

**Muskogee County Rural Water District No. 2
Muskogee, Oklahoma**

Financial Statements and
Reports of Independent Auditor

For The Year Ended December 31, 2022

Audited by

**BLEDSON, HEWETT & GULLEKSON
CERTIFIED PUBLIC ACCOUNTANTS, PLLLP**

BROKEN ARROW, OK

Muskogee County Rural Water District No. 2
Muskogee, Oklahoma

Board of Directors and Employees
December 31, 2022

Chairman

Gary Rogers

Vice Chairman

Jeff Case

Secretary/Treasurer

Richard Naus

Member

Juanita Hammers

Member

Jeff Mann

Superintendent

Taylor Schneidewent

Office Manager

Melissa Young

Muskogee County Rural Water District No. 2
Muskogee, Oklahoma

Table of Contents
December 31, 2022

Board of Directors	1
Table of Contents.....	2
Independent Auditor’s Report	3 - 5
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	6 - 7
Disposition of Prior Year’s Significant Deficiencies.....	8
Schedule of Audit Results	9
Combined Financial Statements:	
Statement of Net Position.....	10
Statement of Revenues, Expenses and Changes in Net Position.....	11
Statement of Cash Flows	12
Notes to the Financial Statements.....	13 - 15
Other Supplementary Information:	
Budget vs Actual Comparison.....	16
Schedule of Water Rates and Customers (unaudited)	17



INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

We have audited the accompanying combined fund type and account group financial statements-regulatory basis of the Muskogee County Rural Water District No. 2, Muskogee, Oklahoma (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 as listed in the table of contents.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2022, and the respective changes in financial position and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the District 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

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 the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- 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 the District'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 the District'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.

Supplementary Information

The District has not presented the Management's Discussion and Analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), 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. Our opinion on the basic financial statements is not affected by this missing information.

The prior year “memorandum only” comparative information and the supplemental information on pages 16 and 17 are presented for the purposes of additional analysis and are not a required part of the basic financial statements of the District. Such information has not been subjected to the auditing procedures applied in our audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2023 on our consideration of the District’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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District’s internal control over financial reporting and compliance.

Bledsoe, Hewett & Gullekson

Bledsoe, Hewett & Gullekson
Certified Public Accountants, PLLLP

February 17, 2023



BLEDSON, HEWETT & GULLEKSON
CERTIFIED PUBLIC ACCOUNTANTS, PLLLP

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**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
Muskogee County Rural Water District No. 2
Muskogee, Oklahoma

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Muskogee County Rural Water District No. 2, Muskogee, Oklahoma (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 February 17, 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 audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of District's internal control. Accordingly, we do not express an opinion on the effectiveness of District'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.

Our consideration of internal control 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 identified one deficiency in internal control that we consider to be a material weakness. This finding is identified as item 22-1 in the accompanying Schedule of Findings and Responses.

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, non-compliance 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*.

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

Bledsoe, Hewett & Gullekson

Bledsoe, Hewett & Gullekson
Certified Public Accountants, PLLLP

February 17, 2023

Muskogee County Rural Water District No. 2
Muskogee, Oklahoma

Disposition of Prior Year's Significant Deficiencies
December 31, 2022

21-1 *Finding* – Presently, the same individual performs all accounting functions; receives utility service-related payments and is responsible for service billing and adjustment, also makes bank deposits, writes checks, reconciles the monthly bank statements and prepares monthly financial reports. This is considered a lack of segregation of duties.

Recommendation – While it may not be cost effective to hire additional administrative staff that would be necessary in order to adequately segregate the responsibilities, the District should consider a formal evaluation of their risks associated with this lack of segregation of duties. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with the lack of segregation of duties.

Disposition – This continues to be a finding.

Muskogee County Rural Water District No. 2
Muskogee, Oklahoma
Schedule of Audit Results
December 31, 2022

Section 1 – Summary of Auditor’s Results:

1. An unmodified opinion report was issued on the financial statements.
2. The audit disclosed a significant deficiency in the internal controls, which was considered to be a material weakness.
3. The audit disclosed no instances of noncompliance which were material to the financial statements.

