

AUDIT REPORT
RURAL WATER DISTRICT NO. 1
LATIMER COUNTY, OKLAHOMA
WILBURTON, OKLAHOMA
DECEMBER 31, 2023

RALPH OSBORN
CERTIFIED PUBLIC ACCOUNTANT
500 SOUTH CHESTNUT
P.O. BOX 1015
BRISTOW, OKLAHOMA 74010-1015

INDEPENDENT AUDITORS' REPORT

To The Honorable Members of the Board of Directors
Rural Water District No. 1, Latimer County, Oklahoma
Wilburton, Oklahoma

Report on the Audit of Financial Statements

Opinion

I have audited the accompanying financial statements of the Rural Water District No. 1, Latimer County, Oklahoma, which comprise the balance sheets as of and for the year ended December 31, 2023, and the related statements of income, changes in stockholder's equity, and cash flows for the year then ended, and the related notes to the financial statements.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Rural Water District No. 1, Latimer County, Oklahoma as of December 31, 2023, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

I conducted my 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 issued by the Comptroller General of the United States. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of Rural Water District No. 1, Latimer County, Oklahoma and to meet my other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. I believe that the audit evidence I 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 statement 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 Rural Water District No. 1, Latimer County, Oklahoma's ability to continue as a going concern for twelve months beyond the financial statement date.

Auditor's Responsibilities for the Audit of the Financial Statements

My 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 GAAS 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, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

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

- 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 Rural Water District No. 1, Latimer County, Oklahoma's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Rural Water District No. 1, Latimer County, Oklahoma's ability to continue as a going concern for a reasonable period of time.

I am 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 I identified during the audit.

Other Matters

Required Supplementary Information

The District has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires 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 (GASB), 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. My 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, I have also issued my report dated June 10, 2024, on my consideration of the Rural Water District No. 1 '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 results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Rural Water District No. 1's internal control over financial reporting and compliance.



Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
June 10, 2024

RURAL WATER DISTRICT NO. 1
LATIMER COUNTY, OKLAHOMA
WILBURTON, OKLAHOMA
STATEMENT OF NET ASSETS
DECEMBER 31, 2023

ASSETS

Current assets:

Cash and cash equivalents	\$ 574,748
Investments	1,066,892
Accounts receivable	90,581
Prepaid expense	3,855
Utility deposit	70
Total current assets	<u>1,736,146</u>

Non-current assets

Capital assets:

Other capital assets, net of accumulated depreciation	<u>995,380</u>
Total non-current assets	<u>995,380</u>

Total assets	<u>2,731,526</u>
--------------	------------------

LIABILITIES

Current liabilities:

Accounts payable	85,021
Payroll Liabilities	28,747
Renters' deposits	<u>23,531</u>

Total liabilities	<u>137,299</u>
-------------------	----------------

NET ASSETS

Invested in capital assets, net related debt	995,380
Unrestricted	<u>1,598,847</u>
Net assets	<u>\$ 2,594,227</u>

See accompanying notes to financial statements.

RURAL WATER DISTRICT NO. 1
LATIMER COUNTY, OKLAHOMA
WILBURTON, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2023

OPERATING REVENUES

Charges for services:	
Water sales	\$ 1,159,693
Construction reimbursement	31,177
Miscellaneous customer fees	6,414
Other revenue	747

Total operating revenues	1,198,031
--------------------------	-----------

OPERATING EXPENSES

Water purchased	661,877
Salaries/wages and taxes	310,777
Retirement contribution	19,870
Insurance	20,573
Meetings and seminars	5,496
Office	14,587
Other expense	2,365
Professional services	9,000
Scholarship	1,000
Rent	4,200
Repairs and maintenance	63,202
Telephone	1,525
Truck expense	36,915
Utilities	21,246
Depreciation	110,662

Total operating expenses	1,283,295
--------------------------	-----------

Operating income (loss)	(85,264)
-------------------------	----------

NON-OPERATING REVENUE (EXPENSES)

Interest earnings	14,461
-------------------	--------

Total non-operating revenue (expenses)	14,461
--	--------

Change in net assets	(70,803)
----------------------	----------

Total net assets, beginning	2,665,030
-----------------------------	-----------

Total net assets, ending	\$ 2,594,227
--------------------------	--------------

See accompanying notes to financial statements.

