



*RURAL WATER DISTRICT #2,  
GARVIN COUNTY, OKLAHOMA*

*ANNUAL FINANCIAL STATEMENTS AND  
ACCOMPANYING INDEPENDENT  
AUDITOR'S REPORTS*

*FOR THE FISCAL YEAR ENDED  
DECEMBER 31, 2022*

**RURAL WATER DISTRICT #2, GARVIN COUNTY, OKLAHOMA**

**TABLE OF CONTENTS**

For the fiscal year ended December 31, 2022

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|  | <u>Page</u>      |
|--|------------------|
| LIST OF PRINCIPAL OFFICIALS  | 1                |
| INDEPENDENT AUDITOR'S REPORT   | 2-3              |
| BASIC FINANCIAL STATEMENTS:  | <u>Statement</u> |
| Statement of Net Position-Modified Cash Basis  | 1      4         |
| Statement of Revenues, Expenses and Changes in Net Position-<br>Modified Cash Basis  | 2      5         |
| Statement of Cash Flows-Modified Cash Basis  | 3      6         |
| Notes to Basic Financial Statements  | 7-12             |
| INTERNAL CONTROL AND COMPLIANCE:   |                  |
| Independent Auditor's Report on Internal Control Over Financial<br>Reporting Based and on Compliance and Other Matters<br>Based on an Audit of the Financial Statements Performed<br>In Accordance with <i>Government Auditing Standards</i> | 13-15            |

**RURAL WATER DISTRICT #2, GARVIN COUNTY, OKLAHOMA**  
**LIST OF PRINCIPAL OFFICIALS**  
For the fiscal year ended December 31, 2022

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Board of Directors

Darrell Lewis - Chairman

Dannita McCullough - Vice Chairman

Rick Henry - Secretary/Treasurer

Monty Morris – Director

Curtis Smith – Director

Michelle Brown – Bookkeeper

Derek Taylor - Manager



KRISTI L. DOBBINS

Certified Public Accountant

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Rural Water District #2, Garvin Co.

### *Opinion*

I have audited the accompanying financial statements of Rural Water District #2, Garvin Co., Oklahoma, which comprise the statement of net position-modified cash basis as of December 31, 2022, and the related statements of revenues and expenses and changes in net position-modified cash basis and of cash flows-modified cash basis for the year then ended, and the related notes to the financial statements.

In my opinion, the financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of the Rural Water District #2, Garvin Co., Oklahoma, as of December 31, 2022, and the changes in its modified cash financial position and cash flows for the year then ended in accordance with the modified cash basis of accounting described in Note 1 of the financial statements.

### *Basis for Opinion*

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 *Governmental 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 Rural Water District #2, Garvin Co., Oklahoma 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 opinion.

### *Emphasis of Matter-Basis of Accounting*

I draw attention to Note 1 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 opinion is 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 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 Rural Water District #2, Garvin Co., Oklahoma'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 opinion. 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 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 Rural Water District #2, Garvin Co., Oklahoma'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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Rural Water District #2, Garvin Co., Oklahoma'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***

In accordance with Government Auditing Standards, I have also issued a report dated March 12, 2023, on my consideration of Rural Water District #2, Garvin Co., Oklahoma's internal control over financial reporting and on my tests of its compliance with certain laws, regulations, contracts and grants and other matters. The purpose of that report is 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 Rural Water District #2, Garvin Co., Oklahoma'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 Rural Water District #2, Garvin Co., Oklahoma's internal control over financial reporting and compliance.



Kristi L. Dobbins, CPA  
Pauls Valley, OK  
March 12, 2023

RURAL WATER DISTRICT #2, GARVIN COUNTY, OKLAHOMA  
STATEMENT OF NET POSITION-MODIFIED CASH BASIS  
December 31, 2022

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|   | <u>Business-Type<br/>Activities</u> |
|---|-------------------------------------|
| <b>ASSETS</b>                           |                                     |
| Cash and cash equivalents, unrestricted | \$200,353                           |
| Cash and cash equivalents, restricted   | 96,850                              |
| Capital assets, net of depreciation     | 620,153                             |
| Total Assets                            | <u>917,356</u>                      |
| <b>LIABILITIES</b>                      |                                     |
| Customer deposits                       | 96,850                              |
| Payroll taxes payable                   | 7,269                               |
| Total Liabilities                       | <u>104,119</u>                      |
| <b>NET POSITION</b>                     |                                     |
| Net investment in capital assets        | 620,153                             |
| Unrestricted                            | 193,084                             |
| Total Net Position                      | <u>\$813,237</u>                    |

See accompanying notes to the basic financial statements and Independent Auditor's Report.

