

RURAL WATER DISTRICT NUMBER 2  
WAGONER COUNTY  
WAGONER, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
DECEMBER 31, 2022 and 2021

RALPH OSBORN  
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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Rural Water District Number 2  
Wagoner County  
Wagoner, Oklahoma

### Report on the Audit of Financial Statements

#### Qualified Opinion

I have audited the accompanying financial statements of the business-type activities of Rural Water District No. 2, Wagoner County, Oklahoma, as of and for the year ended December 31, 2021 and 2022, and the related notes to the financial statements.

In my opinion, except for the effects of the matter described in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Rural Water District No. 2, Wagoner County, Oklahoma as of December 31, 2021 and 2022, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### Basis for Qualified Opinion

I conducted my audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issues 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 Rural Water District NO. 2, Wagoner County, Oklahoma and to meet my other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for our audit opinion, except for inventory. I did not observe inventory and was unable to perform other inventory procedures.

#### 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 statement 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 No. 2, Wagoner County, Oklahoma's ability to continue as a going concern for twelve months beyond the financial statement date.

#### 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 our 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 GAAS 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, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these 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 No. 2, Wagoner County, 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 judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Rural Water District No. 2, Wagoner County, 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 Matters

##### *Required Supplementary Information*

The District has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires 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 financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. My opinions on the basic financial statements are not affected by this missing information.

#### Other Reporting Required by Government Auditing standards

In accordance with Government Auditing Standards, I have also issued my report dated June 15, 2023, on my consideration of the Rural Water District NO. 2 's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and 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 Rural Water District No. 2 's internal control over financial reporting and compliance.



Ralph Osborn  
Certified Public Accountant  
Bristow, Oklahoma  
June 15, 2023

RURAL WATER DISTRICT NUMBER 2  
WAGONER COUNTY, OKLAHOMA  
STATEMENT OF NET POSITION  
DECEMBER 31, 2022 and 2021

ASSETS	<u>2022</u>	<u>2021</u>
Current assets:		
Cash and cash equivalents	\$ 136,562	\$ 265,317
Accounts receivable(net of allowance)	33,225	34,414
Prepaid expenses	8,575	8,518
Inventory	<u>85,193</u>	<u>92,848</u>
Total current assets	<u>263,555</u>	<u>401,097</u>
Restricted assets:		
Debt service fund	24,370	34,562
Debt service reserve fund	<u>120,797</u>	<u>120,797</u>
Total restricted assets	<u>145,167</u>	<u>155,359</u>
Fixed assets:		
Land	65,000	65,000
Vehicles	35,995	35,995
Buildings	139,345	133,713
Office furniture and equipment	305,318	276,736
Water system	2,778,855	2,778,855
Accumulated depreciation	<u>(1,989,980)</u>	<u>(1,912,644)</u>
Net fixed assets	<u>1,334,533</u>	<u>1,377,655</u>
Total assets	<u>1,743,255</u>	<u>1,934,111</u>
LIABILITIES		
Current liabilities:		
Accounts payable	18,744	33,717
Accrued absences	-	-
Payroll taxes	6,585	3,709
Accrued interest payable	2,445	2,744
Notes payable, current	<u>73,600</u>	<u>99,700</u>
Total current liabilities	<u>101,374</u>	<u>139,870</u>
Non-current liabilities:		
Notes payable, non-current	<u>742,000</u>	<u>815,600</u>
Total non-current liabilities	<u>742,600</u>	<u>815,600</u>
Total liabilities	<u>843,374</u>	<u>955,470</u>
NET POSITION		
Invested in capital assets, net related debt	518,933	462,355
Restricted for debt service	145,167	155,359
Unrestricted	<u>235,781</u>	<u>360,927</u>
Total net position	<u>\$ 899,881</u>	<u>\$ 978,641</u>

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

RURAL WATER DISTRICT NUMBER 2  
WAGONER COUNTY, OKLAHOMA  
STATEMENT OF ACTIVITIES  
FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021

