



*BUCKHORN RURAL WATER DISTRICT #2,
MURRAY COUNTY, OKLAHOMA*

*ANNUAL FINANCIAL STATEMENTS AND
ACCOMPANYING INDEPENDENT AUDITOR'S REPORTS
AS OF AND FOR THE YEAR ENDED
DECEMBER 31, 2023*

BUCKHORN RURAL WATER DISTRICT #2, MURRAY COUNTY, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and For the Year Ended December 31, 2023

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Buckhorn Rural Water District #2, Murray Co.

Opinion

I have audited the accompanying financial statements of Buckhorn Rural Water District #2, Murray Co., Oklahoma, which comprise the statement of net position as of December 31, 2023, and the related statements of revenues and expenses and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements.

In my opinion, the financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of the Buckhorn Rural Water District #2, Murray Co., Oklahoma, as of December 31, 2023, and the changes in its modified cash financial position and cash flows for the year then ended in accordance with the modified cash basis of accounting described in Note 1 of the financial statements.

Basis for Opinion

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental 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 Buckhorn Rural Water District #2, Murray Co., Oklahoma 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.

Emphasis of Matter-Basis of Accounting

I draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. My opinion is not modified with respect to this matter.

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.

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 Buckhorn Rural Water District #2, Murray Co., Oklahoma'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.

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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 generally accepted 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*, 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 Buckhorn Rural Water District #2, Murray Co., Oklahoma's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Buckhorn Rural Water District #2, Murray Co., Oklahoma's ability to continue as a going concern for a reasonable period of time.

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 information 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 Reporting Required by Government Auditing

In accordance with Government Auditing Standards, I have also issued a report dated February 3, 2023, on my consideration of Buckhorn Rural Water District #2, Murray Co., Oklahoma's internal control over financial reporting and on my tests of its compliance with certain laws, regulations, contracts and grants and other matters. The purpose of that report is 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 the Buckhorn Rural Water District #2, Murray Co., Oklahoma'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 Buckhorn Rural Water District #2, Murray Co., Oklahoma's internal control over financial reporting and compliance.



Kristi L. Dobbins, CPA
Pauls Valley, OK 73075
February 9, 2024

**BUCKHORN RURAL WATER DISTRICT #2, MURRAY COUNTY, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and For the Year Ended December 31, 2023**

NOTES TO THE FINANCIAL STATEMENT

BUCKHORN RURAL WATER DISTRICT #2, MURRAY COUNTY, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and For the Year Ended December 31, 2023

Statement of Net Position (Modified Cash Basis)-December 31, 2023

ASSETS

Cash and cash equivalents, unrestricted	\$399,623
Investments, unrestricted	271,433
Investments, restricted	22,260
Capital assets, net of depreciation	1,088,512
Total Assets	<u>1,781,828</u>

LIABILITIES

Payroll taxes payable	11,230
Note payable, current	10,934
Note payable, noncurrent	238,913
Total Liabilities	<u>261,077</u>

NET POSITION

Net investment in capital assets	838,665
Restricted for debt service	22,260
Unrestricted	659,826
Total Net Position	<u>\$1,520,751</u>

See accompanying notes to the basic financial statements and the Independent Auditor's Report.

BUCKHORN RURAL WATER DISTRICT #2, MURRAY COUNTY, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and For the Year Ended December 31, 2023

Proprietary Fund Statement of Revenues, Expenses and Changes in Net Position (Modified Cash Basis)-Year Ended December 31, 2023

Operating Revenues:	
Water	\$525,691
Late charges	3,512
Benefit units	10,250
Miscellaneous	12,671
Reconnect fees	2,509
Total Operating Revenues	<u>554,633</u>
Operating Expenses:	
Salaries	158,100
Payroll tax expense	12,370
Employee benefits	37,733
Truck expense	10,299
Professional fees	4,175
Utilities	3,279
Insurance and fees	16,323
System maintenance	50,615
Office expense	14,829
Miscellaneous	1,141
Water purchased	122,489
Water rights	14,324
Depreciation	52,458
Total Operating Expenses	<u>498,135</u>
Net Operating Income	56,498
Non-Operating Revenues (Expenses):	
Interest income	3,376
Interest expense	(11,818)
Grants	244,450
Net Income	<u>292,506</u>
Net position-beginning of year	1,228,245
Net position-end of year	<u><u>1,520,751</u></u>

See accompanying notes to the basic financial statements and Independent Auditor's Report.

