

AUDIT REPORT

RURAL WATER, SEWER, GAS & SOLID WASTE MANAGEMENT DISTRICT #8 MCINTOSH COUNTY, OKLAHOMA

DECEMBER 31, 2020



KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: RK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

RURAL WATER, SEWER, GAS & SOLID WASTE MANAGEMENT DISTRICT #8
MCINTOSH COUNTY, OKLAHOMA
DECEMBER 31, 2020

TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTORY SECTION:	
BOARD OF DIRECTORS	3
FINANCIAL SECTION:	
INDEPENDENT AUDITOR'S REPORT	4-6
BASIC FINANCIAL STATEMENTS:	
EXHIBIT A STATEMENT OF NET POSITION - MODIFIED CASH BASIS	7
EXHIBIT B STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - MODIFIED CASH BASIS	8
EXHIBIT C STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS	9
NOTES TO THE FINANCIAL STATEMENTS	10-18
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 <i>GOVERNMENT AUDITING STANDARDS</i>	19-20
SCHEDULE OF FINDINGS	21-22

RURAL WATER, SEWER, GAS & SOLID WASTE MANAGEMENT DISTRICT #8
MCINTOSH COUNTY, OKLAHOMA
DECEMBER 31, 2020

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>
AUDIE URQUHART	CHAIRMAN
BILL CHAFFIN	VICE CHAIRMAN
GARY GRIFFIN	TREASURER
RANDY KNIGHT	SECRETARY
LEE MCCLELLAN	DIRECTOR

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: RK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Rural Water, Sewer, Gas & Solid Waste Management District #8
McIntosh County, Oklahoma

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the Rural Water, Sewer, Gas & Solid Waste Management District #8, as of and for the fiscal year ended December 31, 2020, as listed in the table of contents and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1. This includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of significant accounting

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: RK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

estimates made, by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our modified audit opinion.

Basis for Qualified Opinion

The modified cash basis of accounting requires that items, having substantial support in U.S. generally accepted accounting principles, such as capitalizing assets at historical cost and recording depreciation, be recorded in the financial statements. The District has not maintained accurate capital asset records to support the historical cost of past capital asset purchases and the related depreciation. Documentation supporting historical cost and depreciation was not readily available for our review. The amount by which this departure would affect the assets, net position, and expenses of the District is not readily determinable.

Qualified Opinion

In our opinion, except for the possible 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 modified cash basis financial position of the Rural Water, Sewer, Gas & Solid Waste Management District #8, McIntosh County, Oklahoma, as of December 31, 2020, and the changes in modified cash basis financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements that 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. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

The introductory section listed in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the District. Such additional information has not been subjected to the auditing procedures applied in our audit of the basic financial statements, and accordingly, we do not express an opinion or provide an assurance on it.

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: RK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 7, 2021, on our consideration of the Rural Water, Sewer, Gas & Solid Waste Management District #8's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Rural Water, Sewer, Gas & Solid Waste Management District #8's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in compliance with *Government Auditing Standards* in considering Rural Water, Sewer, Gas & Solid Waste Management District #8's internal control over financial reporting and compliance.

Kershaw CPA & Associates, P.C.

Kershaw CPA & Associates, PC
Muskogee, Oklahoma

May 7, 2021

**RURAL WATER, SEWER, GAS & SOLID WASTE MANAGEMENT DISTRICT #8
MCINTOSH COUNTY, OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
DECEMBER 31, 2020**

