

AUDIT REPORT

MAYES COUNTY RURAL WATER DISTRICT #2  
MAYES COUNTY, OKLAHOMA

DECEMBER 31, 2022

April Adams CPA PLLC

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MAYES COUNTY RURAL WATER DISTRICT #2  
DECEMBER 31, 2022

Table of Contents

	<u>Page</u>
Independent Auditor's Report.....	3-5
Basic Financial Statements:	
Exhibit A - Statement of Net Position - Modified Cash Basis.....	6
Exhibit B - Statement of Revenues, Expenses, and Changes in Net Position - Modified Cash Basis.....	7
Exhibit C - Statement of Cash Flows - Modified Cash Basis.....	8
Notes to the Financial Statements.....	9-16
Report Required by <i>Government Auditing Standards</i> :	
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> .....	17-18
Schedule of Findings.....	19-20

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Mayes County Rural Water District #2  
Mayes County, Oklahoma

Report on the Audit of the Financial Statements

*Opinion*

I have audited the modified cash-basis financial statements of Mayes County Rural Water District #2, as of and for the year ended December 31, 2022, and the related notes to the financial statements, as listed in the table of contents.

In my opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective modified cash-basis financial position of the Mayes County Rural Water District #2 as of December 31, 2022, and the respective changes in modified cash-basis financial position and, where applicable, cash flows thereof for the year then ended in accordance with modified cash basis of accounting described in Note 1.

*Basis for 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*, issued by the Comptroller General of the United States. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of the Mayes County Rural Water District #2 and to meet my other ethical responsibilities, in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

*Emphasis of Matter - Basis of Accounting*

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

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## *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash basis of accounting described in Note 1, and for 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 financial statements that are free from material misstatement, whether due to fraud or error.

## *Auditor's Responsibilities for the Audit of the Financial Statements*

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, I

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Mayes County Rural Water District #2'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.

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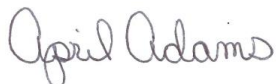
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- Conclude whether, in my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Mayes County Rural Water District #2's ability to continue as a going concern for a reasonable period of time.

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

### *Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated February 10, 2023, on my consideration of the Mayes County Rural Water District #2's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Mayes County Rural Water District #2'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 Mayes County Rural Water District #2's internal control over financial reporting and compliance.



April Adams CPA PLLC  
Ponca City, Oklahoma

February 10, 2023

**MAYES COUNTY RURAL WATER DISTRICT #2**  
**STATEMENT OF NET POSITION - MODIFIED CASH BASIS**  
**DECEMBER 31, 2022**

<u>ASSETS</u>	<u>2022</u>
<b><u>Current Assets:</u></b>	
Cash and Cash Equivalents	\$ 449,983
Inventory	27,189
Total Current Assets	<u>477,172</u>
<b><u>Noncurrent Assets:</u></b>	
Certificates of Deposit	504,339
Restricted Certificate of Deposit	1,739,348
Restricted Cash	1,589,840
Land and Construction in Progress	22,107
Other Capital Assets, Net of Accumulated Depreciation	<u>5,606,073</u>
Total Noncurrent Assets	<u>9,461,708</u>
TOTAL ASSETS	<u>\$ 9,938,880</u>
<b><u>LIABILITIES</u></b>	
<b><u>Current Liabilities:</u></b>	
Meter Deposits	\$ 84,455
Current Portion of Long-Term Debt	<u>159,000</u>
Total Current Liabilities	<u>243,455</u>
<b><u>Long-Term Liabilities:</u></b>	
Note Payable - OWRB	2,455,000
Less: Current Portion of Long-Term Debt	<u>(159,000)</u>
Total Long-Term Debt	<u>2,296,000</u>
TOTAL LIABILITIES	<u>2,539,455</u>
<b><u>NET POSITION</u></b>	
Net investment in capital assets	3,173,180
Restricted for debt service	1,589,840
Restricted for capital improvements	1,739,348
Unrestricted	<u>897,056</u>
TOTAL NET POSITION	<u>7,399,425</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 9,938,880</u>

The accompanying notes are an integral part of the basic financial statements.