BUCKHORN RURAL WATER DISTRICT #2, MURRAY COUNTY, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and For the Year Ended December 31, 2023

Proprietary Fund Statement of Revenues, Expenses and Changes in Net Position (Modified Cash Basis)-Year Ended December 31, 2023

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$554,633
Payments to suppliers	(279,990)
Payments to employees	(158,100)
Net Cash Provided by Operating Activities	116,543

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Principal paid on capital debt	(10,442)
Interest paid on capital debt	(11,818)
Capital assets purchased	(398,101)
Capital contributions-grant	244,450
Net Cash Used by Capital and Related Financing Activities	(175,911)

CASH FLOWS FROM INVESTING ACTIVITIES

Investment income	3,376
Net Cash Provided by Investing Activities	3,376

Net Increase in Cash and Investments	(55,992)
Balance - beginning of the year	749,308
Balance - end of the year	\$693,316

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

Operating income	\$56,498
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	52,458
Change in assets and liabilities:	
Payroll taxes payable	7,587
Net cash provided by operating activities	\$116,543

See accompanying notes to the basic financial statements and the Independent Auditor's Report.

BUCKHORN RURAL WATER DISTRICT #2, MURRAY COUNTY, OKLAHOMA
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BASIC FINANCIAL STATEMENTS- PROPRIETARY FUND

BUCKHORN RURAL WATER DISTRICT #2, MURRAY COUNTY, OKLAHOMA
ANNUAL FINANCIAL REPORT
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- A. FINANCIAL REPORTING ENTITY
- B. BASIS OF PRESENTATION
- C. ASSETS, LIABILITIES AND EQUITY
- D. REVENUES AND EXPENSES
- E. USE OF ESTIMATES
- F. DIFFERENCES FROM GAAP

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

- A. DEPOSITS AND INVESTMENT LAWS AND REGULATIONS
- B. DEBT RESTRICTIONS AND COVENANTS

NOTE 3. DETAIL NOTES - TRANSACTION CLASSES/ACCOUNTS

- A. CASH AND CASH EQUIVALENTS
- B. RESTRICTED ASSETS
- C. CAPITAL ASSETS
- D. NOTES PAYABLE-PRIVATE PLACEMENT

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- A. RISK MANAGEMENT
- B. EMPLOYEE PENSION AND OTHER BENEFITS
- C. COMMITMENTS AND CONTINGENCIES
- D. FEDERAL AND STATE GRANTS

BUCKHORN RURAL WATER DISTRICT #2, MURRAY COUNTY, OKLAHOMA
ANNUAL FINANCIAL REPORT
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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.A. FINANCIAL REPORTING ENTITY

Buckhorn Rural Water District #2, Murray County, Oklahoma was established pursuant to “Nonprofit Corporation Act” Oklahoma State Law in March 1968. On May 14, 2001, the District was reorganized to be a Rural Water District pursuant to Title 82 of Oklahoma State Law. The purpose of the District remained the same, to provide a water distribution system for its members in the Sulphur, Oklahoma area. Members are owners of property located within the area who have subscribed to one or more Benefit Units. Each member represents one vote of the governing body of the District without any direct ownership in its assets.

The accompanying financial statements include all functions and activities over which the District exercises financial accountability. The District is considered a primary government as defined by the Governmental Accounting Standards Board (GASB) and has no other component units within its reporting entity.

1.B. BASIS OF PRESENTATION

The District utilizes the modified cash basis of accounting, which is comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under the modified cash basis of accounting assets, liabilities and related revenues and expenses are recorded when they result from cash transactions with an adjustment for depreciation.

If the District utilized the basis of accounting recognized as generally accepted, as a proprietary type fund, they would use the accrual basis of accounting. In other words, revenues would be recognized when earned and expenses (including depreciation) would be recorded when the liability is incurred, or economic asset used.

1.C. ASSETS, LIABILITIES AND EQUITY

Cash and Cash Equivalents

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three-months or less.

Investments

For the purpose of the balance sheet, “investments” include certificates of deposit with a maturity of longer than 3 months.

Accounts Receivable

As a result of the use of the modified cash basis of accounting, accounts receivable and other revenue related receivables are not reported in the financial statements.

BUCKHORN RURAL WATER DISTRICT #2, MURRAY COUNTY, OKLAHOMA
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Capital Assets

Facilities purchased, constructed, or donated are recorded at cost and include improvements that significantly add to the productive capacity or extend the useful life of the asset. The District has determined that assets with a cost of more than \$1,000 will be capitalized. Costs of maintenance and repairs are charged to expense. Upon retirement or disposal of assets, the cost and related accumulated depreciation are removed from the accounts, and gain or loss, if any, is reflected in earnings for that period. Depreciation is provided on a straight-line method over the estimated useful lives of the assets, generally forty years for the water system and five years for office furniture and equipment.

Long-Term Debt

Long-term debt to be repaid from District resources are reported as liabilities in the balance sheet. As of December 31, 2023, long-term debt is comprised of one private placement note payable.

Equity Classification

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

- a. 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.
- b. Restricted net assets - Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

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

1.D. REVENUES AND EXPENSES

For purposes of the operating statement, revenues and expenses are classified by Operating and Non-Operating. The District reports expenses relating to use of economic resources including depreciation.