<u>OPERATING REVENUES</u>	<u>2022</u>	<u>2021</u>
Charges for services:		
Water Sales	\$ 391,347	\$ 356,505
Late charges	14,301	21,046
Reconnect fees	<u>1,050</u>	<u>150</u>
Total operating revenues	<u>406,698</u>	<u>377,701</u>
 <u>OPERATING EXPENSES</u>		
Water purchases	1,850	1,941
Chemicals	56,831	28,415
Plant maintenance and supplies	84,522	2,819
Meters and materials	11,796	-
Equipment rental	662	2,938
Water testing	2,338	3,591
Insurance and bonds	9,432	15,167
Utilities	22,507	23,974
Telephone	2,104	2,850
Travel	566	582
Accounting	27,634	29,140
Office supplies	2,847	2,456
Dues, fees, and permits	8,639	10,301
Bank charges	2,504	1,004
Postage	3,494	2,598
General and administration	2,285	5,397
Professional fees	2,600	3,300
Wages	142,713	120,447
Employee benefits	7,759	10,380
Payroll taxes	12,435	9,804
Worker's compensation insurance	3,685	3,724
Miscellaneous	7,975	2,250
Depreciation	<u>77,336</u>	<u>79,212</u>
Total operating expenses	<u>494,514</u>	<u>362,290</u>
Operating income (loss)	<u>(87,816)</u>	<u>15,411</u>
 <u>NON-OPERATING REVENUE (EXPENSES)</u>		
Interest income	2,272	229
Membership income	14,500	16,800
Other income	1,100	961
Interest on notes payable	<u>(8,816)</u>	<u>(13,574)</u>
Total non-operating revenue (expenses)	<u>9,056</u>	<u>4,416</u>
Change in net position	(78,760)	19,827
Total net position, beginning	<u>978,641</u>	<u>958,814</u>
Total net position, ending	<u>\$ 899,881</u>	<u>\$ 978,641</u>

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

RURAL WATER DISTRICT NUMBER 2  
WAGONER COUNTY, OKLAHOMA  
STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Cash received from customers	\$ 407,887	\$ 380,167
Cash payments to employees	(166,592)	(144,355)
Cash payments to suppliers	<u>(255,384)</u>	<u>(149,132)</u>
Net cash provided (used) by operating activities	<u>(14,089)</u>	<u>86,680</u>
Cash flows from capital and related financing activities		
Acquisition of fixed assets	(34,214)	(20,976)
Membership income	14,500	16,800
Principal paid on notes payable	(99,700)	(66,100)
Interest paid on notes payable and fiscal fees	<u>(8,816)</u>	<u>(13,574)</u>
Net cash used for capital and related financing activities	<u>(128,230)</u>	<u>(83,850)</u>
Cash flows from investing activities		
Other income	1,100	961
Interest earned	<u>2,272</u>	<u>229</u>
Net cash used for investing activities	<u>3,372</u>	<u>1,190</u>
Net increase/(decrease) in cash and cash equivalents	(138,947)	4,020
Cash and cash equivalents, beginning	<u>420,676</u>	<u>416,656</u>
Cash and cash equivalents, ending	<u>\$ 281,729</u>	<u>\$ 420,676</u>
Reconciliation of operating income (loss) to net cash provided by (used) by operating activities		
Operating income (loss)	\$ (87,816)	\$ 15,411
Adjustments to reconcile operating income to net cash used by operating activities:		
Depreciation	77,336	79,212
Changes in assets and liabilities:		
(Increase)/decrease in accounts receivables	1,189	2,466
(Increase)/decrease in inventory	7,655	(42,431)
(Increase)/decrease in prepaid expenses	(57)	7,442
Increase/(decrease) in accounts payable	(14,973)	31,318
Increase/(decrease) in accrued expenses	(299)	(8,497)
Increase/(decrease) in payroll tax payable	<u>2,876</u>	<u>1,759</u>
Net cash provided by operating activities	<u>\$ (14,089)</u>	<u>\$ 86,680</u>

See accompanying notes to financial statements.

