

**LOVE COUNTY RURAL WATER
DISTRICT #2**

**FINANCIAL STATEMENTS AND
AUDITORS' REPORT**

JUNE 30, 2019

**Jackson, Fox and Richardson PC
A Professional Corporation
Certified Public Accountants
Ardmore, Oklahoma**

TABLE OF CONTENTS

	PAGE
Independent Auditors' Report	3-4
Financial Statements	
Statement of Net Position	5
Statement of Revenues, Expenses and Changes in Net Position	6
Statement of Cash Flows	7
Notes to Financial Statements	8-11
Independent Auditors' Report on Internal Control 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>	12-13

JACKSON, FOX and RICHARDSON

A Professional Corporation

Certified Public Accountants

PO Box 1171 * 129 C Northwest

Ardmore, Oklahoma 73402-1171

Donald L. Jackson (1948-2015)

Kathy A. Fox CPA

Gabriel M. Richardson CPA

Voice (580) 223-1877 Fax (580) 223-1880

www.cpa-ok.com

kathy@cpa-ok.com

gabe@cpa-ok.com

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Love County Rural Water District #2
Thackerville, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Love County Rural Water District #2 (the District) as of and for the year ended June 30, 2019, 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 accounting principles generally accepted in the United States of America; this includes 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 the standards applicable to financial audits contained in *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 financial position of the business-type activities of the Love County Rural Water District #2 as of June 30, 2019, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

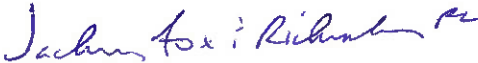
Other Matters

Required Supplementary Information

Management has omitted managements' discussion and analysis that 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, 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2021, 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 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 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.



Ardmore, Oklahoma
September 30, 2021

Love County Rural Water District #2
Statement of Net Position
June 30, 2019

ASSETS

CURRENT ASSETS

Cash on hand and in banks	\$	782,524
Certificates of deposit		106,130
Accounts receivable		44,987
Inventory		54,286
		987,928
Total current assets		987,928

NONCURRENT ASSETS - AT COST - NOTE 3

Water systems	\$	1,841,116
Office equipment		22,777
Shop building		106,502
Land		31,450
Machinery & equipment		350,496
		2,352,342
Less accumulated depreciation		1,173,909
		1,178,433
Total assets	\$	2,166,361

DEFERRED OUTFLOWS OF RESOURCES	\$	-
		-

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Accounts payable		11,195
Accrued liabilities		8,120
Water deposits		5,621
		24,937
Total liabilities		24,937

DEFERRED INFLOWS OF RESOURCES	\$	-
		-

NET POSITION

Net investment in capital assets		1,178,433
Unrestricted		962,991
Restricted		-
		2,141,424
Total net position		2,141,424
	\$	2,166,361

The accompanying notes are an integral part of this financial statement.

Love County Rural Water District #2
Statement of Revenues, Expenses and
Changes in Net Position
For the year ended June 30, 2019

OPERATING REVENUES

Water sales and related revenues	\$	547,767
Penalties / late charges		<u>4,972</u>

Total operating revenues 552,740

EXPENSES - OPERATING

Salaries and benefits	269,445
Depreciation	65,776
Bad debt expense	1,127
Utilities and telephone	40,653
Insurance	24,289
Repairs and maintenance	5,800
Office and printing	7,977
Professional fees	3,948
Supplies	17,512
Advertising	408
Gas, oil and mileage	7,687
Machine hire and contract labor	-
Water testing	6,843
Cost of meters and supplies	39,599
Bank fees	5,667
Uniforms	467
Miscellaneous other expenses	<u>7,371</u>
	<u>504,570</u>

Operating income 48,170

NON-OPERATING REVENUES (EXPENSES)

Rental income	3,000	
Interest income	<u>2,302</u>	
		<u>5,302</u>

CHANGE IN NET POSITION

53,472

NET POSITION JULY 1, 2018

2,087,952

NET POSITION JUNE 30, 2019

\$ 2,141,424

The accompanying notes are an integral part of this financial statement.

