

RURAL WATER DISTRICT NO. 5
SEQUOYAH COUNTY, OKLAHOMA
GORE, OKLAHOMA
ANNUAL FINANCIAL REPORT
DECEMBER 31, 2023

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

INDEPENDENT AUDITORS' REPORT

Board of Directors
Rural Water District No. 5
Sequoyah County
Gore, Oklahoma

Report on the Audit of Financial Statements

Opinion

I have audited the accompanying modified cash basis financial statements of the business type activities of Rural Water District No. 5, Sequoyah County, 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. 5, Sequoyah County's basic financial statements.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Rural Water District No. 5, Sequoyah 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. 5, Sequoyah 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. 5, Sequoyah 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 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 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. 5, Sequoyah 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. 5, Sequoyah 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 May 9, 2024, on my consideration of the Rural Water District No. 5'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. 5's internal control over financial reporting and compliance.



Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
May 9, 2024

RURAL WATER DISTRICT NO. 5
SEQUOYAH COUNTY, OKLAHOMA
GORE, OKLAHOMA
STATEMENT OF NET POSITION
DECEMBER 31, 2023

ASSETS

Current assets:

Cash and cash equivalents	\$ 148,649
Accounts receivable, net	8,799
Prepaid expense	<u>6,935</u>
Total current assets	<u>188,057</u>

Restricted assets:

Restricted cash and cash equivalents	<u>23,674</u>
Total restricted assets	<u>23,674</u>

Non-current assets:

Capital assets:

Land	14,448
Other capital assets, net of accumulated depreciation	<u>625,733</u>
Total non-current assets	<u>640,181</u>
Total assets	<u>828,238</u>

LIABILITIES

Current liabilities:

Accounts payable	15,110
Payroll liabilities	5,508
Accrued Interest Payable	49
Notes payable, current	<u>17,723</u>
Total current liabilities	<u>38,390</u>

Non-current liabilities:

Notes payable, non-current	<u>27,003</u>
Total non-current liabilities	<u>27,003</u>
Total liabilities	<u>65,393</u>

NET POSITION

Capital assets, net of related debt	595,455
Reserved for debt service	-
Unrestricted	<u>167,390</u>
Net position	<u>\$ 762,845</u>

See accompanying notes to financial statements.

RURAL WATER DISTRICT NO. 5
SEQUOYAH COUNTY, OKLAHOMA
GORE, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2023

OPERATING REVENUES

Water Sales	\$ 554,838
Membership	7,800
Penalties	28,325
Connect Fees	<u>2,025</u>

Total operating revenues	<u>592,988</u>
--------------------------	----------------

OPERATING EXPENSES

Personal services	192,103
Payroll taxes	15,566
Employee benefits	4,662
Repairs, Maintenance, and Supplies	3,308
Testing	1,721
Fuel	8,308
Legal and professional	10,200
Contract labor	30,768
Office and postage	19,380
Water purchases	191,920
Licenses	3,197
Supplies	48,016
Telephone and utilities	15,177
Bonds and permits	13,827
Miscellaneous	1,666
Depreciation	<u>56,674</u>

Total operating expenses	<u>616,493</u>
--------------------------	----------------

Operating income (loss)	<u>(23,505)</u>
-------------------------	-----------------

NON-OPERATING REVENUE (EXPENSES)

Investment income	319
Interest on notes payable and fiscal fees	<u>(3,053)</u>

Total non-operating revenue (expenses)	<u>(2,734)</u>
--	----------------

Net income (loss)	(26,239)
(25,239)	

Total Net position, beginning	<u>789,084</u>
-------------------------------	----------------

Total Net position, ending	<u>\$ 762,845</u>
----------------------------	-------------------

See accompanying notes to financial statements.

RURAL WATER DISTRICT NO. 5
 SEQUOYAH COUNTY, OKLAHOMA
 GORE, OKLAHOMA
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED DECEMBER 31, 2023

Cash flows from operating activities	
Cash received from customers	\$ 620,819
Cash paid to employees	(212,331)
Cash payments to suppliers for goods and services	<u>(352,732)</u>
Net cash provided (used) by operating activities	<u>55,756</u>
Cash flows from capital and related financing activities	
Acquisition of fixed assets	(3,680)
Interest paid on notes payable and fiscal fees	(3,053)
Principal paid on notes payable	<u>(31,233)</u>
Net cash (used) by capital and related financing activities	<u>(37,966)</u>
Cash flows from investing activities	
Receipt of interest and dividends	<u>319</u>
Net cash provided (used) by investing activities	<u>319</u>
Net increase in cash and cash equivalents	18,109
Cash and cash equivalents, beginning	<u>154,214</u>
Cash and cash equivalents, ending	<u><u>\$ 172,323</u></u>
Reconciliation of operating income (loss) to net cash provided by (used) by operating activities	
Operating income (loss)	\$ (23,505)
Depreciation	56,674
(Increase)/Decrease in Current Assets	
Accounts receivables, net	27,831
Prepaid expenses	229
Increase/(Decrease) in Current Liabilities	
Accounts payable	(5,962)
Payroll liabilities	523
Accrued interest payable	<u>(34)</u>
Net cash provided by operating activities	<u><u>\$ 55,756</u></u>

See accompanying notes to financial statements.

RURAL WATER DISTRICT NO. 5
SEQUOYAH COUNTY, OKLAHOMA
GORE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rural Water District No. 5, Sequoyah County, Oklahoma (the "District") was organized on May 5, 1977 by the Sequoyah County Board of County Commissioners under the provisions of the Rural Water District Act (Title 82, O.S. Supp 1972, Chapters 1324.1 to 1324.26) for the purpose of providing a water works system including all physical facilities, improvements and services necessary for executing that purpose in Sequoyah County. Since the District is a political subdivision of the State of Oklahoma, under Title 82, it is exempt from Federal and State income taxes.

