



WASHINGTON COUNTY  
RURAL WATER DISTRICT NO.

2

ANNUAL FINANCIAL STATEMENTS  
AND ACCOMPANYING  
INDEPENDENT AUDITOR'S REPORTS

FOR THE YEAR ENDED  
SEPTEMBER 30, 2023

WASHINGTON COUNTY RURAL WATER DISTRICT NO. 2  
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**Board of Directors**

Lonnie Hoelscher	Chairman
David Hazelwood	Vice-Chairman
Chris Cook	Secretary/Treasurer
James Dixon	Member
Tzeitel Buchanan	Member



## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Washington County Rural Water District No. 2  
Washington County, Oklahoma

### OPINION

We have audited the financial statements of the business-type activities for Washington County Rural Water District No. 2, as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise Washington County Rural Water District No. 2's basic financial statement as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities for Washington County Rural Water District No. 2, as of September 30, 2023, 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 OPINIONS

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 (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 Washington County Rural Water District No. 2 and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### 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 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 aggregated, that raise substantial doubt about Washington County Rural Water District No. 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 RESPONSIBILITY

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 judgement 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 Washington County Rural Water District No. 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 our judgment, there are conditions or events, considered in the aggregated, that raise substantial doubt about Washington County Rural Water District No. 2'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.

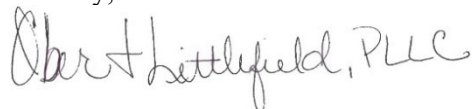
#### **REQUIRED SUPPLEMENTARY INFORMATION**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, on pages 4–7, be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information, in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion, or provide any assurance, on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### **OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

In accordance with *Government Auditing Standards*, we have also issued our report, dated February 12, 2024, on our consideration of the Washington County Rural Water District No. 2'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 Washington County Rural Water District No. 2'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 Washington County Rural Water District No. 2's internal control over financial reporting and compliance.

Sincerely,



**OBER & LITTLEFIELD, CPAs, PLLC**  
**MIAMI, OKLAHOMA**

**FEBRUARY 12, 2024**

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities, for the fiscal year ended September 30, 2023. Please read it in conjunction with the District's financial statements, beginning on page 8.

### **FINANCIAL HIGHLIGHTS**

- The assets of the District exceeded its liabilities, at September 30, 2023, by \$2,724,469.33, representing an increase in net position of \$479,591.05 for the year.
- Total operating revenues and non-operating revenues/expenses were \$1,438,954.65 this year, while operating expenses were \$893,904.19, resulting in the increase in net position of \$479,591.05.
- The District has \$2,079,671.76 (net of accumulated depreciation) invested in capital assets, as of September 30, 2023.

### **DISTRICT HIGHLIGHTS**

- Our customer base increased to approximately 1,115 customers.

### **USING THIS ANNUAL REPORT**

This annual report consists of two parts; management's discussion and analysis, and the financial statements. The financial statements also include notes that explain, in more detail, some of the information in the financial statements.

### **Required Financial Statements**

The financial statements of the District report information about the District, using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The statement of net position includes all of the District's assets, and liabilities, and provides information about the nature, and amounts, of investments in resources (assets), and obligations to creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the District, and assessing the liquidity, and financial flexibility, of the District. All of the current year's revenues, and expenses, are accounted for in the statement of revenues, expenses, and changes in net position. This statement measures the success of the District's operations over the past year, and can be used to determine profitability, credit worthiness, and whether the District has successfully recovered all its costs through its user fees and other charges. The final required financial statement is the statement of cash flows. The primary purpose of this statement is to provide information about the District's cash receipts, and cash payments, during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and capital and noncapital financing activities, and provides answers to such questions as "from where did cash come?," "for what was cash used?," and "what was the change in cash balance during the reporting period?"

## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

One of the most important questions asked about the District's finances is, "Is the District, as a whole, better off, or worse off, as a result of the year's activities?" The statement of net position and statement of revenues, expenses, and changes in net position report information about the District's activities in a way that will help answer this question. These two statements report the net position of the District, and changes in them. You can think of the District's net position – the difference between assets and liabilities – as one way to measure financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving, or deteriorating. However, you will need to also consider other non-financial factors, such as changes in economic conditions, population growth and new or changed legislation.

The District's total net position increased from last year by \$479,591.05, or about 21.36%. Our analysis below focuses on the District's net position (Table 1), and changes in net position (Table 2) during the year.

**Table 1**

	<u>09/30/23</u>	<u>09/30/22</u>
Current Assets	\$ 761,494.09	\$ 685,641.75
Fixed Assets	2,079,671.76	1,822,217.17
Other Assets	205.00	205.00
Total Assets	<u>2,841,370.85</u>	<u>2,508,063.92</u>
Current Liabilities	<u>116,901.52</u>	<u>145,178.61</u>
Total Liabilities	<u>116,901.52</u>	<u>145,178.61</u>
Invested in Capital Assets, Net of Related Debt	2,079,671.76	1,704,210.14
Net Position, Unrestricted	<u>644,797.57</u>	<u>540,668.14</u>
Total Net Position	<u>2,724,469.33</u>	<u>2,244,878.28</u>
Total Liabilities and Net Position	<u>\$2,841,370.85</u>	<u>\$2,390,056.89</u>

The District's net position reflects its investment in capital assets (e.g. water system, buildings, machinery, and equipment), less any related debt used to acquire those assets still outstanding. The District uses these capital assets to provide services to citizens and consumers; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay any debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

WASHINGTON COUNTY RURAL WATER DISTRICT NO. 2  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED SEPTEMBER 30, 2023

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The balance of unrestricted net position may be used to meet the District's ongoing obligations to citizens, customers, and creditors. The District's unrestricted net position increased by \$104,129.43, or 19.26%, during the current year.

Changes in the District's net position can be determined by reviewing the following condensed statement of revenues, expenses, and changes in net position for the year.

**Table 2**

	<u>09/30/23</u>	<u>09/30/22</u>
Total Operating Revenues	\$ 1,189,292.19	\$ 1,089,716.94
Operating Expenses	(893,904.19)	(1,006,425.35)
Depreciation Expense	(65,459.41)	(2,359.91)
Other Non-Operating Revenues (Expenses)	249,662.46	57,736.76
Increase (Decrease) in Net Position	<u>479,591.05</u>	<u>138,668.44</u>
Net Position, Beginning of Year	2,126,871.25	2,008,506.72
Prior Period Adjustment	<u>118,007.03</u>	<u>(20,303.91)</u>
Net Position, Beginning of Year - Restated	<u>2,244,878.28</u>	<u>1,988,202.81</u>
Net Position, End of Year	<u><u>\$ 2,724,469.33</u></u>	<u><u>\$ 2,126,871.25</u></u>

The District's primary source of revenue is the sale of water, which comprises most of the operating revenues. Operating revenues increased by \$99,575.25, or 9.14%, from the prior year.

Total operating expenses decreased by \$112,521.16, or 11.18%, from the prior year.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

As of September 30, 2023, the District had \$2,079,671.76 (net of accumulated depreciation) invested in capital assets, including the water storage and distribution system, improvements, machinery, and equipment. The District purchased new infrastructure assets. The net capital assets increased by \$163,642.09, or 8.98%, from the prior year, primarily due to normal depreciation and the purchase of the aforementioned assets.

### **Debt**

The District had no notes payable outstanding, as of September 30, 2023.



## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

A product of an ongoing examination of how the District does business, our budget emphasizes outcomes, or results, for the community and allows for longer-term financial planning decisions.

In considering the District's budget for the fiscal year 2023/2024, the Board estimates that revenues and expenses in the coming year will approximate actual revenues and expenses for the past fiscal year.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the District's finances, and to show the District's accountability for the money it receives. If you have any questions about this report, or need additional financial information, contact the Board of Directors at Washington County Rural Water District No. 2, 396301 W. 3000 Rd, Ochelata, OK 74051.