**MAYES COUNTY RURAL WATER DISTRICT #2**  
**STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET POSITION - MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

	2022
<b><u>Operating Revenues:</u></b>	
Water sales	\$ 1,846,137
Misc Customer Fees	86,952
Total Operating Revenues	1,933,088
<b><u>Operating Expenses:</u></b>	
Payroll, Payroll Taxes and Benefits	320,057
Water Purchases	835,748
Insurance	17,258
Uniforms	5,191
Material and Field Supplies	87,018
Professional Fees	9,815
Fuel and Lubricants	17,082
Office Supplies and Postage	24,389
Repairs and Maintenance	48,374
Utilities and Telephone	26,511
Water Testing	6,753
Licenses and Dues	13,736
Bank Charges & Processing Fees	19,803
Returned Checks & ACH Payments	313
Misc. Expense	4,276
Depreciation Expense	362,868
Total Operating Expenses	1,799,192
Net Operating Income (Loss)	133,896
<b><u>Non-operating Revenues (Expenses):</u></b>	
Interest Income	31,230
Interest Expense	(55,478)
Membership Fees	86,365
Total Non-operating Revenues (Expenses)	62,117
Net Income (Loss) Before Contributions	196,013
Capital Contributions	88,849
Change in Net Position	284,862
Total Net Position, Beginning of Year	7,114,563
Total Net Position, Prior Year Adjustment	-
Total Net Position, End of Year	\$ 7,399,425

The accompanying notes are an integral part of the basic financial statements.

**MAYES COUNTY RURAL WATER DISTRICT #2  
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2022**

	<b>2022</b>
<b><u>Cash Flows from Operating Activities:</u></b>	
Cash Receipts from Customers	\$ 1,937,278
Payments for Employee Expenses	(320,057)
Payments to Suppliers for Goods & Services	(1,111,820)
Net Cash Provided (Used) by Operating Activities	<b>505,402</b>
<b><u>Cash Flows from Capital &amp; Related Financing Activities:</u></b>	
Purchase of Capital Assets	(162,278)
Membership Fees	86,365
Capital Contributions, including Grant Income	88,849
Principal paid on long-term debt	(155,324)
Interest paid on Debt	(55,478)
Net Cash Provided (Used) by Capital & Related Financing Activities	<b>(197,865)</b>
<b><u>Cash Flows from Investing Activities:</u></b>	
Interest Income	31,230
Net Cash Provided (Used) by Investing Activities	<b>31,230</b>
Net Increase (Decrease) in Cash and Cash Equivalents	338,766
Cash & Cash Equivalents, Beginning of Year	3,944,744
Cash & Cash Equivalents, Prior Year Adjustment	-
Cash & Cash Equivalents, End of Year	<b>\$ 4,283,510</b>
<b><u>Reconciliation of operating income (loss) to net cash provided</u></b>	
<b><u>operating activities:</u></b>	
Operating Income (Loss)	\$ 133,896
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation	362,868
(Increase)Decrease in Inventory	4,448
Increase(Decrease) in Customer Deposits	4,190
Net Cash Provided (Used) by Operating Activities	<b>\$ 505,402</b>
<b>Supplemental Information:</b>	
Unrestricted Cash and Cash Equivalents	\$ 449,983
Certificates of Deposit - Unrestricted	504,339
Certificates of Deposit & Savings - Reserved for Improvements	1,739,348
Restricted Cash & Cash Equivalents - BOK Bond & Const. Funds	1,589,840
Total Cash & Cash Equivalents	<b>\$ 4,283,510</b>

The accompanying notes are an integral part of the basic financial statements.



MAYES COUNTY RURAL WATER DISTRICT #2  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. Reporting Entity

Mayes County Rural Water District #2 was incorporated under the Rural Water District Act of Oklahoma in 1965, 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 needs of owners and occupants of land located within the District.

The membership consists of approximately 2,850 users, each entitled to one vote. The Board of Directors consists of 9 members serving 3-year terms. The vacant Board seats are elected at the annual meeting, and following, the Board of Directors meet and elect a chairman, vice-chairman, and secretary-treasurer.

The District is an independent, self-contained reporting entity with no associated component units. It is operated in a manner similar to private business enterprise where the cost (expenses, including depreciation) of providing water services is financed through user charges. The District purchases its water from Oklahoma Ordnance Works Authority (OOWA).

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 position, 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

MAYES COUNTY RURAL WATER DISTRICT #2  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022

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 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

MAYES COUNTY RURAL WATER DISTRICT #2  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022

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.

D. Assets, Liabilities and Net Position

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the District considers all cash on hand, demand deposit and highly liquid investments, with an original maturity of three months or less to be a cash and cash equivalents.

Investments

Investments consist of certificates of deposit maturing in the following fiscal year with interest paid quarterly or biannually at varying rates.

Inventory

The District has an inventory of pipe and other miscellaneous repair parts on hand. Inventory is recorded at cost using the first-in-first-out (FIFO) method.

Capital Assets

Property, plant 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. Purchases of capital items in excess of \$500.00 that increase the capacity or operation efficiency or extend the useful life of any asset are capitalized.