**RURAL WATER DISTRICT #2, GARVIN COUNTY, OKLAHOMA**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION-**  
**MODIFIED CASH BASIS**  
**For the fiscal year ended December 31, 2022**

|  |                         |
|--|-------------------------|
| Operating Revenues:                            |                         |
| Water  | \$419,882               |
| Late fees                                      | 9,086                   |
| Meter reading charges                          | 24,216                  |
| Restore service charges                        | 3,352                   |
| Benefit units                                  | 17,600                  |
| Miscellaneous                                  | 4,699                   |
| Total Operating Revenues                       | <u>478,835</u>          |
| Operating Expenses:                            |                         |
| Salaries                                       | 215,311                 |
| Payroll taxes                                  | 16,700                  |
| Employee Benefits                              | 6,155                   |
| Depreciation                                   | 40,333                  |
| Insurance                                      | 34,896                  |
| Materials and supplies                         | 23,590                  |
| Repairs and maintenance                        | 18,136                  |
| Pickup maintenance and fuel                    | 16,429                  |
| Utilities                                      | 30,102                  |
| Telephone                                      | 6,320                   |
| Advertising                                    | 113                     |
| Rent   | 80                      |
| Office expense                                 | 9,075                   |
| Dues, licenses and fees                        | 10,146                  |
| Board member expense                           | 6,050                   |
| Professional fees                              | 18,806                  |
| Water purchases                                | 32,019                  |
| Total Operating Expenses                       | <u>484,261</u>          |
| Net Operating Income                           | (5,426)                 |
| Non-Operating Revenues (Expenses):             |                         |
| Interest income                                | 408                     |
| Rent income                                    | 6,000                   |
| Net Income                                     | <u>982</u>              |
| Net position - beginning of year (as restated) | 812,255                 |
| Net position - end of year                     | <u><u>\$813,237</u></u> |

See accompanying notes to the basic financial statements and Independent Auditor's Report.

**RURAL WATER DISTRICT #2, GARVIN COUNTY, OKLAHOMA**  
**STATEMENT OF CASH FLOWS-MODIFIED CASH BASIS**  
**For the fiscal year ended December 31, 2022**

**CASH FLOWS FROM OPERATING ACTIVITIES**

|   |               |
|---|---------------|
| Receipts from customers                   | \$478,835     |
| Payments to suppliers                     | (228,143)     |
| Payments to employees                     | (215,310)     |
| Receipts from customer meter deposits     | 6,477         |
| Refunds of customer meter deposits        | (3,312)       |
| Net Cash Provided by Operating Activities | <u>38,547</u> |

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

|   |                 |
|---|-----------------|
| Investment in fixed assets                                | (17,350)        |
| Net Cash Used by Capital and Related Financing Activities | <u>(17,350)</u> |

**CASH FLOWS FROM INVESTING ACTIVITIES**

|   |                         |
|---|-------------------------|
| Investment income                         | 408                     |
| Rent income                               | 6,000                   |
| Net Cash Provided by Investing Activities | <u>6,408</u>            |
| Net increase (decrease) in cash           | 27,605                  |
| Balance - beginning of the year           | <u>269,598</u>          |
| Balance - end of the year                 | <u><u>\$297,203</u></u> |

**Reconciliation of operating income (loss) to net cash provided****by operating activities:**

|   |                        |
|---|------------------------|
| Operating income (loss)   | (\$5,426)              |
| Adjustments to reconcile operating income to net cash provided by operating activities: |                        |
| Depreciation expense  | 40,333                 |
| Change in assets and liabilities:   |                        |
| Accounts receivable   |                        |
| Inventory   |                        |
| Accounts payable  |                        |
| Payroll taxes payable   | 475                    |
| Customer deposits   | <u>3,165</u>           |
| Net cash provided by operating activities   | <u><u>\$38,547</u></u> |

See accompanying notes to the basic financial statements and Independent Auditor's Report.

