RURAL WATER AND/OR SEWER DISTRICT #1, STEPHENS COUNTY, OKLAHOMA

ANNUAL FINANCIAL STATEMENTS AND
ACCOMPANYING INDEPENDENT AUDITOR'S REPORTS
AS OF AND FOR THE YEAR ENDED
OCTOBER 31, 2023

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Certified Public Accountant

405.238.6447



INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rural Water and/or Sewer District #1, Stephens Co.

Opinion

I have audited the accompanying financial statements of Rural Water and/or Sewer District #1, Stephens Co., Oklahoma, which comprise the statement of net position as of October 31, 2023, and the related statements of revenues and expenses and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements.

In my opinion, the financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of the Rural Water and/or Sewer District #1, Stephens Co., Oklahoma, as of October 31, 2023, and the changes in its modified cash financial position and cash flows for the year then ended in accordance with the modified cash basis of accounting described in Note 1 of the financial statements.

Basis for Opinion

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 *Governmental 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 Rural Water and/or Sewer District #1, Stephens Co., Oklahoma 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 opinion.

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 opinion is not modified with respect to this matter.

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 Rural Water and/or Sewer District #1, Stephens Co., Oklahoma'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

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

In performing an audit in accordance with generally accepted auditing standards, 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 and/or Sewer District #1, Stephens Co., 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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Rural Water and/or Sewer District #1, Stephens Co., 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 Reporting Required by Government Auditing

In accordance with Government Auditing Standards, I have also issued a report dated June 6, 2024, on my consideration of Rural Water and/or Sewer District #1, Stephens Co., Oklahoma's internal control over financial reporting and on my tests of its compliance with certain laws, regulations, contracts and grants and other matters. The purpose of that report is 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 Rural Water and/or Sewer District #1, Stephens Co., Oklahoma'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 Rural Water and/or Sewer District #1, Stephens Co., Oklahoma's internal control over financial reporting and compliance.

Kristi L. Dobbins, CPA Pauls Valley, OK 73075

June 6, 2024

RURAL WATER AND/OR SEWER DISTRICT #1, STEPHENS COUNTY, OKLAHOMA ANNUAL FINANCIAL REPORT As of and For the Year Ended October 31, 2023 BASIC FINANCIAL STATEMENTS- PROPRIETARY FUND

Statement of Net Position-Modified Cash Basis-Proprietary Fund-October 31, 2023

	Business-Type Activities
ASSETS	
Cash and cash equivalents, unrestricted	\$75,063
Cash and cash equivalents, restricted	644
Investments, unrestricted	375,549
Investments, restricted	31,800
Capital assets, net of depreciation	407,145
Total Assets	890,201
LIABILITIES	
Customer deposits	31,840
Total Liabilities	31,840
NET POSITION	
Net investment in capital assets	407,145
Unrestricted	451,216
Total Net Position	\$858,361

Statement of Revenues, Expenses and Changes in Net Position-Modified Cash	
Basis-Proprietary Fund-Year Ended October 31, 2023	

Operating Revenues:	
Utility Fees	\$363,306
Miscellaneous	6,987
Total Operating Revenues	370,293
Operating Expenses:	
Salaries	137,860
Payroll taxes	10,176
Employee Benefits	22,504
Depreciation	52,781
Electricity-pumps	35,677
Insurance	14,875
Repairs and maintenance	75,916
Pickup maintenance and fuel	10,733
Office expense	17,523
Office utilities	6,371
Professional fees	7,535
Telephone	2,481
Water rights	1,800
Dues, licenses and fees	689
Total Operating Expenses	396,921
Net Operating Income (Loss)	(26,628)
Non-Operating Revenues (Expenses):	
Interest income	5,698
Rent income	3,600
Net Income (Loss)	(17,330)
Net position - beginning of year (as restated)	875,691
Net position - end of year	\$858,361

See accompanying notes to the basic financial statements and Independent Auditor's Report.

Statement of Cash Flows-Modified Cash Basis-Proprietary Fund-Year Ended October 31, 2023

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$370,293
Payments to suppliers	(206,280)
Payments to employees	(137,860)
Receipts from customer meter deposits	3,500
Refunds of customer meter deposits	(2,485)
Net Cash Provided by Operating Activities	27,168
CASH FLOWS FROM CAPITAL AND RELATED	
FINANCING ACTIVITIES	
Investment in fixed assets	(17,563)
Net Cash Used by Capital and Related Financing Activities	(17,563)
CACH ELOWS EDOM INVESTING ACTIVITIES	
CASH FLOWS FROM INVESTING ACTIVITIES Investment income	5,698
Rent income	3,600
	9,298
Net Cash Provided by Investing Activities	9,298
Net increase (decrease) in cash	18,903
Balance - beginning of the year	464,153
Balance - end of the year	\$483,056
Reconciliation of operating income (loss) to net cash provided	
by operating activities:	VA. 5 - 5 - 5 - 5 - 5 - 5 - 5 - 5 - 5 - 5
Operating income (loss)	(\$26,628)
Adjustments to reconcile operating income to net cash provided	
by operating activities:	
Depreciation expense	52,781
Change in assets and liabilities:	
Customer deposits	1,015
Net cash provided by operating activities	\$27,168

