

RURAL WATER DISTRICT NUMBER 2
LATIMER COUNTY
LATIMER, OKLAHOMA
ANNUAL FINANCIAL REPORT
DECEMBER 31, 2023

RALPH OSBORN
CERTIFIED PUBLIC ACCOUNTANT
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Rural Water District Number 2 Latimer County
Latimer County, Oklahoma

Report on the Audit of Financial Statements

Opinion

I have audited the accompanying financial statements of the business-type activities of Rural Water District Number 2, Latimer County, Oklahoma, as of and for the year ended December 31, 2023 and the related notes to the financial statements.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position - modified cash basis of the business-type activities of Rural Water District Number 2, Latimer County, Oklahoma as of December 31, 2023, and the respective changes in financial position - modified cash basis, thereof, for the years ended, in accordance with the basis of accounting as described in Note A.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash basis of accounting described in Note A; this includes determining that the modified cash basis of accounting is an acceptable basis for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statement 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 Number 2, Latimer County, Oklahoma's ability to continue as a going concern for twelve months beyond the financial statement date.

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 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 GAAS 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, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these 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 Rural Water District Number 2, Latimer 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 my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Rural Water District Number 2, Latimer County, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated July 1, 2024, on my consideration of Rural Water District Number 2, Latimer County's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 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 Number 2, Latimer County's internal control over financial reporting and compliance.



Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
July 1, 2024

RURAL WATER DISTRICT NUMBER 2
LATIMER COUNTY, OKLAHOMA
STATEMENT OF NET POSITION-MODIFIED CASH BASIS
DECEMBER 31, 2023

ASSETS

Current assets:

Cash and Cash Equivalent	\$ 291,256
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Total current assets	<u>291,256</u>
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Restricted assets:

ORWA Water Assistance Certificate	<u>1,000</u>
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Total restricted assets	<u>1,000</u>
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Total assets	<u>292,256</u>
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LIABILITIES

Current liabilities:

Payroll taxes	-
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Water Deposits Payable	3,021
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Notes Payable - Short-Term	-
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Current Portion of Long-Term Debt	<u>-</u>
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Total current liabilities	<u>3,021</u>
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Non-current liabilities:

Notes payable, non-current	<u>-</u>
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Total non-current liabilities	<u>-</u>
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Total liabilities	<u>3,021</u>
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NET ASSETS

Invested in capital assets, net related debt	-
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Restricted for debt service	-
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Unrestricted	<u>289,235</u>
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Net Position	<u>\$ 289,235</u>
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The notes to financial statements are an integral part of this statement.

RURAL WATER DISTRICT NUMBER 2
LATIMER COUNTY, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
-MODIFIED CASH BASIS-
FOR THE YEARS ENDED DECEMBER 31, 2023

OPERATING REVENUES

Charges for services:	
Water Sales	\$ 499,893
Developer Fee	13,000
Miscellaneous	<u>-</u>
 Total operating revenues	 <u>512,893</u>

OPERATING EXPENSES

Bank Charges	190
Office Rent	4,950
Group Health Insurance	23,234
Bonds & Insurance	8,575
Contract Labor	15,268
Wages	75,647
Payroll Taxes	21,168
Dues and Subscriptions	9,739
Professional Fees	42,699
Postage	4,878
Miscellaneous	15,024
Office supplies	2,301
Retirement	3,779
Supplies	45,750
Telephone and Utilities	10,843
Vehicle Expense	17,843
Travel Expense	1,706
Water Purchases	162,285
Machine Rentals	1,380
Equipment Purchase	<u>-</u>
 Total operating expenses	 <u>467,259</u>
 Operating income (loss)	 <u>45,634</u>

NON-OPERATING REVENUE (EXPENSES)

Interest income	775
Interest Expense	-
Grant income	-
Project Expenses	<u>-</u>
Total non-operating revenue (expenses)	<u>775</u>

