

**Shell Creek Rural Water District No. 12
McIntosh County
Hanna, Oklahoma**

Financial Statements and Auditor's Reports

Year Ended December 31, 2023

Audited by

**BLEDSON, HEWETT & GULLEKSON
CERTIFIED PUBLIC ACCOUNTANTS, PLLLP**

BROKEN ARROW, OK

Shell Creek Rural Water District No. 12
McIntosh County
Hanna, Oklahoma
Board of Directors
December 31, 2023

BOARD OF DIRECTORS

Chairman

Paul Maxey

Vice-Chairman

Barbara Armstrong

Secretary/Treasurer

Lynn Kaler

Members

Ray Free

Chasity Vaughn

Amber Davis-Graham

Bennie Cato

OPERATOR

Robert Jones

BOOKKEEPER

Dawn Stacy

Shell Creek Rural Water District No. 12
McIntosh County
Hanna, Oklahoma
December 31, 2023

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BLEDSON, HEWETT & GULLEKSON
CERTIFIED PUBLIC ACCOUNTANTS, PLLLP

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Shell Creek Rural Water District No. 12
McIntosh County
Hanna, Oklahoma

Report on the Audit of the Financial Statements

We have audited the accompanying combined fund type and account group financial statements-regulatory basis of the Shell Creek Rural Water District No. 12, McIntosh County, Hanna, Oklahoma (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 as listed in the table of contents.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2023, and the respective changes in financial position 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

We conducted our 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. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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 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*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 our 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.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

The District has not presented the Management's Discussion and Analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

The prior year “memorandum only” comparative information and the supplemental information on page 16 are presented for the purposes of additional analysis and are not a required part of the basic financial statements of the District. Such information has not been subjected to the auditing procedures applied in our audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2024 on our consideration of the District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 District’s internal control over financial reporting and compliance.

Bledsoe, Hewett & Gullekson

Bledsoe, Hewett & Gullekson
Certified Public Accountants, PLLLP

April 29, 2024



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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**

Board of Directors
Shell Creek Rural Water District No. 12
McIntosh County
Hanna, Oklahoma

We 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 the Shell Creek Rural Water District No. 12, McIntosh County, Hanna, Oklahoma (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 our report thereon dated April 29, 2024.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we 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 our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of District's internal control. Accordingly, we do not express an opinion on the effectiveness of 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we identified one deficiency in internal control that we consider to be a material weakness. This finding is identified as item 23-1 in the accompanying Schedule of Findings and Responses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no 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.

Bledsoe, Hewett & Gullekson

Bledsoe, Hewett & Gullekson
Certified Public Accountants, PLLLP

April 29, 2024

SHELL CREEK RURAL DISTRICT NO. 12
McIntosh County, Oklahoma
Disposition of Prior Year's Significant Deficiencies
December 31, 2023

- 22-1 The exception of the District lacking proper segregation of accounting functions with additional personnel continued in the current fiscal year.

SHELL CREEK RURAL WATER DISTRICT NO. 12
McIntosh County, Oklahoma
Schedule of Audit Results
December 31, 2023

Section 1 – Summary of Auditor’s Results:

1. An unmodified opinion report was issued on the financial statements.
2. The audit disclosed a significant deficiency in the internal controls, which was considered a material weakness.
3. The audit disclosed no instances of noncompliance.

Section 2 – Findings relating to the financial statements required to be reported in accordance with GAGAS:

23-1 – Lack of Segregation of Duties

Criteria-

An organization should ensure that there is a proper segregation of duties regarding water collections and the payment of expenses.

Cause-

The District is not large enough to justify the hiring of additional personnel.

Effect-

There is always the possibility that not all collections are actually receipted or deposited, and the possibility that funds expended are not used for actual District obligations.

Recommendation-

The current procedures should not be changed. However, there should be additional personnel instilled into the collection, receipt, deposit, reconciliation and payment procedures when this becomes economically possible.

Response-

Additional personnel will be hired when the actual funds are available. We have adopted some procedures to establish internal controls for a small office. The office clerk makes all the deposits, and no cash is accepted. For expenses, the Board Treasurer issues all the checks from a list that is provided by the office staff.