Section 2 – Findings relating to the financial statements required to be reported in accordance with GAGAS:

22-1 Internal Control – Segregation of Duties

Criteria – The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the District’s assets and ensure accurate financial reporting.

Condition – Presently the same individual performs all accounting functions: receives utility service-related payments, is responsible for service billing and adjustments, makes bank deposits, writes checks, reconciles the monthly bank statements and prepares monthly financial reports.

Cause – The District’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 accounting functions, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation - While it may not be cost effective to hire additional administrative staff that would be necessary in order to adequately segregate the responsibilities, the District should consider a formal evaluation of their risks associated with this lack of segregation of duties. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with the lack of segregation of duties.

Management Response – Management agrees with this finding and will provide adequate staffing once annual collections increase enough to justify the extra expense.

**MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 2
MUSKOGEE, OKLAHOMA
STATEMENT OF NET POSITION
DECEMBER 31, 2022**

	2022	-Memorandum- -Only- 2021
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents	\$ 234,375	243,784
Capital Assets:		
Land	17,719	17,719
Buildings	125,179	125,179
Water system	839,006	770,533
Equipment and vehicles	186,098	38,515
Office furniture and equipment	22,578	22,578
Total Capital Assets	1,190,580	974,524
Less: Accumulated depreciation	(722,965)	(686,357)
Total Capital Assets (net)	467,615	288,167
TOTAL ASSETS	\$ 701,990	531,951
 <u>LIABILITIES</u>		
Current Liabilities:		
Payroll taxes payable	\$ 1,650	1,697
Long-Term Debt:		
Lease-Purchase of Backhoe	130,915	0
Total Liabilities	132,565	1,697
Net Position:		
Unrestricted	569,425	530,254
TOTAL LIABILITIES AND NET POSITION	\$ 701,990	531,951

The accompanying notes are an integral part of the financial statements

MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 2
MUSKOGEE, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2022

	2022	-Memorandum- -Only- 2021
Revenue from Operations:		
Water sales	\$ 286,060	250,739
Late charges	11,344	11,304
Reconnect fees	0	200
Returned check fees	380	160
Transfer fees	2,400	2,500
Installation fees	750	3,750
Benefit units	1,000	5,000
Miscellaneous	250	100
Other	0	14,600
Total revenue from operations	302,184	288,353
Expenses from Operations:		
Water purchases	81,088	72,748
Wages and consulting services	65,794	62,526
Payroll taxes	4,519	4,770
Employee benefits	18,392	17,517
Utilities	5,607	4,425
Insurance	5,031	4,761
Depreciation	36,608	20,151
Office expenses	1,523	2,986
System maintenance and repairs	1,525	5,625
Supplies and materials	19,517	23,294
Water testing	4,026	3,275
Telephone/Internet	3,054	2,304
Vehicle	10,075	3,174
Postage	2,943	2,328
Audit fees	2,600	2,600
Dues & fees	1,225	495
Miscellaneous	179	974
Total expenses from water operations	263,706	233,953
Net Income (Loss) from Operations	38,478	54,400
Other Income:		
Interest income	2,043	1,855
Interest expense on debt	(1,350)	0
Total other income	693	1,855
Net Income (Loss)	39,171	56,255
Net Position, beginning of period	530,254	473,999
Net Position, end of period	\$ 569,425	530,254

The accompanying notes are an integral part of the financial statements

**MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 2
MUSKOGEE, OKLAHOMA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022**

	2022	-Memorandum- -Only- 2021
Cash Flows from Operating Activities:		
Receipts from customers	\$ 302,184	306,415
Payments to employees	(65,794)	(62,526)
Payments to vendors	(161,351)	(174,240)
Net Cash Provided by Operating Activities	75,039	69,649
Cash Flows from Capital and Related Financing Activities:		
Principal paid on debt	4,200	
Interest paid on debt	1,350	
Purchase of capital assets	(92,040)	(15,720)
Net cash provided by (used in) Capital and Related Financing Activities	(86,490)	(15,720)
Cash Flows from Investing Activities:		
Interest earnings	2,043	1,855
Net cash provided by (used in) Investing Activities	2,043	1,855
Net Increase (Decrease) in Cash and Equivalents	(9,408)	55,784
Cash and cash equivalents, beginning of period	243,783	187,999
Cash and cash equivalents, end of period	\$ 234,375	243,783
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating Income (loss)	\$ 38,478	54,400
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation Expense	36,608	20,151
Increase (decrease) in IRA payable	0	(3,702)
Increase (decrease) in payroll taxes payable	(47)	(1,200)
Net Cash Provided by Operating Activities	\$ 75,039	69,649