Change in net position	46,409
Total net position, beginning	<u>242,826</u>
Total net position, ending	<u>\$ 289,235</u>

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

RURAL WATER DISTRICT NUMBER 2
LATIMER COUNTY, OKLAHOMA
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2023

Cash flows from operating activities	
Cash received from customers	\$ 512,893
Cash payments to employees	(100,594)
Cash payments to suppliers	<u>(366,665)</u>
Net cash provided (used) by operating activities	<u>45,634</u>
Cash flows from capital and related financing activities	
Customer Deposits Received (Refunded)	-
Grant Income	-
Principal paid on notes payable	-
Interest paid on notes payable and fiscal fees	<u>-</u>
Net cash provided for capital and related financing activities	<u>-</u>
Cash flows from investing activities	
Interest earned	<u>775</u>
Net cash used for investing activities	<u>775</u>
Net increase/(decrease) in cash and cash equivalents	46,409
Cash and cash equivalents, beginning	<u>244,847</u>
Cash and cash equivalents, ending	<u><u>\$ 291,256</u></u>
Reconciliation of operating income (loss) to net cash provided by (used) by operating activities	
Operating income (loss)	\$ 45,634
Adjustments to reconcile operating income to net cash used by operating activities:	
Depreciation	-
Changes in assets and liabilities:	
Increase/(decrease) in payroll tax payable	<u>-</u>
Net cash used by operating activities	<u><u>\$ 45,634</u></u>

See accompanying notes to financial statements.

RURAL WATER DISTRICT NUMBER 2
LATIMER COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rural Water District No. 2, Latimer County, Oklahoma (the District), was created under the provisions of Title 82, O.S. 1981, Sections 1324.1-1324.26 inclusive, for the purpose of providing water to the members it serves. The District is a political subdivision of the State of Oklahoma. Membership in the water district consists of water users who have paid the required membership and connection fees. The District is exempt from federal and state income taxes.

The District is a governed entity administered by a Board of Directors that act as the authoritative and legislative body of the entity. The Board is comprised of elected members, four of which are elected as officers of the District. All Board members serve without pay.

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

A. Organization & 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.

B. Basis of Presentation

The accounts of the District are organized on the basis of proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net position, revenues and expenses. Enterprise Funds account for activities (1) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (2) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (3) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

C. Measurement Focus and Basis of Accounting

Measurement Focus

The District utilizes an economic resources measurement focus within the limitations of the modified cash basis of accounting.

As discussed further in Note 1.C, these financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) established by the Governmental Accounting Standards Board (GASB). These modified cash-basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), net financial position, and cash flows. All assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent or financial or nonfinancial) associated with their activities are generally reported within the limitations of the modified cash basis of accounting.

RURAL WATER DISTRICT NUMBER 2
LATIMER COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

Basis of Accounting

The financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modifications to the cash basis of accounting to report in the statements of net position cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include investments, and short-term and long-term liabilities arising from cash transactions or events. Revenues are recognized when received and expenses are recorded when paid and depreciation is not included as the District does not maintain capital asset ledgers and depreciation.

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue billed or provided services not yet collected and other accrued revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

If the District utilized the basis of accounting recognized as generally accepted in the United States, the financial statements for proprietary fund types would use the accrual basis of accounting.

D. Financial Position

Cash & Cash Equivalents

For the purpose of financial reporting, "cash & 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.

Inventories

Supplies inventory is not recorded in the financial statements as the value of supplies at December 31, 2023 is not material to the financial statements.

Capital Assets

The District does not keep detailed records for depreciation or capital assets.

Long-Term Debt

Long-term debt is reported at face value, net of applicable discounts and deferred loss on refunding. Costs related to the issuance of debt are deferred and amortized over the lives of various debt issues.