RURAL WATER DISTRICT NUMBER 2  
WAGONER COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022 and 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Wagoner County Rural Water District No. 2 was incorporated under the Rural Water District Act of Oklahoma, for the purpose of acquiring water rights, and to build and acquire pipelines and other facilities and to operate the same for the purpose of furnishing water to serve the need of owners and occupants of land located within the district. The District is exempt from federal and state income tax.

The accounting policies of the District conform to generally accepted accounting principles applicable to governmental units. The District complies with generally accepted accounting principles and applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. In addition, the District applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The District has elected not to follow FASB pronouncements issued since that date.

The District adopted the provisions of GASB Statement No 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments," in fiscal year 2004. Statement 34 established standards for external financial reporting for all state and local governmental entities which includes a management's discussion and analysis section, a statement of net assets, a statement of activities and changes in net assets and a statement of cash flows. It requires the classification of net assets into three components-invested in capital assets, net of related debt; restricted; and unrestricted.

The adoption of Statement No. 34 had no effect on the basic financial statements except for the classification of net assets, the reflection of capital contributions as a change in net assets and the inclusion of a Management's Discussion and Analysis (MD&A) section providing an analysis of the District's overall financial position and results of operations. The District has elected to not present the Management's Discussion and Analysis.

A. Financial Reporting Entity

The District complies with GASB Statement No 14. "The Financial Reporting Entity." This statement establishes standards for defining and reporting on the financial reporting entity. It defines component units as legally separate organizations for which the elected officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The District considered all potential component units in determining what organizations should be included in the financial statements. Based on these criteria, there are no component units to include in the District's financial statements.

RURAL WATER DISTRICT NUMBER 2  
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B. Basis of Presentation

The District's fund is an enterprise fund. Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded, regardless of the measurement focus applied.

The proprietary funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or non-current) associated with their activities are reported. Proprietary fund equity is classified as net assets.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or an economic asset is used.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principle ongoing operations. The principle operating revenues of the District's enterprise fund are charges to customers for sales and services. The District also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Assets, Liabilities and Net Position

1. Deposits and Investments

Oklahoma Statutes authorize the District to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the district can invest in direct debt securities of the United States of America unless such an investment is expressly prohibited by law.

For purposes of the Statement of Cash Flows, the District considers all cash on hand, demand deposits, restricted cash and highly liquid investments, with a maturity of three months or less when purchased, to be cash and cash equivalents

2. Custodial Credit Risk

At December 31, 2021, the district held deposits of approximately \$145,737 in two accounts. All deposits were covered by FDIC insurance on December 31, 2019 and 2021. The districts cash deposits consisted of checking accounts and a restricted cash accounts.



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

### 3. Investment Credit Risk

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

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.

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.

With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.

County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.

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 obligations of the National Mortgage Association.

Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs.

At December 31, 2021 & 2022, the District held no investments.

### 4. Fair Value of Financial Instruments

The Districts financial statements include cash and investments. The District's estimates of fair value of all financial instruments do not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

### 5. Inventory

The District's inventory consists of water line parts and supplies as well as chemicals used to treat the water. The District maintains inventory on the first-in, first-out basis.

### 6. Accounts Receivable

Accounts receivable consists primarily of charges for water sales. Management has established a provision for uncollectible accounts. Management estimates the amount of uncollectible accounts at year end and an adjustment is made for 75% of the accounts that are over 60 days past due.

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7. Restricted Assets

The terms of the loan agreement with the Oklahoma Water Resources Board (OWRB) require that the District maintain funds for the use of servicing debt in The amount of 125% of the total annual payment. The deposits with the Bank of Oklahoma (BOK) trust accounts sufficient to fulfill this requirement.

