

**Leflore County  
Rural Water District #2**

**Financial Statements  
December 31, 2022 and 2021**

**(With Independent Auditor's Report Thereon)**

# Leflore County Rural Water District #2

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
**Leflore County Rural Water District #2**  
Pocola, Oklahoma

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of the business-type activities of **Leflore County Rural Water District #2** (the District) as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise **Leflore County Rural Water District #2's** basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the business-type activities of **Leflore County Rural Water District #2** as of December 31, 2022 and 2021, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinion*

We conducted our audits 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. 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 **Leflore County Rural Water District #2** and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Responsibilities of Management for the Financial Statements*

**Leflore County Rural Water District #2's** management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about **Leflore County Rural Water District #2's** ability to continue as a going concern for one year after the date that the financial statements are issued.

***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risk 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 **Leflore County Rural Water District #2's** internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about **Leflore County Rural Water District #2's** ability to continue as a going concern for a reasonable period of time.

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

Board of Directors  
**Leflore County Rural Water District #2**

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-5 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2023, on our consideration of **Leflore County Rural Water District #2's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 **Leflore County Rural Water District #2's** internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Landmark PLC". The signature is written in a cursive, flowing style.

Fort Smith, Arkansas  
March 21, 2023

## MANAGEMENT'S DISCUSSION AND ANALYSIS

LeFlore County Rural Water District #2 (the District) was incorporated in 1966. It is run by five Board Members, which each holds a 3-year term and is elected at the annual meeting held the Fourth Thursday in March.

Our discussion and analysis of LeFlore County Rural Water District #2's financial performance provides an overview of the District's financial activities for the twelve months ended December 31, 2022.

### Using the Annual Audit Report

This annual audit report consists of a series of financial statements and footnotes. The Statements of Net Position and related Statements of Revenues and Expenses, Changes in Net Position, and Cash Flows provide information about the activities of the District as a whole and present a longer-term view of the District's finances. The footnotes provide additional narrative concerning selected financial items.

### Reporting the Utility as A Whole

The Statements of Net Position and related Statements of Revenues and Expenses, Changes in Net Position and Cash Flows report information about the District's activities and include all assets and liabilities using the accrual basis of accounting. All current revenue and expenses are taken into consideration, regardless of when cash was received or paid. These accounting practices are similar to the accounting methods used by most private sector companies.

### Financial Highlights

The District had two capital improvement projects in 2022 (1) Phase III of the 12" Water Line Extension: In August of 2018 a preliminary engineering report was done for this project, in 2021 and 2022 plans and permits have been received and the District is in the process of completing easements from property owners. (2) The Morris Street Project: This project began in July of 2013. In 2021, the District has put the full completion of this project on hold until the 12" project is completed in order to connect the Morris Street Project to the 12" project. This project should be completed in 2023 or beginning of 2024.

The District has had no changes in terms of debt during 2022.

Payroll expenses for the District were slightly lower than the previous year's payroll due to only having 3 full time employees from July 8, 2022 thru October 3, 2022 instead of 4 full time employees.

### **The capital projects are as follows:**

The District had the following project expenses in 2022:

- Phase III of 12" Line: No cost for 2022
- Morris Street Project: No cost for 2022

### **Other capital improvements for the year 2022:**

The District had no large capital improvements for 2022.

**Other purchases the District made in 2022:**

- Honda 3" Trash Pump - \$1,624.00
- ½" Impact Wrench & Ratchets - \$379.00
- Cordless Recip Saw Kit - \$424.00
- Lenovo High Performance Laptop - \$530.00
- Commercial Ice Cube Machine - \$3,152.00
- New Fencing Around Maintenance yard - \$3,333.00
- New 20' double gate (North Tower) - \$1,915.00

**Operating revenues:** Water sales and meter fees are the primary source of revenue for the District.

The actual number of gallons sold during 2022 was 142,048,200 gallons compared to 139,472,700 gallons during 2021. The number of gallons sold in 2022 increased due to numerous customers having water leaks.

**Operating expenses:** The largest expense item of the District is water purchases. The actual number of gallons purchased during 2022 was 208,750,120 gallons compared to 220,258,720 during 2021. Water purchases decreased due to the District not having as many leaks throughout the system as the previous year.

**Non-operating income:** The interest earned on certificates of deposit and two checking accounts in 2022 is higher than 2021. This is due to interest rates increasing and higher balances in bank accounts.