Equity Classification

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

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

RURAL WATER DISTRICT NUMBER 2
LATIMER COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

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

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

E. Revenues, expenditures & expenses

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

F. Enterprise Fund

The Enterprise Fund is used to account for the operations of the District that are financed and operated in a manner similar to private business enterprises where the intent is that costs of providing goods or services be recovered in whole or part through user fees or charges.

G. Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting used by the District requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

As a local government unit, the District is subject to various federal, state, and local laws and contractual regulations.

Deficit Fund Balance or Retained Earnings

As indicated in the financial statements, there are no fund balance or retained earnings deficits for the District for this fiscal year.

NOTE 3 – CASH AND INVESTMENTS

Custodial Credit Risk

At December 31, 2023, the District held deposits of approximately \$291,256 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name.

RURAL WATER DISTRICT NUMBER 2
LATIMER COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
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.).

NOTE 4 - RESTRICTED ASSETS

Meter deposits are restricted cash. Deposits are refunded when service to a non land owner is finished. The meter deposits for the District are not separated but are co-mingled in the operating account.

NOTE 5 - CAPITAL ASSETS

The District does not maintain detailed schedules for depreciation of capital assets. The amount of depreciation and capital assets is not known.

NOTE 6 - LONG-TERM DEBT

The District has no long-term debt.

RURAL WATER DISTRICT NUMBER 2
LATIMER COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 7 - FUND EQUITY

As described in Note 1 above, equity is classified as net position and displayed in three components:

1. Net investment in capital assets
2. Restricted
3. Unrestricted

NOTE 8 - CONTINGENCIES

Litigation

The District currently has no pending litigation.

Federally Assisted Programs

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

NOTE 9 - EMPLOYEE RETIREMENT SYSTEM

The District has a retirement plan. The plan is a money purchase plan. Contributions are made by the District for all eligible employees equal to ten percent (10%) of the employee's compensation for the year.

An employee, age 21 or more, with 1,000 hours of service to the District is eligible to participate in the plan. The employee vests at the rate of 20% per year of plan participation, when after five (5) years of participation, is fully vested in benefits.

The District's total contributions for 2023, 2022 and 2021 were \$3,779, \$2,965 and \$2,925, respectively.

The plan may be viewed at the District's office.

NOTE 10 - SUBSEQUENT EVENTS

The District did not have any subsequent events through July 1, 2024 which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending December 31, 2023.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Rural Water District Number 2
Latimer County
Latimer County, Oklahoma

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the modified cash basis financial statements of the business-type activities of Rural Water District Number 2, Latimer County, Latimer County, Oklahoma, as of and for the year ended December 31, 2023 and the related notes to the financial statements, which collectively comprise Rural Water District No. 2's basic financial statements and have issued my report thereon dated July 1, 2024.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Rural Water District No. 2's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rural Water District No. 2's internal control. Accordingly, I do not express an opinion of the effectiveness of Rural Water District No. 2's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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. I consider the deficiencies described in the accompanying schedule of findings and questioned costs as item 2023-1 to be significant deficiencies.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item 2023-1 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water District Number 2, Latimer County, Latimer, Oklahoma'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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards which are described in the accompanying schedule of findings and questioned costs as item 2023-1.

Purpose of the 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 *Governmental Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sincerely,



Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
July 1, 2024

RURAL WATER DISTRICT NUMBER 2
LATIMER COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2023

2023-1

Criteria: The segregation of duties and responsibilities between different individuals for custody of assets, record keeping for those assets, and 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 that is responsible for billing and adjustments; posts payment to subsidiary accounts receivable ledgers and reconciles the monthly bank statements. In addition, only limited oversight is provided over this individual in the conduct of their daily functions. This condition was also reported in 2022.

Cause: The entity'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 the membership and other billing and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: Management and the board should consider a formal evaluation of their risks associated with this lack of duties segregation over assets. In response to the Identified risks, consideration should be given to identifying and implementing compensating duties to act as controls that could help mitigate the risks associated with lack of segregation of duties, such as management performing review procedures for the reconciliation of accounts.