

AUDIT REPORT

WASHINGTON COUNTY RURAL WATER DISTRICT #2
WASHINGTON COUNTY, OKLAHOMA

SEPTEMBER 30, 2022

April Adams CPA PLLC

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WASHINGTON COUNTY RURAL WATER DISTRICT #2
WASHINGTON COUNTY, OKLAHOMA
SEPTEMBER 30, 2022

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WASHINGTON COUNTY RURAL WATER DISTRICT #2
WASHINGTON COUNTY, OKLAHOMA
SEPTEMBER 30, 2022

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>	<u>TERM EXPIRATION</u>
LONNIE HOELSCHER	CHAIRMAN	11/2022
GEORGE REYNOLDS	VICE-CHAIRMAN	11/2023
CHRIS COOK	SECRETARY/TREASURER	11/2022
DAVID HAZELWOOD	MEMBER AT LARGE	11/2024
TZEITEL BUCHANAN	MEMBER AT LARGE	11/2024

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Washington County Rural Water District #2
Washington County, Oklahoma

Report on the Audit of the Financial Statements

Opinion

I have audited the accompanying financial statements of Washington County Rural Water District #2, Washington County, Oklahoma, as of and for the year ended September 30, 2022, and the related notes to the financial statements, as listed in the table of contents.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Washington County Rural Water District #2 as of September 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

I conducted my audit in accordance with auditing standards generally accepted in the United States of America (GAAS), and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of the Washington County Rural Water District #2 and to meet my other ethical responsibilities, in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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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 Washington County Rural Water District #2'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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Washington County Rural Water District #2's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Washington County Rural Water District #2's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Management has omitted the Management's 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. My opinion on the basic financial statements is not affected by this missing information.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory section listed in the accompanying table of contents but does not include the basic financial statements and my auditor's report thereon. My opinion on the basic financial statements does not cover the other information, and I do not express an opinion or any form of assurance thereon.

In connection with my audit of the basic financial statements, my responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, I conclude that an uncorrected material misstatement of the other information exists, I am required to describe it in my report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated February 13, 2023, on my consideration of the Washington County Rural Water District #2's internal control over financial reporting and my 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 my 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 Washington County Rural Water District #2's internal control over financial reporting or on compliance.

April Adams CPA PLLC

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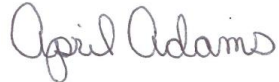
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That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Washington County Rural Water District #2's internal control over financial reporting and compliance.



April Adams CPA PLLC
Ponca City, Oklahoma

February 13, 2023

WASHINGTON COUNTY RURAL WATER DISTRICT #2
WASHINGTON COUNTY, OKLAHOMA
STATEMENT OF NET POSITION
SEPTEMBER 30, 2022

<u>ASSETS</u>	<u>2022</u>
<u>Current Assets:</u>	
Cash and cash equivalents (Note 1)	\$ 69,045
Investments	386,755
Accounts receivable	152,137
Accounts receivable - other	9,972
Accrued Water Sales	59,489
Inventory	5,300
Prepaid Expenses	2,943
Total Current Assets	<u>685,642</u>
<u>Capital Assets:</u>	
Water Distribution System	3,614,105
Equipment	9,677
Construction in progress	-
Less: Accumulated Depreciation	<u>(2,037,578)</u>
Total Capital Assets	<u>1,586,203</u>
<u>Other Assets:</u>	
Utility deposits	<u>205</u>
Total Other Assets	<u>205</u>
TOTAL ASSETS	<u>\$ 2,272,050</u>
 <u>LIABILITIES & NET POSITION</u>	
<u>Current Liabilities:</u>	
Accounts Payable	\$ 111,657
Accrued expenses	33,522
Current Portion of Long-Term Debt	-
Total Current Liabilities	<u>145,179</u>
<u>Long-Term Liabilities:</u>	
Notes Payable	-
Less: Current Portion of Long-Term Debt	-
Total Long-Term Debt	<u>-</u>
TOTAL LIABILITIES	<u>145,179</u>
 <u>NET POSITION:</u>	
Net investment in capital assets	1,586,203
Restricted for debt service	-
Unrestricted	<u>540,668</u>
TOTAL NET POSITION	<u>2,126,871</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 2,272,050</u>

The accompanying notes are an integral part of the basic financial statements.

