

**PECAN VALLEY RURAL WATER DISTRICT
LAWTON, OKLAHOMA**

**ANNUAL FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

FOR PERIOD ENDED DECEMBER 31, 2023

BY



Pecan Valley Rural Water District
Lawton, Oklahoma
Period Ended December 31, 2023

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Pecan Valley Rural Water District
Comanche County
Lawton, Oklahoma

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the accompanying financial statements of the Pecan Valley Rural Water District, Comanche County, Lawton, Oklahoma, as of and for the 15 months ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Pecan Valley Rural Water District's basic financial statements as listed in the table of contents.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the financial statements referred to above present fairly, in all material respects, the financial position of Pecan Valley Rural Water District as of December 31, 2023, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

We did not obtain sufficient appropriate audit evidence about the amount recognized for the meter deposits for renters maintained by the District because no accounting controls were exercised in tracking them. Additionally, we did not obtain sufficient appropriate audit evidence about the amount recognized for the inventory assets maintained by the District because no accounting controls were exercised in tracking them. Finally, we did not obtain sufficient appropriate audit evidence about the amount recognized for their water revenue because no accounting controls were exercised in tracking them. We were unable to obtain sufficient appropriate audit evidence about meter deposits, water revenue, or inventory assets by other auditing procedures.

We conducted our 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. 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 Pecan Valley Rural Water 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 qualified 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 Pecan Valley Rural Water 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 GAAS 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 GAAS 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 Pecan Valley Rural Water District, Comanche County, Lawton, 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 our judgment, there are conditions or events, considered in the aggregate, which raise substantial doubt about Pecan Valley Rural Water District, Comanche County, Lawton, Oklahoma'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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2024 on our consideration of the Pecan Valley Rural Water 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 Pecan Valley Rural Water 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 Pecan Valley Rural Water District's internal control over financial reporting and compliance.

Furrh & Associates, PC

FURRH & ASSOCIATES, PC
Lawton, Oklahoma
June 19, 2024

Pecan Valley Rural Water District

Lawton, Oklahoma

Statement of Financial Position

For Period Ended December 31, 2023

ASSETS

Current Assets

Cash & Cash Equivalents	\$	141,224	
Accounts Receivable		50,239	
Accrued Interest Receivable		233	
Prepaid Asset		6,601	
Inventory		25,515	
Total Current Assets			\$ 223,812

Capital Assets

Real Property		1,622,203	
Improvements		47,277	
Equipment		91,700	
Accumulated Depreciation		(88,483)	
Net Capital Assets			<u>1,672,697</u>
Total Assets			<u><u>\$ 1,896,509</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities

Payroll Liabilities	\$	6,562	
Customer Deposits		1,136	
Total Liabilities			\$ 7,698

Net Assets

With Donor Restrictions		0	
Without Donor Restrictions		1,888,811	
Total Net Assets			<u>1,888,811</u>
Total Liabilities and Net Assets			<u><u>\$ 1,896,509</u></u>

Please see accompanying notes to financial statements.

Pecan Valley Rural Water District
Lawton, Oklahoma
Statement of Activities
Period Ended December 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
<u>Revenue and Support</u>			
Water Revenue	\$ 973,991	\$ 0	\$ 973,991
Grant Revenue	0	92,746	92,746
Membership Income	2,100	0	2,100
Interest Income	233	0	233
Total Revenue and Support	<u>976,324</u>	<u>92,746</u>	<u>1,069,070</u>
Net Assets Released from Restrictions:			
Satisfied by Purpose	<u>92,746</u>	<u>(92,746)</u>	<u>0</u>
Total Revenue	1,069,070	0	1,069,070
<u>Operating Expense</u>			
Program Expenses	904,819	0	904,819
Management & General Expenses	82,762	0	82,762
Fundraising Expense	0	0	0
Total Operating Expense	<u>987,581</u>	<u>0</u>	<u>987,581</u>
Change in Net Assets	81,489	0	81,489
Net Assets, September 30, 2022	<u>1,807,322</u>	<u>0</u>	<u>1,807,322</u>
Net Assets, December 31, 2023	<u><u>\$ 1,888,811</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 1,888,811</u></u>

Please see accompanying notes to financial statements.

