

**Leflore County
Rural Water District #2**

**Financial Statements
December 31, 2023 and 2022**

(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, 2023 and 2022, 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, 2023 and 2022, 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.

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 28, 2024, 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.



Fort Smith, Arkansas
March 28, 2024

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, 2023.

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 2023 (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. Easements were completed and construction of Phase III of the 12" line began in August 2023. As of December 31, 2023, approximately 90% of Phase III was completed. (2) The Morris Street Project: This project began in July of 2013. This project was completed in 2024 after the 12" water line was installed.

The District has had no changes in terms of debt during 2023.

Payroll expenses for the District were higher than the previous year's payroll due to having 5 full time employees from May 22, 2023 thru December 31, 2023 instead of 4 full time employees. The District hired another full time office clerk in May 2023.

The capital projects are as follows:

The District had the following project expenses in 2023:

- Phase III of 12" Line: \$567,345
- Morris Street Project: No cost for 2023

Other capital improvements for the year 2023:

The District had no large capital improvements for 2023 other than Phase III of the 12" project.

Other purchases the District made in 2023:

- 3HP Single Phase motor and pump - \$3,129.00
- Minet Mobile Transceiver Kit - \$9,288.00
- Card File Cabinet - \$697.00
- Fence around Duncan Water Tower - \$9,500.00
- Docking Station for Dodge Truck - \$1,030.00
- Nightstick LED Flashlights for trucks - \$675.00
- 1 ½" 12 volt pump - \$1,260.00
- AGM Partition for office counter - \$1,840.00

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

The actual number of gallons sold during 2023 was 138,203,000 gallons compared to 142,048,200 gallons during 2022. The number of gallons sold in 2023 decreased due to older meters in system under reading.

Operating expenses: The largest expense item of the District is water purchases. The actual number of gallons purchased during 2023 was 183,890,290 gallons compared to 208,750,120 during 2022. Water purchases decreased due to the District fixing leaks throughout the system in a timely manner.

Non-operating income: The interest earned on certificates of deposit and two checking accounts in 2023 is higher than 2022. This is due to interest rates increasing and higher balances in bank accounts.

Summary

The District's financial position changed during 2023 with a net \$265,330. The income and cash were used for capital improvements of \$676,444. 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 2023 with \$100,000 in CD's and fixed assets of \$3,671,694 compared to \$2,949,959 in 2022. 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, 2023 and 2022

	2023	2022
ASSETS		
Current Assets		
Cash on hand	\$ 1,075	\$ 2,176
Cash		
Revenue	550,444	988,465
Operations and maintenance	11,892	14,174
Capital - line project	112,018	-
Certificates of deposit	100,000	100,000
Accounts receivable	58,962	67,626
Interest receivable	85	85
Inventory	150,282	140,213
Prepaid expenses	9,688	10,174
	994,446	1,322,913
Total Current Assets	994,446	1,322,913
Restricted Assets		
Cash		
Revenue - meter deposits	115,010	109,680
Property and Equipment, net	2,151,375	1,495,340
Other Assets		
Utility deposits	75	75
	75	75
TOTAL ASSETS	\$ 3,260,906	\$ 2,928,008

See accompanying notes to financial statements.

Leflore County Rural Water District #2

Statements of Net Position December 31, 2023 and 2022

	2023	2022
LIABILITIES AND NET POSITION		
Current Liabilities		
(Payable from Current Assets)		
Accounts payable	\$ 102,123	\$ 40,352
Payroll taxes withheld and accrued	8,181	7,249
Accrued wages	-	465
Total Current Liabilities (Payable from Current Assets)	110,304	48,066
Restricted Current Liabilities		
(Payable from Restricted Assets)		
Customer deposits	115,010	109,680
Total Current Liabilities (Payable from Restricted Assets)	115,010	109,680
Net Position		
Invested in capital assets	2,151,375	1,495,340
Unrestricted	884,217	1,274,922
	3,035,592	2,770,262
TOTAL LIABILITIES AND NET POSITION	\$ 3,260,906	\$ 2,928,008

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, 2023 and 2022

	2023	2022
REVENUES		
Water sales, net of bad debts of \$4,270 and \$4,104, respectively	\$ 906,069	\$ 961,138
Late fees	24,321	25,354
Meter fees	28,460	15,586
Total Revenues	958,850	1,002,078
COSTS OF REVENUES		
Water purchases	314,478	346,350
Line maintenance	104,095	40,280
Total Costs of Revenues	418,573	386,630
GROSS PROFIT	540,277	615,448
OPERATING EXPENSES		
Deferred compensation	15,252	12,481
Depreciation	65,700	69,157
Dues and permits	6,074	1,205
Insurance	54,586	48,834
Miscellaneous	6,280	1,323
Office supplies	11,049	14,980
Payroll taxes	15,834	13,861
Postage	10,808	8,755
Printing and publication	35	152
Professional services	14,620	12,645
Telephone	2,874	2,790
Travel	244	259
Truck - gas and oil	13,286	13,474
Truck repairs	5,553	4,732
Utilities	11,111	10,026
Wages	190,190	160,960
Total Operating Expenses	423,496	375,634
OPERATING INCOME	116,781	239,814

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, 2023 and 2022

	<u>2023</u>	<u>2022</u>
NON-OPERATING REVENUES		
Miscellaneous income	105,800	62,301
Interest income	42,749	9,698
Total Non-Operating Revenues	<u>148,549</u>	<u>71,999</u>
CHANGE IN NET POSITION	265,330	311,813
NET POSITION, BEGINNING OF YEAR	<u>2,770,262</u>	<u>2,458,449</u>
NET POSITION, END OF YEAR	<u><u>\$ 3,035,592</u></u>	<u><u>\$ 2,770,262</u></u>

See accompanying notes to financial statements.