8. Capital Assets

The water storage and delivery system and furniture and equipment are recorded at cost. Donated capital assets are reported at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. All reported assets are depreciated on the straight-line basis over their estimated useful lives ranging from five to fifty years. All assets with a value of more than \$2,500 that benefit more than one period will be depreciated.

9. Equity Classifications

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 mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement 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, granters, contributors, or laws or regulations of their governments; or (2) law through constitutional provisions or enabling legislation, or (3) elected restrictions by management concerning cash to be used for capital improvements.
- 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".

10. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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. Actual results could differ from those estimates.

11. Compensated Absences

Full-time employees are granted vacation and sick leave benefits in varying amounts to specified maximums depending on tenure. Employees are not allowed to carry over unused sick leave or vacation leave from year to year, therefore there are no accrued compensated absences at year end.

RURAL WATER DISTRICT NUMBER 2  
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12. Net Position

In the basic financial statements, 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 borrowing used for the acquisition, construction, or improvement of those assets.

13. Resource Use Policy

It is in the District's policy for all funds that when an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources, including net positions, are available, the District considers restricted amounts to be spent first before any unrestricted amounts are used.

14. Deposits and Investments

State statutes govern the District's investment policy. Permissible investments include direct obligations of the United States Government and Agencies; certificates of deposit of savings and loan associations, and bank and trust companies; and savings accounts or savings certificates of savings and loan associations and trust companies. Collateral is required for demand deposits and certificates of deposit for all amounts not covered by federal deposit insurance. Investments are stated at cost. The District has complied with this requirement.

B. Accounts Receivable

Following is an aged schedule of accounts receivable as of December 31, 2022 and 2021.

	<u>Current</u>	<u>1-30 Days</u>	<u>31-60 Days</u>	<u>Over 60 Days</u>	<u>Prepayments</u>	<u>Bad Debt Allowance</u>	<u>Total</u>
2022	31,949	5,723	2,109	6,944	(8,500)	(5,000)	33,225
2021	38,063	6,956	1,934	10,818	(7,128)	(16,229)	34,414

C. Changes in Capital Assets

Capital asset activity for the year was as follows:

2022	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Capital Assets				
Land	65,000	-	-	65,000
Distribution System	2,778,855	-	-	2,778,855
Buildings	133,713	5,632	-	139,345
Office Equipment & Equipment	276,736	28,582	-	305,318
Trucks	35,995	-	-	35,995
Total Capital Assets	3,290,299	34,214	-	3,324,513
Less: Accumulated Depreciation	1,912,644	77,336	-	1,989,980
Net Book Value	1,377,655	(43,122)	-	1,334,533

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2021 (Restated)	Beginning of Year	Additions	Deletions	End of Year
Capital Assets				
Land	65,000	-	-	65,000
Distribution System	2,778,855	-	-	2,778,855
Buildings	133,713	-	-	133,713
Office Equipment & Equipment	255,760	20,976	-	276,736
Trucks	35,995	-	-	35,995
<b>Total Capital Assets</b>	<b>3,269,323</b>	<b>20,976</b>	<b>-</b>	<b>3,290,299</b>
Less: Accumulated Depreciation	1,833,432	79,212	-	1,912,644
<b>Net Book Value</b>	<b>1,435,891</b>	<b>(58,236)</b>	<b>-</b>	<b>1,377,655</b>

**D. Long-Term Debt**

Wagoner County Rural Water District No. 2 borrowed \$1,765,000 from the Oklahoma Water Resource Board, (OWRB). Substantially all fixed assets, accounts receivable, and assignment of revenues are pledged as security for the OWRB note. The note is subject to a variable interest rate adjusted semi-annually. This note will mature on March 15, 2032. Payments are made by the 15th day of each month to the trustee bank and placed into a restricted debt service account. A debt service reserve account as part of the loan agreement must maintain a minimum balance of 125% of the maximum annual amount required for debt service. Earnings from the debt service and debt service reserve accounts are placed into the debt service reserve fund. Semi-annual note payments are made each March 15th, and September 15th, from the debt service account.