**Summary**

The District's financial position changed during 2022 with a net \$311,813. The income and cash were used for capital improvements of \$9,217. It is management's opinion that the present water rates are adequate to fund operations and maintenance and needed capital improvements at this time. The District ended the year 2022 with \$100,000 in CD's and fixed assets of \$2,949,959 compared to \$2,940,742 in 2021. The District is in compliance with all State and Federal water quality and environmental regulations.

## Leflore County Rural Water District #2

### Statements of Net Position December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash on hand	\$ 2,176	\$ 1,864
Cash		
Revenue	988,465	670,908
Operations and maintenance	14,174	15,538
Certificates of deposit	100,000	100,000
Accounts receivable	67,626	73,002
Interest receivable	85	85
Inventory	140,213	79,092
Prepaid expenses	<u>10,174</u>	<u>9,631</u>
<b>Total Current Assets</b>	1,322,913	950,120
<b>Restricted Assets</b>		
Cash		
Revenue - meter deposits	109,680	103,065
<b>Property and Equipment, net</b>	1,495,340	1,555,280
<b>Other Assets</b>		
Utility deposits	<u>75</u>	<u>75</u>
<b>TOTAL ASSETS</b>	<u>\$ 2,928,008</u>	<u>\$ 2,608,540</u>

See accompanying notes to financial statements.



## Leflore County Rural Water District #2

### Statements of Net Position December 31, 2022 and 2021

	2022	2021
<b>LIABILITIES AND NET POSITION</b>		
<b>Current Liabilities</b>		
(Payable from Current Assets)		
Accounts payable	\$ 40,352	\$ 39,688
Payroll taxes withheld and accrued	7,249	6,572
Accrued wages	465	766
<b>Total Current Liabilities (Payable from Current Assets)</b>	<b>48,066</b>	<b>47,026</b>
<b>Restricted Current Liabilities</b>		
(Payable from Restricted Assets)		
Customer deposits	109,680	103,065
<b>Total Current Liabilities (Payable from Restricted Assets)</b>	<b>109,680</b>	<b>103,065</b>
<b>Net Position</b>		
Invested in capital assets	1,495,340	1,555,280
Unrestricted	1,274,922	903,169
	2,770,262	2,458,449
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 2,928,008</b>	<b>\$ 2,608,540</b>

See accompanying notes to financial statements.

## Leflore County Rural Water District #2

### Statements of Revenues, Expenses, and Changes in Net Position Years ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>REVENUES</b>		
Water sales, net of bad debts of \$4,104 and \$1,944, respectively	\$ 961,138	\$ 941,060
Late fees	25,354	26,534
Meter fees	<u>15,586</u>	<u>20,960</u>
<b>Total Revenues</b>	<u>1,002,078</u>	<u>988,554</u>
<b>COSTS OF REVENUES</b>		
Water purchases	346,350	345,193
Line maintenance	<u>40,280</u>	<u>96,798</u>
<b>Total Costs of Revenues</b>	<u>386,630</u>	<u>441,991</u>
<b>GROSS PROFIT</b>	<u>615,448</u>	<u>546,563</u>
<b>OPERATING EXPENSES</b>		
Deferred compensation	12,481	12,994
Depreciation	69,157	67,378
Dues and permits	1,205	3,272
Insurance	48,834	47,425
Miscellaneous	1,323	2,353
Office supplies	14,980	11,487
Payroll taxes	13,861	14,151
Postage	8,755	8,791
Printing and publication	152	34
Professional services	12,645	13,652
Telephone	2,790	2,543
Travel	259	-
Truck - gas and oil	13,474	10,668
Truck repairs	4,732	3,717
Utilities	10,026	8,922
Wages	<u>160,960</u>	<u>166,564</u>
<b>Total Operating Expenses</b>	<u>375,634</u>	<u>373,951</u>
<b>OPERATING INCOME</b>	<u>239,814</u>	<u>172,612</u>

See accompanying notes to financial statements.

## Leflore County Rural Water District #2

### Statements of Revenues, Expenses, and Changes in Net Position Years ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>NON-OPERATING REVENUES</b>		
Miscellaneous income	62,301	14,047
Interest income	<u>9,698</u>	<u>2,016</u>
<b>Total Non-Operating Revenues</b>	<u>71,999</u>	<u>16,063</u>
<b>CHANGE IN NET POSITION</b>	311,813	188,675
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>2,458,449</u>	<u>2,269,774</u>
<b>NET POSITION, END OF YEAR</b>	<u><u>\$ 2,770,262</u></u>	<u><u>\$ 2,458,449</u></u>

See accompanying notes to financial statements.