WASHINGTON COUNTY RURAL WATER DISTRICT No. 2  
 STATEMENT OF NET POSITION  
 AS OF SEPTEMBER 30, 2023

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**Assets**

Current Assets:

Cash and cash equivalents	\$ 203,486.75
Investments	312,968.24
Accounts receivable	166,306.78
Due from other governments	69,878.00
Accrued interest receivable	1,271.64
Prepaid insurance	2,652.68
Inventory	4,930.00
Total Current Assets	<u>761,494.09</u>

Noncurrent Assets:

Capital Assets:

Water Distribution System & Equipment	4,071,009.22
Less: Accumulated Depreciation	<u>(1,991,337.46)</u>
Total Capital Assets	<u>2,079,671.76</u>

Other Assets:

Utility Deposit	205.00
Total Assets	<u><u>\$ 2,841,370.85</u></u>

**Liabilities**

Current Liabilities:

Accounts payable	\$ 93,285.64
Accrued expenses	23,615.88
Total Liabilities	<u>116,901.52</u>

**Net Position**

Invested in capital assets, net of related debt	2,079,671.76
Unrestricted	<u>644,797.57</u>
Total Net Position	<u>2,724,469.33</u>
Total Liabilities and Net Position	<u><u>\$ 2,841,370.85</u></u>

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

WASHINGTON COUNTY RURAL WATER DISTRICT No. 2  
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
 YEAR ENDED SEPTEMBER 30, 2023

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<b>Operating Revenues:</b>	
Water charges and fees	\$ 985,763.41
Other operating revenue	203,528.78
Total Operating Revenues	<u>1,189,292.19</u>
<b>Operating Expenses:</b>	
Water purchases	628,098.64
Management fees	167,595.24
Depreciation Expense	65,459.41
Repairs and Maintenance	64,345.05
Insurance	4,269.78
Professional Fees	3,700.00
Utilities	6,752.41
Postage and pull fees	6,020.00
Membership Fees	1,692.99
Regulatory Expense	1,120.00
Bank Charges	1,829.44
Miscellaneous expense	8,480.64
Total Operating Expenses	<u>959,363.60</u>
<b>Operating Income/(Loss)</b>	229,928.59
<b>Non-Operating Revenues/(Expenses):</b>	
Interest Income	16,162.46
Benefit Units	33,500.00
Grants	200,000.00
Total Non-Operating Revenues (Expenses)	<u>249,662.46</u>
<b>Income/(Loss)</b>	479,591.05
<b>Change in net position</b>	<u>479,591.05</u>
<b>Total net position, beginning</b>	2,126,871.25
<b>Prior period adjustment (See Note 3.C.)</b>	118,007.03
<b>Total net position, beginning - restated</b>	<u>2,244,878.28</u>
<b>Total net position, ending</b>	<u>\$ 2,724,469.33</u>

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

WASHINGTON COUNTY RURAL WATER DISTRICT No. 2  
STATEMENT OF CASH FLOWS  
YEAR ENDED SEPTEMBER 30, 2023

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**Cash flows from operating activities:**

Cash received from customers	\$ 969,904.81
Cash received from other revenues	203,528.78
Cash paid to suppliers for goods and services	(921,520.50)
Net cash provided/(used) by operating activities	<u>251,913.09</u>

**Cash flows from investing activities:**

Interest income	16,162.46
Investments purchased	73,786.74
Purchase of capital assets	(440,921.03)
Net cash provided/(used) by investing activities	<u>(350,971.83)</u>

**Cash flows from financing activities:**

Issuance of benefit units	33,500.00
Grants	200,000.00
Net cash provided (used) by financing activities	<u>233,500.00</u>