RURAL WATER DISTRICT NO. 1
LATIMER COUNTY, OKLAHOMA
WILBURTON, OKLAHOMA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2023

Cash flows from operating activities	
Cash received from customers	\$ 1,201,161
Cash payments for employees and benefits	(327,049)
Cash payments to suppliers for goods and services	<u>(817,759)</u>
Net cash provided (used) by operating activities	<u>56,353</u>
Cash flows from capital and related financing activities	
Acquisition of fixed assets	<u>(42,839)</u>
Net cash (used) by capital and related financing activities	<u>(42,839)</u>
Cash flows from investing activities	
Transfer to Investments	(606,501)
Investment earnings	<u>14,461</u>
Net cash provided (used) by investing activities	<u>(592,040)</u>
Net increase in cash and cash equivalents	(578,526)
Cash and cash equivalents, beginning	<u>1,153,274</u>
Cash and cash equivalents, ending	<u>\$ 574,748</u>
Reconciliation of operating income (loss)	
to net cash provided by (used) by operating activities	
Operating income (loss)	\$ (85,264)
Adjustments to reconcile operating income to	
net cash used by operating activities:	
Depreciation	110,662
Changes in assets and liabilities:	
(Increase)/decrease in accrued receivables	(3,130)
(Increase)/decrease in prepaid expenses	6,513
Increase/(decrease) in accounts payable	23,174
Increase/(decrease) in payroll liabilities	3,598
Increase/(decrease) in renters' deposits	<u>800</u>
Net cash provided by operating activities	<u>\$ 56,353</u>

See accompanying notes to financial statements.

RURAL WATER DISTRICT NO. 1
LATIMER COUNTY, OKLAHOMA
WILBURTON, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rural Water District Number 1 (the "District") was created by the Latimer County, Oklahoma Board of County Commissioners under the provisions of Title 82 Oklahoma statutes 1961, Sections 1301 to 1321. The District is managed by a nine member Board of Directors elected by the members of the District. Terms of the Directors are staggered to expire in different years. Directors are elected at the annual meeting of the membership of the District. Membership in the District is acquired by paying a membership fee and receiving services from the District. The District is exempt from federal and state taxation.

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 ABP 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.

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.

Inventories and Prepaids

Inventories consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost which is recorded as an expenditure at the time individual inventory items are used. The value of inventory at December 31, 2023 is not known, but is not believed to be material.

Prepaids record payments to vendors that benefit future reporting periods and are also reported on the consumption basis.

RURAL WATER DISTRICT NO. 1
LATIMER COUNTY, OKLAHOMA
WILBURTON, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets, Depreciation, and Amortization

The District's property, plant, and equipment, with useful lives of more than one year are stated at historical cost and comprehensively reported in the financial statements. Donated assets are stated at fair value on the date donated. 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	5-60
Improvements, other than buildings	2-50
Mobile equipment	3-40
Furniture , machinery, and equipment	3-30
Utility system	5-50

Reserves and Designations

Reserves represent those portions of net assets not available for expenditure or legally segregated for a specific future use. Designated 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.

NOTE B - CASH 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 December 31, 2023, not all of the Districts deposits and investments were either not covered by federal deposit insurance or were not fully collateralized.

RURAL WATER DISTRICT NO. 1
LATIMER COUNTY, OKLAHOMA
WILBURTON, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

Deposits

The District had deposits at financial institutions with a carrying amount of approximately \$1,641,640 at December 31, 2023. The bank balance of the deposits at December 31, 2023 was approximately \$1,641,442.

