

**CHEROKEE COUNTY
RURAL WATER
DISTRICT # 7**

Welling, Oklahoma

**Annual Financial Statements
and
Independent Audit's Report**

December 31, 2023

Cherokee County Rural Water District #7
Welling, Oklahoma
December 31, 2023

Table of Contents

Independent Auditor's Report	1
Statement of Net Position - Modified Cash Basis	3
Statement of Revenues, Expenses and Changes in Net Position - Modified Cash Basis	4
Statement of Cash Flows- Modified Cash Basis	5
Notes to Financial Statements	6
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 <i>Government Auditing Standards</i>	11
Schedule of Findings and Responses	13

MICHAEL W. GREEN

Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Rural Water District No. 7
Cherokee County, Oklahoma

Report on the Audit of the Financial Statements

Opinions

I have audited the accompanying modified cash basis statement of assets, liabilities and net position of Rural Water District No. 7, Cherokee County, Oklahoma (the District) as of and for the year ended December 31, 2023, and the statement of revenues and expenses and change in net position, the statement of cash flows and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In my opinion, the modified cash basis financial statements referred to above present fairly, in all material respects, the assets, liabilities and net position of the District, as of December 31, 2023, and the changes in revenues, expenses, and net position, and the statement of cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis for Opinions

I conducted my 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. 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 the District, and to meet my other ethical responsibilities, in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Emphasis of Matter—Basis of Accounting

I draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. My opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1 and for determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible 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

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 my opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is

not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in 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*, I:

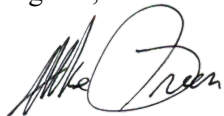
- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, 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 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 my 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.

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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated March 11, 2024, on my consideration of the District's internal control over financial reporting and on my 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 my 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 on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in the District's internal control over financial reporting and compliance.

Regards,



Michael Green, CPA

Stilwell, Oklahoma
March 11, 2024

CHEROKEE COUNTY RURAL WATER DISTRICT #7
Statement of Net Position
December 31, 2023

ASSETS

CURRENT ASSETS:

Cash - Operations	\$ 22,312
Cash - Restricted	114,532
TOTAL CURRENT ASSETS	136,844

NONCURRENT ASSETS:

Land	3,600
Equipment	242,683
Building	157,681
Water Distribution System	4,827,807
Accumulated Depreciation	(1,544,915)
TOTAL NONCURRENT ASSETS	3,686,856
TOTAL ASSETS	3,823,700

LIABILITIES

CURRENT LIABILITIES

Current Portion of Long-Term Debt	34,989
TOTAL CURRENT LIABILITIES	34,989

NONCURRENT LIABILITIES

Notes Payable - Less Current Portion	1,072,035
TOTAL NONCURRENT LIABILITIES	1,072,035
TOTAL LIABILITIES	1,107,024

NET POSITION

Net Investment in Capital Assets	2,579,832
Restricted for Debt Service	114,532
Unrestricted	22,312
TOTAL NET POSITION	\$ 2,716,676

The accompanying notes and auditor's report are an integral part of these financial statements.

CHEROKEE COUNTY RURAL WATER DISTRICT #7
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended December 31, 2023

OPERATING REVENUE:

Charges for Services:

Water Sales	\$ 551,615
Membership Fees	6,980
Late & Other Fees	11,434
TOTAL OPERATING REVENUE	<u>570,029</u>

OPERATING EXPENSES:

Water Purchased	263,964
Employee Expense	120,034
Permits & Licensing	495
Depreciation	117,038
Repairs & Maintenance	40,481
Insurance	23,397
Supplies	13,298
Legal & Professional	7,590
Postage	5,101
Telephone & Internet	2,830
Utilities	18,173
Meetings, mileage and travel	1,484
Dues and memberships	2,640
Vehicle Expense	11,392
Bank and credit card fees	3,701
Contract and Outside Services	3,279
Miscellaneous Expense	2,592
TOTAL OPERATING EXPENSES	<u>637,489</u>

NET INCOME FROM OPERATIONS (67,460)

NONOPERATING REVENUE (EXPENSE):

Interest Income	731
Grant Income	179,457
Other Income	234
Interest Expense	(20,194)
TOTAL NONOPERATING REVENUE & EXPENSE	<u>160,228</u>

NET INCOME 92,768

NET POSITION, BEGINNING OF YEAR 2,671,315

PRIOR PERIOD ADJUSTMENT - NOTE 1 (47,407)

NET POSITION, BEGINNING OF YEAR (RESTATED) 2,623,908

NET POSITION, END OF YEAR \$ 2,716,676

The accompanying notes and auditor's report are an integral part of these financial statements.