**RURAL WATER DISTRICT #2, GARVIN COUNTY, OKLAHOMA  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2022**

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity
- B. Basis of Presentation
- C. Assets, Liabilities and Equity
- D. Revenue and Expenses
- E. Use of Estimates
- F. Differences from GAAP

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

- A. Deposits and Investments Laws and Regulations

NOTE 3. DETAIL NOTES - TRANSACTION CLASSES/ACCOUNTS

- A. Cash and Cash Equivalents
- B. Capital Assets
- C. Retained Earnings

NOTE 4. OTHER NOTES

- A. Employee Pension and Other Benefits
- B. Risk Management
- C. Commitments and Contingencies

**RURAL WATER DISTRICT #2, GARVIN COUNTY, OKLAHOMA  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2022**

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**1.A. FINANCIAL REPORTING ENTITY**

Rural Water District #2, Garvin County, Oklahoma was established pursuant to Title 82 of Oklahoma State Law in July 1966. The purpose of the District is to provide a water distribution system for its members in the Lindsay, Oklahoma area. Members are owners of land located within the District who have subscribed to one or more Benefit Units, provided payments of charges are current on at least one of the Benefit Units. Each member represents one vote of the governing body of the District without any direct ownership in its assets.

The accompanying financial statements include all functions and activities over which the District exercises financial accountability. The District is considered a primary government as defined by the Governmental Accounting Standards Board (GASB) and has no other component units within its reporting entity.

**1.B. BASIS OF PRESENTATION**

The District utilizes the modified cash basis of accounting, which is comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under the modified cash basis of accounting assets, liabilities and related revenues and expenses are recorded when they result from cash transactions with an adjustment for depreciation.

If the District utilized the basis of accounting recognized as generally accepted, as a proprietary type fund, they would use the accrual basis of accounting. In other words, revenues would be recognized when earned and expenses (including depreciation) would be recorded when the liability is incurred, or economic asset used.

**1.C. ASSETS, LIABILITIES AND EQUITY**

Cash and Cash Equivalents

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three-months or less.

Accounts Receivable

As a result of the use of the modified cash basis of accounting, accounts receivable and other revenue related receivables are not reported in the financial statements.

Capital Assets

Recorded fixed assets are stated at historical cost or estimated historical cost if actual historical cost is not available. The District has determined that assets with a cost of more than \$1,000 will be capitalized. Depreciation of exhaustible fixed assets is charged as an expense against their operations. Accumulated depreciation is reported on the balance sheet, although no detail records exist to support these amounts. Depreciation has been provided over the estimated useful lives using the straight-line method since 1994 and estimated each year before 1994.

Restricted Assets

Restricted assets include current assets that are legally restricted as to their use. The District currently has restricted assets in the amount of \$96,850, comprised of amounts held by the District for utility deposits (refunded upon termination of service or applied to the final bill).

**RURAL WATER DISTRICT #2, GARVIN COUNTY, OKLAHOMA  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2022**

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Equity Classification

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt - 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 assets - Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

It is the District's policy to first use restricted net assets prior to the use of unrestricted net assets when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. However, the District currently has no restricted net assets.

**1.D. REVENUES AND EXPENSES**

Operating Revenue and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

Benefit Unit Fees

Benefit unit fees represent a membership/connection fee required of each District member at the time they request service. This nonrefundable fee is designed to cover the estimated cost of connection, tap and related hook-up costs to the District's system. As such, the fees are recorded as operation revenues.

