

**RURAL WATER DISTRICT NO. 2  
COMANCHE COUNTY, OKLAHOMA**

**ANNUAL FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2021 AND 2020**

RURAL WATER DISTRICT NO. 2,  
COMANCHE COUNTY, OKLAHOMA  
TABLE OF CONTENTS  
YEARS ENDED DECEMBER 31, 2021 AND 2020

	Page
<b>INTRODUCTORY SECTION:</b>	
Table of Contents	i
<b>FINANCIAL SECTION:</b>	
Independent Auditor's Report	1-3
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 <i>Government Auditing Standards.</i>	4-6
Financial Statements:	7
Statements of Assets, Liabilities, and Net Position – Modified Cash Basis	8
Statements of Revenues, Expenses and Changes in Net Position- Modified Cash Basis	9
Statements of Cash Flows – Modified Cash Basis	10
Notes to Financial Statements	11-14

# Kimberlye R. Mayer, CPA, P.C.

723 West Doolin

Blackwell, OK 74631

(580) 363-1453  
Fax (580) 363-0068

## Independent Auditor's Report

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

### Opinion

We have audited the accompanying statements of assets, liabilities and net position of Rural Water District No. 2, Comanche County, Oklahoma as of December 31, 2021 and 2020 and the statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the net position of Rural Water District No. 2, Comanche County, Oklahoma as of December 31, 2021 and 2020 and the changes in net position and its cash flows for the years then ended in accordance with the modified cash basis of accounting.

### Basis of Opinions

We conducted our audits 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 Rural Water District No. 2, Comanche County, Oklahoma 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 the modified cash basis of accounting, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the 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 Rural Water District No. 2, Comanche County, 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.

## **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 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 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 judgement 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 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 Rural Water District No. 2, Comanche County, 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 our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Rural Water District No. 2, Comanche County, Oklahoma's ability to continue as a going concern for a reasonable period of time.

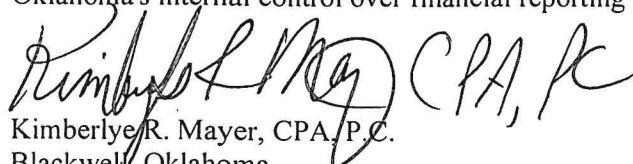
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

### ***Emphasis of Matter - Basis of Accounting***

We draw attention to Note 1 of the financial statements that 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. Our opinions are not modified with respect to this matter.

### **Other Reporting Required By Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued a report dated May 20, 2022 on our consideration of Rural Water District No. 2, Comanche County, Oklahoma's internal control over financial reporting and on our 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 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 the Rural Water District No. 2, Comanche County, 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 Rural Water District No. 2, Comanche County, Oklahoma's internal control over financial reporting and compliance.

 CPA, PC  
Kimberley R. Mayer, CPA, P.C.  
Blackwell, Oklahoma  
May 20, 2022

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*

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

We 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 financial statements of Rural Water District No. 2, Comanche County, Oklahoma as of and for the year ended December 31, 2021, and the related notes to the financial statements and have issued our report thereon dated May 20, 2022. The financial statements were prepared using the modified cash basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America.

**Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Rural Water District No. 2, Comanche County, Oklahoma'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Rural Water District No. 2, Comanche County, Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of the Rural Water District No. 2, Comanche County, Oklahoma's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of control deficiencies, in internal control such that there is reasonable possibility that a material misstatement of the District'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 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. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and responses as items 2021-1, that we consider to be a material weakness.

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Rural Water District No. 2, Comanche County, Oklahoma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the financial statements.



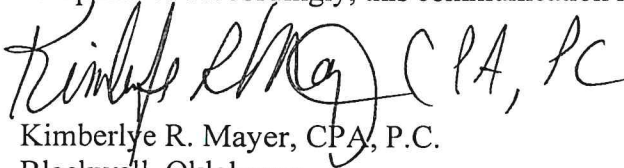
However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Rural Water District No. 2, Comanche County, Oklahoma's Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the Rural Water District No. 2, Comanche County, Oklahoma's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. Rural Water District No. 2, Comanche County, Oklahoma's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we 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.



