

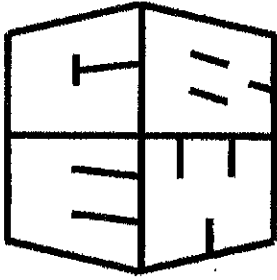
**RURAL WATER DISTRICT NO. 2  
PAWNEE COUNTY  
Terlton, Oklahoma**

**BASIC FINANCIAL STATEMENTS  
December 31, 2023**

**RURAL WATER DISTRICT #2  
PAWNEE COUNTY  
Terlton, Oklahoma**

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## **CBEW Professional Group, LLP**

Certified Public Accountants

P.O. Box 790

Cushing, OK 74023

918-225-4216 FAX 918-225-4315

Charles E. Crooks, Jr., CPA – Trisha J. Riegan, CPA – Gabrielle Conchola, CPA

### **INDEPENDENT AUDITOR'S REPORT**

January 23, 2024

Board of Directors  
Rural Water District No. 2  
Pawnee County  
Terlton, Oklahoma

#### ***Opinion***

We have audited the accompanying financial statements of the business-type activities of Rural Water District No. 2, Pawnee County, Terlton, Oklahoma (the District), as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects the financial position of the business-type activities of the Rural Water District No. 2, Pawnee County, Terlton, Oklahoma as of December 31, 2023 and 2022, and the changes in financial position and cash flows thereof for the years then ended in conformity 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 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 the 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 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 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 the 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 generally accepted auditing standards 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 generally accepted auditing standards 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 the District'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, that raise substantial doubt about the District'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 Matters**

*Required Supplementary Information*

The District has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires 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 (GASB), 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 opinions on the basic financial statements are 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 January 23, 2024, on our consideration of the 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 to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on the effectiveness of the 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 Rural Water District No. 2's internal control over financial reporting and compliance.

***CBEW Professional Group, LLP***

CBEW Professional Group, LLP  
Certified Public Accountants  
Cushing, Oklahoma

**RURAL WATER DISTRICT #2  
PAWNEE COUNTY  
Terlton, Oklahoma**

**STATEMENT OF NET POSITION  
December 31, 2023 and 2022**

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
<b>Assets:</b>		
Cash and cash equivalents (Note 1)	\$ 197,952	\$ 205,038
Investments	70,796	70,582
Temporarily restricted assets:		
Cash and cash equivalents (Note 1)	145,863	25,968
Restricted assets:		
Customer deposits (Note 1)	80,198	78,402
Receivables (net of allowance for uncollectible)	116,521	106,253
Prepaid expense	13,938	17,366
<b>Capital assets:</b>		
Land	15,075	15,075
Construction in process	-	-
Water system, buildings, improvements and equipment, net of depreciation (Notes 1 & 3)	<u>4,521,188</u>	<u>4,635,636</u>
<b>Other:</b>		
Other assets	<u>930</u>	<u>930</u>
<b>Total assets</b>	<u>5,162,461</u>	<u>5,155,250</u>
<b>Deferred outflows of resources:</b>		
<b>Total deferred outflows</b>	<u>-</u>	<u>-</u>
<b>Current liabilities:</b>		
Accounts payable	13,600	12,288
Fire dues collected and payable	2,834	3,420
Customer deposits	80,198	78,402
Accrued interest payable	2,641	2,638
Current portion of notes payable (Note 3)	68,675	74,076
<b>Total current liabilities</b>	<u>167,948</u>	<u>170,824</u>
<b>Long-term liabilities:</b>		
Notes payable (Note 3)	<u>2,531,409</u>	<u>2,600,085</u>
<b>Total long-term liabilities</b>	<u>2,531,409</u>	<u>2,600,085</u>
<b>Total liabilities</b>	<u>2,699,357</u>	<u>2,770,909</u>
<b>Deferred inflows of resources:</b>		
<b>Total deferred inflows</b>	<u>-</u>	<u>-</u>
<b>Net position:</b>		
Net investment in capital assets	1,936,179	1,976,550
Temporarily restricted (Note 1)	145,863	25,968
Unrestricted	381,062	381,823
<b>Total net position</b>	<u>2,463,104</u>	<u>2,384,341</u>
<b>Total liabilities and net position</b>	<u>\$ 5,162,461</u>	<u>\$ 5,155,250</u>

