

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

Financial Statements and
Reports of Independent Auditor

For The Year Ended December 31, 2023

Audited by

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

BROKEN ARROW, OK

Nowata County Rural Water District No. 2
Nowata, Oklahoma

Board of Directors
December 31, 2023

Chair

Robbie Parrish

Vice Chair

Bill Helm

Secretary/Treasurer

Joy Elledge

Members

Margie Learned

Jeff Johnson

Bookkeeper

Kathy Gagan/Carol Parrett

Manager

Ethan Cummings

Nowata County Rural Water District No. 2
Nowata, Oklahoma

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December 31, 2023

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

We have audited the accompanying modified cash basis financial statements of the Nowata County Rural Water District No. 2, Nowata, Oklahoma (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 as listed in the table of contents.

Opinion

As discussed in Note 1, the District prepares its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of the District as of December 31, 2023, and the respective changes in modified cash basis financial position and its cash flows for the year then ended, in accordance with the modified cash basis of accounting described in Note 1.

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 the modified cash basis of accounting described in Note 1, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Management is also responsible 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 is 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 March 25, 2024 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

March 25, 2024



BLEDSON, HEWETT & GULLEKSON
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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
Nowata County Rural Water District No. 2
Nowata, 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 modified cash basis financial statements of the Nowata County Rural Water District No. 2, Nowata, Oklahoma (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 25, 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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of audit results as 2023-1, we identified a significant deficiency in the internal controls that was considered 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, 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

March 25, 2024

Nowata County Rural Water District No. 2
Nowata, Oklahoma

Disposition of Prior Year's Significant Deficiencies
December 31, 2023

2022-1 Internal Control – Segregation of Duties

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 and 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.

Nowata County Rural Water District No. 2
Nowata, Oklahoma
Schedule of Audit Results
December 31, 2023

Section 1 – Summary of Auditor’s Results:

1. An unmodified opinion report was issued on the modified cash basis financial statements.
2. The audit reported one significant deficiency, item 2023-1 in the internal controls which was considered a material weakness.
3. The audit disclosed no instances of noncompliance which are material to the financial statements.

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

2023-1 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 and is responsible for service billing and adjustment, also makes bank deposits, writes checks and 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 – The board concurs and will hire additional staff when funds become available for the additional expenses.

**NOWATA COUNTY RURAL WATER DISTRICT NO. 2
NOWATA, OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
DECEMBER 31, 2023**

	2023	-Memorandum- -Only- 2022
<u>ASSETS</u>		
Current Assets:		
Cash-		
Operating account	\$ 28,474	46,331
Capital Assets:		
Water system	108,047	108,047
Equipment	11,410	11,410
Technology	20,155	15,855
Total capital assets	139,612	135,312
Less accumulated depreciation	(114,863)	(110,314)
Total capital assets (net)	24,749	24,998
Total Assets	\$ 53,223	71,329
 <u>LIABILITIES AND NET POSITION</u>		
Total Liabilities	\$ 0	0
Net Position:		
Investment in capital assets	24,749	24,998
Unrestricted	28,474	46,331
Total net position	53,223	71,329
Total Liabilities and Net Position	\$ 53,223	71,329

The accompanying notes are an integral part of the financial statements

NOWATA COUNTY RURAL WATER DISTRICT NO. 2
NOWATA, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
MODIFIED CASH BASIS
FOR YEAR ENDED DECEMBER 31, 2023

	2023	-Memorandum- -Only- 2022
Revenue from Operations:		
Water service	\$ 138,192	167,108
Benefit units	3,500	0
Total revenue from operations	<u>141,692</u>	<u>167,108</u>
Expenses from Operations:		
Water purchases	120,130	101,006
Contracted labor	11,900	11,400
Repairs & maintenance	11,909	5,787
Utilities	5,136	4,688
Office & postage	2,299	1,029
Insurance	590	590
Depreciation	4,549	4,358
Professional fees	2,250	0
Dues & fees	1,035	1,295
Total expenses from water operations	<u>159,798</u>	<u>130,153</u>
Increase (decrease) in Net Position	(18,106)	36,955
Net Position, beginning of period	<u>71,329</u>	<u>34,374</u>
Net Position, end of period	<u><u>\$ 53,223</u></u>	<u><u>71,329</u></u>