Kimberly R. Mayer, CPA, P.C.  
Blackwell, Oklahoma  
May 20, 2022

RURAL WATER DISTRICT NO. 2, COMANCHE COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED DECEMBER 31, 2021

**2021-1:**

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

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

Condition: Presently, the same individual is responsible for water service billings and receiving payments; making and recording deposits; maintaining billing registers; and reconciling the monthly bank statements. Only limited oversight is provided over this individual in the conduct of their daily functions.

Cause: The entity's limited size has made it difficult for management 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 sales and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: The board should evaluate the risks associated with the lack of segregation of duties and consider implementing controls that could mitigate these risks.

Board's Response: The board has concluded that due to the limited number of personnel, an adequate segregation of duties is not achievable and that the cost of correcting the weakness would exceed the benefits that would be derived from it.



FINANCIAL STATEMENTS

AND

NOTES

RURAL WATER DISTRICT NO. 2, COMANCHE COUNTY, OKLAHOMA  
STATEMENTS OF ASSETS, LIABILITIES AND NET POSITION  
MODIFIED CASH BASIS  
DECEMBER 31, 2021 AND 2020

ASSETS	2021	2020
Current Assets:		
Operating cash	\$ 30,749	\$ 46,826
Capital improvements account	16,300	7,139
Membership accounts	350,315	258,504
Total cash and cash equivalents	<u>397,364</u>	<u>312,469</u>
Certificate of deposits	101,199	100,597
Restricted Accounts		
Debt service accounts	73,218	74,057
Debt service reserve	84,000	85,172
Total reserve accounts	<u>157,218</u>	<u>159,229</u>
Reserve certificate	1,000	1,000
Deposits	760	760
Capital assets (Note 2)		
(net of accumulated depreciation of \$1,969,293)	2,895,246	3,072,264
Work in progress		
Total Assets	<u><u>\$ 3,552,787</u></u>	<u><u>\$ 3,646,319</u></u>

LIABILITIES AND NET POSITION

Liabilities:		
Current Liabilities:		
Current portion of long-term debt (Note 3)	\$ 191,628	\$ 193,087
Noncurrent Liabilities:		
Long-term debt, noncurrent (Note 3)	2,589,247	2,780,875
Total Liabilities	<u>2,780,875</u>	<u>2,973,962</u>
Net Position:		
Net investment in capital assets	114,371	98,302
Restricted for debt service	157,218	159,229
Unrestricted	500,323	414,826
Total Net Position	<u>771,912</u>	<u>672,357</u>
Total Liabilities and Net Position	<u><u>\$ 3,552,787</u></u>	<u><u>\$ 3,646,319</u></u>

The accompanying report and notes are an integral part of these financial statements.

RURAL WATER DISTRICT NO. 2, COMANCHE COUNTY, OKLAHOMA  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
MODIFIED CASH BASIS  
YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
Operating Revenues:		
Water sales	\$ 681,874	\$ 681,040
Miscellaneous revenues	15,611	10,938
Total Operating Revenues	<u>697,485</u>	<u>691,978</u>
Operating Expenses:		
Payroll	162,618	154,385
Payroll taxes	13,160	12,199
Employee benefits	36,581	36,110
Repairs and maintenance	70,006	48,565
Fuel and auto expenses	11,528	11,469
Insurance and bonds	22,304	23,338
Professional fees	4,405	3,855
Director fees	5,475	4,200
Office and postage	6,553	7,591
Water purchases	24,041	22,314
Telephone and pagers	3,554	3,566
Utilities	39,935	35,225
Water tests and fees	7,993	11,097
School and travel	1,982	1,379
Depreciation	177,018	176,641
Other expenses	2,019	1,862
Total Operating Expenses	<u>589,172</u>	<u>553,796</u>
Operating Income (Loss)	108,313	138,182
Nonoperating Revenue (Expenses):		
Interest income	956	3,222
Benefit units	95,230	39,600
PPP funds		36,397
Interest expense	(91,282)	(97,253)
Administration fees	(13,662)	(13,945)
Total Nonoperating Revenues (Expenses)	<u>(8,758)</u>	<u>(31,979)</u>
Change in Net Position	99,555	106,203
Net position, beginning of year	672,357	566,154
Net Position, end of year	<u>\$ 771,912</u>	<u>\$ 672,357</u>

The accompanying report and notes are an integral part of these financial statements.