Pecan Valley Rural Water District
Lawton, Oklahoma
Statement of Cash Flows
Period Ended December 31, 2023

Cash Flow from Operating Activities

Cash Received from Customers	\$ 1,003,800	
Cash Received from Grant Income	92,745	
Cash Paid for Water	(444,528)	
Cash Paid for Salaries and Related Costs	(200,846)	
Cash Paid to Suppliers	(287,669)	
Net Cash Provided by Operating Activities		\$ 163,502

Cash Flow from Investing Activities

Purchase of Capital Assets	(110,980)	
Interest Income	233	
Net Cash Used by Investing Activities		(110,747)

Net Increase in Cash and Cash Equivalents 52,755

Cash and Cash Equivalents, September 30, 2022 88,469

Cash and Cash Equivalents, December 31, 2023 \$ 141,224

Please see accompanying notes to financial statements.

Pecan Valley Rural Water District
Lawton, Oklahoma
Notes to the Financial Statements
For Period Ended December 31, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Pecan Valley Rural Water District's (the District) financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

Reporting Entity

Pecan Valley Rural Water District is incorporated under the laws of Oklahoma as a nonprofit District. The mission of Pecan Valley Rural Water District is to provide water and services to residents in Comanche County, Oklahoma.

Matter of Emphasis

The District changed their reporting period to end on December 31, 2023, therefore, the financial statements reflect activities over a 15 month period.

Method of Accounting

The financial statements of the District have been prepared on the accrual basis of accounting, and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restriction. Accordingly, net assets and changes therein are classified and reported as follows:

- Net Assets Without Donor Restrictions: Net assets that are not subject to donor or certain grantor restrictions and may be expended for any purpose in performing the primary objectives of the District. These net assets may be used at the discretion of Pecan Valley Rural Water District's management and the board of directors.
- Net Assets With Donor Restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of Pecan Valley Rural Water District or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Annual Budget

The District prepares an operating budget each year for management purposes.

Pecan Valley Rural Water District

Lawton, Oklahoma

Notes to the Financial Statements

For Period Ended December 31, 2023

Cash, Cash Equivalents and Investments

We consider all cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to endowments that are perpetual in nature, other long-term purposes are excluded from this definition. Certificates of Deposit are reported at cost.

The following table provides a reconciliation of cash and cash equivalents reported within the statements of financial position to the sum of the corresponding amounts within the statement of cash flows:

City National Bank Checking	\$ 111,224
Total	<u>\$ 111,224</u>

The following tables provides a reconciliation of the certificate of deposits held by the entity with original maturities of more than three months:

Arvest Bank Certificates of Deposit	\$ 30,000
Total	<u>\$ 30,000</u>

Accounts Receivable

The accounts receivable represents receivables for utility services for the current month where the District has provided and billed the services which have not been paid yet. Accounts receivables are stated at the amount management expects to be collected from the outstanding balance. As of December 31, 2023, management has determined, based on historical context, that all amounts are considered collectible and therefore, a corresponding allowance for doubtful accounts is not necessary.

Property and Equipment

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 10 to 39 years, or in the case of leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the statements of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expenses.

The District reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from

Pecan Valley Rural Water District
Lawton, Oklahoma
Notes to the Financial Statements
For Period Ended December 31, 2023

the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the 15 months ended December 31, 2023.

Donated Services and Contributions of Nonfinancial Assets

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the District. Volunteers provide a variety of tasks that relate to the District's mission that are not recognized as contributions in the financial statements since the recognition criteria were not met.