<u>ASSETS</u>	<u>2020</u>	<u>Memo Only 2019</u>
<u>Current Assets:</u>		
Cash Accounts	\$ 498,773	\$ 413,632
Savings Accounts	460,364	453,887
Restricted Reserve & Depreciation Account	353,233	302,699
Inventory	23,356	25,166
Total Current Assets	<u>1,335,725</u>	<u>1,195,384</u>
<u>Capital Assets:</u>		
Land	27,945	27,945
Work in Progress	-	-
Water Distribution System & Equipment	9,524,963	9,524,963
Less: Accumulated Depreciation	<u>(3,111,251)</u>	<u>(2,864,519)</u>
Total Capital Assets	<u>6,441,658</u>	<u>6,688,390</u>
<u>Other Assets:</u>		
Future Water Rights	<u>210,794</u>	<u>210,794</u>
Total Other Assets	<u>210,794</u>	<u>210,794</u>
TOTAL ASSETS	<u>\$ 7,988,178</u>	<u>\$ 8,094,569</u>
<u>LIABILITIES & NET POSITION</u>		
<u>Current Liabilities:</u>		
Current Portion of Long-Term Debt	<u>\$ 85,181</u>	<u>\$ 82,542</u>
Total Current Liabilities	<u>85,181</u>	<u>82,542</u>
<u>Long-term Liabilities:</u>		
Mortgage Payable	4,161,818	4,256,614
Notes Payable-Future Water Rights	-	-
Less: Current Portion of Long-Term Debt	<u>(85,181)</u>	<u>(82,542)</u>
Total Long-term Liabilities	<u>4,076,637</u>	<u>4,174,072</u>
TOTAL LIABILITIES	<u>4,161,818</u>	<u>4,256,614</u>
<u>Net Position:</u>		
Net investment in capital assets	2,279,840	2,431,777
Restricted	353,233	302,699
Unrestricted	<u>1,193,287</u>	<u>1,103,480</u>
TOTAL NET POSITION	<u>3,826,360</u>	<u>3,837,955</u>
TOTAL LIABILITIES & NET POSITION	<u>\$ 7,988,178</u>	<u>\$ 8,094,569</u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**RURAL WATER, SEWER, GAS & SOLID WASTE MANAGEMENT DISTRICT #8
MCINTOSH COUNTY, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - MODIFIED CASH BASIS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2020**

	<u>2020</u>	<u>Memo Only 2019</u>
<u>Operating Revenue:</u>		
Water Sales	\$ 1,003,949	\$ 894,230
Other Revenues	<u>57,937</u>	<u>45,183</u>
Total Operating Revenue	<u>1,061,887</u>	<u>939,413</u>
<u>Operating Expenses:</u>		
Operating Supplies	130,732	118,158
Salaries & Payroll Tax	289,631	248,379
Automotive	15,789	25,619
Repairs & Maintenance	36,250	54,609
Utilities	77,632	74,037
Office Supplies and Postage	12,910	12,076
Insurance	154,222	136,597
Professional Fees	11,430	4,300
Contracted Services	10,454	17,006
Dues & Fees	17,800	17,088
Miscellaneous	9,871	18,280
Water Storage	1,566	1,596
Depreciation Expense	<u>246,732</u>	<u>250,413</u>
Total Operating Expenses	<u>1,015,018</u>	<u>978,157</u>
Operating Income (Loss)	<u>46,869</u>	<u>(38,743)</u>
Other Revenues and (Expenses):		
Interest Income	7,313	8,595
Interest Expense	(115,865)	(118,433)
Gain on Disposal of Assets	<u>-</u>	<u>-</u>
Total Other Revenues and (Expenses)	<u>(108,552)</u>	<u>(109,838)</u>
Net Income (Loss) Before Contributions	<u>(61,683)</u>	<u>(148,581)</u>
Capital Contributions - Grants	-	-
Capital Contributions - Memberships	<u>50,000</u>	<u>39,350</u>
Change in Net Position	<u>(11,683)</u>	<u>(109,231)</u>
Total Net Position, Beginning of Year	3,837,955	3,947,111
Total Net Position, Prior Year Adjustment	<u>88</u>	<u>75</u>
Total Net Position, End of Year	<u><u>\$ 3,826,360</u></u>	<u><u>\$ 3,837,955</u></u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**RURAL WATER, SEWER, GAS & SOLID WASTE MANAGEMENT DISTRICT #8
MCINTOSH COUNTY, OKLAHOMA
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2020**

	<u>2020</u>	<u>Memo Only 2019</u>
<u>Cash Flows from Operating Activities:</u>		
Cash Receipts from Customers	\$ 1,061,887	\$ 939,413
Payments to Suppliers for Goods & Services	(466,390)	(466,862)
Payments to Employees & Laborers	(300,085)	(265,385)
Net Cash Provided (Used) by Operating Activities	<u>295,411</u>	<u>207,166</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>		
Additions to Capital Assets	-	(2,300)
Proceeds from Disposal of Capital Assets	-	-
Capital Contributions - Memberships	50,000	39,350
Capital Contributions - Grants & Other	-	-
Loan Proceeds	-	-
Principal paid on Debt	(94,795)	(92,227)
Interest paid on Debt	(115,865)	(118,433)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(160,660)</u>	<u>(173,610)</u>
<u>Cash Flows from Investing Activities:</u>		
Interest Income	7,313	8,595
Net Cash Provided (Used) by Investing Activities	<u>7,313</u>	<u>8,595</u>
Net Increase (Decrease) in Cash and Cash Equivalents	142,064	42,151
Cash & Cash Equivalents, Beginning of Year	1,170,218	1,127,991
Cash & Cash Equivalents, Prior Year Adjustment	88	75
Cash & Cash Equivalents, End of Year	<u><u>\$ 1,312,369</u></u>	<u><u>\$ 1,170,218</u></u>
<u>Reconciliation of operating income (loss) to net cash provided operating activities:</u>		
Operating Income (Loss)	\$ 46,869	\$ (38,743)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	246,732	250,413
(Increase)Decrease in Inventory	1,810	(4,504)
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 295,411</u></u>	<u><u>\$ 207,166</u></u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