Credit Risk

Fixed-income securities are subject to credit risk. However, the District did not have fixed income securities at December 31, 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 December 31, 2023, the District's deposits consisted of demand deposits and certificates of deposit with a maturity of 12 months or less.

NOTE C - ACCOUNTS RECEIVABLE

The District records amounts unpaid at December 31 as receivable. District employees do not read water meters. Meters are read by customers and the payment is based on this reading. Amounts received in January are shown as receivable in December. Any uncollectible amounts are written-off as they become uncollectible. The actual amount of receivables may vary from the reported amount, however, the amount of the variance is unknown, but it is not believed to be material.

NOTE D - CAPITAL ASSETS

Changes in capital assets.

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

	CAPITAL ASSETS, DEPRECIATED			
		Improvements Other Than	Furniture, Machinery, And Equipment	Totals
	Buildings	Buildings		
Balance, Dec. 31, 2022	\$ 77,533	\$ 2,972,018	\$ 206,546	\$ 3,256,097
Increases	-	27,839	15,000	42,839
Decreases	-	-	-	-
Balance, Dec. 31, 2023	77,533	2,999,857	221,546	3,298,936
Accumulated Depreciation				
Balance, Dec. 31, 2022	39,412	2,042,702	110,780	2,192,894
Increase	1,292	88,216	21,154	110,662
Decreases	-	-	-	-
Balance, Dec. 31, 2023	40,704	2,130,918	131,934	2,303,556
Capital Assets, Net	<u>\$ 36,829</u>	<u>\$ 868,939</u>	<u>\$ 89,612</u>	<u>\$ 995,380</u>

RURAL WATER DISTRICT NO. 1
LATIMER COUNTY, OKLAHOMA
WILBURTON, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE E - 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 carries commercial insurance, including workers compensation, for risk of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE F - PENSION

Prior to October 31, 2011, Employees working five hundred hours per year were eligible to participate in a 403(b) plan. The District contributed 7% of covered compensation for participating employees.

Beginning November 1, 2011, the District changed to a Simplified Employee Pension (SEP) plan administered through Edward Jones. Under the new plan, employees are eligible to participate after completion of twelve months service. The employee contribution rate increased to 8%. Benefits are determined based on the amount contributed to the retirement plan.

The District contributed \$19,870, \$19,693, and \$18,529 to employee pensions for the year ending December 31, 2023, 2022, and 2021 respectively. At December 31, 2023, the District had no deferred pension liabilities.

NOTE G - COMPENSATED ABSENCES

The District allows full-time employees one week vacation after one year of employment, two weeks vacation after three years, and three weeks vacation after 5 years. Vacation must be used in the year it is earned and is not accumulated.

Full-time employees are allowed two weeks sick time per year. Unused sick time may not accumulate from year to year.

NOTE H - WATER PURCHASE

The District purchases water for resale to customers from Wilburton Public Works Authority of Wilburton, Oklahoma. The water is purchased under a contract dated April 30, 2013. An interruption from this source would severely impact the District. Wilburton Public Works Authority is the sole provider of water.

NOTE I - SUBSEQUENT EVENT/CONTINGENCY

The District has evaluated subsequent events and contingencies through June 10, 2024, the date which financial statements were available. The District does not believe there are any events requiring disclosure.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Rural Water District Number 1, Latimer County, Oklahoma
Wilburton, Oklahoma

I 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 Rural Water District No. 1, Latimer County, Wilburton, Oklahoma, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise Rural Water District No. 1's basic financial statements and have issued my report thereon dated June 10, 2024 which did not include Management's Discussion and Analysis.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Rural Water District No. 1'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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rural Water District No. 1's internal control. Accordingly, I do not express an opinion of the effectiveness of Rural Water District No. 1'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.

My consideration of internal control over financial reporting 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 I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water District No. 1, Wilburton, Oklahoma's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed 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.

Sincerely,

A handwritten signature in cursive script that reads "Ralph Osborn".

Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
June 10, 2024