Contributions of nonfinancial assets are recorded at fair value at the date of donation. Donated assets (if any) are capitalized at their estimated fair market value and depreciated over their useful lives. The District did not receive any goods or services meeting the criteria to be recorded in the current year.

Revenue and Revenue Recognition

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The ASU and all subsequently issued clarifying ASUs replaced most existing revenue recognition guidance in U.S. GAAP. The ASU also required expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The standard was effective for years ending after December 31, 2019.

The District adopted the new standards effective October 1, 2020, the first day of the District's previous fiscal year. The adoption of this ASU did not have a significant impact on the District's financial statements. No changes were required to previously reported assets or revenues as a result of the adoption. Based on the District's evaluation process and review of its contracts with customers, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under the new standard. Revenue sources such as the sale of water and sewage collection and treatment consist of a single performance obligation to transfer promised goods or services, which are provided one month and billed and received in the following month. Such revenue is recognized at a point in time based on the transfer of control. There are no returns, refunds or warranties.

Additionally, the District has elected to exclude the following disclosures that are not required for nonpublic entities; (i) to exclude disclosures related to disaggregation of revenue; (ii) to exclude disclosure of information about contract assets and liabilities and the amount of revenue recognized related to performance obligations satisfied in prior periods; (iii) to exclude disclosure of information related to transaction price allocation; (iv) to exclude disclosure related to the significant judgments that affect the amount and timing of revenue recognition; (v) to exclude

Pecan Valley Rural Water District

Lawton, Oklahoma

Notes to the Financial Statements

For Period Ended December 31, 2023

disclosures related to information about the District's accounting for costs to obtain or fulfill a contract; and (vi) to exclude disclosure of information about revenue policy decisions.

Leases

Effective July 1, 2022, the District determines if an arrangement is or contains a lease at inception. Leases are included in right-of-use (ROU) assets and lease liabilities in the statement of financial position. ROU assets and lease liabilities reflect the present value of the future minimum lease payments over the lease term. Operating lease expense is recognized on a straight-line basis over the lease term. The District does not have any such leases for the period ending December 31, 2023.

Financial Instruments and Credit Risk

The District manages deposit concentration risk by placing cash and money market accounts with financial institutions believed by the District to be creditworthy. At times, amounts on deposit may exceed insured limits. Insured accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor, per insured bank, for each account ownership category.

The District's cash, deposits, and investments are classified in the following categories:

- A. Insured or collateralized with securities held by the entity or by its agent in the entity's name.
- B. Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.
- C. Uncollateralized.

	<u>A</u>	<u>B</u>	<u>C</u>	<u>Total</u>
Cash & Cash Equivalents	<u>\$ 111,224</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 111,224</u>

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. On an ongoing basis, management evaluates the estimates and assumptions based on new information. Management believes the estimates and assumptions are reasonable in the circumstances; however, actual results could differ from those estimates.

Pecan Valley Rural Water District

Lawton, Oklahoma

Notes to the Financial Statements

For Period Ended December 31, 2023

Advertising Costs

Advertising costs, if any, are expenses as incurred. The District did not have any advertising costs for the 15 month period ended December 31, 2023.

Income Tax

Pecan Valley Rural Water District is organized as an Oklahoma nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as Districts described in Section 501(c)(3), qualify for the charitable contribution deduction under Section 170(b)(1)(A)(ii), and has been determined not to be a private foundation under Section 509(a)(1). The District is annually required to file a Return of District Exempt from Income Tax (Form 990) with the IRS. In addition, the District is subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. The District has determined it is not subject to unrelated business income tax and has not filed an Exempt District Business Income Tax Return (Form 990-T) with the IRS.