RURAL WATER, SEWER, GAS & SOLID WASTE MANAGEMENT DISTRICT #8
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES & OPERATIONS

As discussed further in Note 1.C, these financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) established by the Governmental Accounting Standards Board (GASB). These modified cash-basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

A. Organization & Reporting Entity

The District was organized to sell water to its members. It is not a component unit as defined by Governmental Accounting Standards Board Statement No. 14.

B. Basis of Presentation

The accounts of the District are organized on the basis of proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net assets, revenues and expenses. Enterprise Funds account for activities (1) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (2) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (3) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

C. Measurement Focus and Basis of Accounting

Measurement Focus

The District utilizes an economic resources measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in

RURAL WATER, SEWER, GAS & SOLID WASTE MANAGEMENT DISTRICT #8
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

net position (or cost recovery), net financial position, and cash flows. All assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent or financial or nonfinancial) associated with their activities are generally reported within the limitations of the modified cash basis of accounting.

Basis of Accounting

The financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modifications to the cash basis of accounting to report in the statements of net position cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include investments, capital assets and related depreciation, and short-term and long-term liabilities arising from cash transactions or events.

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue billed or provided services not yet collected and other accrued revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

If the District utilized the basis of accounting recognized as generally accepted in the United States, the fund financial statements for proprietary fund types would use the accrual basis of accounting.

RURAL WATER, SEWER, GAS & SOLID WASTE MANAGEMENT DISTRICT #8
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

D. Financial Position

Cash and Investments

For purposes of these financial statements, the District considers cash and cash equivalents to be currency on hand and demand deposits with banks. There were no non-monetary transactions.

Inventory

Inventory on hand is valued at cost on the first in first out method.

Capital Assets (Property, Plant & Equipment)

The straight-line method of depreciation is used in computing annual depreciation on the plant and equipment.

Capitalization Policy - Purchases of capital items in excess of \$2,000.00 that increase the capacity or operation efficiency or extend the useful life of any asset are capitalized. Repairs and maintenance are expensed as incurred.

Income Taxes

The District is conducting its affairs as a non-profit organization and has made not provisions for federal income tax.

Long-Term Debt

Long-term debt is reported at face value, net of applicable discounts and deferred loss on refunding. Costs related to the issuance of debt are deferred and amortized over the lives of various debt issues.

Equity Classification

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

1. Net investment in capital assets – Consists of capital assets including restricted capital assets, net of

RURAL WATER, SEWER, GAS & SOLID WASTE MANAGEMENT DISTRICT #8
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

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 and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.

2. Restricted – Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted – Net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

It is the District's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

Revenues, expenditures & expenses

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

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting used by the District requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

Compensated Absences

Compensated leave is expensed during the period in which the employee takes such leave.

RURAL WATER, SEWER, GAS & SOLID WASTE MANAGEMENT DISTRICT #8
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

Memorandum Totals

The "Memorandum Only" captions above the total columns mean that totals are presented for overview information purposes only.

NOTE 2 - 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.

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.

NOTE 3 - CASH AND INVESTMENTS

Custodial Credit Risk

At December 31, 2020, the District held deposits of approximately \$1,312,369 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit are covered by 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 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:

RURAL WATER, SEWER, GAS & SOLID WASTE MANAGEMENT DISTRICT #8
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

- 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, 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.
- 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 obligations 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.).

NOTE 4 - RESTRICTED ASSETS

The loan agreements with the United States Department of Agriculture Rural Development (USDA) require the District to set aside into a Reserve Account the sum of the annual installment for each loan (\$166,116 for 1st loan and \$32,448 for the 2nd loan for a total of \$198,564), after which deposits may be suspended, except to replace withdrawals. The District cannot withdraw funds from the reserve account without USDA approval. As of December 31, 2020, the account balance for the reserve account was \$353,232.56.