Benefit Unit Fees

Benefit unit fees represent a membership/connection fee required of each District member at the time they request service. This nonrefundable fee is designed to cover the estimated cost of connection, tap and related hook-up costs to the District's system. As such, the fees are recorded as operating revenue.

1.E. USE OF ESTIMATES

The preparation of financial statements in conformity with the other comprehensive basis of accounting used by the District requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

BUCKHORN RURAL WATER DISTRICT #2, MURRAY COUNTY, OKLAHOMA
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1.F. DIFFERENCES FROM GAAP

Basis of Accounting

As discussed in Note 1.B., the District reports its financial statements on a modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

By its nature as a local government unit, the District is subject to various federal, state and local laws and contractual regulations. An analysis of the District's compliance with significant laws and regulations and demonstration of its stewardship over District resources follows:

2.A. DEPOSITS AND INVESTMENT LAWS AND REGULATIONS

In accordance with State law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State of Oklahoma or political subdivision debt obligations, surety bonds and certain letters of credit. As required by 12 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the District must have a written collateral agreement approved by the board of directors or loan committee. For the year ended December 31, 2023, the District's deposits were fully insured or collateralized.

2.B. DEBT RESTRICTIONS AND COVENANTS

In accordance with the requirements set by Rural Development, the District is required to set aside funds for the purpose of major catastrophic repair or extensions and improvements. The funding amounts required are equal to one year's worth of payments, with the provision the District has ten years to fully fund the reserve. At December 31, 2023, the amount of reserve funds required is \$22,260. The reserve is fully funded.

NOTE 3. DETAIL NOTES-TRANSACTION CLASSES/ACCOUNTS

The following notes present detailed information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/expenses.

3.A. CASH AND CASH EQUIVALENTS

Custodial Credit Risk

At December 31, 2023, the District held deposits of approximately \$693,316 at financial institutions. The District's cash deposits, including the interest-bearing certificates of deposits, are entirely covered by the 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 the investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

BUCKHORN RURAL WATER DISTRICT #2, MURRAY COUNTY, OKLAHOMA
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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, bonds 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 obligation 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				
Certificates of deposit	36	N/A	\$293,694	\$293,694
Total Investments			\$293,694	\$293,694

3.B. RESTRICTED ASSETS

The amount reported as restricted assets of the District on the Statement of Net Assets is comprised of amounts held by the District for cash held as debt service reserves on the Rural Development note payable. The restricted asset as of December 31, 2023 was as follows:

Investments: Debt service	\$22,260
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BUCKHORN RURAL WATER DISTRICT #2, MURRAY COUNTY, OKLAHOMA
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3.C. CAPITAL ASSETS

Capital assets activity resulting from modified cash basis transactions for the fiscal year ended December 31, 2023, was as follows:

	Balance at January 1, 2023	Additions	Disposals	Balance at December 31, 2023
Business-Type Activities				
Capital assets not being depreciated:				
Land	-	\$ 81,524	-	\$81,524
Construction in progress	-	195,935	-	195,935
Total capital assets not being depreciated	<u>-</u>	<u>277,459</u>	<u>-</u>	<u>277,459</u>
Capital assets being depreciated:				
Building	54,950	-	-	54,950
Office equipment	6,998	-	-	6,998
Plant equipment	44,576	115,324	-	159,900
Utility property and improvements	1,757,780	5,318	-	1,763,098
Total capital assets at historical cost	<u>1,864,304</u>	<u>120,642</u>	<u>-</u>	<u>1,984,946</u>
Less accumulated depreciation for:				
Building	18,661	1,374	-	20,035
Office equipment	6,999	-	-	6,999
Plant equipment	23,875	13,246	-	37,121
Utility property and improvements	1,071,900	37,838	-	1,109,738
Total accumulated depreciation	<u>1,121,435</u>	<u>52,458</u>	<u>-</u>	<u>1,173,893</u>
Capital assets, net	<u>\$742,869</u>	<u>52,458</u>	<u>-</u>	<u>\$1,088,512</u>

3.D. NOTE PAYABLE-PRIVATE PLACEMENT

At December 31, 2023, the District had the following long-term debt outstanding:

Note payable to RECD, payable in monthly installments of \$1,855, including principal and interest at 4.625%, final payment due March 17, 2043, secured by utility facilities. In the event of default, the lender may declare the entire principal amount of the Note and the accrued interest due and payable immediately.

