

**Rural Water District No. 3,
Woods County, Oklahoma**

Annual Financial Statements

Year Ended September 30, 2021



Woods County Rural Water District No. 3
Table of Contents
For the Year Ended September 30, 2021

	<u>Page No.</u>
Independent Auditor's Report	1-2
Financial Statements	
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 Controls 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>	10

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Rural Water District No. 3, Woods County, Oklahoma

We have audited the accompanying modified cash basis financial statements of the Rural Water District No. 3, Woods County, Oklahoma, as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility 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; this includes 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 Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

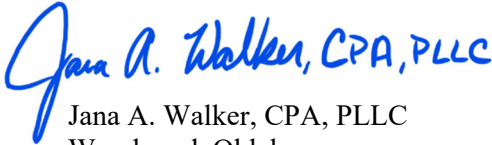
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the Rural Water District No. 3, Woods County, Oklahoma, as of September 30, 2021, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

We 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. Our opinions are not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2022, on our consideration of the Rural Water District No. 3, Woods County, Oklahoma’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 Rural Water District No. 3, Woods County, 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 the Rural Water District No. 3, Woods County, Oklahoma’s internal control over financial reporting and compliance.



Jana A. Walker, CPA, PLLC
Woodward, Oklahoma
January 10, 2022

Woods County Rural Water District No. 3
Statement of Assets, Liabilities, and Net Position-Modified Cash Basis
September 30, 2021

ASSETS

Current Assets:	
Cash & Cash Equivalents	\$ 5,697
Certificates of deposit	96,340
Total current assets	102,037
Reserve certificates	3,000
Utility deposits	70
Property, equipment and water system, net (Note 4)	484,450
Total Non-current assets	487,520
Total Assets	\$ 589,557

LIABILITIES AND NET POSITION

Current Liabilities:	
Notes payable, current portion	\$ 9,668
Total Current Liabilities	9,668
Total Liabilities	9,668
Net Position	
Net investment in capital assets	474,782
Restricted	-
Unrestricted	105,107
Total Net Position	579,889
Total Liabilities and Net Position	\$ 589,557

The accompanying report and notes are an integral part of these financial statements

Woods County Rural Water District No. 3
Statement of Revenues, Expenses and Changes in Net Position-Modified Cash Basis
For the Year Ended September 30, 2021

Revenues:	
Water sales	\$ 359,851
Other income	-
Total Operating Revenue	359,851
Expenses:	
Payroll	120,612
Payroll taxes	8,440
Employee benefits	2,030
Travel	39
Insurance and bonds	11,253
Professional fees	3,886
Dues and memberships	543
Office expenses	3,474
Repairs & Maintenance	24,670
Chemicals	-
Sampling and fees	804
Utilities	17,045
Telephone and Internet	3,272
Depreciation	48,572
Water purchases	161,283
Other expense	474
Total Operating Expense	406,397
Income (Loss) from Operations	(46,546)
Other Income/(Expense):	
REAP grant	47,960
Interest income	1,715
Interest expense	(941)
Total non-operating revenue (expense)	48,734
Change in Net Position	2,188
Net Position, beginning of year, restated	577,701
Net Position, end of year	\$ 579,889

The accompanying report and notes are an integral part of these financial statements

Woods County Rural Water District No. 3
Statement of Cash Flows-Modified Cash Basis
For Year Ended September 30, 2021

Cash flows provided (Used) by operating activities:	
Cash received from customers	359,851
Cash payments to employees	(131,082)
Cash payments to suppliers for goods and services	(226,743)
Net Cash Provided (Used) by Operating Activities	2,026
Cash flows from non-capital financing activities: -	
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	-
Principle payments	(26,627)
Interest payments	(941)
Net Cash Provided (Used) by Investing Activities	(27,568)
Cash flows from investing activities	
Interest on cash and investments	1,715
(Increase) decrease in certificates of deposit	8,238
Net cash provided (used) by investing activities	9,953
Net increase (decrease) in cash and cash equivalents	(15,589)
Beginning Cash and Cash Equivalent Balance	21,286
Ending Cash and Cash Equivalent Balance	\$ 5,697
Operating income (loss)	(46,546)
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	48,572
Net cash provided (used) by operating activities	\$ 2,026