Net increase/(decrease) in cash and cash equivalents 134,441.26

Beginning cash balance 69,045.49

Ending cash balance \$ 203,486.75

**Reconciliation of net income/(loss) to cash provided  
by operating activities:**

Net income/(loss)	<u>\$ 229,928.59</u>
Adjustments to reconcile net income to net cash provided/(used) by operating activities:	
Depreciation	65,459.41
(Increase)/decrease in receivables	(15,858.60)
(Increase)/decrease in prepaid insurance	290.78
(Increase)/decrease in inventory	370.00
Increase/(decrease) in accounts payable and accrued expenses	(28,277.09)
Total adjustments	<u>21,984.50</u>
Net cash provided by operating activities	<u>\$ 251,913.09</u>

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

### **Note 1 - Summary of Significant Accounting Policies**

Washington County Rural Water District No. 2 (the District) was formed, and the powers which it may exercise, are set forth in the provisions of Title 82 of the Oklahoma Statutes, Section 1324.1 et seq., same being the Oklahoma Rural Water, Sewer, Gas and Solid Waste Management Districts Act. Membership in the water district consists of water users who have paid the required membership, and connection fees. The District is exempt from federal and state income taxes. The District was organized by the Board of County Commissioners of Washington County, Oklahoma. District members fall within territorial boundaries within Washington County, as assigned by the Board of County Commissioners of Washington County, Oklahoma.

The membership consists of approximately 1,115 users, each entitled one vote. The Board of Directors consists of 5 members, one director shall be elected for a term of one year; two directors for a term of two years; and two directors for a term of three years. The vacant Board seats are elected at the annual meeting, and following, the Board of Directors meet and elect a chairman, vice-chairman, secretary, and treasurer.

The accounting policies of the District conform to generally accepted accounting principles, applicable to governmental units. The District complies with generally accepted accounting principles and applies all relevant Government Accounting Standards Board (GASB) pronouncements. In addition, the District applies Financial Accounting Standards Board (FASB) pronouncements, and Accounting Principles Board opinions, issued on or before November 30, 1989, unless those pronouncements conflict with, or contradict, GASB pronouncements, in which case, GASB prevails. The District has elected not to follow FASB pronouncements issued since that date.

#### **1.A. Financial Reporting Entity**

The District complies with GASB Statement No. 24, "*The Financial Reporting Entity*." This statement establishes standards for defining, and reporting, on the financial reporting entity. It defines component units as legally separate organizations, for which the elected officials of the primary government are financially accountable, and other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading, or incomplete.

The District considered all potential component units in determining what organizations should be included in the financial statements. Based on these criteria, there are no component units to include in the District's financial statements.

#### **1.B. Basis of Presentation**

The accounts of the District are organized into funds, each of which is a separate accounting entity. The District uses the following fund types:

#### **Proprietary Funds**

##### **Enterprise Funds**

The District's fund is an enterprise fund. Enterprise funds are proprietary funds, used to account for business-like activities provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activity focuses on net income measurement, similar to the private sector.

**Note 1 – Summary of Significant Accounting Policies:** continued

**1.C. Measurement Focus and Basis of Accounting**

Measurement focus is a term used to describe *which* transactions are recorded within the various financial statements. Basis of accounting refers to *when* transactions are recorded, regardless of the measurement focus applied.

**Measurement Focus**

The proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

**Basis of Accounting**

All proprietary funds utilize 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.

Proprietary funds distinguish *operating* revenues, and expenses, from *nonoperating* items. Operating revenues, and expenses, generally result from providing services in connection with a proprietary fund’s principal ongoing operations. The principal operating revenue of the District’s enterprise fund is charges to customers for sales and services. The District also recognizes, as operating revenue, the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues, and expenses, not meeting this definition are reported as nonoperating revenues and expenses.

**1.D. Assets, Liabilities, and Net Position**

**Cash and Cash Equivalents**

For the purposes of cash flows, the District considers all cash on hand, demand deposits, and highly liquid investments, with an original maturity of twelve months or less when purchased, to be cash and cash equivalents.

**Fair Value of Financial Instruments**

The District’s financial statements include cash and investments. The District’s estimates of the fair value of all financial instruments do not differ materially from the aggregate carrying values 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.