SHELL CREEK RURAL WATER DISTRICT NO. 12
McIntosh County, Oklahoma
Statement of Net Position
December 31, 2023

	2023	-Memorandum- -Only- 2022
<u>ASSETS</u>		
Current assets:		
Cash	\$ 77,239	\$ 40,446
Accounts receivable	25,633	15,368
Total current assets	<u>102,872</u>	<u>55,814</u>
Non-current assets:		
Reserve account	15,000	14,869
Capital assets:		
Water system, net of depreciation	490,129	514,671
Total noncurrent assets	<u>505,129</u>	<u>529,540</u>
TOTAL ASSETS	<u>\$ 608,001</u>	<u>\$ 585,354</u>
<u>LIABILITIES</u>		
Current liabilities:		
Accounts payable	\$ 9,863	\$ 8,758
Accrued interest on debt	558	644
Current portion of long-term debt	7,478	7,150
Total current liabilities	<u>17,899</u>	<u>16,552</u>
Non-current liabilities:		
Long-term debt	148,656	156,135
Total Liabilities	<u>166,555</u>	<u>172,687</u>
<u>NET POSITION</u>		
Net investment in capital assets	333,995	351,386
Restricted for debt service	15,000	14,869
Unrestricted assets	92,451	46,412
Total Net Position	<u>441,446</u>	<u>412,667</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 608,001</u>	<u>\$ 585,354</u>

The accompanying notes to the financial statements are an integral part of this statement

SHELL CREEK RURAL WATER DISTRICT NO. 12
McIntosh County, Oklahoma
Statement of Revenues, Expenses and Changes in Net Position
For The Year Ended December 31, 2023

	2023	-Memorandum- -Only- 2022
Operating Revenues:		
Water sales	\$ 223,936	\$ 172,004
Operating Expenses:		
Contract labor	49,767	47,568
Depreciation	26,784	26,757
Water purchases	17,288	13,993
Office	7,941	6,238
Insurance	5,401	5,489
Repairs & maintenance	31,573	26,035
Supplies & materials	10,789	10,289
Chemicals	12,155	12,232
DEQ	3,092	2,228
Dues/Fees	150	25
Electricity	20,580	21,333
Professional fees	2,500	7,400
Miscellaneous	667	646
Total expenses from operations	<u>188,687</u>	<u>180,233</u>
Operating Income (Loss)	35,249	(8,229)
Non-Operating Revenues (Expenses):		
Interest income	645	33
Insurance reimbursement	0	7,452
Interest expense on debt	(7,115)	(7,570)
Total non-operating revenues (expenses)	<u>(6,470)</u>	<u>(85)</u>
Change in Net Position	28,779	(8,314)
Total Net Position, beginning of period	<u>412,667</u>	<u>420,981</u>
Total Net Position, end of period	<u><u>\$ 441,446</u></u>	<u><u>\$ 412,667</u></u>

The accompanying notes to the financial statements are an integral part of this statement

SHELL CREEK RURAL WATER DISTRICT NO. 12
McIntosh County, Oklahoma
Statement of Cash Flows
For Year Ended December 31, 2023

	2023	-Memorandum- -Only- 2022
Cash Flows from Operating Activities:		
Receipts from customers	\$ 213,671	\$ 168,490
Payments to vendors	(160,798)	(151,170)
Net Cash Provided by Operating Activities	<u>52,873</u>	<u>17,320</u>
Cash Flows from Capital and Related Financing Activities:		
Capital assets purchased	(2,242)	(10,361)
Insurance proceeds	0	7,452
Principal paid on debt	(7,151)	(6,839)
Interest paid on debt	(7,201)	(7,513)
Net cash provided by (used in) financial activities	<u>(16,594)</u>	<u>(17,261)</u>
Cash Flows from Investing Activities:		
Investments purchased	(15,000)	0
Interest revenue	645	33
Net cash provided by (used in) investing activities	<u>(14,355)</u>	<u>33</u>
Net Increase (Decrease) in Cash	21,924	92
Cash and cash equivalents, beginning of period	<u>55,315</u>	<u>55,223</u>
Cash and cash equivalents, end of period	<u><u>\$ 77,239</u></u>	<u><u>\$ 55,315</u></u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating Income	\$ 35,249	\$ (8,229)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation Expense	26,784	26,757
(Increase) decrease in accounts receivable	(10,265)	(3,514)
Increase (decrease) in accounts payable	<u>1,105</u>	<u>2,306</u>
Net Cash Provided by Operating Activities	<u><u>\$ 52,873</u></u>	<u><u>\$ 17,320</u></u>

The accompanying notes to the financial statements are an integral part of this statement

SHELL CREEK RURAL WATER DISTRICT NO. 12
Notes to Financial Statements
December 31, 2023

Note A – Significant Accounting Policies

Organization

Shell Creek Rural Water District No. 12 (the District) is an Oklahoma non-profit water district organized under Title 82 of Oklahoma Statutes to provide water service to rural residents of McIntosh and Hughes Counties, Oklahoma. The District is considered a political subdivision of the State of Oklahoma

Basis of Accounting

The accrual basis of accounting is followed for all accounts. Revenues are recorded when earned and accrued liabilities are recognized when incurred. This policy is in accordance with generally accepted accounting principles.

