCALESTER, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2023

OPERATING REVENUES

Water revenue	\$ 937,823
Penalties and hookups	20,020
Benefit units	10,831
Total operating revenues	<u>968,674</u>

OPERATING EXPENSES

Water purchases	436,860
Personal services	146,627
Operating supplies	48,225
Contract Maintenance	10,328
Insurance and bonds	12,594
Travel	12,113
Office	15,900
Postage	4,409
License, fees, and memberships	1,710
Utility and telephone	11,684
Professional Fees	263
Miscellaneous expenses	5,188
Depreciation expense	30,127
Total operating expenses	<u>736,028</u>

Operating income (loss)	<u>232,646</u>
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NON-OPERATING REVENUE (EXPENSES)

Investment Income	3,367
Interest on notes payable and fiscal fees	(7,381)
Grant income	-
Total non-operating revenue (expense)	<u>(4,014)</u>

Net income (loss)	228,632
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Total net position, beginning	<u>427,768</u>
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Total net position, ending	<u><u>\$ 656,400</u></u>
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The accompanying notes are an integral part of this financial statement.

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 5
MCALESTER, OKLAHOMA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

Cash flows from operating activities	
Cash received from customers	\$ 1,038,574
Cash paid to employees	(152,050)
Cash payments to suppliers for goods and services	<u>(558,647)</u>
Net cash provided (used) by operating activities	<u>327,877</u>
Cash flows from capital and related financing activities	
Purchase of capital assets	(123,965)
Proceeds from Debt	0
Interest paid on notes payable	(7,381)
Principal paid on notes payable	<u>(10,851)</u>
Net cash provided (used) by capital and related financing activities	<u>(142,197)</u>
Cash flows from investing activities	
Interest and dividend income	<u>3,367</u>
Net cash provided (used) by investing activities	<u>3,367</u>
Net increase/(decrease) in cash and cash equivalents	189,047
Cash and cash equivalent, beginning	<u>391,331</u>
Cash and cash equivalent, ending	<u><u>\$ 580,378</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income (loss)	\$ 232,646
Depreciation	30,127
(Increase)/decrease in current assets	
Accounts receivable, net	69,900
Prepaid expenses	(2,110)
Increase/(decrease) in current liabilities	
Accounts payable and accrued expenses	<u>(2,686)</u>
Net cash provided (used) by operating activities	<u><u>\$ 327,877</u></u>

The accompanying notes are an integral part of this financial statement.

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 5
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2023

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rural Water District No. 5, the "District", was organized October 15, 1965 under Title 82, Oklahoma Statutes Annotated, Section 1301-1322 for the purpose of providing and maintaining a water distribution system within Pittsburg County, Oklahoma for the members of the District. It is not a component unit as defined by Governmental Accounting Standards Board Statement Number 14.

Financial Statements

The District is a special purpose governmental entity engaged only in business type activities. The District prepares financial statements required for enterprise funds.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the District are prepared in accordance with generally accepted accounting principles (GAAP). The District's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The District's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The financial statements report using the economic resources measurement focus and the accrual basis of accounting. Reimbursements are reported as reductions to expenses. Revenues are recorded when earned and expenses recorded when a liability is incurred, regardless of the timing of related cash flows.

Operating income reported in financial statements include revenues and expenses related to the primary, continuing operations of the District. Principal operating revenues are charges to customers for sales or services. Principal operating expenses are the cost of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

FUND TYPES AND MAJOR FUNDS

The District reports all activity within a single fund.

Investments

The District follows Governmental Accounting Standards Board (GASB) Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which requires marketable securities to be carried at fair value. The District considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Investment reported in the financial statements is a certificate of deposit.

Capital Assets, Depreciation, and Amortization

The District's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost or at estimated historical cost for those items not previously reported. The District maintains

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 5
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2023

infrastructure assets records consistent with all other capital assets. Donated assets are stated at fair value on the date donated. The District generally capitalizes assets with as purchase and construction outlay occur. The cost of normal maintenance and repairs that do not add to the assets value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are moved from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follow:

Buildings	20 - 50 years
Water and sewer system	30 - 50 years
Machinery, and equipment	5 - 10 years
Improvements	10 - 50 years

The prior auditor was unable to obtain the schedule of fixed assets and depreciation schedule for 2016 and prior.

Compensated Absences

The District has no retirement or deferred compensation plan; there are no postemployment benefits provided.

Reserves and Designations

Reserves represent those portions of fund balance not available for expenditure or legally segregated for a specific future use. Restricted net assets represent tentative plans for future use of financial resources.

Use of Estimates

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

Proprietary Fund Net Position

The net position are divided into three components:

- Invested in capital assets, net of related debt – consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
- Restricted – Consists of assets that are restricted by the District’s creditors (for example, through debt covenants), by the state enabling legislation (through restriction on shared revenues), by grantors (both federal and state), and by other contributors as applicable.
- Unrestricted – all other net position is reported in this category.

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 5
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2023

Restricted Resources

When an expense is incurred that can be paid using either restricted or unrestricted resources (Net Position), the District's policy is to first apply the expense toward the restricted resources and then toward the unrestricted resources.

NOTE B - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Custodial Credit Risk

Custodial credit risk is the risk that in the event of failure of counterparty, the District will not be able to recover the value of its deposits or investments. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Investment securities are exposed to custodial credit risk if they are uninsured, are not registered in the name of the District, and are held by counterparty or the counterparty's trust department but not in the name of the District. The District's policy requires that all deposits and investments in excess of amounts covered by federal deposit insurance be fully collateralized by the entity holding the deposits or investments. As of September 30, 2023, \$290,410 was at risk due to not being fully insured or collateralized.