RURAL WATER DISTRICT NO. 2, COMANCHE COUNTY, OKLAHOMA  
STATEMENTS OF CASH FLOWS  
MODIFIED CASH BASIS  
YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
Cash Flows From Operating Activities:		
Cash received from customers	\$ 697,485	\$ 691,978
Cash payments to suppliers for goods and services	(249,536)	(222,770)
Cash payments to employees	(162,618)	(154,385)
Net cash provided (used) by operating activities	<u>285,331</u>	<u>314,823</u>
Cash flows from non-capital financing activities:		
Cash flows from capital and related financing activities:		
(Increase) decrease in capital assets		(89,284)
Principal paid on notes	(193,087)	(184,192)
Interest paid on notes	(91,282)	(97,253)
System development fees	95,230	39,600
PPP funds		36,397
Loan and administrative fees	(13,662)	(13,945)
Net cash provided (used) by financing activities	<u>(202,801)</u>	<u>(308,677)</u>
Cash flows from investing activities:		
Interest income	956	3,222
(Increase) decrease in CDs	(602)	(2,041)
(Increase) decrease in restricted accounts	2,011	470
Net cash provided (used) by investing activities	<u>2,365</u>	<u>1,651</u>
Net increase (decrease) in cash and cash equivalents	84,895	7,797
Beginning cash and cash equivalents	312,469	304,672
Ending cash and cash equivalents	<u>\$ 397,364</u>	<u>\$ 312,469</u>
Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:		
Operating income or loss	\$ 108,313	\$ 138,182
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation	177,018	176,641
(Increase) decrease in deposits		
Net cash provided (used) by operating activities	<u>\$ 285,331</u>	<u>\$ 314,823</u>

The accompanying report and notes are an integral part of these financial statements.

RURAL WATER DISTRICT NO. 2, COMANCHE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

Rural Water District No. 2, Comanche County, Oklahoma was created under the Rural Water District Act, Title 82, as amended, of the laws of the State of Oklahoma. The District is exempt from federal and state income taxes. The purpose of the District is to provide water services to the owners and occupants of land located within the District, and others as authorized by law. Membership in the water district consists of water users who have paid the required membership fees.

The District is an entity 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.

Basis of Accounting

The District is classified as an Enterprise Fund. The costs of providing the water services to the public are financed mainly through user charges. The financial statements of the District have been prepared using the modified cash basis of accounting. This basis recognizes assets, liabilities, net assets, revenues, and expenses when they result from cash transactions with a provision for depreciation. This basis is a basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities on their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

Cash and Deposits

Cash is maintained in financial institutions, which provide coverage to depositors through the Federal Deposit Insurance Corporation.

The State of Oklahoma allows government entities to invest in the following: direct obligations of the United States Government, its agencies or instrumentalities; collateralized or insured certificates of deposit; insured savings accounts or savings certificates; or county, municipal or school district direct debt.

Statement of Cash Flows

For the purposes of the Statement of Cash Flows, the District considers all accounts, (excluding restricted reserves), and deposits with a maturity of three months or less to be cash equivalents.

Budget

The District is not legally required to adopt a budget.

RURAL WATER DISTRICT NO. 2, COMANCHE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Restricted Reserve Accounts

As part of the loan agreement with OWRB, (Note 3) the District is to maintain a reserve amount equal to 125% of the maximum annual amount due for debt service. At December 31, 2021 and 2020, the District had \$157,218 and \$159,229 respectively, in its debt service reserve account.