## Leflore County Rural Water District #2

### Statements of Cash Flows Years ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 1,014,069	\$ 995,101
Payments to vendors	(579,989)	(550,977)
Payments to employees	(173,742)	(180,978)
Net Cash From Operating Activities	<u>260,338</u>	<u>263,146</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital expenditures	(9,217)	(98,262)
Net Cash (Used For) Capital and Related Financing Activities	<u>(9,217)</u>	<u>(98,262)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Receipts of miscellaneous income	62,301	14,047
Receipts of interest income	9,698	2,016
Net Cash From Investing Activities	<u>71,999</u>	<u>16,063</u>
<b>NET CHANGE IN CASH</b>	323,120	180,947
<b>CASH, BEGINNING OF YEAR</b>	<u>791,375</u>	<u>610,428</u>
<b>CASH, END OF YEAR</b>	<u><u>\$ 1,114,495</u></u>	<u><u>\$ 791,375</u></u>
<b>RECONCILIATION OF CASH TO STATEMENTS OF NET POSITION</b>		
Current Assets:		
Cash on hand	\$ 2,176	\$ 1,864
Cash - Revenue	988,465	670,908
Cash - Operations and maintenance	14,174	15,538
Restricted Assets:		
Cash - Revenue - meter deposits	<u>109,680</u>	<u>103,065</u>
<b>CASH, END OF YEAR</b>	<u><u>\$ 1,114,495</u></u>	<u><u>\$ 791,375</u></u>

See accompanying notes to financial statements.

## Leflore County Rural Water District #2

### Statements of Cash Flows Years ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES:</b>		
Operating income	<u>\$ 239,814</u>	<u>\$ 172,612</u>
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	69,157	67,378
Change in:		
Accounts receivable - trade	5,376	(1,853)
Inventory	(61,121)	16,679
Prepaid expenses	(543)	(811)
Accounts payable	664	638
Payroll taxes withheld and accrued	677	1,523
Accrued wages	(301)	(1,420)
Customer deposits	<u>6,615</u>	<u>8,400</u>
<b>Total adjustments</b>	<u>20,524</u>	<u>90,534</u>
<b>Cash From Operating Activities</b>	<u><u>\$ 260,338</u></u>	<u><u>\$ 263,146</u></u>

See accompanying notes to financial statements.

## **Leflore County Rural Water District #2**

### **Notes to Financial Statements December 31, 2022 and 2021**

#### ***NOTE 1: NATURE OF ACTIVITIES***

##### **Nature of Business**

Leflore County Rural Water District #2 (the District) was organized to provide suitable water to customers in the City of Pocola, Oklahoma and the surrounding community. Treated water is acquired solely from the Poteau Valley Improvement Authority and transmitted in District water lines to the customers.

#### ***NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

##### **Basis of Accounting**

The District's policy is to prepare its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recognized in the period in which they are earned. Expenses are recognized in the period in which they are incurred. Operating revenues in the enterprise fund are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

##### **Fund Accounting**

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net position, revenues, and expenditures/expenses. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The fund in these financial statements is a proprietary fund, described as follows:

##### **Proprietary Funds**

Enterprise funds – Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public safety, management control, accountability, or other purposes.

## **Leflore County Rural Water District #2**

### **Notes to Financial Statements December 31, 2022 and 2021**

#### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **Accounts Receivable**

The District considers accounts receivable to be fully collectible. Accordingly, no allowance for doubtful accounts is deemed necessary. If accounts become uncollectible, they will be charged to operations when that determination is made. Determination of uncollectibility is made by management based on knowledge of individual customers and consideration of such factors as current economic conditions. Credit extended to customers is generally uncollateralized.

Past-due status is based on contractual terms. Past-due accounts are charged a \$7.50 late fee for accounts not paid by the 15<sup>th</sup> of the month following the billing.

#### **Inventory**

Inventory is stated at the lower of cost (first-in, first-out method) or net realizable value. Inventory consists primarily of pipe and related supplies.

#### **Property and Equipment**

Property and equipment is stated at cost. Depreciation of property and equipment is computed on the straight-line method over the estimated useful lives of the assets, which range from three to fifty years. At December 31, 2022 and 2021, the District had fully depreciated assets still in use with an original cost of approximately \$619,000 and \$565,000, respectively. Property and equipment includes construction in progress of \$123,092 at December 31, 2022 and 2021, and will not be depreciated until completed and placed in service.