The accompanying notes are an integral part of the financial statements

NOWATA COUNTY RURAL WATER DISTRICT NO. 2
NOWATA, OKLAHOMA
STATEMENT OF CASH FLOWS
MODIFIED CASH BASIS
FOR YEAR ENDED DECEMBER 31, 2023

	2023	-Memorandum- -Only- 2022
Cash flows from operating activities:		
Receipts from customers	\$ 141,692	168,226
Payments to vendors	(155,249)	(126,913)
Net cash (used in) provided by operating activities	(13,557)	41,313
Cash flows from capital and related financing activities:		
Capital assets (purchased) sold	(4,300)	(4,260)
Cash flows from investing activities:		
Net cash used in investing activities	0	0
Net increase (decrease) in cash and cash equivalents	(17,857)	37,053
Cash & cash equivalents, beginning of period	46,331	9,278
Cash & cash equivalents, end of period	\$ 28,474	46,331
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating Income	\$ (18,106)	36,955
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation Expense	4,549	4,358
Net Cash Provided by Operating Activities	\$ (13,557)	41,313

The accompanying notes are an integral part of the financial statements

Nowata County Rural Water District No. 2
Nowata, Oklahoma

Notes to Financial Statements
For the Years Ended December 31, 2023

Note A – Significant Accounting Policies

Organization

Nowata County Rural Water District No. 2 (the District) was incorporated under the Rural Water District Act of Oklahoma, Title 82, 1301-1321 as amended. The District is exempt from federal and state income taxes. The purpose of the District is to acquire water and water rights; to build and acquire waterlines and other facilities; and to operate the same for the purpose of furnishing water to serve the needs of owners and occupants of land located within the District, and others as authorized by the By-Laws.

The District is a governed entity by a Board of Directors that acts as the authoritative and legislative body of the entity. The Board of Directors is comprised of elected board members.

Basis of Accounting

The modified cash basis of accounting is followed for all accounts. Revenues are recorded when received and expenditures are recognized when paid. This basis of accounting is not in accordance with generally accepted accounting principles.

Cash

The District's bank account is with Regent Bank, Nowata, Oklahoma, and at December 31, 2023 are detailed as follows:

Maintenance and operation account (checking)	\$ <u>28,474</u>
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Investments

All investments are stated at cost, which approximates market value unless otherwise indicated. The District had no outstanding investments at December 31, 2023.

Collateral Pledged

It appears that all funds were adequately insured by the \$250,000 of FDIC coverage as of December 31, 2023.

Nowata County Rural Water District No. 2
Nowata, Oklahoma

Notes to Financial Statements
For the Years Ended December 31, 2023

Note A – Significant Accounting Policies – cont'd

Capital Assets

Any items purchased or constructed in excess of \$1,000 and a useful life of over two years is considered a capital asset by the District, and will be depreciated over a specific time. Capital assets are valued at cost, depreciation is computed by use of the straight-line method. The estimated useful lives for capital assets are detailed as follows:

Water System	40 years
Sewer System	40 years
Office and Other Equipment	3 years

	12/31/2022 Amount	Additions	Deletions	12/31/2023 Amount
Waterline system	108,047	-	-	108,047
Equip and vehicles	11,410	-	-	11,410
Technology	15,855	4,300	-	20,155
Total Capital Assets	124,426	4,300	-	139,612
Less: Accumulated Depreciation	(110,314)	(4,549)	-	(114,863)
Total	\$ 14,112	(249)	-	24,749

Note B – Long-term Debt

At December 31, 2023 the District had no outstanding debt.

Note C – Insurance and Surety Bond Coverage

The District appears to have had adequate insurance to cover all major perils at December 31, 2023.

Nowata County Rural Water District No. 2
Nowata, Oklahoma
Notes to Financial Statements
For the Years Ended December 31, 2023

Note D – Subsequent Events

Management has evaluated subsequent events through March 25, 2024, 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.

Note E – Dissolution of District

In the 2023 fiscal year, it was approved that the District be dissolved and consolidated into the Nowata County Rural Water District No. 6. All applicable assets, liabilities and net positions of the District will become the property of Nowata County Rural Water District No. 6.