**WASHINGTON COUNTY RURAL WATER DISTRICT #2
WASHINGTON COUNTY, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET POSITION
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2022**

	2022
<u>Operating Revenues:</u>	
Water sales	\$ 1,038,992
Other sales	50,725
Total Operating Revenues	1,089,717
<u>Operating Expenses:</u>	
Water purchases	681,642
Management fees	151,092
Depreciation Expense	60,777
Repairs and maintenance	78,497
Insurance	4,080
Professional fees	5,245
Utilities	5,889
Postage and pull fees	5,580
Membership fees	785
Regulatory Expense	4,320
Bank charges	2,360
Bad Debt Expense	-
Miscellaneous expense	8,518
Total Operating Expenses	1,008,785
Net Operating Income (Loss)	80,932
<u>Non-operating Income (Expense):</u>	
Interest Income	11,266
Interest Expense	(1,029)
Benefit Units	47,500
Total Non-operating Income (Expense)	57,737
Change in Net Position	138,668
Capital Contributions	-
Total Net Position, Beginning of Year	2,008,507
Total Net Position, Prior Year Adjustment	(20,304)
Total Net Position, End of Year	\$ 2,126,871

The accompanying notes are an integral part of the basic financial statements.

WASHINGTON COUNTY RURAL WATER DISTRICT #2
WASHINGTON COUNTY, OKLAHOMA
STATEMENT OF CASH FLOWS
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2022

	2022
<u>Cash Flows from Operating Activities:</u>	
Cash Receipts from Customers	\$ 1,015,072
Payments to Suppliers for Goods & Services	(1,035,410)
Net Cash Provided (Used) by Operating Activities	(20,338)
<u>Cash Flows from Capital & Related Financing Activities:</u>	
Additions to Capital Assets	(84,741)
Proceeds from Sale of Capital Assets	-
Issuance of benefit units	47,500
Capital Contributions	-
Principal paid on long-term debt	-
Interest paid on Debt	(1,029)
Net Cash Provided (Used) by Capital & Related Financing Activities	(38,270)
<u>Cash Flows from Investing Activities:</u>	
(Increase)Decrease Investment	17,897
Interest Income	11,266
Net Cash Provided (Used) by Investing Activities	29,163
Net Increase (Decrease) in Cash and Cash Equivalents	(29,446)
Cash & Cash Equivalents, Beginning of Year	98,491
Cash & Cash Equivalents, End of Year	\$ 69,045
<u>Reconciliation of operating income (loss) to net cash provided operating activities:</u>	
Operating Income (Loss)	\$ 80,932
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation & Amortization	60,777
(Increase)Decrease in Accounts Receivable	(13,556)
(Increase)Decrease in Accounts Receivable - Other	(1,600)
(Increase)Decrease in Accrued Water Sales	(59,489)
(Increase)Decrease in Inventory	(5,300)
(Increase)Decrease in Prepaid Insurance	(53)
Increase(Decrease) in Accounts Payable	(83,663)
Increase(Decrease) in Accrued expenses	1,614
Net Cash Provided (Used) by Operating Activities	\$ (20,338)

The accompanying notes are an integral part of the basic financial statements.

WASHINGTON COUNTY RURAL WATER DISTRICT #2
WASHINGTON COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies employed by Washington County Rural Water District #2 (the District) are consistent with accounting principles generally accepted in the United States of America. Significant policies are described below.

In June 1999, the GASB issued Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. The statement established a new reporting model for governments that is substantially different from prior reporting standards. The District adopted the new reporting model September 30, 2004, which includes the following segments:

Management's Discussion & Analysis - provides introductory information on basic financial statements and an analytical overview of the District's financial activities. For the year ended September 30, 2022, management has not presented the Management's Discussion and Analysis as required by the Governmental Accounting Standards Board (GASB) and GASB has determined it necessary to supplement, although not required to be part of, the basic financial statements.

Fund financial statements - provide information about the District's proprietary fund. The proprietary fund utilizes the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of net income, financial position and cash flows. All assets and liabilities (whether current or non-current) associated with their activities are reported. Proprietary fund equity is classified as net assets.

A. Capital Structure and Operations:

The District is a State of Oklahoma chartered public nonprofit water district. Its purpose is to maintain and operate a water distribution system to serve the needs of owners and occupants of land within the Water District.

B. Basis of Accounting:

The financial statements are presented on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenditures are recorded when the liability is incurred.

WASHINGTON COUNTY RURAL WATER DISTRICT #2
WASHINGTON COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

C. Income Taxes:

The District is exempt from federal income tax under section 501(c)(12) of the Internal Revenue Code. The District meets the requirements set forth by Revenue Procedure 95-48 to be qualified as an affiliate of a government unit. As such, the District is exempt from filing Form 990 Return of Organization Exempt from Income Tax.