Leflore County Rural Water District #2

Statements of Cash Flows Years ended December 31, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 972,844	\$ 1,014,069
Payments to vendors	(517,807)	(579,989)
Payments to employees	(205,907)	(173,742)
Net Cash From Operating Activities	249,130	260,338
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital expenditures	(676,444)	(9,217)
Net Cash (Used For) Capital and Related Financing Activities	(676,444)	(9,217)
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipts of miscellaneous income	60,509	62,301
Receipts of interest income	42,749	9,698
Net Cash From Investing Activities	103,258	71,999
NET CHANGE IN CASH	(324,056)	323,120
CASH, BEGINNING OF YEAR	1,114,495	791,375
CASH, END OF YEAR	\$ 790,439	\$ 1,114,495
RECONCILIATION OF CASH TO STATEMENTS OF NET POSITION		
Current Assets:		
Cash on hand	\$ 1,075	\$ 2,176
Cash - Revenue	550,444	988,465
Cash - Operations and maintenance	11,892	14,174
Cash - capital - line project	112,018	-
Restricted Assets:		
Cash - Revenue - meter deposits	115,010	109,680
CASH, END OF YEAR	\$ 790,439	\$ 1,114,495

See accompanying notes to financial statements.

Leflore County Rural Water District #2

Statements of Cash Flows Years ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES:		
Operating income	\$ 116,781	\$ 239,814
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	65,700	69,157
Change in:		
Accounts receivable - trade	8,664	5,376
Inventory	(10,069)	(61,121)
Prepaid expenses	486	(543)
Accounts payable	61,771	664
Payroll taxes withheld and accrued	932	677
Accrued wages	(465)	(301)
Customer deposits	5,330	6,615
Total adjustments	<u>132,349</u>	<u>20,524</u>
Cash From Operating Activities	<u>\$ 249,130</u>	<u>\$ 260,338</u>

See accompanying notes to financial statements.

Leflore County Rural Water District #2

Notes to Financial Statements December 31, 2023 and 2022

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, 2023 and 2022

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 15th 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, 2023 and 2022, the District had fully depreciated assets still in use with an original cost of approximately \$629,000 and \$619,000, respectively. Property and equipment includes construction in progress of \$806,760 and \$123,092 at December 31, 2023 and 2022, 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, 2023 and 2022

Adoption of GASB Statements

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. GASB 96 provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). This statement defines a SBITA as a contract that conveys control of the right to use a SBITA vendor's IT software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. The statement also requires governments with SBITA's to recognize a right-to-use subscription asset, an intangible asset, and a corresponding subscription liability, and it provides guidance related to capital outlays other than subscription payments, including implementation costs, and requirements for note disclosures related to a SBITA. The adoption of this statement had no impact on the District's current financial statements.

GASB Statement No. 87, *Leases*, was 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	540,694	539,364
Uncollateralized	-	-
	<u>\$ 890,694</u>	<u>\$ 889,364</u>

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, 2023 and 2022, the District has extended credit to regular customers (accounts receivable) of \$58,962 and \$67,626, respectively.

The District purchases all of its water from one supplier.

Leflore County Rural Water District #2

Notes to Financial Statements December 31, 2023 and 2022

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:

	<u>Balance January 1, 2023</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance December 31, 2023</u>
Construction in progress	\$ 123,092	\$ 683,668	\$ -	\$ 806,760
Real estate and right-of-way	17,250	-	-	17,250
Buildings and improvements	113,000	11,339	-	124,339
Office furniture and equipment	22,932	698	-	23,630
Vehicles and equipment	335,325	13,530	-	348,855
Water system and towers	<u>2,338,360</u>	<u>12,500</u>	<u>-</u>	<u>2,350,860</u>
	2,949,959	721,735	-	3,671,694
Less: accumulated depreciation	<u>1,454,619</u>	<u>65,700</u>	<u>-</u>	<u>1,520,319</u>
Total	<u>\$ 1,495,340</u>	<u>\$ 656,035</u>	<u>\$ -</u>	<u>\$ 2,151,375</u>

Leflore County Rural Water District #2

Notes to Financial Statements December 31, 2023 and 2022

	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>

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 \$15,252 and \$12,481 during the years ended December 31, 2023 and 2022, 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 \$24,098 and \$15,932 during the years ended December 31, 2023 and 2022, respectively. During the years ended December 31, 2023 and 2022, there was no unvested deferred compensation forfeited and returned to the District.

NOTE 7: GRANT INCOME

During the year ended December 31, 2023, the District received a grant from Choctaw Nation in the amount of \$54,000 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, 2023 and 2022

During the year ended December 31, 2022 and 2023, the District received two grants from Leflore County, Oklahoma and Kiamichi Economic District of Oklahoma in the amounts of \$75,000 and \$28,309 for reimbursement of expenditures related to the 12" water line project. \$45,291 of these grants are reflected under non-operating revenues section with miscellaneous income of the Statements of Revenues, Expenses, and Changes in Net Position.

NOTE 8: NONCASH INVESTING AND FINANCING ACTIVITIES

During the year ended December 31, 2023, the District received \$45,291 of property and equipment with the grantor mentioned in Note 7 by paying vendors directly. There were no noncash transactions for the year ended December 31, 2022.

NOTE 9: SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 28, 2024, 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, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 28, 2024.

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 2023-001, 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.

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
Month 28, 2024

Leflore County Rural Water District #2

Schedule of Findings and Responses Year ended December 31, 2023

2023-001: Segregation of Duties

Condition: During the year ended December 31, 2023, 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 hired an additional office staff during 2023, which has allowed them to segregate some duties more than in the past. The District will continue to evaluate the cost/benefit of improving internal controls and implement additional controls as considered necessary and appropriate.