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

**RURAL WATER DISTRICT #2  
PAWNEE COUNTY  
Terlton, Oklahoma**

**STATEMENT OF ACTIVITIES  
For the Years Ended December 31, 2023 and 2022**

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
<b>Revenues:</b>		
Water sales	\$ 911,360	\$ 866,460
Late charges	32,284	35,039
Miscellaneous income	<u>22,365</u>	<u>100,619</u>
<b>Total revenues</b>	<u>966,009</u>	<u>1,002,118</u>
<b>Expenses:</b>		
Bank charges	-	50
Contract services	3,167	5,053
Depreciation	184,912	182,899
Employee benefits	49,835	31,703
Insurance	34,430	30,892
Lab fees	6,390	5,458
Legal and accounting	35,002	30,969
Licenses and permits	3,352	3,041
Miscellaneous	2,646	3,810
Office supplies and postage	13,258	14,598
Payroll taxes	16,229	13,894
Rental expense	800	704
Repair and maintenance	54,189	53,193
Salaries and payroll expenses	194,640	166,656
Supplies	19,978	15,350
Telephone	6,888	6,438
Transportation	16,349	15,529
Travel	481	776
Utilities	28,875	29,974
Water purchases	<u>181,703</u>	<u>191,339</u>
<b>Total expenses</b>	<u>853,124</u>	<u>802,326</u>
<b>Operating income (loss)</b>	<u>112,885</u>	<u>199,792</u>
<b>Other income and expense:</b>		
Interest income	2,399	664
Grants	-	262,644
Benefit units	11,000	8,500
Interest expense	<u>(47,521)</u>	<u>(51,403)</u>
<b>Total other income and expense</b>	<u>(34,122)</u>	<u>220,405</u>
<b>Change in net position - net income (loss)</b>	78,763	420,197
<b>Net position - beginning of year</b>	<u>2,384,341</u>	<u>1,964,144</u>
<b>Net position - end of year</b>	<u>\$ 2,463,104</u>	<u>\$ 2,384,341</u>

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

**RURAL WATER DISTRICT #2  
PAWNEE COUNTY  
Teriton, Oklahoma**

**STATEMENT OF CHANGES IN NET POSITION  
For the Years Ended December 31, 2023 and 2022**

	<u>Net Position (Unrestricted)</u>	<u>Net Position (Temporarily Restricted)</u>	<u>Total Net Assets</u>
<b>Balance - beginning of year 12-31-22</b>	\$ 2,358,373	\$ 25,968	\$ 2,384,341
Change in net position	<u>(41,132)</u>	<u>119,895</u>	<u>78,763</u>
<b>Balance - end of year 12-31-23</b>	<u>\$ 2,317,241</u>	<u>\$ 145,863</u>	<u>\$ 2,463,104</u>
<b>Balance - beginning of year 12-31-21</b>	\$ 1,938,176	\$ 25,968	\$ 1,964,144
Change in net position	<u>420,197</u>	<u>-</u>	<u>420,197</u>
<b>Balance - end of year 12-31-22</b>	<u>\$ 2,358,373</u>	<u>\$ 25,968</u>	<u>\$ 2,384,341</u>

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

**RURAL WATER DISTRICT #2  
PAWNEE COUNTY  
Terlton, Oklahoma**

**STATEMENT OF CASH FLOWS  
For the Years Ended December 31, 2023 and 2022**

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
<b>Cash flows from operating activities:</b>		
Cash received from customers	\$ 955,741	\$ 1,008,409
Cash payments to suppliers for goods & contractors & other services	(664,058)	(629,901)
<b>Net cash provided by operating activities</b>	<u>291,683</u>	<u>378,508</u>
<b>Cash flows from capital and related financing activities:</b>		
Acquisition & construction of capital assets	(70,464)	(361,401)
Principal paid on debt	(74,078)	(67,354)
Interest paid on debt	(47,517)	(62,786)
Net change in meter deposits	1,796	1,149
Proceeds of issuance of debt	-	-
Proceeds from grants	-	262,644
Benefit units	11,000	8,500
<b>Net cash used in capital and related financing activities</b>	<u>(179,263)</u>	<u>(219,248)</u>
<b>Cash flows from investing activities:</b>		
(Purchase) liquidation of investments - unrestricted	(214)	-
Interest income	2,399	664
<b>Net cash provided by investing activities</b>	<u>2,185</u>	<u>664</u>
<b>Net increase (decrease) in cash</b>	114,605	159,924
<b>Cash and cash equivalents at beginning of year</b>	<u>309,408</u>	<u>149,484</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 424,013</u>	<u>\$ 309,408</u>
<b>Reconciliation of operation income to net cash provided by operating activities:</b>		
Operating income (loss)	\$ <u>112,885</u>	\$ <u>199,792</u>
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation	184,912	182,899
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(10,268)	6,291
(Increase) decrease in prepaid expenses	3,428	(9,295)
(Increase) decrease in other assets	-	-
Increase (decrease) in accounts payable	1,312	(1,677)
Increase (decrease) in fire dues payable	(586)	498
<b>Total adjustments</b>	<u>178,798</u>	<u>178,716</u>
<b>Net cash provided by operating activities</b>	<u>\$ 291,683</u>	<u>\$ 378,508</u>