The District believes that it has appropriate support for any tax positions taken affecting its annual filing requirements and, as such, does not have any uncertain tax positions that are material to the financial statements. The District would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Recent Accounting Guidance

Effective July 1, 2021, the District adopted Accounting Standards Update (ASU) No. 2020-07, Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets, which increases the transparency of contributed nonfinancial assets for not-for-profit entities through enhancements to presentation and disclosure. The presentation and disclosure of contributed nonfinancial assets have been enhanced in accordance with the standard. The adoption of the standard did not change the recognition and measurement requirements for contributed nonfinancial assets.

Effective July 1, 2022, the District adopted Accounting Standards Update (ASU) No. 2016-02, Leases (Topic 842) (Leases), which requires lessees to recognize leases on the statement of financial position and disclose key information about leasing arrangements. The District elected not to reassess at adoption (i) expired contracts to determine whether they are or contain a lease, or (ii) initial direct costs for existing leases. For the 15 month period ending December 31, 2023, the District did not have any material leases 12 months or longer that would be required to be recorded on the statement of financial position according to ASU No. 2016-02.

Pecan Valley Rural Water District

Lawton, Oklahoma

Notes to the Financial Statements

For Period Ended December 31, 2023

Subsequent Events

Subsequent events were evaluated through June 19, 2024, which is the date the financial statements were available to be issued.

NOTE 2 – LIQUIDITY AND AVAILABILITY

Financial Assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the date of the statement of financial position, comprise the following:

City National Bank Checking	\$ 111,224
Arvest Bank Certificates of Deposit	30,000
Accounts Receivable	49,644
Total	<u><u>\$ 190,868</u></u>

The District does not have a governing board-established liquidity management policy for the 15 month period ended December 31, 2023.

At December 31, 2023, the District held the following certificates of deposit:

<u>Account Description</u>	<u>Maturity Date</u>	<u>Balance on 12/31/2023</u>
Arvest Bank CD #349832	11/25/2024	\$ 10,000
Arvest Bank CD #361367	1/13/2025	10,000
Arvest Bank CD #367136	2/11/2025	10,000
		<u><u>\$ 30,000</u></u>

NOTE 3 – INVENTORIES

Pecan Valley Rural Water District records material and supply inventories as expenditures at the time the inventory is purchased and at year end such inventories are not considered material in amount. Inventory is valued at \$25,515 on the statement of financial position as of December 31, 2023.

NOTE 4 – INSURANCE AGAINST LOSS CONTINGENCIES

The District maintains insurance coverage for general and auto liability, comprehensive general liability, property, and worker's compensation through the Oklahoma Rural Water Association.

Pecan Valley Rural Water District
Lawton, Oklahoma
Notes to the Financial Statements
For Period Ended December 31, 2023

NOTE 5 – ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2023 consists of the following:

	Balance 10/01/2022	Change +/-	Balance 12/31/2023
Accounts Receivable	\$ 77,665	\$ (28,021)	\$ 49,644

NOTE 6 – ACCRUED PAYROLL AND COMPENSATED ABSENCES

The District does not have a policy to accrue a liability for vacation pay or other compensated absences for employees. The District does have accrued payroll for the 15 month period ending December 31, 2023, which includes pay earned in 2023 but not paid until January, 2024. For the period ending December 31, 2023, that amount was \$748.55.

NOTE 7 – NET ASSETS

As of December 31, 2023, the District's net asset consist of the following:

Net Assets	
Without donor restriction	
Undesignated	\$ 216,114
Invested in property and equipment, net of related debt	<u>1,672,697</u>
Total Net Assets without donor restriction	1,888,811
 Total Net Assets with donor restriction	 <u>0</u>
Total Net Assets	<u><u>\$ 1,888,811</u></u>

NOTE 8 – FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the District's program and other activities have been summarized on a functional basis in the statement of activities. The following schedule presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Pecan Valley Rural Water District

