


RURAL WATER DISTRICT NO. 2

Comanche County, Oklahoma

Annual Financial Statements & Independent Auditor's Report

December 31, 2023



**Audited by
Michael Green, CPA
827 W Locust
Stilwell, Ok 74960**

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COMANCHE COUNTY, OKLAHOMA
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MICHAEL W. GREEN
Certified Public Accountant
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Rural Water District No. 2,
Comanche County, Oklahoma

Report on the Audit of the Financial Statements

Opinions

I have audited the accompanying modified cash basis financial statements of Rural Water District No. 2, Comanche County, 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.

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

Basis for Opinions

I conducted my 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. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of the District and to meet my other ethical responsibilities, in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Emphasis of Matter—Basis of Accounting

I draw attention to Note 1.B. of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. My opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash basis of accounting, 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

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my 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*, I:

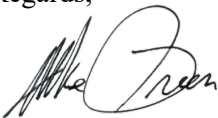
- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 my 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.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated July 12, 2024, on my consideration of the District's internal control over financial reporting and on my 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 my 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 District's internal control over financial reporting and compliance.

Regards,



Michael W. Green, CPA
Stilwell, Oklahoma
July 12, 2024

RURAL WATER DISTRICT NO. 2
COMANCHE COUNTY, OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS-PROPRIETARY FUND
December 31, 2023

	Enterprise Fund
Assets	
Current assets	
Operating cash	\$ 276,480
Capital improvements account	12,131
Membership accounts	259,819
Total cash and cash equivalents	<u>548,430</u>
Restricted Accounts	
Debt service accounts	54,217
Deposits	760
Noncurrent assets	
Capital assets:	
Construction in progress	3,598,305
Infrastructure and equipment	6,015,019
Less accumulated depreciation	<u>(2,943,625)</u>
Total capital assets	<u>6,669,699</u>
Total assets	<u><u>\$ 7,273,106</u></u>
Liabilities	
Current liabilities	
Notes payables current portion	\$ 121,657
Total current liabilities	<u>121,657</u>
Noncurrent liabilities	
Notes payables	4,324,915
Less current portion	<u>(121,657)</u>
Total noncurrent liabilities	<u>4,203,258</u>
Total liabilities	<u>4,324,915</u>
Net position	
Invested in capital assets	2,344,784
Restricted for debt service	57,895
Unrestricted	<u>545,512</u>
Total net position	<u><u>\$ 2,948,191</u></u>

The accompanying notes and auditor's report are an integral part of these financial statements.

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

	Enterprise Fund
Operating revenue	
Charges for services:	
Water Sales	\$ 761,712
Miscellaneous revenues	12,221
Total operating revenue	<u>773,933</u>
 Operating expenses:	
Payroll	141,253
Payroll taxes	54,394
Employee benefits	39,808
Repairs and maintenance	57,296
Fuel and auto expenses	12,306
Insurance and bonds	23,871
Professional fees	7,227
Director fees	5,325
Office and postage	10,472
Water purchase	25,344
Telephone and pagers	3,555
Utilities	40,218
Water tests and fees	9,846
School and travel	1,764
License, dues and memberships	1,708
Supplies	5,972
Depreciation	125,684
Other expenses	1,181
Total operating expenses	<u>567,224</u>
 Net operating income	<u>206,709</u>
 Nonoperating revenue (expense)	
Benefit units	26,000
Interest income	11,929
Grant Income	483,486
OWRB loan forgiveness	1,420,875
Insurance Claim Income	37,908
Interest expense	(115,892)
Total nonoperating revenue (expense)	<u>1,864,306</u>
 Change in net position	2,071,015
 Net position, Beginning of year	<u>877,176</u>
 Net position, end of year	<u><u>\$ 2,948,191</u></u>

The accompanying notes and auditor's report are an integral part of these financial statements.

**RURAL WATER DISTRICT NO. 2
COMANCHE COUNTY, OKLAHOMA
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS - PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2023**

	Enterprise Fund
Cash flows from operating activities	
Receipts from customers	\$ 773,933
Payments to suppliers	(206,085)
Payments to employees	(235,455)
Net cash provided (used) by operating activities	<u>332,393</u>
 Cash flows from capital and related financing activities	
Purchase of capital assets	(3,012,991)
Additions to capital debt	846,088
(Increase) decrease in reserve certificates	1,000
(Increase) decrease in CDs	53,843
Interest paid on capital debt	(115,892)
Net cash provided (used) by capital and related financing activities	<u>(2,227,952)</u>
 Cash flows from investing activities	
Grant Income	483,486
Loan Forgiveness	1,420,875
Other income	37,908
Interest income	37,929
Net cash provided (used) by investing activities	<u>1,980,198</u>
 Net increase (decrease) in cash and cash equivalents	84,639
Cash balance beginning of year	<u>518,008</u>
Cash balance end of year	<u><u>\$ 602,647</u></u>
 Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income (loss)	\$ 206,709
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Cash flows reported in other categories:	
Depreciation and amortization expense	125,684
Net cash provided by operating activities	<u><u>\$ 332,393</u></u>

The accompanying notes and auditor's report are an integral part of these financial statements.