**1.E. USE OF ESTIMATES**

The preparation of financial statements in conformity with the other comprehensive basis of accounting used by the District requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

**1.F. DIFFERENCES FROM GAAP**

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

**NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

By its nature as a government unit, the District and its component unit are subject to various federal, state and local laws and contractual regulations. An analysis of the District's compliance with significant laws and regulations and demonstration of its stewardship over District resources follows:

**RURAL WATER DISTRICT #2, GARVIN COUNTY, OKLAHOMA  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2022**

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**2.A. DEPOSITS AND INVESTMENT LAWS AND REGULATIONS**

In accordance with State law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State of Oklahoma or political subdivision debt obligations, surety bonds and certain letters of credit. As required by 12 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the District must have a written collateral agreement approved by the board of directors or loan committee. For the year ended December 31, 2022, the District's deposits were fully insured or collateralized.

**NOTE 3. DETAIL NOTES-TRANSACTION CLASSES/ACCOUNTS**

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues and expenditures/expenses.

**3.A. CASH AND CASH EQUIVALENTS**

Custodial Credit Risk

At December 31, 2022, the District held deposits of approximately \$297,203 at financial institutions. The District's cash deposits, including the interest-bearing certificates of deposit, are entirely covered by the Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name.

Investment Interest Rate Risk

The District does not have a formal investment policy that limits the investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The District has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies, and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bonds or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality, or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligation of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

There were no investments held at December 31, 2022.

**RURAL WATER DISTRICT #2, GARVIN COUNTY, OKLAHOMA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2022**

**3.B. CAPITAL ASSETS**

Capital assets activity resulting from accrual basis transactions for the fiscal year ended December 31, 2022, was as follows:

|   | Balance at<br>January 1, 2022 | Additions         | Disposals  | Balance at<br>December 31, 2022 |
|---|-------------------------------|-------------------|------------|---------------------------------|
| Capital assets being depreciated:           |                               |                   |            |                                 |
| Building                                    | \$101,625                     | 17,350            |            | \$118,975                       |
| Office equipment and furniture              | 42,929                        |                   |            | \$42,929                        |
| Machinery and equipment                     | 168,993                       |                   |            | \$168,993                       |
| Utility property and improvements           | 1,402,365                     |                   |            | \$1,402,365                     |
| <br>Total capital assets at historical cost | <u>1,715,912</u>              | <u>17,350</u>     | <u>0</u>   | <u>1,733,262</u>                |
| Less accumulated depreciation for:          |                               |                   |            |                                 |
| Building                                    | 44,214                        | 2,647             |            | 46,861                          |
| Office equipment and furniture              | 42,765                        | 163               |            | 42,928                          |
| Machinery and equipment                     | 92,935                        | 18,323            |            | 111,258                         |
| Utility property and improvements           | 892,862                       | 19,200            |            | 912,062                         |
| <br>Total accumulated depreciation          | <u>1,072,776</u>              | <u>40,333</u>     | <u>0</u>   | <u>1,113,109</u>                |
| <br>Capital assets, net                     | <u>\$643,136</u>              | <u>(\$22,983)</u> | <u>\$0</u> | <u>\$620,153</u>                |

**3.C. RETAINED EARNINGS**

The financial statements were changed from the accrual basis of accounting to the modified cash basis of accounting for the period ended December 31, 2022. The following adjustments were made to retained earnings for this transition.

|                                      |                  |
|--------------------------------------|------------------|
| Prior year ending balance            | \$870,247        |
| Accounts receivable                  | (44,866)         |
| Inventory                            | (20,544)         |
| Accounts payable                     | 7,418            |
| Prior year ending balance (restated) | <u>\$812,255</u> |

**NOTE 4 - OTHER NOTES**

**4.A. EMPLOYEE PENSION AND OTHER BENEFITS**

The District provides pension benefits through a Simple IRA. As of December 31, 2022, the District provided a benefit to each employee in the amount of 3% of each employee's gross income. The District provides no other deferred compensation or other post-employment benefits to employees of the District.

**RURAL WATER DISTRICT #2, GARVIN COUNTY, OKLAHOMA  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2022**

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**4.B. RISK MANAGEMENT**

Rural Water District No. 2, Garvin Co., is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District continues to carry commercial insurance for these risks, including general and auto liability, and property damage liability. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

**4.C. COMMITMENTS AND CONTINGENCIES**

Commitments

Water Contracts

Rural Water District #2, Garvin County, Oklahoma has a water lease contract with Robert Preston Bunch, which sets the cost of water purchased by the District. At December 31, 2022, the contract allows a purchase price of \$.49 per thousand gallons pumped. The lease allows an increase in the price paid by the District if the District raises rates charged to its members. The lease also states an \$80 rental fee is to be paid each year per contract. The contract dated April 19, 2021, is a forty-year lease with the option to renew at the agreement of both parties.