CHEROKEE COUNTY RURAL WATER DISTRICT #7
Statement of Cash Flows
For the Year Ended December 31, 2023

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$ 602,583
Payments to Suppliers	(385,467)
Payments to Employees	(120,034)
Converting to Modified Cash Basis	(47,407)
Net Cash Provided (used) by Operating Activities	49,675

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Other Income	234
Grant Income	179,457
Net cash provided (used) by noncapital financing activities	179,691

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition and Construction of Assets	(223,531)
Net Reduction of Capital Debt	4,012
Interest Paid on Capital Debt	(20,194)
Net Cash Provided (used) by Capital and Related Financing Activities	(239,713)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest Income	731
Net Cash Provided (used) by Investing Activities	731

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (9,616)

CASH & CASH EQUIVALENTS - BEGINNING OF THE YEAR 146,460

CASH & CASH EQUIVALENTS - END OF THE YEAR **\$ 136,844**

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

Operating Income (67,460)

Adjustments to Reconcile Operating Income to Net Cash Provided (used) by Operating Activities:

Depreciation Expense 117,038

Change in Assets and Liabilities: 97

NET CASH PROVIDED BY OPERATING ACTIVITIES **\$ 49,675**

The accompanying notes and auditor's report are an integral part of these financial statements.

CHEROKEE COUNTY RURAL WATER DISTRICT # 7
Notes to Financial Statements
For the Year Ended December 31, 2023

Note 1: Summary of Significant Accounting Policies

1.A Financial Reporting Entity

The Cherokee County Rural Water District #7 (the District) was organized under the Rural Water District Act of Oklahoma pursuant to Title 18 or 82 of the Oklahoma Statutes for the purpose of acquiring water and water rights, and to build and acquire pipelines and other facilities and to operate the same for the purpose of furnishing water to serve the need of owners and occupants of land located within the district.

1.B Basis of Presentation

Proprietary Funds and more specifically an Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

1.C. Basis of Accounting

The District is classified as an Enterprise Fund. The cost of providing water services to the public is financed mainly through user charges. The financial statements of the District have been prepared using the modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation. This basis is a basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid and accrued expenses and liabilities) are not recorded in these financial statements.

1.D Assets, Liabilities, and Fund Equity

Cash and Cash Equivalents

For the purpose of financial reporting, "cash and cash equivalents" include all cash on hand, demand deposits and highly liquid investments with an original maturity of three months or less when purchased.

Income Taxes

The Water District is exempt from paying income taxes under Internal Revenue Code Section 115.

Capital Assets

Property, plant and equipment are stated at their historical cost. Depreciation is recorded using the straight-line method over the useful life of the asset.

The range of estimated useful life of property by type of asset is as follows:

Vehicles	5
Furniture and Equipment	5
Buildings	20
Water System Improvements	40

EQUITY CLASSIFICATION

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position is displayed in three components:

- a. *Net Investment in capital assets* – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- b. *Restricted net position* – consists of net assets with constraints placed on the use either by an external group such as creditors, grantors, contributors, or laws and regulation of other governments, or by law through constitutional provisions or enabling legislation.
- c. *Unrestricted net position* – all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available.

1.E. Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting which 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 (such as estimated useful lives in determining depreciation expense.) Accordingly, actual results could differ from those estimates.

1.F. Prior Period Adjustment

For the year ended December 31, 2023, a prior period adjustment entry was made for the conversion to modified cash basis of accounting.

Note 2: Cash and Investments

At December 31, 2023, the District held deposits of approximately \$136,844 at financial institutions. The District’s cash deposits, including interest-bearing certificates of deposits, (if any), were covered by the Federal Deposit Insurance Corporation, (FDIC).

Note 3: Capital Assets

The following table shows the additions and deletions to each category of fixed assets:

	Balance December 31, 2022	Additions	Deletions	Balance December 31, 2023
<i>Business-type activities:</i>				
Capital assets not being depreciated:				
Land	\$ 3,600	\$ -	\$ -	\$ 3,600
Total Non Depreciated Assets	3,600	-	-	3,600
Other capital assets:				
Equipment	194,519	40,000	-	234,519
Buildings	157,681	-	-	157,681
Water System & Improvements	4,652,440	175,367	-	4,827,807
Total other capital assets at historical cost	4,978,992	215,367	-	5,220,007
Less accumulated depreciation:	(1,427,877)	(117,038)	-	(1,544,915)
Total Business-type activities capital assets, net	\$ 3,671,102	\$ 98,329	\$ -	\$ 3,678,692

Note 4: General Long-Term Debt

On November 7, 2023, the District entered into a loan with Local Bank to purchase a 2022 Ford F-250 XLT for \$40,000. The loan has a term of 5 years and an interest rate of 4.49%. At December 31, 2023, the balance of the loan was \$39,303.

On July 11, 2022, the District entered into a loan with Caterpillar Financial Services to purchase a Cat 302 Mini Excavator for \$20,930. The loan terms are four years with monthly payments of \$513 and an interest rate of 6.95%. At December 31, 2023, the balance of the loan was \$14,561.

During fiscal 2020, the District negotiated a new loan agreement with Bank of Cherokee County to combine the loan on the Big Tex Dump Trailer, and a loan for a 2013 Ford F-250. The District also paid off a 90 Day loan at Bank of Cherokee County and the BancFirst – Prague loan. As of December 31, 2023 the balance was paid in full.

On April 1, 2019, the District finalized a loan agreement with the USDA after completing construction of 2 pump stations and an office remodel. The loan in the amount of \$1,153,000 has a term of 40 years and bears a 1.625% interest rate with fixed monthly payments of \$3,275. At December 31, 2023 the balance of the loan was \$1,053,160.