RURAL WATER DISTRICT NO. 2
COMANCHE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

Rural Water District No. 2, Comanche County, Oklahoma was created under the Rural Water District Act, Title 82, as amended, of the laws of the State of Oklahoma. The District is exempt from federal and state income taxes. The purpose of the District is to provide water services to the owners and occupants of land located within the District, and others as authorized by law. Membership in the water district consists of water users who have paid the required membership fees.

The District is an entity governed 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 District is classified as an Enterprise Fund. The cost of providing water services to the public are financed mainly through user charges. The financial statements of the District have been prepared using the modified cash basis of accounting. This basis recognizes assets, liabilities, net assets, revenues, and expenses when they result from cash transactions with a provision for depreciation. This basis is a basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid and accrued expenses and liabilities) are not recorded in these financial statements.

Cash and Deposits

Cash and deposits are maintained in financial institutions which provide coverage to depositors through the Federal Deposit Insurance Corporation.

The State of Oklahoma allows government entities to invest in the following: direct obligations of the United States Government, its agencies or instrumentalities; collateralized or insured certificates of deposit; insured savings accounts or savings certificates; or county, municipal or school district direct debt.

Statement of Cash Flows

For the purposes of the Statement of Cash Flows, the District considers all accounts (excluding restricted reserves) and deposits with a maturity of three months or less to be cash equivalents.

Restricted Reserve Account

At December 31, 2023, the District had \$54,217 in its debt service reserve account.

Capital Assets

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. A capitalization threshold of \$ 2,500 is used to report capital assets.

The range of estimated useful life of property by type of asset is as follows:

Vehicles	5
Furniture and Equipment	5
Buildings	20
Water System Improvements	10-40

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position is displayed in three components:

- a. *Net Investment in capital assets* – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- b. *Restricted net position* – consists of net assets with constraints placed on the use either by an external group such as creditors, grantors, contributors, or laws and regulation of other governments, or by law through constitutional provisions or enabling legislation.
- c. *Unrestricted net position* – all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available.

Use of Estimates

The preparation of financial statements in conformity with modified cash basis of accounting which 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 the reported amounts of revenues and expenses during the reporting period (such as estimated useful lives in determining depreciation expense.) Accordingly, actual results could differ from those estimates.

NOTE 2 – PROPERTY AND EQUIPMENT:

The following table shows the additions and deletions to each category of fixed assets:

	Balance December 31, 2022	Additions	Deletions	Balance December 31, 2023
Fixed assets not being depreciated:				
Land	\$ 9,400	\$ -	\$ -	\$ 9,400
Construction in Process	1,043,360	2,554,945	-	3,598,305
Total Non Depreciated Assets	1,052,760	2,554,945	-	3,607,705
Other fixed assets:				
Waterline system	5,114,711	458,046	-	5,572,757
Machinery & equipment	220,783	-	-	220,783
Vehicles	131,847	-	-	131,847
Buildings & improvements	67,038	-	-	67,038
Furniture & office equipment	13,194	-	-	13,194
Total other fixed assets	5,547,573	458,046	-	6,005,619
Less accumulated depreciation:	(2,817,941)	(125,684)	-	(2,943,625)
Totals	\$ 3,782,392	\$ 2,887,307	\$ -	\$ 6,669,699

NOTE 3 – GENERAL LONG-TERM DEBT

In November 2013, the District entered into a loan agreement with the OWRB for water system improvements including a new well. The interest rate is 3.03% and a .5% administration fee. The payments are semiannual and commenced on March 15, 2014 with a final payment due on March 15, 2039.

In June 2022, the District entered into a loan agreement with the ORWB for water system improvements. Collateral for this loan is the revenue from operations and a mortgage with the power of sale and security agreement on the real property. As of December 2023, the District has drawn down \$1,695,581 of the \$2,545,000 available. The note has an interest rate is 2.63% and a .5% administration fee on the outstanding balance. The principal and interest payment are due semi-annually on March 15th and September 15th of each year. Principle payments will commence on the earlier date, either March 15th or September 15th, following project completion. Interest payments started on March 15, 2023.

In February 2023, the District entered into a loan agreement with the ORWB for construction improvements to the District's drinking water system. Collateral for this loan is the revenue from operations and a mortgage with the power of sale and security agreement on the real property. As of December 2023, the District has drawn down \$237,150 of the \$1,840,000 available. The new note has an interest rate is 2.9% and a .5% administration fee on the outstanding balance. The principal and interest payment are due semi-annually on March 15th and September 15th of each year. Principle payments will commence on the earlier date, either March 15th or September 15th, following project completion. Interest payments will commence on September 15, 2023.