See accompanying notes to the basic financial statements and Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENT

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. FINANCIAL REPORTING ENTITY
- B. BASIS OF PRESENTATION
- C. ASSETS, LIABILITIES AND EQUITY
- D. REVENUES AND EXPENSES
- E. USE OF ESTIMATES
- F. DIFFERENCES FROM GAAP

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. DEPOSITS AND INVESTMENT LAWS AND REGULATIONS

NOTE 3. DETAIL NOTES - TRANSACTION CLASSES/ACCOUNTS

- A. CASH AND CASH EQUIVALENTS
- B. CAPITAL ASSETS

NOTE 4. OTHER NOTES

- A. RISK MANAGEMENT
- B. EMPLOYEE PENSION AND OTHER BENEFITS
- C. COMMITMENTS AND CONTINGENCIES

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.A. FINANCIAL REPORTING ENTITY

Rural Water and/or Sewer District #1, Stephens County, Oklahoma was established pursuant to Title 82 of Oklahoma State Law on September 30, 1963. The purpose of the District is to provide a water distribution system for its members in the Velma, Oklahoma area. Members are owners of property located within the area who have subscribed to one or more Benefit Units. Each member represents one vote of the governing body of the District without any direct ownership in its assets.

The accompanying financial statements include all functions and activities over which the District exercises financial accountability. The District is considered a primary government as defined by the Governmental Accounting Standards Board (GASB) and has no other component units within its reporting entity.

1.B. BASIS OF PRESENTATION

The District utilizes the modified cash basis of accounting, which is comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under the modified cash basis of accounting assets, liabilities and related revenues and expenses are recorded when they result from cash transactions with an adjustment for depreciation.

If the District utilized the basis of accounting recognized as generally accepted, as a proprietary type fund, they would use the accrual basis of accounting. In other words, revenues would be recognized when earned and expenses (including depreciation) would be recorded when the liability is incurred, or economic asset used.

1.C. ASSETS, LIABILITIES AND EQUITY

Cash and Cash Equivalents

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three-months or less.

Accounts Receivable

As a result of the use of the modified cash basis of accounting, accounts receivable and other revenue related receivables are not reported in the financial statements.

Capital Assets

Facilities purchased, constructed, or donated are recorded at cost and include improvements that significantly add to the productive capacity or extend the useful life of the asset. Costs of maintenance and repairs are charged to expense. Upon retirement or disposal of assets, the cost and related accumulated depreciation are removed from the accounts, and gain or loss, if any, is reflected in earnings for that period. Depreciation is provided on a straight-line method over the estimated useful lives of the assets, generally forty years for the water system and five to ten years for office furniture and equipment.

Restricted Assets

Restricted assets include current assets that are legally restricted as to their use. The District currently has restricted assets in the amount of \$31,840, comprised of amounts held by the District for utility deposits(refunded upon termination of service or applied to the final bill).

Equity Classification

Equity is classified as net assets and 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 assets Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors or laws and regulations of other governments, or 2) 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".

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

1.D. REVENUES AND EXPENSES

For purposes of the operating statement, revenues and expenses are classified by Operating and Non-Operating. The District reports expenses relating to use of economic resources including depreciation.

Benefit Unit Fees

Benefit unit fees represent a membership/connection fee required of each District member at the time they request service. This nonrefundable fee is designed to cover the estimated cost of connection, tap and related hook-up costs to the District's system. As such, the fees are recorded as operating revenue.

1.E. USE OF ESTIMATES

The preparation of financial statements in conformity with the other comprehensive basis of accounting used by the District requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

1.F. DIFFERENCES FROM GAAP

Basis of Accounting

As discussed in Note 1.B., the District reports its financial statements on a modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

By its nature as a local government unit, the District is subject to various federal, state and local laws and contractual regulations. An analysis of the District's compliance with significant laws and regulations and demonstration of its stewardship over District resources follows:

2.A. DEPOSITS AND INVESTMENT LAWS AND REGULATIONS

In accordance with State law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State of Oklahoma or political subdivision debt obligations, surety bonds and certain letters of credit. As required by 12 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the District must have a written collateral agreement approved by the board of directors or loan committee. For the year ended October 31, 2023, the District's deposits were undercollateralized by \$3,395 at the Bank of Commerce. All other deposits were fully insured or collateralized.

NOTE 3. DETAIL NOTES-TRANSACTION CLASSES/ACCOUNTS

The following notes present detailed information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/expenses.

3.A. CASH AND CASH EQUIVALENTS

Custodial Credit Risk

At October 31, 2023, the District held deposits of approximately \$483,056 at financial institutions. The District's cash deposits, including the interest-bearing certificates of deposits, are entirely covered by the Federal Depository Insurance (FDIC).

Investment Interest Rate Risk

The District does not have a formal investment policy that limits the investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The District has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies, and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in outof-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bonds or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality, or school district.

- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligation of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

3.B. CAPITAL ASSETS

Capital assets activity resulting from modified cash basis transactions for the fiscal year ended October31, 2023, was as follows:

	Balance at			Balance at
	November 1, 2022	Additions	Disposals	October 31, 2023
Business-Type Activities				
Capital assets not being depreciated:				
Land	\$30,237	: #:		\$30,237
Total capital assets not being depreciated	\$30,237			\$30,237
Capital assets being depreciated:				
Building	34,084			34,084
Office equipment	8,611	-	-	8,611
Plant equipment	89,968	-	æ:	89,968
Utility property and improvements	1,763,434	17,563		1,780,997
Total capital assets at historical cost	1,896,097	17,563	*:	1,913,660
Less accumulated depreciation for:	**			
Building	33,184	166		33,350
Office equipment	8,611	199		8,611
Plant equipment	89,968			89,968
Utility property and improvements	1,352,209	52,614	.*.	1,404,823
Total accumulated depreciation	1,483,972	52,780		1,536,752
Capital assets, net	\$442,362	(\$35,217)		\$407,145

NOTE 4. OTHER NOTES

4.A. RISK MANAGEMENT

Rural Water District No. 2 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 continues to carry commercial insurance for these risks, including general and auto liability, and property damage liability. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

4.B. EMPLOYEE PENSION AND OTHER BENEFITS

The District provides pension benefits through a Simple IRA. As of October 31, 2023, the District provided a benefit to each employee in the amount of 7% of each full-time employee's gross income. The District provides no other deferred compensation or other post-employment benefits to employees of the District.

4.C. COMMITMENTS AND CONTINGENCIES

Commitments

There were no material commitments as of October 31, 2023.

Contingencies

The District is not involved with any legal proceedings, which normally occur in the course of governmental operations at this time. Therefore, the financial statements do not include accruals or provisions for loss contingencies.

While legal proceedings cannot be foreseen, the District feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the District.

INTERNAL CONTROL AND COMPLIANCE

Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIALSTATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

June 6, 2024

Board of Directors Rural Water and/or Sewer District No. 1 Stephens County, 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 modified cash basis financial statements of the Rural Water and/or Sewer District #1, Stephens Co., Oklahoma (the District), as of and for the year ended October 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 June 6, 2024.

Report on Internal Control over Financial Reporting

In planning and performing my audit, I considered the District's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Rural Water and/or Sewer District #1, Stephens County's internal control. Accordingly, I do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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 combination of control 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 charges with governance.

My consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, I identified certain deficiencies in internal control the I consider to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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 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 our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Rural Water and/or Sewer District #1, Stephens Co., Oklahoma June 6, 2024

District's

Response to Findings

The District's response to the finding identified in my audit is described in the accompanying schedule of findings and questioned costs. This 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 our 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.

Kristi L. Dobbins, CPA

RURAL WATER AND/OR SEWER DISTRICT #1, STEPHENS COUNTY, OKLAHOMA SCHEDULE OF FINDINGS AND RESPONSES YEAR ENDED OCTOBER 31, 2023

Material Weakness Communicated in Prior and Current Year:

Criteria: An adequate internal control structure does not exist because of the small size of the entity, nor is there adequate segregation of duties. A good internal control system would provide for separation of duties and responsibilities in financial matters between various employees.

Condition: The same individual receiving payments for utility billings is the same individual doing the billing, making deposits and maintaining accounts receivable.

Cause: The entity's size and budget make it difficult to fully segregate the duties.

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

Recommendation: The best protection is to maintain sufficient bond on those handling cash to cover losses should they occur.

Board's Response: The board has evaluated the need and even though a bond is purchased, the cost to achieve total segregation of duties would exceed the benefits that would be derived from it.

Material Weakness Communicated in Prior Year:

Criteria: The District should maintain a system of internal controls that ensure financial statements are prepared in accordance with accounting principles generally accepted in the United States of America in a timely manner and that ensures the District complies with applicable laws, regulations, contracts and grant agreements.

Condition: Numerous and significant audit adjustments were necessary to correct material misstatements contained in the District's accounting records and the District unable to produce financial statements for the year ended October 31, 2022 in accordance with GAAP in a timely manner.

Cause: There is an overall lack of internal controls and proper management oversight to ensure the District's accounting records accurately reflect all transactions that have occurred.

Effect or Potential Effect: Without sufficient internal controls and employee knowledge and training, the financial statements produced do not give a proper representation of the District's financial status.

Also, electronically read meters were installed in 2016 and 2017 except for about 56 meters. Some of these meters were board member's meters and it appeared the board member meters were only being charged the minimum fee.

Also, the District failed to comply with the Competitive Bidding Act.

Board's Response: Regarding the GAAP basis of accounting, the board decided to change to the modified cash basis of accounting. They think this would be easier for the board and the bookkeeper to understand and be able to prepare the financial statements more accurately.

The board verified with the Oklahoma Rural Water Association that board members were not allowed free or discounted water, therefore, that practice was stopped immediately. Also, the District received a RIG grant and is using that grant to install electronic meters for the remaining manual meters. The board member's that had manual meters were replaced first.