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

Muskogee County Rural Water District No. 2
Muskogee, Oklahoma
Notes to Financial Statements
For the Years Ended December 31, 2022

Note A – Significant Accounting Policies

Business Activity

Muskogee County Rural Water District No. 2 (the District) was formed under the provisions of Title 82, O.S. Sections 1324.1-1324.26 inclusive. The District operates as a nontaxable government agency to service residents of Muskogee County. The District's primary income is from the sale of water to its members in an area around Muskogee, Oklahoma.

Basis of Accounting

The accrual basis of accounting in accordance with Generally Accepted Accounting Principles (GAAP) promulgated in the United States of America is followed for all accounts. Revenues are recorded when earned and liabilities are recognized when incurred. This Policy is in accordance with generally accepted accounting principles.

Cash

The District's accounts are with Armstrong Bank, in an Operating Account. Gross revenues of the District are deposited into this account. The reasonable and necessary current expenses of operating and maintaining the District for each month are also paid from this account.

For the purpose of the statement of cash flows, cash and cash equivalents consists of cash on hand and all cash in the bank.

As of December 31, 2022, the District's deposits were \$234,075. All of these funds were covered by Federal Depository Insurance Corporation (FDIC), which provides up to \$250,000 of coverage.

Investments

The District had no outstanding investments at December 31, 2022.

Muskogee County Rural Water District No. 2
Muskogee, Oklahoma
Notes to Financial Statements
For the Years Ended December 31, 2022

Note A – Significant Accounting Policies – cont’d

Memorandum Only

The “Memorandum Only” captions above the columns of prior year information mean that amounts are presented for comparative and information purposes only.

Capital Assets

Any items purchased or constructed in excess of \$1,000 and a useful life of over two years is considered a capital (fixed) asset by the District, and will be depreciated over a specific time. Fixed assets are valued at cost, depreciation is computed by use of the straight-line method.

	12/31/2021			12/31/2022
	<u>Amount</u>	<u>Additions</u>	<u>Deletions</u>	<u>Amount</u>
Land	\$ 17,719	-	-	17,719
Buildings	125,179	-	-	125,179
Plant and water sys.	770,533	68,473	-	839,006
Equip and vehicles	38,515	147,583	-	186,098
Office furn & equip	<u>22,578</u>	<u>-</u>	<u>-</u>	<u>22,578</u>
Total Capital Assets	974,524	216,056	-	1,190,580
Less: Accumulated Depreciation	<u>(686,357)</u>	<u>(36,608)</u>	<u>-</u>	<u>(722,965)</u>
Total	<u>\$ 288,167</u>	<u>179,448</u>	<u>-</u>	<u>467,615</u>

Federal Income Tax

The District is exempt from all federal and state income taxes.

Muskogee County Rural Water District No. 2
Muskogee, Oklahoma
Notes to Financial Statements
For the Year Ended December 31, 2022

Note B – Long-term Debt

Long-term debt consists of the following lease-purchase:

Lease-Purchase of Backhoe, dated 9-29-22, totaling \$135,115, interest rate of 3.99%, due in monthly principal and interest installments of varying amounts, final payment due 9-29-29	<u><u>\$ 130,915</u></u>
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The scheduled maturities for future years are detailed as follows:

Year	Total
2022-23	\$ 17,217
2023-24	17,914
2024-25	18,666
2025-26	19,436
2026-27	20,238
2027-28	21,069
2028-29	16,375
Total	\$ 130,915

Note C – Insurance Coverage

The District appears to have had adequate insurance to cover all major perils at December 31, 2022.