**Accounts Receivable**

Accounts receivable consists primarily of charges for water sales. Management has not established a provision for uncollectible accounts. Such amounts are written off in the month in which management determines they are uncollectible.

**Note 1 – Summary of Significant Accounting Policies:** continued

**1.D. Assets, Liabilities, and Net Position** continued

**Capital Assets**

The water storage and delivery system, and equipment, are recorded at cost. Donated capital assets are reported at estimated fair market value at the date of donation. District policy has set the capitalization threshold at \$350 for reporting capital assets.

The cost of normal maintenance and repairs that do not add to the value of the asset, or materially extend asset lives, are not capitalized.

All reported capital assets are depreciated on the straight-line basis, over the estimated useful lives ranging from seven (7) to forty (40) years.

**Equity Classification**

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

- a. Invested in capital assets, net of related debt – Consists of capital assets, including restricted capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted – Consists of net position, with constraints placed on the use, either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions, or enabling legislation.
- c. Unrestricted – All other net position that do not meet the definitions of “restricted,” or “invested in capital assets, net of related debt”.

**Use of Estimates**

The preparation of financial statements, in conformity with U.S. generally accepted accounting principles, requires management to make estimates, and assumptions, that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Note 2 – Detailed Notes Concerning Accounts**

**2.A. Deposits and Investments**

The table presented below is designed to disclose the level of custody credit risk assumed by the District based upon how its deposits were insured or secured with collateral at September 30, 2023. The categories of credit risk are defined as follows:

Category A – Insured by FDIC or collateralized with securities held by the District or by its agent in its name.

Category B – Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category C – Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the District's name; or collateralized with no written or approved collateral agreement.

	Category			Carrying Amount	Bank Balance
	A	B	C		
Demand deposits	\$ 193,735.95	\$ -	\$ -	\$ 193,486.75	\$ 193,735.95
C.D.'s	10,000.00	-	-	10,000.00	10,000.00
Total	<u>\$ 203,735.95</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 203,486.75</u>	<u>\$ 203,735.95</u>

State statutes govern the District's investment policy. The District is authorized to invest in U.S. Government obligations, and its agencies or instrumentalities; certificates of deposit of savings and loan associations, and bank and trust companies; and savings accounts, or savings certificates, of savings and loan associations, and trust companies. Collateral is required for demand deposits, and certificates of deposit, for all amounts not covered by federal deposit insurance. Investments are stated at cost. Currently, the District invests entirely in certificates of deposit.

*Credit Risk:* The District's investment policy is to apply the "prudent investor" standard. "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital, as well as the probable income to be derived."

*Custodial Credit Risk – Deposits:* Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District's cash deposits, including interest-bearing certificates of deposit, are maintained in financial institutions. As of September 30, 2023, none of the District's investments were exposed to custodial credit risk, because they were either insured or collateralized.

*Interest Rate Risk:* This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. 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.



**Note 2 – Detailed Notes Concerning Accounts:** continued

**2.A. Deposits and Investments** continued

In May of 2004, a board designated a 3% interest bearing deferred annuity with Farm Bureau Financial Services. The investments of the District are managed by a professional investment adviser. Cash coverage is limited at \$250,000. At times, the District's deposits may exceed insured amounts. Management believes the funds are not exposed to any significant risk due to the diversity of high-grade financial instruments held by the fund, and management's routine assessment of the portfolio. The District withdrew \$67,000 to put meters in the ground and \$300,000 to open three new 4.25% interest bearing deferred annuity with Farm Bureau Financial Services in May 2023. The value of the deferred annuity at September 30, 2023 are \$312,968.24.