The accompanying report and notes are an integral part of these financial statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

Woods County Rural Water District No. 3 was organized in January 1977 under the Rural Water, Sewer, Gas and Solid Waste Management District Act, Title 82,1324.3 et seq. of the laws of the State of Oklahoma. The purpose of this District is to furnish and supply to owners and occupants of property within the corporate limits water and related facilities and services.

The District is a governed entity administered by a Board of Directors that act as the authoritative and legislative body of the entity. The Board is comprised of elected board members.

Basis of Accounting

The accounting policies of Woods County Rural Water District No. 3 conform to the basic principles of governmental accounting and financial reporting set forth by the Governmental Accounting Standards Board.

The District is classified as an Enterprise Fund. The costs of providing the water services to the public are financed mainly through user charges. The financial statements of the District are reported on a modified cash basis of accounting. This basis is a basis of accounting other than accounting principles generally accepted in the United States of America. The modified cash basis of accounting is based on the recording of cash and cash equivalents and changes therein, and only recognizes revenues, expenses, assets and liabilities resulting from cash transactions adjusted for certain modifications that have substantial support in generally accepted accounting principles. The District has chosen to include adjustments for the following balances arising from cash transactions:

- Capital assets and the depreciation of those assets, where applicable
- Donated capital assets

As a result of the use of this 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 accrued revenue and receivables) 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.

As a result of the District's use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation and sick leave) and compensatory time earned but unpaid at year-end, and any employer-related costs earned and unpaid, are not reflected in the financial statements as liabilities, but are normally reported as a commitment disclosure.

Cash and Deposits

Cash and deposits are maintained in financial institutions which provide coverage to depositors through the Federal Deposit Insurance Corporation. The State of Oklahoma allows government entities to invest in the following: direct obligations of the United State Government, its agencies or instrumentalities; collateralized or insured certificates of deposit; insured savings accounts or savings certificates; or county, municipal or school district direct debt.

Inventory

The Authority does not place a value on any of its inventory for financial statement purposes; consequently, materials, supplies, and replacement parts are not included as assets, and the cost of these items has been charged against income as repairs and maintenance expense at the time of purchase. Expenditures for major renewals and betterments which extend the useful lives of property and equipment are capitalized.

Income Tax

As provided in Title 82, Oklahoma Statutes, the Authority tax-exempt; consequently, no provision has been made for income taxes.

Net Position

Net position presents the difference between assets and liabilities in the statement of net position. Net investment in capital assets is reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are legal limitations imposed on their use by District legislation or external restrictions by creditors, grantors, laws or regulations of other governments.

Compensated Absences

As a result of the Authority's use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation and comp leave) earned but unpaid at year-end are not reflected in the basic financial statements. The compensated absence commitment at September 30, 2021, is \$5,460.

Capital Assets

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Revenues and Expenses and Changes in Net Position, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Machinery and Equipment	3-15 years
Water System	15-40 years
Buildings	15-30 years

Woods County Rural Water District No. 3
Notes to Financial Statements
Year Ended September 30, 2021

NOTE 2 – CASH AND CASH EQUIVALENTS:

For the purpose of the Statement of Cash Flows, the District considers all highly liquid investments (excluding the reserve accounts) with a maturity of three months or less to be cash equivalents.