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



**RURAL WATER DISTRICT NO. 2  
PAWNEE COUNTY  
Terlton, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
December 31, 2023 and 2022**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Rural Water District No. 2, Pawnee County, Oklahoma (the District), was created under the provisions of Title 82, O.S. 1981, Sections 1301-1321 on the 2<sup>nd</sup> day of January, 1970. The purpose of the District is to acquire water and water rights; to build and acquire pipelines and other facilities; and to operate the same for the purpose of providing water to serve the needs of owner and occupants of land located within the District, and others as authorized by the by-laws. The District is exempt from federal and state income taxes.

The District is governed by a Board of Directors that acts as the authoritative and legislative body of the entity. The Board of Directors is comprised of elected board members. All Board members serve without pay.

The more significant of the government's accounting policies are described below.

**A. Reporting Entity**

Rural Water District No. 2 is an independent, self-contained reporting entity with no associated component units. It is operated in a manner similar to a private business enterprise where the cost (expenses, including depreciation) of providing water services is financed through user charges. The District purchases some of its water from Lone Chimney Water Association and produces the rest.

**B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting**

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with Generally Accepted Accounting Principles (GAAP) promulgated in the United States of America. The accounting and financial reporting treatment is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation are included on the statement of net position. The operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Depreciation expense is provided for capital assets based upon estimated useful lives.

Financial activity is accounted for on the flow of economic resources measurement focus using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

**C. Assets, Liabilities and Equity**

**1. Deposits and Investments**

Oklahoma Statutes authorize the District to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the District can invest in direct debt securities of the United States unless such an investment is expressly prohibited by law.

All the bank deposits are held at one financial institution and are carried at cost. For purposes of statements of cash flows, the District considers cash and all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

**RURAL WATER DISTRICT NO. 2  
PAWNEE COUNTY  
Terlton, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
December 31, 2023 and 2022**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Assets, Liabilities and Equity (Continued)**

**1. Deposits and Investments (Continued)**

*Custodial Credit Risk*

At December 31, 2023, the District held deposits of approximately \$494,609 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit, are not entirely 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. The District was under collateralized by \$8,250 at December 31, 2023.

*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.

*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.).

The investments held at December 31, 2023 are as follows:

Type	Weighted Average Maturity (Months)	Credit Rating	Market Value	Cost
Investments				
Money Market	N/A	AAAm	\$ 423,813	\$ 423,813
CDs	18 Months		70,796	70,796
<b>Total investments</b>			<b>\$ 494,609</b>	<b>\$ 494,609</b>

**RURAL WATER DISTRICT NO. 2  
PAWNEE COUNTY  
Terlton, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
December 31, 2023 and 2022**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Assets, Liabilities and Equity (Continued)**

**1. Deposits and Investments (Continued)**

*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: 86% in Money Market funds (\$423,813) and 14% in CDs (\$70,796).

**2. Restricted Cash and Investments**

The restricted cash is the result of financial requirements note indentures between the District and the Rural Development. Under the terms and provisions of the promissory note, these funds may be maintained so long as the notes are outstanding. The District is required to make monthly contributions in a reserve accounts until an amount of \$27,168 for Loan 91-09, \$34,980 for Loan 91-10 and \$59,448 for Loan 91-12 has been reached. Also, the USDA Short Lived Asset Reserve Account is to be fund \$24,267 annually with a balance of \$24,267 at the end of this year. In addition, certain funds are restricted for customer deposits and are reflected as an asset and a corresponding liability.

**3. Fair Value of Financial Instruments**

The District's financial instruments include cash and cash equivalents, accounts receivable, accounts payable and notes payable. The District's estimate of the fair value of all financial instruments does 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.

**4. Estimates**

The preparation of financial statements in conformity with 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. Accordingly, actual results could differ from those estimates.

**5. Inventories**

Inventories consist primarily of water stored in lines for use in the distribution process. Inventory is expensed when purchased.