The District also has a water lease contract with Robert Chandler, which sets the cost of water purchased from him. At December 31, 2022, the contract allowed a purchased price of \$.49 per thousand gallons pumped. The lease allows an increase in price paid by the District if the District raises its rates charged to its members. The lease also states an \$80 rental fee is to be paid each year and that water purchased plus the rental fee can never be less than \$400 per year, whether water is used or not. The lease extended through December 2022. A new 20-year lease was signed with Robert and Tammy Chandler on January 7, 2022 with the same terms as listed above for the previous lease.

The District has another water lease contract with Ronnie and Betty Ann Chandler, which sets the cost of water purchased from them. At December 31, 2022, the contract allowed a purchased price of \$.49 per thousand gallons pumped. The lease allows an increase in price paid by the District if the District raises its rates charged to its members. The lease also states an \$80 rental fee is to be paid each year. The lease extends through May 2033.

The District has another water lease contract with Joy M. and Linda S. Newby, which sets the cost of water purchased from them. At December 31, 2022, the contract allowed a purchased price of \$.49 per thousand gallons pumped. The lease allows an increase in price paid by the District if the District raises its rates charged to its members. The lease also states an \$80 rental fee is to be paid each year. The lease extends through December 2052.

A contract with Lindsay Public Works Authority, which sets the cost of water purchased by the District is also in effect. At December 31, 2022, the contract allowed the District to purchase a maximum of 1,500,000 gallons per month at a cost of \$2.49 per thousand gallons. The contract also requires the District to pay a minimum charge of \$75 per month. The contract extends through May 2046 at which time the contract may be extended another five years if all parties consent.

Contingencies

The District is not involved with any legal proceedings, which normally occur in the course of governmental operations at this time. Therefore, the financial statements do not include accruals or provisions for loss contingencies.

While legal proceedings cannot be foreseen, the District feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the District.



KRISTI L. DOBBINS

Certified Public Accountant

**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**

March 12, 2023

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

I have audited the modified cash basis financial statements of Rural Water District #2, Garvin County (the District) as of and for the year ended December 31, 2022 and have issued my report thereon dated March 12, 2023. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing my audit, I considered the District's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Rural Water District #2, Garvin County's internal control. Accordingly, I do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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 combination of control 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.

My 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 have not been identified. However, as described in the accompanying schedule of findings and questioned costs, I identified a certain deficiency in internal control that I 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, 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 determination of financial statement amounts. 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 our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Rural Water District #2, Garvin Co., Oklahoma  
March 12, 2023

Response to Findings

The District's response to the finding identified in my audit is described in the accompanying schedule of findings and questioned costs. This 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 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 over 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.



Kristi L. Dobbins, CPA

**RURAL WATER DISTRICT #2, GARVIN COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED DECEMBER 31, 2022**

Material Weakness Communicated in Prior Year:

Material Weakness in Internal Control Over Financial Reporting: Inadequate Segregation of Duties:

Criteria: An adequate internal control structure does not exist because of the small size of the entity, nor is there adequate segregation of duties. A good internal control system would provide for separation of duties and responsibilities in financial matters between various employees.

Condition: The same individual receiving payments for utility billings is the same individual doing the billing, making the deposits and maintaining accounts receivable.

Cause: The entity's size and budget make it difficult to fully segregate the duties.

Effect or Potential Effect: Without sufficient segregation of duties, the risk significantly increases that errors and/or fraud related to the utility billing and collection activities, including misappropriation of assets could occur and not be detected on a timely basis.

Recommendation: The best protection is to maintain sufficient bond on those handling cash to cover losses should they occur.

Board's Response: The board has evaluated the need and decided that the cost to achieve segregation of duties would exceed the benefits that would be derived from it.