#### **Long-Lived Assets**

Financial Accounting Standards Board (FASB) Accounting Standards Codification (Codification) Topic *Property, Plant and Equipment*, Section *Subsequent Measurement* requires that long-lived assets and certain identifiable intangibles held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The application of this Codification Topic has not materially affected the District's reported earnings, financial condition or cash flows.

#### **Income Taxes**

The District is a public body and, as such, is exempt from income taxes under Section 501(a) of the Internal Revenue Code and a similar state statute.

## Leflore County Rural Water District #2

### Notes to Financial Statements December 31, 2022 and 2021

#### Current Accounting Developments

Government Auditing Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements*: This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). This statement is effective for periods beginning after June 15, 2022, with earlier application encouraged.

Management is currently evaluating the impact of implementation of this statement to the financial statements and does not expect implementation of this statement to significantly impact the financial statements of the District.

#### Adoption of GASB Statements

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, is effective for the District in the calendar year 2022. The objective of this statement is to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. The adoption of this statement had no impact on the District's current financial statements.

GASB Statement No. 87, *Leases*, is effective for the District in the calendar year 2022. The objective of this statement is intended to better meet the information needs of financial statement users by improving accounting and financial reporting for leases for governments. The adoption of this statement had no impact on the District's current financial statements.

#### NOTE 3: DEPOSITS IN FINANCIAL INSTITUTIONS

Deposits in financial institutions are financial instruments that could potentially subject the District to a risk of accounting loss to the extent of the uninsured/uncollateralized portion of those deposits. The District maintains deposit balances in two financial institutions and at times may exceed federally insured limits. The amounts of these deposits are displayed on the Statements of Net Position as "Cash" and "Certificates of deposit," and does not include cash on hand.

	<u>Bank Balance</u>	<u>Book Balance</u>
Insured (FDIC)	\$ 350,000	\$ 350,000
Uninsured		
Collateralized	864,447	862,319
Uncollateralized	<u>-</u>	<u>-</u>
	<u>\$ 1,214,447</u>	<u>\$ 1,212,319</u>



## Leflore County Rural Water District #2

### Notes to Financial Statements December 31, 2022 and 2021

#### **NOTE 4: CONCENTRATION OF CREDIT RISK AND MAJOR SUPPLIERS**

The District has no formal policy on managing credit risk. Financial instruments that potentially subject the District to credit risk consist primarily of accounts receivable. The District provides water services to commercial and residential users within the Pocola area. At December 31, 2022 and 2021, the District has extended credit to regular customers (accounts receivable) of \$67,626 and \$73,002, respectively.

The District purchases all of its water from one supplier.

Significant losses are covered by commercial insurance for all major programs for which the District retains risk of loss. For insured programs, there have been no significant reductions in insurance coverage.

#### **NOTE 5: PROPERTY AND EQUIPMENT**

A summary of changes in property and equipment follows:

	Balance January 1, 2022	Additions	Deletions/ Transfers	Balance December 31, 2022
Construction in progress	\$ 123,092	\$ -	\$ -	\$ 123,092
Real estate and right-of-way	17,250	-	-	17,250
Buildings and improvements	107,752	5,248	-	113,000
Office furniture and equipment	19,713	3,219	-	22,932
Vehicles and equipment	334,575	750	-	335,325
Water system and towers	<u>2,338,360</u>	<u>-</u>	<u>-</u>	<u>2,338,360</u>
	2,940,742	9,217	-	2,949,959
Less: accumulated depreciation	<u>1,385,462</u>	<u>69,157</u>	<u>-</u>	<u>1,454,619</u>
Total	<u>\$ 1,555,280</u>	<u>\$ (59,940)</u>	<u>\$ -</u>	<u>\$ 1,495,340</u>

## Leflore County Rural Water District #2

### Notes to Financial Statements December 31, 2022 and 2021

	Balance January 1, 2021	Additions	Deletions/ Transfers	Balance December 31, 2021
Construction in progress	\$ 84,112	\$ 73,571	\$ 34,591	\$ 123,092
Real estate and right-of-way	17,250	-	-	17,250
Buildings and improvements	107,752	-	-	107,752
Office furniture and equipment	18,517	2,495	1,299	19,713
Vehicles and equipment	312,611	22,196	232	334,575
Water system and towers	<u>2,303,769</u>	<u>34,591</u>	<u>-</u>	<u>2,338,360</u>
	2,844,011	132,853	36,122	2,940,742
Less: accumulated depreciation	<u>1,319,615</u>	<u>67,378</u>	<u>1,531</u>	<u>1,385,462</u>
Total	<u>\$ 1,524,396</u>	<u>\$ 65,475</u>	<u>\$ 34,591</u>	<u>\$ 1,555,280</u>

#### **NOTE 6: EMPLOYEE BENEFITS**

In October 1987, the District established a deferred compensation (defined contribution) plan for its employees. Under this plan, up to 10% of the gross wages of all participating employees may be withheld to be contributed to the plan, and the District contributes 8% of each employee's gross wages to the plan. Net deferred compensation charged against income amounted to \$12,481 and \$12,994 during the years ended December 31, 2022 and 2021, respectively.