NOTE 5 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended December 31, 2020, was as follows:

RURAL WATER, SEWER, GAS & SOLID WASTE MANAGEMENT DISTRICT #8
 MCINTOSH COUNTY, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2020

	12/31/19 Balance	Additions	Deductions	12/31/20 Balance
Capital assets not being depreciated:				
Land	\$ 27,945	\$ -	\$ -	\$ 27,945
Construction in Progress	-	-	-	-
Total capital assets not being depreciated	27,945	-	-	27,945
Other capital assets:				
Water System & Equipmnt	9,524,963	-	-	9,524,963
Total other capital assets at historical cost	9,524,963	-	-	9,524,963
Less accumulated depreciation for:				
Water System & Equipmnt	(2,864,519)	(246,732)	-	(3,111,251)
Total accumulated depreciation	(2,864,519)	(246,732)	-	(3,111,251)
Other capital assets, net	6,660,445	(246,732)	-	6,413,713
Total Capital Assets, net	\$ 6,688,390	\$ (246,732)	\$ -	\$ 6,441,658

The were no current year capital asset additions.

NOTE 6 - MORTGAGES PAYABLE

The District has a note (USDA RD #91-01, dated December 30, 2013, due to USDA Rural Development in the original amount of \$4,024,000 with a fixed interest rate of 2.75% with 480 monthly payments of principal and interest of \$13,843.00 beginning January 28, 2014. The note is secured by the system's assets and revenues. As of December 31, 2014, all of the loan proceeds have been received for this loan.

The District has a note (USDA RD #91-03), dated December 30, 2013, due to USDA Rural Development in the original amount of \$786,000 with a fixed interest rate of 2.75% with 480 monthly payments of principal and interest of \$2,704.00 beginning January 28, 2014. The note is secured by the system's assets and revenues. As of December 31, 2015, all of the loan proceeds have been received for this loan.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended December 31, 2020:

	Balance at December 31, 2019	Additions	Deductions	Balance at December 31, 2020
Mortgage - USDA RD 91-01	\$ 3,599,145	\$ -	\$ (67,995)	\$ 3,531,150
Mortgage - USDA RD 91-03	\$ 657,469	\$ -	\$ (26,800)	\$ 630,668
Total Long-Term Debt	\$ 4,256,614	\$ -	\$ (94,795)	\$ 4,161,818

RURAL WATER, SEWER, GAS & SOLID WASTE MANAGEMENT DISTRICT #8
 MCINTOSH COUNTY, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2020

Debt Services Requirements to Maturity

Year Ending December 31,	Note Payable - RD #91-01		Total
	Principal	Interest	
2021	\$ 69,885	\$ 96,231	\$ 166,116
2022	71,832	94,284	166,116
2023	73,832	92,284	166,116
2024	75,888	90,228	166,116
2025	78,002	88,114	166,116
2026-2030	423,828	406,752	830,580
2031-2035	486,225	344,355	830,580
2036-2040	557,807	272,773	830,580
2041-2045	639,929	190,652	830,580
2046-2050	734,140	96,440	830,580
2051-2052	319,782	9,174	328,956
Total	<u>\$ 3,531,150</u>	<u>\$ 1,781,286</u>	<u>\$ 5,312,436</u>

December 31,	Principal	Interest	Total
2021	\$ 15,296	\$ 17,152	\$ 32,448
2022	15,722	16,726	32,448
2023	16,160	16,288	32,448
2024	16,610	15,838	32,448
2025	17,073	15,375	32,448
2026-2030	92,767	69,473	162,240
2031-2035	106,425	55,815	162,240
2036-2040	122,093	40,147	162,240
2041-2045	140,067	22,173	162,240
2046-2048	88,454	3,597	92,051
Total	<u>\$ 630,668</u>	<u>\$ 272,582</u>	<u>\$ 903,251</u>

NOTE 7 - RETIREMENT & DEFERRED COMPENSATION PLAN

In November 2014, employee retirement changed to a Simple IRA with Edward Jones. Employees are allowed to contribute up to 5% and the District matches up to 3%. Total contributions for the year were \$15,475.67, this includes both employee & employer contributions. The plan is through Edward Jones, 312 S. First St., Eufaula, Oklahoma 74432.

NOTE 8 - FUND EQUITY

As described in Note 1 above, equity is classified as net position and displayed in three components:

1. Net investment in capital assets
2. Restricted

RURAL WATER, SEWER, GAS & SOLID WASTE MANAGEMENT DISTRICT #8
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

3. Unrestricted

The District's restricted amounts are described in Note 4 above.

NOTE 9 - CONTINGENCIES

Litigation

According to management there were no known contingent liabilities at December 31, 2020, which would have a material effect on the financial statements.