Love County Rural Water District #2
Statement of Cash Flows
For the year ended June 30, 2019

Cash flow from operating activities:	
Cash received from customers	\$ 562,597
Cash payments to supplies for goods and services	(182,981)
Cash payments to employees and contractors	(268,877)
Net cash provided (used) by operating activities	<u>110,739</u>
Cash flows from non-capital financing activities	
Rents received	3,000
Investment in certificates of deposit	(720)
Net cash provided (used) by noncapital financing activities	<u>2,280</u>
Cash flows from capital and related financing activities:	
Cash received from sale of equipment	-
Cash used to purchase assets	(106,502)
Cash flows from investing activities:	
Interest income on unrestricted accounts	2,302
Net cash provided (used) by investing activities	<u>2,302</u>
Net Increase (Decrease) in Cash	8,820
Cash and certificate equivalents July 1, 2018	773,704
Cash and certificate equivalents June 30, 2019	<u>\$ 782,524</u>
Reconciliation of operating income to cash flows from operating activities	
Operating income (loss)	\$ 48,170
Adjustment to reconcile net revenues to net cash provided by operating activities	
Depreciation and amortization	65,776
(Increase) Decrease accounts receivable	9,857
(Increase) Decrease other current assets	-
(Increase) Decrease in inventory	-
Increase (Decrease) accounts payable	(13,633)
Increase (Decrease) accrued liabilities	568
Total adjustments	<u>62,569</u>
Net cash provided (used) by operating activities	<u>\$ 110,739</u>

The accompanying notes are an integral part of this financial statement.

Love County Rural Water District #2
Notes to the Financial Statements
June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and nature of operations

Love County Rural Water District No. 2 (the "District") is a body corporate and politic, without taxing power, established in the State of Oklahoma pursuant to Title 82, Oklahoma Statutes 1991, and an Order of the Board of County Commissioners of Love County, Oklahoma dated as of July 26, 1993. All assets and liabilities of Thackerville Water and Sewerage Company were transferred to the District. Its purpose is the construction, maintenance and operation of a water works within its district.

The basic financial statements of the Love County Rural Water District #2 have been prepared in conformity with generally accepted accounting principles as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The District is governed by a Board of Directors consisting of five members elected by the members of the District. The Board elects a Chairman.

Basis of Presentation

The District's resources are allocated to and accounted for in these basic financial statements as an enterprise fund type of the proprietary fund group. The enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other policies. Net assets for the enterprise fund represent the amount available for future operations.

Basis of accounting

The District's policy is to prepare its financial statements using the economic resources measurement focus and the accrual method. Under this method, revenues are recognized when earned, rather than when collected, and expenditures are recognized when the liability is incurred, rather than when paid.

The District's net assets are reported in three components:

1. Investment in capital assets – consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of notes that are attributable to the acquisition of those assets.
2. Restricted - consists of net assets with constraints placed on the use either by external groups, such as grantors or laws and regulations of other governments, or law through constitutional provisions or enabling legislation.
3. Unrestricted – All other assets that do not meet the definition of restricted or investment in capital assets.

Accounts receivable

The District uses the allowance method to account for uncollectible accounts receivable. Accounts receivable are presented net of an allowance for doubtful accounts of \$1,000.

Love County Rural Water District #2
Notes to the Financial Statements
June 30, 2019

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with an initial maturity of three months or less to be cash equivalents, including restricted assets.

Income Taxes

No provision is made for income taxes. The District is a public trust and therefore not subject to income taxes under the Internal Revenue Code.

Fair Value of Financial Instruments Approximates Carrying Amount

The District's financial instruments are cash and cash equivalents, accounts receivable and accounts payable. The recorded values of cash and cash equivalents, accounts receivable, and payable approximate their fair values based on their short-term nature.

Operating and Nonoperating Revenues

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds 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.

Fixed Assets and Depreciation

Fixed assets are stated at original cost. The costs of additions and replacements are capitalized. Replacements of minor items of property are charged to expense as incurred. Costs of property retired are eliminated from accounts, likewise such costs plus removal expense less salvage are charged to accumulated depreciation.