The membership consists of approximately 669 benefit unit holders, each entitled to one vote. Subscribers to benefit units pay a \$1,500 subscription fee, which is non refundable, and entitles the holder to one line from the District's water system. An additional \$500 is added to the subscription fee, for a total of \$2,000, if they District has to cross a road. A blacktop road may cost more than \$2,000 depending on the road, to be determined by the Baord. The Board of Directors consists of 5 members serving 3 year terms. The vacant Board seats are filled at the annual meeting, and the Board of Directors elects a Chairman, Vice-Chairman, Secretary, and Treasurer.

Government-Wide and Fund 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. 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.

RURAL WATER DISTRICT NO. 5
SEQUOYAH COUNTY, OKLAHOMA
GORE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 District did not report any investments at December 31, 2023.

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 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 with one-half year depreciation in the year acquired and one-half in the year of disposal. 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 - 20 years

Compensated Absences

At December 31, 2023, it is not believed that accrued benefits, if any, are significant and would not be materially affect the financial statements.

Reserves and Designations

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

RURAL WATER DISTRICT NO. 5
SEQUOYAH COUNTY, OKLAHOMA
GORE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

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 - 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 December 31, 2023, all of the District's deposits and investments were either covered by federal deposit insurance or were fully collateralized.

Deposits

The District had deposits at financial institutions with a carrying amount of approximately \$172,323 at December 31, 2023. The bank balance of the deposits at December 31, 2023 was approximately \$173,755.

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.

RURAL WATER DISTRICT NO. 5
 SEQUOYAH COUNTY, OKLAHOMA
 GORE, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2023

NOTE C - RESTRICTED ASSETS

USDA RURAL DEVELOPMENT

The District has reported as restricted assets cash held by a trustee bank for use in relation to the note payable listed in Note E. The cash reported in the Statement of Net Position is restricted as indicated. This cash is not available for other purposes.

The Loan Resolution Security Agreements with the USDA Rural Development requires a reserve fund to be funded at 10% of the monthly installment until the balance is equal to the annual installment amount (\$2,860 X 12 = \$34,320). At December 31, 2023, the total balance in the debt service reserve accounts was \$ 23,674

NOTE D - CAPITAL ASSETS

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

	Beginning Balance	Additions	Retirements	Ending Balance
Land	\$ 14,448	\$ -	\$ -	\$ 14,448
Buildings & Improvements	73,095	-	-	73,095
Equipment	119,944	3,680	-	123,624
Water Distribution System	<u>1,807,562</u>	<u>-</u>	<u>-</u>	<u>1,807,562</u>
Total Capital Assets	2,015,049	3,680	-	2,018,729
Depreciation	<u>(1,807,562)</u>	<u>(56,674)</u>	<u>-</u>	<u>(1,378,548)</u>
Total Net Capital Assets	<u>\$ 693,175</u>	<u>\$ (52,994)</u>	<u>\$ -</u>	<u>\$ 640,181</u>

NOTE E - NOTES PAYABLE PROPRIETARY FUND

A brief description of the outstanding notes payable at December 31, 2023 is set forth below:

USDA, Rural Development loan #04 in the original loan amount of \$385,000, interest rate of 5.00%, term of 40 years, monthly installment of \$2,860.	<u>\$ 44,726</u>
TOTAL	<u>\$ 44,726</u>

RURAL WATER DISTRICT NO. 5
SEQUOYAH COUNTY, OKLAHOMA
GORE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE E - NOTES PAYABLE PROPRIETARY FUND (continued)

Following is the anticipated annual debt service amounts for principal payments.

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2024	\$ 17,723	\$ 4,598	\$ 22,321
2025	18,630	3,691	22,321
2026	8,373	2,738	11,111
2027		2,427	2,427
Total	<u>\$ 44,726</u>	<u>\$ 13,454</u>	<u>\$ 58,180</u>

NOTE F - 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; and natural disasters. The District carries commercial insurance 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 G - CONTRACTS

The District purchases water for resale from Sequoyah County Water Association, Sallisaw, Oklahoma, under the terms of a Water Purchase Agreement dated September 29, 2009. The contract extends for an initial term fifty (50) years and thereafter is to be reviewed annually for successive one year terms until terminated. The price paid by the District is determined based on costs incurred by the Authority in producing the water purchased. The contract contains terms defining the costs to be considered.

NOTE H - PENSION

The District participates in a pension plan through Invesco AIM for full time employees. Employees can contribute up to 5% of their annual salary. The District matches up to 3% and is not liable for any amounts above this amount. The District's contributions to the plan for the years ended December 31, 2023, 2022, and 2021 were \$4,662, \$3,630, and \$2,764, respectively, equal to the required contributions for each year.

NOTE I - SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 9, 2024 the date on which the financial statements were available to be issued. The Authority does not believe there are any events requiring disclosure.

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*

Board of Directors
Rural Water District No. 5
Sequoyah County
Gore, 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 Rural Water District No. 5, Sequoyah County, Gore, 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. 5's basic financial statements and have issued my report thereon dated May 9, 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. 5'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. 5's internal control. Accordingly, I do not express an opinion of the effectiveness of 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 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. 5, Gore, 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 which are described in the accompanying schedule of findings and questioned costs as item 2023-1.

Purpose of the 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 *Governmental Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sincerely,



Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
May 9, 2024