Federally Assisted Programs

In the normal course of operations, the District participates in various federal or state/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

NOTE 10 - SUBSEQUENT EVENTS

The District did not have any subsequent events through May 7, 2021, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending December 31, 2020.

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: RK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

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, Sewer, Gas & Solid Waste Management District #8
McIntosh County, Oklahoma

We 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 Rural Water, Sewer, Gas & Solid Waste Management District #8, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles, and have issued our report thereon dated May 7, 2021, which was qualified for the improper capital asset recordkeeping.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Rural Water, Sewer, Gas & Solid Waste Management District #8's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Rural Water, Sewer, Gas & Solid Waste Management District #8's internal control. Accordingly, we do not express an opinion on the effectiveness of Rural Water, Sewer, Gas & Solid Waste Management District #8'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: RK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings as Item 20-01 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Rural Water, Sewer, Gas & Solid Waste Management District #8's financial statements are free of material misstatement, we performed tests of 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 our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is included in the Schedule of Findings as Item 20-02. The results of our tests disclosed no instances of other matters that are required to be reported under *Government Auditing Standards*.

Rural Water, Sewer, Gas & Solid Waste Management District #8's Response to Findings

Rural Water, Sewer, Gas & Solid Waste Management District #8's response to the findings identified in our audit is described in the accompanying Schedule of Findings. Rural Water, Sewer, Gas & Solid Waste Management District #8's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kershaw CPA & Associates, P.C.

Kershaw CPA & Associates, PC
Muskogee, Oklahoma
May 7, 2021

RURAL WATER, SEWER, GAS & SOLID WASTE MANAGEMENT DISTRICT #8
MCINTOSH COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2020

INTERNAL CONTROL FINIDNGS:

Item 20-01: General Ledger

Criteria: Internal control refers to the methods and procedures used to provide reasonable assurance regarding the achievement of objectives in the following categories: Safeguarding assets, Ensuring validity of financial records and reports, Promoting adherence to policies, procedures, regulations and laws, and Promoting effectiveness and efficiency of operations. Internal control also refers to how an entity processes, summarizes and records the financial transactions. In general terms, internal controls are simply good business practices.

Condition: In the past, management did not maintain an adequate, effective double-entry general ledger system. The District began using QuickBooks for its general ledger system. The new system is a great improvement over the previous years, however, there are still problems to work out with the new system.

Cause/Effect: The data file indicated that there was a failure to maintain some records in an accurate manner, specifically related to deposits, liabilities and transfers. The financial statements may contain misstatements and omit financial information. While classification errors are possible, other evidence including bank statements and previous year's comparisons were used in audit procedures which show that if there were any discrepancy in total revenues or expenses it is of an immaterial amount.

Recommendation: The District needs to separate deposits by type, correctly identify transfers and correctly post items to liability accounts.

Response: The District is still adjusting to using the new software and is continuing to make improvements.

COMPLIANCE FINDINGS:

Item 20-02: UNINSURED & UNCOLLATERALIZED DEPOSITS

Criteria: To protect public monies from potential loss, Oklahoma Statutes require that local governments, such as the District, before depositing in excess of the federally insured amount (FDIC coverage of \$250,000.00), secure collateral pledges to cover the amount of the deposits. Further, U.S. generally accepted accounting principles (GAAP) requires the District to disclose the amount of its bank balance that is uninsured and uncollateralized at the end of the period.

Condition: During the fiscal year, the District's deposits with three of the four banks containing District funds continued to grow significantly. As a result, \$559,163.17 of the District's bank balance was uninsured and uncollateralized at December 31, 2020.

RURAL WATER, SEWER, GAS & SOLID WASTE MANAGEMENT DISTRICT #8
MCINTOSH COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2020

Cause/Effect: Collateral was not pledged at Peoples National Bank, Bank of Oklahoma and Armstrong Bank, the servicing banks. Cash deposits exceeding the Federal Deposit Insurance Corporation coverage of \$250,000 are at risk of being lost if the bank becomes insolvent. No loss of public monies resulted from these uninsured and uncollateralized deposits.

Recommendation: To help protect public monies from potential loss and to comply with state statutes, the District must ensure that all deposits not covered by federal depository insurance are collateralized in accordance Oklahoma Statutes.

Response: The District is aware of the problem and is currently working with the banks to correct the situation. Peoples National Bank and Bank of Oklahoma have since helped the District secure the necessary pledges. Armstrong Bank has not responded in a like manner and the District is preparing to move the excess balance with them and deposit it into another bank.