DEBT SERVICE REQUIREMENTS TO MATURITY

Type of Debt	Balance 12/31/2022	Additions	Reductions	Balance 12/31/2023	Amount Due Within One Year
<i>Business Type Activities:</i>					
USDA - LTD 2019	\$ 1,075,153	\$ -	\$ (21,993)	\$ 1,053,160	\$ 22,349
Bank of Cherokee CO - 2013 Truck & Trailer	9,643	-	(9,643)	-	-
Caterpillar - Cat 302 Mini X	18,216	-	(3,655)	14,561	5,313
F-250 XLT	-	40,000	(697)	39,303	7,327
Total Business Type Activities:	\$ 1,103,012	\$ 40,000	\$ (35,988)	\$ 1,107,024	\$ 34,989

The annual debt service requirements for long term debt principal and interest are as follows:

Year Ended June 30	Principal	Interest	Total
2024	\$ 34,989	\$ 19,413	\$ 54,401
2025	36,072	18,330	54,401
2026	34,609	20,655	55,264
2027	31,846	16,401	48,246
2028	31,511	15,633	47,144
2029-2033	125,229	71,271	196,500
2034-2038	135,821	60,679	196,500
2039-2044	178,233	57,567	235,800
2045-2049	162,384	34,116	196,500
2050-2054	176,119	20,381	196,500
2055-2059	160,213	5,657	165,870
Totals	\$ 1,107,024	\$ 340,103	\$ 1,447,127

Note 5: Equipment Lease

The District had no Capital Leases at December 31, 2023.

Note 6: Restricted Cash

Terms of the loan with USDA required the creation of Two Reserve Accounts; Debt Service Reserve and Short-Lived Asset Reserve.

The Debt Service Reserve account is required to accumulate a balance of \$39,300; terms of the loan allow this reserve to accumulate monthly with a deposit of \$327.50 for Ten years. Prior written concurrence from the USDA is required before funds may be withdrawn from this account. The Debt Service Reserve at December 31, 2023 was \$18,478.

The Short-Lived Asset Reserve account is required to be funded with at least \$10,667 annually for the life of the loan. The purpose of this account is to fund repairs and/or replacement of major system assets. The Short-Lived Asset Reserve at December 31, 2023 was \$49,459.

Note 7: Litigation

The District is party to a civil action filed on behalf of a land owner. The District tendered defense to the Oklahoma Rural Water Association who is providing defense. The District is cooperating in the defense. The District has defense to this matter.

Note 8: Contingencies

Federally Assisted Programs

In the normal course of operations, the District participates in various federal or state/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

Note 9: Economic Dependency – Water Contracts

The District has water purchase contracts with the City of Tahlequah and Adair County Rural Dist. # 2 of Stilwell. At December 31, 2023, approximately 95% of the water was purchased from the City of Tahlequah and approximately 5% was purchased from Adair County Rural Dist. # 2 of Stilwell.

Note 10: Pension Plans

The Water District does not provide retirement benefits to its employees other than the payroll payments to the social security retirement system.

Note 11: Compensated Absences

The Water district has no material compensated absence amounts.

Note 12: Subsequent Events

Subsequent events have been evaluated through March 11, 2023, which is the date the financial statements were available to be issued.

MICHAEL W. GREEN
Certified Public Accountant

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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
Cherokee County RWD # 7
Welling, Oklahoma

I 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 and each major fund of Cherokee County Rural Water District # 7, (the District), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued my report thereon dated March 11, 2024. The report included an emphasis-of-matter paragraph related to the District's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Report on Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I considered the District'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I 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.

My 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. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. I did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item (2023-01), that I consider to be significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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 determination of financial statement amounts. 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The District's Response to Findings

The District's response to the findings identified in my audit is described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Regards,

A handwritten signature in black ink, appearing to read "Mike Green". The signature is stylized with a large, looped "G" and a cursive "Green".

Michael Green, CPA
Stilwell, Oklahoma
March 11, 2023

Cherokee County Rural Water District # 7

Schedule of Findings and Responses

Year Ended December 31, 2023

2023-01 – Internal Controls over Financial Reporting

Criteria: The segregation of duties and responsibilities between different individuals for custody of assets, record keeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

Condition: Presently a limited number of individuals has responsibility for all functions of the financial statement reporting. These individuals have oversight responsibilities for billing and adjustments; posting of payments payment to subsidiary accounts receivable ledgers and reconciles the monthly bank statements. In addition, only limited oversight is provided over this individual in the conduct of their daily functions. This condition was also reported in 2022.

Cause: The District's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

Effect or Potential Effect: Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to the membership and other billing and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: Management and the board should consider a formal evaluation of their risks associated with this lack of duties segregation over assets. In response to the identified risks, consideration should be given to identifying and implementing compensating duties to act as controls that could help mitigate the risks associated with lack of segregation of duties, such as management performing review procedures for the reconciliation of accounts.

Responsible Official's Response: The District concurs with the recommendation and will strive to implement procedures and compensating duties to help mitigate the risks associated with the lack of segregation of duties.