**6. Capital Assets**

Additions to the water storage delivery system and other equipment are recorded at cost or, if contributed property, at their estimated acquisition value at time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. The District maintains a capitalization threshold of \$500 and an estimated useful life in excess of two (2) years.

**RURAL WATER DISTRICT NO. 2  
PAWNEE COUNTY  
Terlton, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
December 31, 2023 and 2022**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Assets, Liabilities and Equity (Continued)**

**6. Capital Assets (Continued)**

Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Water system	40 years
Buildings	40 years
Equipment	5-10 years
Vehicles	5 years
Office equipment	5 years

**7. Compensated Absences**

It is the District's policy to permit employees to accumulate earned but unused vacation time. Full-time employees are granted vacation and sick leave benefits in varying amounts to specified maximums depending on tenure. The District has not accrued compensated absences because the amount, if any, would not be material to the financial statements.

**8. Net Position**

In the basic financial statements, net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets.

**9. Resource Use Policy**

It is in the District's policy for all funds that when an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources, including net positions, are available, the District considers restricted amounts to be spent first before any unrestricted amounts are used.

**D. Revenues, Expenses and Other Changes in Net Position**

**1. Operating Revenues and Expenses**

Operating revenues and expenses are principally from water sales and connection fees charged to new system subscribers. Customer water consumption is determined by monthly meter readings taken by the customer and once annually by District personnel. The water sales from subscriber water consumption billed but unpaid at the District's year-end are recognized as revenue in the current year and reported in the statement of net position as accounts receivable. Operating expense consist of those costs necessary to operate and maintain the water distribution system and for general administration of the District.

**2. Non-Operating Revenue and Expenses**

Non-operating revenues and expenses consist of investment earnings, interest expense incurred on the District's notes payable and gains and losses on sales or the abandonment of long-lived assets.

**RURAL WATER DISTRICT NO. 2  
PAWNEE COUNTY  
Terlton, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
December 31, 2023 and 2022**

**2. CAPTIAL ASSETS**

The following is a summary of changes in property, plant and equipment.

	Balance December 31, 2022	Additions	Deletions	Balance December 31, 2023
Land	\$ 15,075	\$ -	\$ -	\$ 15,075
Construction in progress	-	-	-	-
Water system	5,876,913	60,385	-	5,937,298
Buildings	45,538	-	-	45,538
Equipment	225,324	10,079	-	235,403
Vehicles	187,991	-	-	187,991
Office equipment	23,863	-	-	23,863
Total	<u>6,374,704</u>	<u>70,464</u>	<u>-</u>	<u>6,445,168</u>
Less accumulated depreciation	1,723,993	184,912	-	1,908,905
Net	<u>\$ 4,650,711</u>	<u>\$ (114,448)</u>	<u>\$ -</u>	<u>\$ 4,536,263</u>

	Balance December 31, 2021	Additions	Deletions	Balance December 31, 2022
Land	\$ 15,075	\$ -	\$ -	\$ 15,075
Construction in progress	-	-	-	-
Water system	5,618,835	258,078	-	5,876,913
Buildings	45,538	-	-	45,538
Equipment	219,000	6,324	-	225,324
Vehicles	90,992	96,999	-	187,991
Office equipment	23,863	-	-	23,863
Total	<u>6,013,303</u>	<u>361,401</u>	<u>-</u>	<u>6,374,704</u>
Less accumulated depreciation	1,541,094	182,899	-	1,723,993
Net	<u>\$ 4,472,209</u>	<u>\$ 178,502</u>	<u>\$ -</u>	<u>\$ 4,650,711</u>

**3. LONG-TERM DEBT**

Long-term debt consists of a note with Rural Development, in the original amount of \$384,000. The note was issued on July 17, 1971 with a maturity of January 1, 2025, interest is at 5.75%. A payment of \$2,264 for principal and interest is due each month. The note is secured by the distribution lines, related equipment and water revenues derived from operations.

A note with Rural Development, in the original amount of \$1,708,000. The note was issued on March 10, 2023 with a maturity of March 10, 2061, interest is at 1.75%. A payment of \$4,954 for principal and interest is due each month. The note is secured by the water plant, related equipment and water revenues derived from operations.

**RURAL WATER DISTRICT NO. 2  
PAWNEE COUNTY  
Terlton, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
December 31, 2023 and 2022**

**3. LONG-TERM DEBT (Continued)**

A note with Rural Development, in the original amount of \$988,000. The note was issued on March 10, 2023 with a maturity of March 10, 2061, interest is at 1.75%. A payment of \$2,915 for principal and interest is due each month. The note is secured by the water plant, related equipment and water revenues derived from operations.