Lawton, Oklahoma

Notes to the Financial Statements

For Period Ended December 31, 2023

	<u>Pr</u>	<u>M</u>	<u>F</u>	<u>T</u>
Water Purchased	\$ 501,276	\$ 0	\$ 0	\$ 501,276
Salaries & Payroll Taxes	181,173	20,130	0	201,303
Contract Services	82,641	0	0	82,641
Supplies	60,124	0	0	60,124
Depreciation	56,748	0	0	56,748
Utilities	14,142	0	0	14,142
Water Industry Expenses	8,715	0	0	8,715
Legal & Professional Fees	0	24,615	0	24,615
Office Supplies	0	21,949	0	21,949
Travel	0	5,779	0	5,779
Insurance	0	9,458	0	9,458
Bank Service Charges	0	831	0	831
	<u>\$ 904,819</u>	<u>\$ 82,762</u>	<u>\$ 0</u>	<u>\$ 987,581</u>

Management has decided to use the following percentages to allocate the natural expenses between the District's functions:

<u>Natural Expense Category</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>
Water Purchased, Depreciation, and Related Expenses	100%	0%	0%
Occupancy, Insurance, Supplies, Maintenance and Repairs	0%	100%	0%
Salaries, Payroll Taxes and other Benefits	90%	10%	0%
Fundraiser Expenses	0%	0%	100%
Professional Services	100%	0%	0%

The methods of measurement of the functional expenses have not changed from those used in the prior period.

Pecan Valley Rural Water District
Lawton, Oklahoma
Notes to the Financial Statements
For Period Ended December 31, 2023

NOTE 9 – PROPERTY AND EQUIPMENT

Current year changes to property and equipment are as follows:

	Balance 10/01/2022	Additions	Disposals	Balance 12/31/2023
<u>Capital Assets</u>				
Real Property	\$ 1,568,000	\$ 54,203	\$ 0	\$ 1,622,203
Improvements	0	47,277	0	47,277
Equipment	82,200	9,500	0	91,700
Total	<u>\$ 1,650,200</u>	<u>\$ 110,980</u>	<u>\$ 0</u>	<u>\$ 1,761,180</u>
<u>Accumulated Depreciation</u>				
Real Property	\$ 30,154	\$ 52,537	\$ 0	\$ 82,691
Improvements	0	1,576	0	1,576
Equipment	1,581	2,635	0	4,216
Total	<u>\$ 31,735</u>	<u>\$ 56,748</u>	<u>\$ 0</u>	<u>\$ 88,483</u>
Net Capital Assets	<u>\$ 1,618,465</u>			<u>\$ 1,672,697</u>

NOTE 10 – SUBSEQUENT EVENTS

Subsequent events were evaluated through June 19, 2024, which is the date 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***

Board of Trustees
Pecan Valley Rural Water District
Lawton, 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 the business-type activities of Pecan Valley Rural Water District, as of and for the period 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 June 19, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Pecan Valley Rural Water District's internal control over financial reporting (internal control) to determine the 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of Pecan Valley Rural Water 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. During our audit, we identified three significant deficiencies, 2023-1 and 2023-2.

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 several deficiencies in internal control that we consider to be material weaknesses. They are Findings 2023-3, 2023-4, 2023-5, and 2023-6.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pecan Valley Rural Water District'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 determination of financial statement amounts. 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.

Furrh & Associates, PC

FURRH & ASSOCIATES, PC

Lawton, Oklahoma

June 19, 2024

Pecan Valley Rural Water District

Lawton, Oklahoma

Schedule of Findings and Responses

Period Ended December 31, 2023

Reportable Conditions of Internal Control, Compliance and Other Matters

2023 - 1 Improper Tracking of Capital Assets (Repeat Finding)

Condition – The District does not have an established policy or procedure for the tracking of capital assets.

Effect – Capital Assets owned and purchased by the entity are not being properly recorded in the financial statements.

Cause – Management has not implemented prior year findings.

Criteria – Generally Accepted Accounting Principles (GAAP) requires entities to account for and report capital assets in their financial statements.

Recommendation – We recommend that a policy or procedure be implemented for the proper tracking and recording of capital assets.

