

AUDIT REPORT

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO.2, 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, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
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	7
EXHIBIT B STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION	8
EXHIBIT C STATEMENT OF CASH FLOWS	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

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
MCINTOSH COUNTY, OKLAHOMA
DECEMBER 31, 2020

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>	<u>TERM EXPIRATION</u>
Mike Williams	Chairman	2021
Greg Hefner	Vice-Chairman	2022
Kenneth Pemberton	Secretary/Treasurer	2023
Jeff McPeak	Member	2023
Vacant Seat	Member	2022

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, and Solid Waste Management District No. 2,
McIntosh County, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Rural Water, Sewer, and Solid Waste Management District No. 2, McIntosh County, 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 accounting principles generally accepted in the United States of America; this includes 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, and in accordance with Oklahoma Statutes. 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 entity'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 entity'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 estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Rural Water, Sewer, and Solid Waste Management District No. 2, McIntosh County as of December 31, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board 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. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary and Other Information

The introductory and the other supplementary information sections listed in the accompanying table of contents are presented for the purpose of additional analysis and are 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 and assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 1, 2021, on our consideration of the Rural Water, Sewer, and Solid Waste Management District No. 2, McIntosh County's internal control over financial reporting and 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

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

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, and Solid Waste Management District No. 2, McIntosh County'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, Sewer, and Solid Waste Management District No. 2, McIntosh County's internal control over financial reporting and compliance.

Kershaw CPA & Associates, P.C.

Kershaw, CPA & Associates, PC
Muskogee, Oklahoma

April 1, 2021

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
MCINTOSH COUNTY, OKLAHOMA
STATEMENT OF NET POSITION
DECEMBER 31, 2020

	2020	Memorandum Only 2019
<u>ASSETS</u>		
<u>CURRENT ASSETS:</u>		
Cash and Cash Equivalents	\$ 404,586	\$ 333,897
Accounts Receivable	52,959	51,368
Inventory	25,754	25,754
Prepaid Insurance	15,080	15,298
TOTAL CURRENT ASSETS	498,379	426,317
<u>NONCURRENT ASSETS:</u>		
<u>RESTRICTED ASSETS:</u>		
Restricted Certificates of Deposit	64,708	64,179
Restricted BOK Trust Accounts	214,886	225,632
TOTAL RESTRICTED ASSETS	279,594	289,811
<u>CAPITAL ASSETS:</u>		
Land	25,483	25,483
Construction in Progress	262,011	9,500
Other Capital Assets	4,407,630	4,407,630
Less: Accumulated Depreciation	(2,437,745)	(2,300,102)
NET CAPITAL ASSETS	2,257,379	2,142,511
TOTAL NON-CURRENT ASSETS	2,536,973	2,432,322
TOTAL ASSETS	3,035,352	2,858,640
<u>LIABILITIES & NET POSITION</u>		
<u>CURRENT LIABILITIES:</u>		
Accounts Payable	1,410	4,327
Payroll Taxes Payable	5,055	4,782
Accrued Interest	26,896	27,538
Current maturity of long-term debt	80,000	75,000
Total Current Liabilities	113,361	111,647
LONG-TERM LIABILITIES	2,074,222	2,070,171
TOTAL LIABILITIES	2,187,583	2,181,817
<u>NET POSITION:</u>		
Net investment in capital assets	103,157	(2,659)
Restricted for debt service	279,594	289,811
Unrestricted	465,018	389,671
TOTAL NET POSITION	\$ 847,769	\$ 676,823

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

**RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
MCINTOSH COUNTY, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2020**