As part of the loan agreement with OWRB, the Net Revenues available for debt service must be equal to at least 125% of the maximum annual payment(s). As of December 31, 2023, the District had income of \$244,638. After adding back depreciation expense of \$125,684 and interest expense of \$115,892, the District had available revenue equaling \$486,214. Dividing the available revenue by the annual debt payment, totaling \$206,452, equals 236%.

Debt Service Requirements

Type of Debt	Balance 12/31/2022	Additions	Reductions	Balance 12/31/2023	Amount Due Within One Year
Business Type Activities:					
OWRB 2013	\$ 2,504,246	\$ -	\$ (112,062)	\$ 2,392,184	\$ 117,657
OWRB 2022	974,581	721,000	-	1,695,581	2,000
OWRB 2023	-	237,150	-	237,150	2,000
Total Business Type Activities:	<u>\$ 3,478,827</u>	<u>\$ 958,150</u>	<u>\$ (112,062)</u>	<u>\$ 4,324,915</u>	<u>\$ 121,657</u>

The annual debt service requirements for long term debt principal and interest are expected to be as follows:

For the Year Ended	OWRB- 2014		OWRB- 2022		OWRB- 2023		Totals
	\$3,284,000 Loan		Preliminary		Preliminary		
	Principal	Interst & Admin. fees	Principal	Interst & Admin. fees	Principal	Interst & Admin. fees	
2024	\$ 117,657	\$ 84,795	\$ 2,000	\$ -	\$ 2,000	\$ -	\$ 206,452
2025	122,145	80,308	2,000	-	2,000	-	206,453
2026	126,555	75,897	2,000	-	2,000	-	206,452
2027	131,125	71,327	2,000	-	2,000	-	206,452
2028	135,671	66,781	2,000	-	2,000	-	206,452
2029-2033	756,357	282,448	10,000	-	10,000	-	1,058,805
2034-2038	903,211	140,530	10,000	-	10,000	-	1,063,741
2039-2043	99,463	10,525	494,760	-	262,400	-	867,148
2044-2048	-	-	637,551	-	342,000	-	979,551
2049-2053	-	-	746,439	-	406,239	-	1,152,678
	\$ 2,392,184	\$ 812,610	\$ 1,908,750	\$ -	\$ 1,040,639	\$ -	\$ 6,154,183

NOTE 4 – RISK MANAGEMENT:

The District is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District manages this risk through the purchase of commercial insurance policies. Claims are recognized when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

NOTE 5 – COMMITMENTS AND CONTINGENCIES:

As of December 31, 2023, the District did not have any pending litigation or potential non-disclosed liabilities that management believes would have a material effect on the financial statements.

NOTE 6 – BUDGETS:

The District is not legally required to adopt a budget.

NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS:

The District's financial instruments include cash and cash equivalents, certificates of deposit, accounts receivable, accounts payable and notes payable. The District's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying statement of net position. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

NOTE 8 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through July 12, 2024 the date which the financial statements were available to be issued.

MICHAEL W. GREEN
Certified Public Accountant
827 W. Locust Street
Stilwell, Oklahoma 74960
(918) 696-6298

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

To the Board of Directors
Rural Water District No. 2,
Comanche County, Oklahoma

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the modified cash basis financial statements of Rural Water District No. 2, Comanche County, Oklahoma (the District), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise District's basic financial statements, and have issued my report thereon dated July 12, 2024. My report included an emphasis of matter paragraph related to the District's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Report on Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I 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 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. I consider the deficiency described in the accompanying schedule of findings and responses as item (2023-01) to be significant deficiencies.

My 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 my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do

not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

District's Response to Findings

The District's, response to the findings identified in my audit is 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, I express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of my 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.

Regards,

A handwritten signature in black ink, appearing to read "Mike Green", with a stylized flourish at the end.

Michael Green, CPA
Stilwell, Oklahoma
July 12, 2024

Rural Water District No. 2

Comanche County, Oklahoma

Schedule of Findings and Responses

Year Ended December 31, 2023

2023-01 – Internal Controls over Financial Reporting

Criteria: The segregation of duties and responsibilities between different individuals for custody of assets, record keeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

Condition: Presently a limited number of individuals has responsibility for all functions of the financial statement reporting. These individuals have oversight responsibilities for billing and adjustments; posting of payments payment to subsidiary accounts receivable ledgers and reconciles the monthly bank statements. In addition, only limited oversight is provided over this individual in the conduct of their daily functions. This is a repeat finding.

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 membership and other billing and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

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

Responsible Official's Response: The District concurs with the recommendation and will strive to implement procedures and compensating duties to help mitigate the risks associated with the lack of segregation of duties.