D. Estimates:

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

E. Cash and Cash Equivalents:

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

F. Property, Plant and Equipment:

The property, plant and equipment is stated, generally, at cost. Depreciation of these assets is computed using the straight-line method over the estimated useful life of the asset.

G. Capitalization Policy:

Purchases of capital items in excess of \$350.00 that increase the capacity or operation efficiency or extend the useful life of any asset are capitalized. Repairs and maintenance are expensed as incurred.

H. Equity Classification:

Equity is classified as net position and displayed in three components:

1. Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.

WASHINGTON COUNTY RURAL WATER DISTRICT #2
WASHINGTON COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

2. Restricted – Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted - Net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

It is the District's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

I. Revenues, Expenditures & Expenses

Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

J. Benefit Units

Members purchase benefit units for the right to obtain services from the Water District. Fees paid for benefit units are considered donations to the Water District and are nonrefundable. Benefit units sold are reflected as non-operating income in the period the water services are established.

NOTE 2 - CUSTODIAL CREDIT RISK RELATED TO DEPOSITS

Custodial Credit Risk

At September 30, 2022, the District held deposits of approximately \$455,800 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name.

Investment Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

WASHINGTON COUNTY RURAL WATER DISTRICT #2
WASHINGTON COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

Investment Credit Risk

The District has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

Concentration of Investment Credit Risk

The District places no limit on the amount it may invest in any one issuer. The District has the following of credit risk: 5% in Certificates of deposit (\$20,000) and 95% in a Deferred Annuity (\$366,755).

NOTE 3 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended September 30, 2022, was as follows:

	Balance at September 30, 2021	Additions	Deductions	Balance at September 30, 2022
Water Distribution System	\$3,529,364	\$ 84,741	\$ -	\$3,614,105
Equipment	9,677	-	-	9,677
Construction in Progress	-	-	-	-
Subtotal	3,539,040	84,741	-	3,623,781
Less: Accum. Depr.	(1,976,801)	(60,777)	-	(2,037,578)
Total Capital Assets (Net of Depreciation)	<u>\$ 1,562,239</u>	<u>\$ 23,964</u>	<u>\$ -</u>	<u>\$ 1,586,203</u>

WASHINGTON COUNTY RURAL WATER DISTRICT #2
WASHINGTON COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

NOTE 4 - LONG-TERM DEBT

The District has no long-term debt.

NOTE 5 - CONTINGENCIES

Litigation

According to the District's management, there is no pending litigation.

Federally Assisted Programs

In the normal course of operations, the District participates in various federal or state/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

NOTE 6 - ECONOMIC DEPENDENCE

Washington County Rural Water District #2 is dependent upon the City of Bartlesville, Oklahoma, for the District's water supply. The City has supplied water to the District since 1966 under a contract, which is automatically renewed from year to year.

NOTE 7 - NET WORKING CAPITAL

The net working capital of the District is defined as current assets (assets used to settle current liabilities) less current liabilities (liabilities that will be settled within one year).

	2022	2021
Current assets	\$ 705,946	\$ 673,291
Current liabilities	145,179	227,228
Net working capital	\$ 560,767	\$ 446,063

NOTE 8 - SUBSEQUENT EVENTS

The District did not have any subsequent events through February 13, 2023, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending September 30, 2022.

WASHINGTON COUNTY RURAL WATER DISTRICT #2
WASHINGTON COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

NOTE 9 - PRIOR YEAR ADJUSTMENT

A prior year adjustment of \$20,303.91 was made to remove Prepaid Development that originated in 2013 and should have been expensed in a previous year.

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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*

To the Board of Directors
Washington County Rural Water District #2
Washington County, Oklahoma

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes, the financial statements of the Washington County Rural Water District #2, as of and for the year ended September 30, 2022, and the related notes to the financial statements, and have issued my report thereon dated February 13, 2023. Management has omitted the MD&A required by accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Washington County Rural Water District #2's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Washington County Rural Water District #2's internal control. Accordingly, I do not express an opinion on the effectiveness of Washington County Rural Water District #2'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 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

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deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control 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 were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Washington County Rural Water District #2's financial statements are free of material misstatement, I performed tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed 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 my 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.



April Adams CPA PLLC
Ponca City, Oklahoma

February 13, 2023