Note D – Subsequent Events

Management has evaluated subsequent events through February 17, 2023 which is the date the financial statements were available to be issued and have determined that no additional information needs to be added to the financial statements.

**MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 2
MUSKOGEE, OKLAHOMA
BUDGET VS ACTUAL COMPARISON
FOR THE YEAR ENDED DECEMBER 31, 2022**

	<u>ORIGINAL / FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
Revenue:			
Water sales	265,000	286,060	21,060
Late charges	11,000	11,344	344
Meter installation	1,500	750	(750)
Reconnect fees	100	0	(100)
Transfer fees	1,500	2,400	900
Returned check fees	150	0	(150)
Benefit units	2,000	1,000	(1,000)
Miscellaneous	100	250	150
Other	0	380	380
Interest	1,855	2,043	188
Gross revenue	<u>283,205</u>	<u>304,227</u>	<u>21,022</u>
Cost of Sales:			
Water purchases	<u>70,000</u>	<u>81,088</u>	<u>(11,088)</u>
Revenue less cost of water	<u>201,150</u>	<u>223,139</u>	<u>9,934</u>
Operating Expenses:			
Audit expense	2,600	2,600	0
Contract consulting fee	4,800	0	4,800
Wages - Superintendent	39,520	39,520	0
Wages - Office manager	19,720	20,164	(444)
Wages - Temp/Contract Labor	23,400	1,890	21,510
Payroll taxes	4,900	4,519	381
Health/life insurance	15,993	15,992	1
Retirement	1,200	2,400	(1,200)
Electricity	4,425	5,607	(1,182)
Insurance - Building/Truck	3,200	3,537	(337)
Insurance - Workers Comp	1,580	1,495	85
Office supplies/expenses	1,000	1,008	(8)
Contract backhoe expense	5,700	4,220	1,480
Plant expenses/parts/materials	40,000	19,516	20,484
Water testing/environment fees	3,500	4,026	(526)
Telephone/Internet	2,504	3,054	(550)
Staff - board travel & training	500	180	320
Truck expense	4,000	10,074	(6,074)
Postage	2,500	2,943	(443)
Seqouyah contract	900	900	0
Itron contract	1,042	0	1,042
Itron cloud storage	315	0	315
Miscellaneous	150	0	150
ORWA membership	495	838	(343)
Paint Office Building	7,000	0	7,000
New Master Meter***	5,000	4,424	576
Clean tank & install mixer***	15,000	19,525	(4,525)
Backhoe purchase***	35,000	18,018	16,982
65th St Project***	26,000	23,794	2,206
Total operating expenses	<u>341,944</u>	<u>210,244</u> **	<u>131,700</u>
Revenues over (under) expenses	<u>(128,739)</u>	<u>12,895</u>	<u>141,634</u>

** - Operating expenses do not include depreciation expense of \$36,608

*** - These expenses include capital asset expenditures and are not listed as operating expenses on the financial statements, but have been included here for budget to actual comparison purposes.

MUSKOGEE COUNTY RURAL DISTRICT NO. 2
Schedule of Water Rates and Customers
-Unaudited Information-
December 31, 2022

Water Rates - Residential

0 – 2,000 gallons	=	\$30.00 minimum bill
2,001 – 8,000 gallons	=	\$7.00 per 1,000 gallons
8,001 – 10,000 gallons	=	\$7.50 per 1,000 gallons
Over 10,000 gallons	=	\$8.00 per 1,000 gallons

Water Rates - Commercial

0 – 2,000 gallons	=	\$35.00 minimum bill
Over 2,001 gallons	=	\$14.00 per 1,000 gallons

Water Loss

	<u>2022</u>	<u>2021</u>
Total gallons purchased (City of Muskogee)	36,536,569	34,151,047
Total gallons sold to District customers	<u>27,190,887</u>	<u>25,571,016</u>
Total water loss	<u>9,345,682</u>	<u>8,580,031</u>
Percentage of water loss	<u>25.58%</u>	<u>25.12%</u>

Customers

The District had 456 customers at the close of the fiscal year.

Current benefit unit is \$1,000, and \$750 for installation.