	2020	Memorandum Only 2019
<u>OPERATING REVENUES:</u>		
Water Sales	\$ 687,602	\$ 678,613
New installations	11,000	10,000
Other income	4,717	3,585
TOTAL OPERATING REVENUES	703,319	692,198
<u>OPERATING EXPENSES:</u>		
NFMHO	8,788	9,783
Water storage fees	2,690	2,480
Professional fees & Dues	19,861	17,465
Office Expense	10,983	6,699
Payroll & related expenses	257,234	254,080
Operations: Repairs & Supplies	107,067	88,786
Insurance	31,226	31,577
Utilities	19,584	23,118
Telephone	5,981	5,696
Vehicles	7,462	10,700
Miscellaneous expense	3,108	5,085
Amortization	-	-
Depreciation	137,643	136,461
Total Operating Expenses	611,626	591,930
NET OPERATING INCOME (LOSS)	91,693	100,268
<u>OTHER REVENUES (EXPENSES):</u>		
Interest Income	2,067	6,553
Interest Expense	(81,349)	(83,797)
Insurance Proceeds	-	-
Total Other Revenues (Expenses)	(79,282)	(77,245)
Net Income (Loss) Before Contributions	12,411	23,023
Capital Contributions	158,536	-
CHANGE IN NET POSITION	170,947	23,023
TOTAL NET POSITION, Beginning of Year	676,823	653,799
TOTAL NET POSITION, Prior Year Adjustment	-	-
TOTAL NET POSITION, End of Year	\$ 847,769	\$ 676,823

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

**RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
MCINTOSH COUNTY, OKLAHOMA
STATEMENT OF CASH FLOWS
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	\$ 701,728	\$ 693,747
Payments to Suppliers for Goods & Services	(219,174)	(198,350)
Payments to Employees & Laborers	(257,234)	(254,080)
Net Cash Provided (Used) by Operating Activities	<u>225,320</u>	<u>241,317</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>		
Additions to Capital Assets	(252,511)	(21,319)
Capital Contributions - Loan Forgiveness	158,536	-
Proceeds from long-term debt	96,475	-
Principal paid on long-term debt	(75,000)	(75,000)
Interest paid on Debt	(94,415)	(96,965)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(166,915)</u>	<u>(193,284)</u>
<u>Cash Flows from Investing Activities:</u>		
Net activity with restricted accounts	10,217	27,482
Interest Income	2,067	6,553
Net Cash Provided (Used) by Investing Activities	<u>12,284</u>	<u>34,034</u>
Net Increase (Decrease) in Cash and Cash Equivalents	70,689	82,068
Cash & Cash Equivalents, Beginning of Year	333,897	251,830
Cash & Cash Equivalents, Prior Year Adjustment	-	-
Cash & Cash Equivalents, End of Year	<u>\$ 404,586</u>	<u>\$ 333,897</u>
<u>Reconciliation of operating income (loss) to net cash provided operating activities:</u>		
Operating Income (Loss)	\$ 91,693	\$ 100,268
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation & Amortization	137,643	136,461
(Increase)Decrease in Accounts Receivable	(1,591)	1,550
(Increase)Decrease in Inventory	-	-
(Increase)Decrease in Prepaid Insurance	219	137
Increase(Decrease) in Accounts Payable	(2,917)	2,878
Increase(Decrease) in Payroll Taxes Payable	273	23
Net Cash Provided (Used) by Operating Activities	<u>\$ 225,320</u>	<u>\$ 241,317</u>

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

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

NATURE OF BUSINESS

Rural Water, Sewer, and Solid Waste Management District No. 2, McIntosh County, Oklahoma (The District) was organized to sell water and operate and maintain a sewage disposal system to its members. This organization is exempt from federal income tax under Section 501(c)(12) of the Internal Revenue Code

Basis of Presentation

The Enterprise Fund is used to account for the operations of the District that are financed and operated in a manner similar to private business enterprises where the intent is that costs of providing goods or services be recovered in whole or part through user fees or charges.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses when incurred.

Assets, Liabilities, & Equity

Cash & Cash Equivalents

For purposes of these financial statements, the District considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents, excluding restricted cash.

Capital Assets

Fixed assets are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance, repairs and renewals of relatively minor items are charged to expense as incurred. The estimated useful lives of the assets are as follows:

	<u>Years</u>
Water tower	25
Office building, equipment and fixtures	5-20
Transportation equipment	5-10
Heavy equipment	10
Water treatment facility	7-40
Lines and storage	10-20

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

It is the District's policy to capitalize asset purchases greater than \$500 and expense asset purchases less than \$500.

Inventories

Inventories are stated at the lower of cost or market using the first-in, first-out method.

Allowance for Doubtful Accounts

The District considers all accounts fully collectible.

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 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.

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

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.