Employees must be employed ten years to be fully vested. New employees hired from the date of the plan forward have the option of whether or not to participate in the plan with the written consent of the District. The unvested portion of deferred compensation is jointly held, by the District and the employee, in individual savings accounts totaling \$15,932 and \$40,654 during the years ended December 31, 2022 and 2021, respectively. During the years ended December 31, 2022 and 2021, there was no unvested deferred compensation forfeited and returned to the District.

#### **NOTE 7: GRANT FROM COUNTY**

During the year ended December 31, 2022, the District received a grant from Leflore County, Oklahoma in the amount of \$58,018 for reimbursement of expenditures related to the 12" water line project. This grant is reflected under non-operating revenues section within miscellaneous income of the Statements of Revenues, Expenses and Changes in Net Position.

## **Leflore County Rural Water District #2**

### **Notes to Financial Statements December 31, 2022 and 2021**

#### ***NOTE 8: NONCASH INVESTING AND FINANCING ACTIVITIES***

During the years ended December 31, 2022 and 2021, the District disposed of assets totaling \$-0- and \$1,531, respectively.

#### ***NOTE 9: RISKS AND UNCERTAINTIES***

As of the date of the Independent Auditor's Report, the COVID-19 pandemic has had an adverse impact on both domestic and global financial markets and operations. Management is unable to accurately predict how the COVID-19 pandemic will affect the results of the District's operations due to uncertainties surrounding the severity of the disease and the duration of the outbreak.

#### ***NOTE 10: SUBSEQUENT EVENTS***

Management has evaluated subsequent events through March 21, 2023, the date that the financial statements were available to be issued.



**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  
**Leflore County Rural Water District #2**  
Pocola, Oklahoma

**Report on the Financial Statements**

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 **Leflore County Rural Water District #2** (the District) as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 21, 2023.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing the 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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 were not identified. However, as described in the accompanying schedule of findings and responses as item 2022-001, we did identify a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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 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. As described above, we identified a certain deficiency in internal control that we consider to be a material weakness.

Board of Directors  
Leflore County Rural Water District #2

**Compliance and Other Matters**

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

**The District's Response to Findings**

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The District'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.

A handwritten signature in black ink that reads "Landmark PLC". The signature is written in a cursive, flowing style.

Fort Smith, Arkansas  
March 21, 2023

## Leflore County Rural Water District #2

### Schedule of Findings and Responses Year ended December 31, 2022

#### 2022-001: Segregation of Duties

**Condition:** During the year ended December 31, 2022, there was not a complete segregation of duties related to certain financial transactions, including receiving cash, preparing deposits, reconciling bank statements, and recording all transactions and adjustments to the general ledger.

**Criteria and Cause:** A proper segregation of duties is an integral part of any internal control system. Ideally, duties should be segregated to prevent one person from being in a position to authorize transactions, record transactions and maintain custody of assets of the District. Our review of the District's financial reporting system disclosed that, primarily due to the limited number of accounting personnel, there are inherent limitations in the District's controls in this regard.

**Effect:** A lack of proper segregation of duties increases the risk that errors or fraud may occur and not be detected in a timely manner.

**Recommendation:** While we realize that the District does not presently have the staff necessary to achieve a complete segregation of duties, and that the employment of additional personnel for the purpose of segregating duties may not be possible from a cost-benefit standpoint, we believe there are certain instances where duties can and should be reassigned to ensure that no one employee has access to both physical assets and the related accounting records or to all phases of a transaction. We recommend that the Board work closely with management to determine ways to reassign duties with existing personnel to maximize segregation of duties.

**Views of Responsible Officials and Corrective Actions:** The District does not presently have the staff necessary to achieve a complete segregation of duties, and the employment of additional personnel for the purpose of segregating duties may not be possible from a cost-benefit standpoint. However, the District will continually evaluate the cost/benefit of improving internal controls and implement additional controls as considered necessary and appropriate.