Current portion	10,934
Noncurrent portion	<u>238,913</u>
Total Note Payable	<u>\$ 249,847</u>

BUCKHORN RURAL WATER DISTRICT #2, MURRAY COUNTY, OKLAHOMA
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Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended December 31, 2023:

	Balance January 1, 2023	Additions	Deductions	Balance December 31, 2023	Amounts Due Within One Year
Note Payable-Private Placement	\$260,289	-	\$10,442	\$249,847	\$10,934
Total Debt	<u>\$260,289</u>	<u>-</u>	<u>\$10,442</u>	<u>\$249,847</u>	<u>\$10,934</u>

Annual Debt Service Requirements

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of December 31, 2023 are as follows:

Year Ending December 31,	<u>Notes Payable-Private Placement</u>	
	<u>Principal</u>	<u>Interest</u>
2024	10,934	11,326
2025	11,451	10,809
2026	11,992	10,268
2027	12,558	9,702
2028	13,152	9,108
2029-2033	75,686	35,614
2034-2038	95,335	15,965
2039-2040	18,739	412
Principal outstanding at December 31, 2023	<u>\$249,847</u>	<u>\$103,204</u>

NOTE 4. OTHER NOTES

4.A. RISK MANAGEMENT

Buckhorn 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, and property damage liability. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

4.B. EMPLOYEE PENSION AND OTHER BENEFITS

The District provides pension benefits through a Simplified Employee Pension Plan. As of December 31, 2023, the District provided a benefit to each employee in the amount of 7% of each employee's gross income. The District provides no other deferred compensation or other post-employment benefits to employees of the District.

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4.C. COMMITMENTS AND CONTINGENCIES

Commitments

Buckhorn Rural Water District #2, Murray County, Oklahoma has a contract with Rural Water District #1, Murray County, Oklahoma, which sets the cost of water purchased by the Buckhorn. At December 31, 2023, the contract allowed a purchase rate of \$2.20 per thousand gallons of water used. The contract extends through November 2044.

Buckhorn Rural Water District #2, Murray County, Oklahoma entered into a water lease agreement on February 19th, 2019, with Wes and Apryl Harden. The lease is for groundwater rights over the Arbuckle-Simpson Aquifer at the rate of \$0.35/1,000 gallons for a term of seven (7) years. On the expiration date of December 2026, the District retains the option to renew the lease for an additional seven (7) years. The District agrees to a price increase at each renewal but by no more than 20%.

Contingencies: Litigation

The District is not involved with any legal proceedings, which normally occur in the course of governmental operations at this time. Therefore, the financial statements do not include accruals or provisions for loss contingencies.

4.D. FEDERAL AND STATE AWARD PROGRAMS

The District received a grant from the American Rescue Plan Act (ARPA) in the amount of \$4,166,667. In addition, the Chickasaw Nation is granting the District \$4,000,000 of matching funds as a subaward of the Chickasaw Nation Fiscal Recover Fund (CNFRF). These funds will be used to drill and facilitate two ground water supply wells with the necessary waterline to tie into the existing system, as well as connecting into the Town of Sulphur's distribution mains as a secondary water source. The grant programs are often subject to additional audits by agents of the granting agency, the purpose of which is to ensure compliance with the specific conditions of the grant. The District has not been notified of any noncompliance with federal or state awards.

BUCKHORN RURAL WATER DISTRICT #2, MURRAY COUNTY, OKLAHOMA
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INTERNAL CONTROL AND COMPLIANCE



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

February 9, 2024

Board of Directors
Buckhorn Rural Water District No. 2
Murray County, Oklahoma

I have audited 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, the modified cash basis financial statements of the Buckhorn Rural Water District #2, Murray Co., 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 my report thereon dated February 3, 2023.

Internal Control over Financial Reporting

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

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 control 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 charges with governance.

My consideration of internal control was for the limited purpose described in the preceding paragraph 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 have not been identified. However, as described in the accompanying schedule of findings and questioned costs, I identified a certain deficiency in internal control the I consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, I 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 my audit and, accordingly, I 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*.

Buckhorn Rural Water District #2, Murray Co., Oklahoma
February 9, 2024

Response to Findings

The District's response to the finding identified in my audit is described in the accompanying schedule of findings and questioned costs. This response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Kristi L. Dobbins, CPA

**BUCKHORN RURAL WATER DISTRICT #2, MURRAY COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2023**

Material Weakness Communicated in Prior Year:

Material Weakness in Internal Control Over Financial Reporting: Inadequate Segregation of Duties:

Criteria: An adequate internal control structure does not exist because of the small size of the entity, nor is there adequate segregation of duties. A good internal control system would provide for separation of duties and responsibilities in financial matters between various employees.

Condition: The same individual receiving payments for utility billings is the same individual doing the billing, making deposits and maintaining accounts receivable.

Cause: The entity's size and budget make it difficult to fully segregate the duties.

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

Recommendation: The best protection is to maintain sufficient bond on those handling cash to cover losses should they occur.

Board's Response: The board has evaluated the need and decided that the cost to achieve segregation of duties would exceed the benefits that would be derived from it.