Governmental Accounting Standards Board Statement No. 34

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Certain of the significant changes in the Statement include the following:

1. For the first time the financial statement should include:
 - a. A Management Discussion and Analysis (MD&A) section providing analysis of the District's overall financial position and results of operations. However, the District has chosen not to present the required MD&A for the current year.
 - b. Financial statements prepared using full accrual accounting for all of the District's activities, except for including the General capital assets or infrastructure (lines, pump stations, etc.).
2. A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The District has elected to implement the general provisions of the Statement and report infrastructure acquired after December 31, 2003 as provided by GASB standards.

Income Taxes

The District is exempt from federal income tax under Section 501(c)(12) of the Internal Revenue Code.

Estimates

The preparation of financial statements in conformity with 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.

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

Compensated Absences

Employees of the District began accruing vacation and sick leave in 2005. However, no provision has been made for such because the amount is not considered material to the financial statements.

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.

Finance-related Legal & Contractual Provisions

Under the provisions of the OWRB Loan Agreement, the District is required to establish, fund and maintain a debt service fund account and a debt reserve account with the trustee bank. As of December 31, 2020, the District has complied with these provisions.

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 \$684,180 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.

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

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:

- 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 agreement with the Oklahoma Water Resources Board for the District's loan refinancing and project requires that certain monies be put in a trust type account. These funds are restricted to servicing the loan with the OWRB. Monthly payments are made to a debt service account and then invested upon receipt by the loan trustee, BOK Trust Services. Semi-annual payments are then made by the trustee from this account to OWRB. When funds are received by the Trustee they are immediately invested in securities guaranteed by the United States Government. The District also is required to maintain a debt service reserve fund with the trustee bank in the amount of \$172,675.00.

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
 MCINTOSH COUNTY, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2020

NOTE 5 - CAPITAL ASSETS

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

	12/31/19 Balance	Additions	Deductions	12/31/20 Balance
Capital assets not being depreciated:				
Land	\$ 25,483	\$ -	\$ -	\$ 25,483
Construction in Progress	9,500	252,511	-	262,011
Total capital assets not being depreciated	34,983	252,511	-	287,494
Other capital assets:				
Water Tower	309,652	-	-	309,652
Office building, equipment and fixtures	149,270	-	-	149,270
Transportation equipment	58,440	-	-	58,440
Heavy equipment	49,349	-	-	49,349
Water treatment facility	3,413,518	-	-	3,413,518
Lines and storage	423,001	-	-	423,001
Storage Building	4,400	-	-	4,400
Total other capital assets at historical cost	4,407,630	-	-	4,407,630
Less accumulated depreciation for:				
Water Tower	(190,862)	(7,721)	-	(198,583)
Office building, equipment and fixtures	(100,480)	(3,892)	-	(104,372)
Transportation equipment	(51,240)	(1,600)	-	(52,840)
Heavy equipment	(38,279)	(4,428)	-	(42,707)
Water treatment facility	(1,598,799)	(98,632)	-	(1,697,432)
Lines and storage	(317,251)	(21,150)	-	(338,401)
Storage Building	(3,190)	(220)	-	(3,410)
Total accumulated depreciation	(2,300,102)	(137,643)	-	(2,437,745)
Other capital assets, net	2,107,528	(137,643)	-	1,969,885
Total Capital Assets, net	\$ 2,142,511	\$ 114,868	\$ -	\$ 2,257,379

NOTE 6 - LONG-TERM DEBT

In December 2014, the District entered into a Promissory Note, Series 2014, FAP-14-0005-L with the Oklahoma Water Resources Board (OWRB). The security for the Note includes a pledge and assignment of revenues derived by the District from its operation of the water system of the District pursuant to the terms of the Loan Agreement. The Note is further secured by a Mortgage dated December 4, 2014 by the District to the OWRB. The loan is for a principal amount of \$2,265,000.00, plus premium of \$281,109, less original issue discount of \$7,783.75, less OWRB transactions costs. The discount and the premium are both being amortized over the term of the loan. The loan is for a term of 22 years maturing on October 1, 2036 with varying interest rates between 2.400% and 5.400% until maturity.