Cash

The District's accounts are with the Arvest Bank, Eufaula, Oklahoma, and are detailed as follows:

	December 31,	
	2023	2022
Operating Account	\$ 55,373	30,656
Savings Account	21,866	9,881
Total	<u>\$ 77,239</u>	<u>40,537</u>

Restricted Asset –Reserve Account

In compliance with Rural Economic and Community Development regulations, cash reserves have been established to collect up to one year's payments on the notes payable #91-05 and 91-06, or \$14,352, at which time deposits in the reserve can be suspended. When necessary, funds may be utilized with proper approval of the Rural Economic and Community Development. The reserve account funds have been deposited in a 14 month, 4.25% interest, certificate of deposit at Arvest Bank, which is insured by the federal government. At December 31, 2023 the restricted asset-investment reserve had a balance of \$15,000. The interest earnings are deposited into the operating bank account, and the certificate of deposit has a maturity date of July 16, 2024.

SHELL CREEK RURAL WATER DISTRICT NO. 12
Notes to Financial Statements
December 31, 2023

Note A – Significant Accounting Policies – cont’d

Accounts Receivable

Billings for accounts receivable at December 31, 2023 were \$25,633. Allowance for doubtful accounts was not computed on this balance because uncollectibles do not have a material effect on the balance sheet.

Memorandum Totals

The “Memorandum Only” captions above the total columns mean that amounts are presented for overview information purposes only.

Capital Assets

Any items purchased or constructed in excess of \$1,000 and a useful life of over two years is considered a capital asset by the District and will be depreciated over a specific time. The capital asset information for the District is shown below:

	12/31/2022 Amount	Additions	Deletions	12/31/2023 Amount
Water system	\$ 1,059,824	2,242	-	1,062,066
Less: Accumulated Depreciation	(545,153)	(26,784)	-	(571,937)
Total	<u>\$ 576,755</u>	<u>(26,784)</u>	<u>-</u>	<u>490,129</u>

Federal Income Tax

The District is exempt from Federal and State income taxes.

Collateral Pledged

All District funds were adequately insured by FDIC as of December 31, 2023. Combined cash and investment balances did not exceed \$250,000 at any time during the 2023 fiscal year.

SHELL CREEK RURAL WATER DISTRICT NO. 12
Notes to Financial Statements
December 31, 2023

Note B – Long-Term Debt

Long-term debt as December 31, 2023 is summarized as follows:

Note 91-05, 4.5% mortgage payable to Office of Rural Development, Required monthly installments of \$480	\$ 62,707
Note 91-06, 4.5% mortgage payable to Office of Rural Development, Required monthly installments of \$716	<u>93,427</u>
Total	156,134
Less: current maturities	<u>(7,478)</u>
Total	<u>\$ 148,656</u>

Future principal amounts to be paid are as follows:

Year Ended	Note 91-05	Note 91-06	Total
2024	\$ 2,999	4,479	7,478
2025	3,137	4,685	7,822
2026	3,281	4,900	8,181
2027	3,432	5,125	8,557
2028	3,590	5,361	8,951
2028-32	20,579	30,731	51,310
2033-37	<u>25,689</u>	<u>38,146</u>	<u>63,835</u>
Total	<u>\$ 62,707</u>	<u>93,427</u>	<u>156,134</u>

Note C - Subsequent Events

Management has evaluated subsequent events through April 29, 2024 which is the date the financial statements were available to be issued and have determined that no additional information needs to be added to the financial statements.

SHELL CREEK RURAL DISTRICT NO. 12
Schedule of Water Rates and Customers
-Unaudited Information-
December 31, 2023

Water Rates

2023-

Customers - \$25.00 Minimum bill, plus \$12.00 per 1,000 gallons

City of Dustin - \$25.00 Minimum bill, plus \$10.00 per 1,000 gallons

Water Loss

	<u>2023</u>	<u>2022</u>
Total gallons purchased	28,850,000	27,782,000
Total gallons sold to District customers	<u>17,369,400</u>	<u>18,150,030</u>
Total water loss	<u>11,480,960</u>	<u>9,631,970</u>
Percentage of water loss	<u>39.79%</u>	<u>34.67%</u>

Source – Monthly Purchased and Sold Report

Customers

The number of customers at year-end was 91.

The cost of a new benefit unit/tap fee is \$1,000.