Annual debt service on these notes over the life of the loans is as follows:

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>TOTAL</u>
2023	\$ 73,600	\$ -	\$ 73,600
2024	77,700	-	77,700
2025	82,100	-	82,100
2026	86,600	-	86,600
2027	91,500	-	91,500
2028-2031	<u>404,100</u>	<u>-</u>	<u>404,100</u>
Total	<u>\$ 815,600</u>	<u>\$ -</u>	<u>\$ 815,600</u>

Following is the anticipated annual debt service amounts for principal payments.

	<u>Payable at</u>	<u>Additions</u>	<u>Balance at</u>
	<u>December 31, 2021</u>	<u>(Retirements)</u>	<u>December 31, 2022</u>
OWRB Note Payable	\$ 915,300	\$ (99,700)	\$ 815,600
<b>TOTAL</b>	<u>\$ 915,300</u>	<u>\$ (99,700)</u>	<u>\$ 815,600</u>

**F. Risk Management**

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District purchases commercial insurance to cover these risks, including general and auto liability, property damage, and public official's liability. There were no significant reductions in insurance coverage from the prior year. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

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G. Arbitrage Agreement

The District should monitor their obligation related to the arbitrage agreement signed when they obtained their loan from the OWRB. The arbitrage calculations are normally due every five years.

H. Evaluation of Subsequent Events

The Company has evaluated subsequent events through June 3, 2022 the date which the financial statements were available to be issued.

I. Commitments and Contingencies

Wagoner County Rural Water District No. 2 currently participates in various grant programs. These grants are subject to audit by the granter agency or their representatives. Such audits could lead to requests for reimbursement to the granter agency for services disallowed under the terms of the contract. Presently Wagoner County Rural Water District No. 2 is not aware of any pending requests, and in the opinion of management, any such amounts would not be considered material.

J. Stewardship, Compliance and Accountability

As a local government unit, the District is subject to various federal, state, and local laws and contractual regulations. In accordance with Government Auditing Standards, the auditor has issued a report on his consideration of the District's internal control over financial reporting and tested its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be read in conjunction with this report in considering the results of the audit.

K. Finance- Related Legal and Contractual Provisions

The terms of the loan agreements require Reserve Accounts as shown on the financial statements under restricted assets.

L. Deficit Fund Balance or Retained Earnings

As indicated in the financial statements, there are no fund balance or retained earnings deficits for the District for this fiscal year.

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 Number 2  
Wagoner County  
Wagoner, Oklahoma

I have audited, in accordance with the 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 business-type activities of Rural Water District Number 2, Wagoner County, Wagoner, Oklahoma, as of and for the year ended December 31, 2022 and December 31, 2021, and the related notes to the financial statements, which collectively comprise Rural Water District No. 2's basic financial statements and have issued my report thereon dated June 15, 2023 which did not include Management's Discussion and Analysis.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Rural Water District No. 2'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 Rural Water District No. 2's internal control. Accordingly, I do not express an opinion of the effectiveness of Rural Water District No. 2'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. I consider the deficiencies described in the accompanying schedule of findings and questioned costs as item 2022-1 to be significant deficiencies.

My consideration of internal control over financial reporting 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 did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item 2022-1 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water District Number 2, Wagoner County, Wagoner, Oklahoma'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 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 my tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards which are described in the accompanying schedule of findings and questioned costs as item 2022-1.

Purpose of the 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 *Governmental Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sincerely,



Ralph Osborn  
Certified Public Accountant  
Bristow, Oklahoma  
June 15, 2023

RURAL WATER DISTRICT NUMBER 2  
WAGONER COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2022

2022-1

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 the same individual that is responsible for billing and adjustments; posts 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 condition was also reported in 2021.

Cause: The entity'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.