In June 2020, the District entered into a Promissory Note, Series 2020 DWSRF, ORF-20-0004-DW with the Oklahoma Water Resources Board (OWRB). The proceeds of this Note will be used to construct improvements to the District's drinking water system benefiting those persons served by the District. The

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
 MCINTOSH COUNTY, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2020

security for the Note includes a pledge and assignment of revenues derived by the District from its operation of the water system of the District pursuant to the terms of the Loan Agreement. The Note is further secured by a Mortgage dated June 30, 2020 by the District to the OWRB. The loan is for a principal amount of \$490,000.00 but will include a Loan Forgiveness of \$200,000.00. The outstanding principal balance of this Note, together with all accrued, but unpaid, interest and administrative fees shall be due and payable in full on the earlier of the March 15 or September 15 next preceding the date which is sixteen (16) years after completion of the Project as certified to the OWRB by the District or September 15, 2036. The Note shall bear interest at a rate of 1.09% per annum plus an administrative fee at the rate of 0.5% per annum on the outstanding balance of disbursed loan proceeds.

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
OWRB FAP-14-0005-L	\$ 1,935,000	\$ -	\$ (75,000)	\$ 1,860,000
OWRB ORF-20-0004-DW	-	255,011	(158,536)	96,475
Total Long-Term Debt	<u>1,935,000</u>	<u>255,011</u>	<u>(233,536)</u>	<u>1,956,475</u>
Less: Current Portion	(75,000)			(80,000)
Less: Discount on OWRB	(5,985)	-	354	(5,631)
Plus: Premium on OWRB	216,156	-	(12,778)	203,378
Net Long-Term Debt	<u>\$ 2,070,171</u>	<u>\$ 255,011</u>	<u>\$ (245,960)</u>	<u>\$ 2,074,222</u>

Debt Services Requirements to Maturity

The annual debt service requirements to maturity, including principal and interest, for long-term debt, as of December 31, 2020, are as follows:

Year Ending December 31,	Note Payable - OWRB FAP-14-0005-L		
	Principal	Interest	Total
2021	\$ 80,000	\$ 92,215	\$ 172,215
2022	80,000	88,695	168,695
2023	85,000	85,175	170,175
2024	90,000	81,435	171,435
2025	95,000	77,475	172,475
2026-2030	550,000	333,375	883,375
2031-2035	715,000	176,505	891,505
2036	165,000	6,435	171,435
Total	<u>\$ 1,860,000</u>	<u>\$ 941,310</u>	<u>\$ 2,801,310</u>

An amortization schedule will be provided for the second loan once construction is complete and all loan proceeds have been received.

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 7 - 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
3. Unrestricted

The restrictions on net position are described in Note 4 above.

NOTE 8 - 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 9 - INSURANCE COVERAGE

Property Coverage

Insurer	ORWA Assurance Group
Expiration	June 1, 2020
Policy includes	Auto liability, property, general liability, errors & omissions, employment practice, dishonesty bond and monies & securities.

Workers Compensation

Insurer	ORWA Assurance Group
Expiration	October 31, 2021

NOTE 10 - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the District to credit risk consist primarily of accounts receivable. The District sells only to its members in the Onapa, Oklahoma area.

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 11 - RETIREMENT PLAN

The District does not provide a retirement plan for employees.

NOTE 12 - SUBSEQUENT EVENTS

The District did not have any subsequent events through April 1, 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, and Solid Waste Management District No. 2,
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, and in accordance with Oklahoma Statutes, the financial statements of the Rural Water, Sewer, and Solid Waste Management District No. 2, McIntosh County, as of and for the year ended December 31, 2020, and the related notes to the financial statements, and have issued our report thereon dated April 1, 2021. Management has omitted the MD&A required by accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Rural Water, Sewer, and Solid Waste Management District No. 2, McIntosh County'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, and Solid Waste Management District No. 2, McIntosh County's internal control. Accordingly, we do not express an opinion on the effectiveness of Rural Water, Sewer, and Solid Waste Management District No. 2, McIntosh County'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

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

is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Rural Water, Sewer, and Solid Waste Management District No. 2, McIntosh County'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kershaw CPA & Associates, P.C.

Kershaw, CPA & Associates, PC
Muskogee, Oklahoma

April 1, 2021