NOTE 2 – WATERLINE SYSTEM AND EQUIPMENT:

Waterline extensions and additions are capitalized and depreciated over their estimated useful lives. Annual depreciation is calculated on a straight-line basis. Total depreciation for the year ended December 31, 2021 and 2020 was \$177,018 and \$176,641 respectively. The balances for depreciable assets by major category at December 31, 2021 are as follows:

	12/31/20	Deletions	Additions	12/31/21
Land	\$ 9,400	\$	\$	\$ 9,400
Waterline system	5,105,498			5,105,498
Machinery & equipment	220,783			220,783
Vehicles	131,847			131,847
Buildings & improvements	67,038			67,038
Furniture & office equipment	13,194			13,194
Accumulated depreciation	(2,475,496)		(177,018)	(2,652,514)
Total	<u>\$ 3,072,264</u>	<u>\$</u>	<u>\$ (177,018)</u>	<u>\$ 2,895,246</u>

NOTE 3 – NOTES PAYABLE:

The District entered into a loan agreement with the OWRB in 2001 for water system improvements; to refinance the existing debt to USDA-Rural Development and to establish a debt reserve. Collateral for this loan is the revenue from operations and a mortgage with the power of sale and security agreement on the real property. In January 2012, the District borrowed \$840,000 to refinance this note. The new note has a fixed interest rate of 3.26% with a maturity date of September 2023. The monthly payments are \$7,845. Principal payments are due on September 15<sup>th</sup> of each year and an interest payment is due on March 15<sup>th</sup> of each year.

In November 2013, the District entered into a loan agreement with the OWRB for water system improvements including a new well. The interest rate is 3.03% and a .5% administration fee. The payments are semiannual and commenced on March 15, 2014 with a final payment due on March 15, 2039.

In April 2017, the District borrowed \$33,691 from a local bank to finance a vehicle. The interest rate is 2.99% and the monthly payments are \$601. The note matures in April 2022.

RURAL WATER DISTRICT NO. 2, COMANCHE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 3 – NOTES PAYABLE (continued):

The following is a detail of the loan activity during the year ended December 31, 2021 and 2020:

Balance at 12/31/19	\$ 3,158,154
Principle payments	(184,192)
Loan proceeds	
Balance at 12/31/20	<u>2,973,962</u>
Principle payments	<u>(193,087)</u>
Balance at 12/31/21	<u><u>\$ 2,780,875</u></u>

The following is a summary of the District's future annual debt requirements:

Year Ended	Payments	Principal	Interest & Admin. fees
12/31/2022	\$ 298,410	\$ 191,628	\$ 106,782
12/31/2023	296,592	198,787	97,805
12/31/2024	202,452	117,657	84,795
12/31/2025	202,452	122,145	80,307
12/31/2026	202,452	126,556	75,896
12/31/2027 - 12/31/2031	1,012,260	704,506	307,754
12/31/2032 - 12/31/2036	1,012,260	841,225	171,035
12/31/2037 - 12/31/2039	506,129	478,371	27,758
Totals	<u><u>\$ 3,733,007</u></u>	<u><u>\$ 2,780,875</u></u>	<u><u>\$ 952,132</u></u>

Note 4 - RETIREMENT PLAN:

The full-time, permanent employees of the District participate in a SEP retirement plan. The District contributes 6.2% of gross wages to the employee's retirement accounts. This amounted to \$10,983 and \$10,641 for the years ended December 31, 2021 and 2020, respectively.

Note 5 - CONTINGENCIES:

As of December 31, 2021, the District did not have any pending litigation or potential nondisclosed liabilities that management believes would have a material effect on the financial statements.



RURAL WATER DISTRICT NO. 2, COMANCHE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 6 – RISK MANAGEMENT:

The District is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District manages this risk through the purchase of commercial insurance policies. Claims are recognized when it is probable that a loss has occurred and the amounts of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. There were no claims during the year ended December 31, 2021.

NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS:

The definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosure about the use of fair value measurements in an effort to make the measurement of fair value more consistent and comparable.

**Level 1:** Quoted prices in active markets for identical securities.

**Level 2:** Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment spread and credit risk).

**Level 3:** Significant unobservable inputs (including the District's own assumptions in determining the fair value of investments).

The District's financial instruments include cash and cash equivalents, certificates of deposit, and notes payable. The District's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying value 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.

NOTE 8 – ESTIMATES:

The preparation of financial statements in conformity with the modified cash basis 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.

NOTE 9 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through May 20, 2022, the date which the financial statements were available to be issued.