Management Response – Following receipt of our first audit report which we received December 5, 2023, the Board of Directors established a Policy for Tracking of Capital Assets, which became effective January 1, 2024 and is being followed. The prior year findings were received at the end of this last year and established the first of this year. The Inventory of Capital Assets has not changed since the last inventory as we have made no capital purchases other than Fire Hydrants and some valves, which I have now added to Capital Assets inventory with purchase dates for tracking.

2023 - 2 Lack of Inventory Accounting

Condition – The District did not perform an inventory observation for the end of the fiscal year.

Effect – The District could be subject to inventory theft without detecting it.

Cause – Lack of management oversight.

Criteria – Generally Accepted Accounting Principles (GAAP) requires entities with physical inventory to periodically conduct an inventory count.

Recommendation – We recommend the District to perform periodical inventory counts of the physical inventory.

Pecan Valley Rural Water District

Lawton, Oklahoma

Schedule of Findings and Responses

Period Ended December 31, 2023

Management Response – Our Personal Property Inventory was completed independently mid-year 2022 and 2023. Our own Personal Property Inventory includes all purchase amounts, purchase dates, and serial numbers. We did not do an inventory at the end of the year but have put that on our Employee task list to be done semi-annually, including at the end of the year and inventory shall be reviewed by the Manager for verification.

2023 - 3 Lack of Policy for Meter Deposit Tracking

Condition – The District does not have a policy in place for the tracking of meter deposits for renters.

Effect – The customer deposits amount on the Statement of Net Position cannot be verified.

Cause – Lack of documentation retention.

Criteria – Generally Accepted Accounting Principles (GAAP) requires the proper tracking, documentation and recording of customer deposits.

Recommendation – We recommend that a policy be implemented for the proper tracking and retention of documentation for meter deposits.

Management Response – All deposits have been now accounted for as specified in a new policy that will be recommended to the Board and will be maintained, heretofore, accordingly.

2023 - 4 Improper Authorization of Significant Transactions

Condition – During our testing of the purchasing procedures for the District, it was noted that certain purchases exceeding \$5,000 did not have proper board approval.

Effect – Unauthorized payments exceeding \$5,000 were issued.

Cause – Improper adherence to approved policies and procedures.

Criteria – According to the District's Purchasing Policy "Purchases exceeding \$5,000 would require comparison quotes for the Board review and prior Board approval before purchasing."

Recommendation – We recommend that purchases that meet the approved criteria are properly approved by the board.

Pecan Valley Rural Water District
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Management Response – The Purchasing Policy has been amended to be less ambiguous and was approved by the board in June of 2024.

2023 - 5 Improper Revenue Classification

Condition – The District did not properly classify revenue sources to their correct general ledger line item, and grant revenue was reduced by the grant expenses.

Effect – We were not able to verify revenue items to the corresponding source documents provided.

Cause – Improper classification of revenue transactions.

Criteria – Generally Accepted Accounting Principles (GAAP) requires the proper classification of revenue. Also, GAAP does not allow the netting of revenue against expenses in most circumstances.

Recommendation – We recommend that management review revenue sources and post them to their correct general ledger line item.

Management Response – Documentation was provided to substantiate the differences in revenue and traced to Quickbooks. Several adjustments were made to correct revenue miscoding.

2023 - 6 Segregation of Duties

Condition – The entity had limited personnel performing accounting functions during the year.

Effect – The lack of proper segregation of duties could allow for the occurrence of errors or fraud.

Cause – Due to limited funding, the organization does not have the ability to completely segregate the accounting functions.

Criteria – Generally Accepted Accounting Principles (GAAP) requires proper segregation of duties as key part of an entity's system of internal control.

Recommendation – We recommend that the District implement procedures to provide additional oversight by either other employees or board members.

Management Response – The Board will implement a written policy/procedure stating that the Treasurer shall review the Balance Sheet and Reconciled Bank Statement each month.