Inventory

Inventory consisting of meters, pumps, valves and other merchandise, held for replacement purposes, is stated at cost.

Accounting estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

Restricted and Unrestricted resources

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

Tenant Security Deposits

Tenant security deposits are held in a segregated demand account in the name of the District.

Subsequent Events

The District evaluates events or transactions that occur subsequent to year end for potential recognition or disclosure in the financial statement through the date on which the financial statements are available to be issued. Management has determined that the economic and market volatility that took place in March 2020 stemming from the COVID-19 outbreak were not representative of current conditions as of the balance sheet date of June 30, 2019, and it is unlikely they would be considered reasonable and supportable in future conditions as of that date.

Love County Rural Water District #2
Notes to the Financial Statements
June 30, 2019

NOTE 2 – CASH AND INVESTMENTS

The District's bank deposits are categorized below per GASB Statement 3 to give an indication of the level of risk assumed at year-end. Deposits of the District are carried at cost. The carrying amount of deposits is stated in the balance sheet as "cash and cash equivalents". The District invests only in cash accounts and certificates of deposit.

Deposits	Risk Category			Bank Balance	Financial Statement
	1	2	3		Carrying Amount
Demand Deposits	\$ 250,000	\$ 532,324	\$ -	\$ 782,324	\$ 782,324
Certificates of Deposit	-	106,130	-	106,130	106,130
Totals	\$ 250,000	\$ 638,454	\$ -	\$ 888,454	\$ 888,454

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. GASB directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance and the deposits are as follow:

1. Insured by Federal Deposit Insurance,
2. Collateralized by securities held by pledging financial institution, or
3. Collateralized by securities held by the pledging financial institution's trust department or agent but not in the district's name.

None of the District's aggregate bank balances, not covered by depository insurance, were exposed to custodial credit risk as described above at year end.

NOTE 3 – PROPERTY AND EQUIPMENT

Fixed assets are depreciated on a straight-line basis over their estimated useful life. As of June 30, fixed assets consisted of the following:

	Beginning Asset	Additions	Deletions	Ending Balance
Water systems	\$1,841,116	\$ -	\$ -	\$ 1,841,116
Office equipment	22,777	-	-	22,777
Shop building	-	106,502	-	106,502
Machinery and equipment	350,496	-	-	350,496
Land	31,451	-	-	31,451
	<u>\$2,245,840</u>	<u>\$ 106,502</u>	<u>\$ -</u>	<u>\$ 2,352,342</u>
Accumulated Depreciation	(1,108,132)	(65,776)	-	\$(1,173,908)
	<u>\$1,137,708</u>	<u>\$ 40,726</u>	<u>\$ -</u>	<u>\$ 1,178,434</u>

Love County Rural Water District #2
Notes to the Financial Statements
June 30, 2019

Depreciation expense for the year ended June 30, 2019, was \$65,776.

NOTE 4 – RISK MANAGEMENT

The District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

Health Care Coverage

During the year ended June 30, 2019, employees of the District were covered by health insurance under a plan sponsored by the State of Oklahoma.

Workers' Compensation Coverage

Workers' compensation insurance is purchased through Oklahoma Rural Water Association.

JACKSON, FOX and RICHARDSON

A Professional Corporation

Certified Public Accountants

PO Box 1171 * 129 C Northwest

Ardmore, Oklahoma 73402-1171

Donald L. Jackson (1948-2015)

Kathy A. Fox CPA

Gabriel M. Richardson CPA

Voice (580) 223-1877 Fax (580) 223-1880

www.cpa-ok.com

kathy@cpa-ok.com

gabe@cpa-ok.com

INDEPENDENT AUDITORS' 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
Love County Rural Water District #2
Thackerville, 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 Love County Rural Water District #2 (the District), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Love County Rural Water District #2's basic financial statements, and have issued our report thereon dated September 30, 2021.

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) 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 the 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 did not identify any deficiencies in internal control that we 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 the 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

A handwritten signature in blue ink, appearing to read "Jackson Fox & Robinson PC".

Ardmore, Oklahoma
September 30, 2021