NOTE 3 – PROPERTY AND EQUIPMENT:

Depreciable assets are recorded at cost when purchased or constructed. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not. Depreciation is calculated on a straight-line basis over the estimated useful lives of the depreciable assets. Total depreciation for the year ended September 30, 2021 was \$48,572. The waterline system addition of \$47,960 was a result of a REAP grant received by the County and contributed to the District. The following is a summary by category of changes in property and equipment:

Category	10/31/2020	Additions	Deletions	10/31/2021
Land	\$ 3,014	\$ -	\$ -	\$ 3,014
Buildings	133,679	-	-	133,679
Equipment	155,007	-	-	155,007
Office Equipment	10,867	-	-	10,867
Vehicles	15,700	-	-	15,700
Waterline System	1,192,236	47,960	-	1,240,196
Accumulated Depreciation	(1,025,441)	(48,572)	-	(1,074,013)
	<u>\$ 485,062</u>	<u>\$ (612)</u>	<u>\$ -</u>	<u>\$ 484,450</u>

NOTE 4 – NOTES PAYABLE

The District entered into a loan agreement in February 2018 with a local bank to finance the purchase of a digital read water meters system. The note has an interest rate of 3.9% with a maturity date of February 23, 2023. The monthly payments are \$2,297. The following is a detail of the loan activity during the year ended September 30, 2021:

<u>Type of Debt</u>	<u>Balance at 10/1/2020</u>	<u>Amount Issued</u>	<u>Amount Retired</u>	<u>Balance at 9/30/2021</u>	<u>Due Within One Year</u>
Notes Payable	\$ 36,295	\$ -	\$ 26,627	\$ 9,668	\$ 9,668

NOTE 5 - ESTIMATES:

The preparation of financial statements in conformity with the modified cash basis of accounting requires the use of management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

NOTE 6 – FAIR VALUE OF FINANCIAL INSTRUMENTS:

The definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosure about the use of fair value measurements in an effort to make the measurement of fair value more consistent and comparable.

Level 1: Quoted prices in active markets for identical securities.

Level 2: Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment spread and credit risk).

Level 3: Significant unobservable inputs (including the District’s own assumptions in determining the fair value of investments).

The District’s financial instruments include cash and certificates of deposit. The District’s estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying statement of net position. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

NOTE 7– RISK MANAGEMENT:

The District is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District manages this risk through the purchase of commercial insurance policies. Claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

NOTE 8 – CONTINGENCIES:

As of September 30, 2021, the District did not have any pending litigation or potential non-disclosed liabilities that management believes would have a material effect on the financial statements.

NOTE 8 – PRIOR PERIOD ADJUSTMENT:

An adjustment was made to the beginning net position for the restatement of capital assets previously received through a REAP grant administered by the County for the benefit of the District. The prior period adjustment increased the beginning net position by \$44,114.

NOTE 10 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through January 10, 2022, the date which the financial statements were available to be issued.

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
Rural Water District No. 3, Woods County, Oklahoma

We 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. 3, Woods County, Oklahoma, as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the Rural Water District No. 3, Woods County, Oklahoma's basic financial statements and have issued our report thereon dated January 10, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Rural Water District No. 3, Woods County, Oklahoma'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 the Rural Water District No. 3, Woods County, Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of the Rural Water District No. 3, Woods County, Oklahoma'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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2021-001

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water District No. 3, Woods County, Oklahoma's financial statements are free from material misstatement, we 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 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.

Rural Water District No. 3, Woods County, Oklahoma's Response to Findings

Rural Water District No. 3, Woods County, Oklahoma's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Rural Water District No. 3, Woods County, Oklahoma's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we 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 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.



Jana A. Walker, CPA, PLLC
Woodward, Oklahoma
January 10, 2022

**Rural Water District No. 3
Woods County, Oklahoma
Schedule of Findings and Responses
Year Ended September 30, 2021**

FINDING 2021-001 Lack of Segregation of Duties

Condition: Presently, the same individual is responsible for water service billings and receiving payments; making and recording deposits; maintaining billing registers; and reconciling the monthly bank statements. Only limited oversight is provided over this individual in the conduct of their daily functions.

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

Cause: The entity's limited size has made it difficult for management 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 sales and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: The board should evaluate the risks associated with the lack of segregation of duties and consider implementing controls that could mitigate these risks.

Response: The board has concluded that the cost of correcting the weakness would exceed the benefits that would be derived and will continue to provide oversight as the governing body.