The following is a summary of long-term debt transactions during the year:

	Balance December 31, 2022	Additions	Reductions	Balance December 31, 2023	Current Portion
RD	\$ 44,299	\$ -	\$ 25,281	\$ 19,018	\$ 19,018
RD	1,655,149	-	30,729	1,624,420	31,271
RD	974,714	-	18,068	956,646	18,386
Total	<u>\$ 2,674,162</u>	<u>\$ -</u>	<u>\$ 74,078</u>	<u>\$ 2,600,084</u>	<u>\$ 68,675</u>

Annual cash requirements to amortize these notes are as follows:

Year Ending December 31,	Payments Due
2024	\$ 113,887
2025	94,428
2026	94,428
2027	94,428
2028	94,428
2029-2033	472,140
2034-2038	472,140
2039-2043	472,140
2044-2048	472,140
2049-2053	472,140
2054-2058	472,140
2059-2061	208,891
Total	<u>3,533,330</u>
Less interest	(933,246)
Note balance	<u>\$ 2,600,084</u>

**4. RISK MANAGEMENT**

Rural Water District No. 2 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 continues to carry commercial insurance for these risks, including general and auto liability, property damage, and public officials' liability. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

**RURAL WATER DISTRICT NO. 2  
PAWNEE COUNTY  
Terlton, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
December 31, 2023 and 2022**

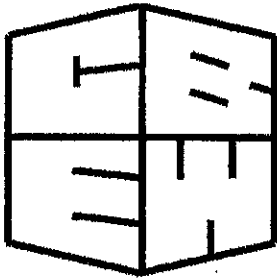
**5. DEFERRED COMPENSATION AND PENSION PLAN**

The District offers a simple individual retirement plan for employees. The District has approved a contribution to the employee's IRA account each month. Employees are allowed to contribute a portion of their own salary each month. All amounts are 100% vested at the date of contribution. The District's contributions to the plan for December 31, 2023 and 2022 were \$3,823 and \$2,490.

**RURAL WATER DISTRICT NO. 2  
PAWNEE COUNTY  
Terlton, Oklahoma**

**REPORT REQUIRED BY *GOVERNMENT AUDITING STANDARDS*  
December 31, 2023**





**CBEW Professional Group, LLP**

Certified Public Accountants

P.O. Box 790

Cushing, OK 74023

918-225-4216 FAX 918-225-4315

Charles E. Crooks, Jr., CPA – Trisha J. Rieman, CPA – Gabrielle Conchola, CPA

**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**

January 23, 2024

Board of Directors  
Rural Water District No. 2  
Pawnee County  
Terlton, 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 the Rural Water District No. 2, Pawnee County, Terlton, Oklahoma (the District), as of and for the year 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 January 23, 2024. The District did not present the Management's Discussion and Analysis required by the Governmental Accounting Standards Board.

***Report on 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) 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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2023-001 that we consider to be material weaknesses.

***Report on Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

***District's Response to Findings***

*Government Auditing Standards* requires the auditor to perform limited procedures on the District's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

***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.

***CBEW Professional Group, LLP***

CBEW Professional Group, LLP  
Certified Public Accountants  
Cushing, Oklahoma

**RURAL WATER DISTRICT NO. 2  
PAWNEE COUNTY  
Terlton, Oklahoma**

**SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended December 31, 2023**

2023-001. Internal Control – Segregation of Duties

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

Condition: Presently the same individual that receives utility service-related cash payments is also responsible for service billing and adjustment, also balances the daily cash drawer, posts payments to subsidiary accounts receivable ledger and reconciles the monthly bank statements. In addition, only limited oversight is provided over this individual in the conduct of their daily functions. This finding was also noted in 2022.

Cause: The district's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

Effect or Potential Effect: Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to utility billing and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: We recommend that management and the board should consider a formal evaluation of their risks associated with this lack of duties segregation over utility cash and receivables. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with lack of segregation of duties, such as providing increased management oversight and an independent reconciliation of accounts. For example, the entity might consider soliciting the assistance of independent volunteer labor to perform certain functions including performing compensating procedures where applicable.

Responsible Official's Response: The district concurs with the recommendation, although, the cost to correct this condition might exceed the benefit, the district has made certain changes in procedures that will improve the overall lack of segregation of duties and has implemented compensating procedures as appropriate.