*Investment Interest Rate Risk*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

**2.B. Accounts Receivable**

Aged accounts receivable are as follows:

Current billings	\$ 106,184.09
31-60 days arrears	8,467.13
60-90 days arrears	51,655.56
	<u>\$ 166,306.78</u>

**2.C. Changes in Capital Assets**

Capital asset activity, for the fiscal year ended September 30, 2023, was as follows:

	Beginning of Year	Additions	Deletions	End of Year
Non-Depreciable:				
Construction in Process	\$ 125,885.55	\$ 225,000.00	\$(125,885.55)	\$ 225,000.00
Total non-depreciable capital assets	<u>125,885.55</u>	<u>225,000.00</u>	<u>(125,885.55)</u>	<u>225,000.00</u>
Depreciable:				
Water System	3,494,525.89	338,615.55	-	3,833,141.44
Equipment	9,676.75	3,191.03	-	12,867.78
Total depreciable capital assets	<u>3,504,202.64</u>	<u>341,806.58</u>	<u>-</u>	<u>3,846,009.22</u>
Grand total of capital assets	3,630,088.19	566,806.58	(125,885.55)	4,071,009.22
Less: Accumulated Depreciation	<u>(1,925,878.05)</u>	<u>(65,459.41)</u>	<u>-</u>	<u>(1,991,337.46)</u>
Net Book Value	<u>\$ 1,704,210.14</u>	<u>\$ 501,347.17</u>	<u>\$(125,885.55)</u>	<u>\$ 2,079,671.76</u>

### **Note 3 – Other Information**

#### **3.A. Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The District purchases commercial insurance to cover these risks, including general and auto liability, property damage, and public officials' liability. There were no significant reductions in insurance coverage from the prior year. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

#### **3.B. Rates and Fees**

##### Water Rates and Charges

Minimum monthly charge on first 1,000 gallons	\$	19.00
Residential price per thousand gallons for 1,000 - 4,000 gallons		13.05
Residential price per thousand gallons for 4,001 - 8,000 gallons		13.35
Residential price per thousand gallons for 8,001 - 15,000 gallons		13.55
Residential price per thousand gallons for 15,001 - 25,000 gallons		13.85
Residential price per thousand gallons for anything over 25,001 gallons		14.05
Commercial minimum price - no water included		50.00
Commercial price per thousand gallons for 0 - 10,000 gallons		15.00
Commercial price per thousand gallons for 10,001 - 25,000 gallons		18.00
Commercial price per thousand gallons for anything over 25,001 gallons		20.00
Capital Improvement flat rate		3.00

#### **3.C. Prior Period Adjustment**

Financial statements for the fiscal year ended September 30, 2023, were restated to appropriately report the following changes and provide consistency and comparability among the years.

	<u>As Reported</u> <u>9/30/2023</u>
Beginning net assets 09/30/2023, as reported	\$ 2,126,871.25
Correct depreciation of fixed assets	111,700.28
Correct fixed asset listing	<u>6,306.75</u>
Beginning net assets 09/30/2023, restated	<u><u>\$ 2,244,878.28</u></u>

#### **3.D. Evaluation of Subsequent Events**

The District has evaluated subsequent events through February 12, 2024, the date which the financial statements were available to be issued, and no additional disclosures deemed necessary.

**REPORT REQUIRED BY *GOVERNMENT AUDITING STANDARDS***



**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 No. 2  
Washington 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 the business-type activities of Washington County Rural Water District No. 2, as of and for the year ended September 30, 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 February 12, 2024.

**Internal Control Over Financial Reporting**

In planning, and performing, our audit of the financial statements, we considered Washington County Rural Water District No. 2'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 Washington County Rural Water District No. 2's internal control. Accordingly, we do not express an opinion on the effectiveness of Washington County Rural Water District No. 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 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 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 the 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 or significant deficiencies may exist that were not identified.

To the Board of Directors  
Washington County Rural Water District No. 2  
Page 2

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Washington County Rural Water District No. 2'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.

Very truly yours,

A handwritten signature in cursive script that reads "Ober & Littlefield, PLLC".

**OBER & LITTLEFIELD, CPAs, PLLC**  
**MIAMI, OKLAHOMA**

**FEBRUARY 12, 2024**