Deposits

The District had deposits at financial institutions with a carrying amount of approximately \$580,368 at September 30, 2023. The bank balance of the deposits at September 30, 2023 was approximately \$580,377.

Credit Risk

Fixed-income securities are subject to credit risk. However, the District did not have fixed income securities at September 30, 2023.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board of Directors monitor's the investment performance on an ongoing basis to limit the District's interest rate risk. As of September 30, 2023, the District's deposits consisted of demand deposits and certificates of deposit with a maturity of 12 months or less.

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 5
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2023

NOTE C - CAPITAL ASSETS

The following table provides a summary of changes in capital assets:

	Beginning Balance	Additions	Retirements	Ending Balance
Land	\$ -	\$ 91,315	\$ -	\$ 91,315
Buildings	8,500	26,200	-	34,700
Water System	861,461	-	-	861,461
Equipment and Vehicles	224,544	6,451	-	230,995
Total capital assets	1,094,505	123,966	-	1,218,471
Depreciation	(971,809)	(30,127)	-	(1,001,936)
Total Net Capital Assets	<u>\$ 122,696</u>	<u>\$93,839</u>	<u>\$ -</u>	<u>\$ 216,535</u>

NOTE D – ACCOUNTS RECIEVABLE

The District has accounts receivable from its utility customers in the amount of \$55,328.

NOTE E - NOTES PAYABLE PROPRIETARY FUND

The District has incurred debt for the purchase of land and office. On August 23, 2022, the District signed a Promissory Note with the Oklahoma Rural Development Finance Corporation for a loan in the principal amount of \$140,000. Beginning October 1, 2022, payments in the amount of \$1,597.37 became payable monthly. The loan is for a term of ten years at 5.5% interest. The balance due on the loan at September 30, 2023 was \$128,271.

The following is a summary of the long-term debt transactions of the District for the year ended September 30, 2023:

	Balance at October 01, 2022	Additions	Retirements	Balance at September 30, 2023
OK Rural Development Finance Corporation	\$ 139,122	\$ -	\$ (10,851)	\$ 128,271
	<u>\$ 139,122</u>	<u>\$ -</u>	<u>\$ (10,851)</u>	<u>\$ 128,271</u>

Following is the anticipated annual debt service amounts:

Year Ending September 30	Principal	Interest	Totals
2024	\$ 10,484	\$ 7,748	\$ 18,232
2025	12,055	6,177	18,232
2026	12,735	5,497	18,232
2027	13,453	4,779	18,232
2028	14,212	4,020	18,232
2029-2032	65,332	25,828	91,160
	<u>\$ 128,271</u>	<u>\$ 54,049</u>	<u>\$ 182,320</u>

NOTE F – CONTRACTS

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 5
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2023

The District purchases water for resale from the City of McAlester, Oklahoma, under the terms of a Water Purchase Agreement dated June 15, 2023. The contract is effective July 1, 2023 for one year with a subsequent one year renewal at the agreement of both parties. The price paid by the District will be determined every July 1st after a review of the Consumer Price Index for the preceding calendar year which is calculated by the U.S. Department of labor Statistics on a monthly and annual basis.

The following is a summary of the contracts that were in effect during the year ended September 30, 2023:

<u>Purpose</u>	<u>Effective Date</u>	<u>Rate</u>
Water Purchase	July 1, 2022	\$6.28 per 1,000 gallons used per month
Water Purchase	July 1, 2023	\$6.69 per 1,000 gallons used per month

NOTE G – RISK MANAGEMENT

The District is exposed to various risks of loss related torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended September 30, 2023, the District carried insurance through Oklahoma Rural Water Association to cover all risks and losses. The District had no settled claims resulting from these risks that exceeded its coverage during the fiscal year reported.

NOTE H – LITIGATION

At September 30, 2023, the District was not involved in any pending or threatened litigation which would have a material impact on these financial statements.

NOTE I - SUBSEQUENT EVENTS

The District has considered subsequent events through July 11, 2024, the date which the financial statements were available for release. The District is not aware of any items which need to be disclosed during that period.

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*

Independent Auditor's Report

The Honorable Members of the Board of Trustees
Pittsburg County Rural Water District No. 5
McAlester, 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 (*Government Auditing Standards*), the financial statements of the business-type activities of Pittsburg County Rural Water District No. 5 as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise Pittsburg County Rural Water District No. 5, McAlester, Oklahoma's basic financial statements, and have issued our report thereon dated July 11, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Pittsburg County Rural Water District No. 5, McAlester, 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 Pittsburg County Rural Water District No. 5, McAlester, Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of Pittsburg County Rural Water District No. 5'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 Pittsburg County Rural Water District No. 5's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pittsburg County Rural Water District No. 5'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 one instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which is listed in the attached Schedule of Findings and Questioned Costs as item 23-01

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 Pittsburg County Rural Water District No. 5's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pittsburg County Rural Water District No. 5's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read 'Amy M Hale', is positioned above the printed name.

Amy M Hale, CPA, PLLC
Bristow, Oklahoma
July 11, 2024

**PITTSBURG COUNTY RURAL WATER DISTRICT NO. 5
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SEPTEMBER 30, 2023**

23-01 Insufficient insurance/collateral to cover deposits in bank

Condition: The bank carrying balance at September 30, 2023 was more than the FDIC coverage and no collateral was pledged by the depository bank to cover the overage.

Criteria: The District is required by Title 62 to require the depository institution to pledge acceptable collateral for balances that exceed the FDIC insurance limit of \$250,000.

Cause/effect: The District had \$290,410 of deposits in bank at risk of loss.

Recommendation: The District should consider a policy to regularly review their accounts to determine if insurance/collateral is sufficient to cover the carrying balance.

Status: The District has contacted the bank and requested that collateral be pledged to cover the current carrying balance and is considering a policy to monitor this in the future.