MAYES COUNTY RURAL WATER DISTRICT #2  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022

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 of 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

MAYES COUNTY RURAL WATER DISTRICT #2  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022

not related to capital and related financing, noncapital financing, or investing activities.

Use of Estimates

The preparation of financial statements in accordance 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 (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

NOTE 2 - CUSTODIAL CREDIT RISK RELATED TO DEPOSITS

Custodial Credit Risk

At December 31, 2022, the District held deposits of approximately \$4,283,510 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:

- 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.

MAYES COUNTY RURAL WATER DISTRICT #2  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2022

- 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.).

The District has the following credit risk: 100% in Certificates of Deposit (\$2,243,688).

NOTE 3 - RESTRICTED ASSETS

Restricted cash is cash and cash equivalents on deposit in various accounts with a Trustee as required by the bond indenture agreement.

NOTE 4 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended December 31, 2022, was as follows:

	12/31/21 Balance	Additions	Deductions	12/31/22 Balance
Non-depreciable assets:				
Land	\$ 22,107	\$ -	\$ -	\$ 22,107
Total non-depreciable assets	22,107	-	-	22,107
Depreciable assets:				
Distribution System	11,170,835	162,278	-	11,333,112
Buildings and Improvements	104,774	-	-	104,774
Meter Reading System	705,470	-	-	705,470
Furniture and Fixtures	28,360	-	-	28,360
Computers and Accessories	4,536	-	-	4,536
Tools and Equipment	438,415	-	-	438,415
Total depreciable assets	12,452,390	162,278	-	12,614,668
Less accumulated depreciation for:				
Distribution System	(5,733,422)	(291,019)	-	(6,024,441)
Buildings and Improvements	(74,703)	(2,635)	-	(77,338)
Meter Reading System	(415,692)	(54,643)	-	(470,335)
Furniture and Fixtures	(27,927)	(357)	-	(28,284)
Computers and Accessories	(4,432)	(52)	-	(4,484)
Tools and Equipment	(389,550)	(14,162)	-	(403,712)
Total accumulated depreciation	(6,645,727)	(362,868)	-	(7,008,595)
Net depreciable assets	5,806,664	(200,590)	-	5,606,073
Total net capital assets	\$ 5,828,771	\$ (200,590)	\$ -	\$ 5,628,180

Depreciation expense for the current year was \$362,868.

MAYES COUNTY RURAL WATER DISTRICT #2  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2022

NOTE 5 - LONG-TERM DEBT

On February 24, 2021, the District issued Utility System Revenue Note, Series 2021 in the amount of \$2,685,000.00 for the purpose of (i) funding the cost of capital improvements to the System (the "Project"); (ii) refinancing the outstanding amount of the District's Series 2005 Promissory Note to OWRB dated May 26, 2005, and issued in the original principal amount of \$4,050,000.00; and (iii) paying certain costs associated with the issuance of the Note. Principal maturities vary over the term of the loan. The note bears interest at an initial rate of 2.17% and after that until maturity the interest rate may be adjusted periodically not exceeding applicable statutory limits. This note will mature on March 1, 2036. Payments are made by the 15<sup>th</sup> day of each month to the trustee bank, Bank of Oklahoma, and placed into a restricted bond fund account. Semi-annual note payments are made each March 1<sup>st</sup>, and September 1<sup>st</sup>, from the debt service account.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended December 31, 2022:

	Balance at December 31, 2021	Additions	Deductions	Balance at December 31, 2022
Revenue Note, Series 2021	\$ 2,610,324	\$ -	\$ (155,324)	\$ 2,455,000
Total Long-Term Debt	<u>\$ 2,610,324</u>	<u>\$ -</u>	<u>\$ (155,324)</u>	<u>\$ 2,455,000</u>

Debt Services Requirements to Maturity

The annual debt service requirements to maturity, including principal only (variable interest rate), for long-term debt, as of December 31, 2022, are as follows:

Long-Term Notes Payable:

Year Ending December 31,	Principal
2023	\$ 159,000
2024	161,000
2025	165,000
2026	169,000
2027	173,000
2028	177,000
2029-2033	746,000
2034-2036	705,000
Total	<u>\$ 2,455,000</u>

MAYES COUNTY RURAL WATER DISTRICT #2  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022

NOTE 6 - CONTINGENCIES

Litigation

According to the District's management, there were no known contingent liabilities at December 31, 2022, which would have a material effect on the financial statements.

Grant Program Involvement

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 7 - ECONOMIC DEPENDENCE

Mayes County Rural Water District #2 is dependent upon the Oklahoma Ordnance Works Authority (OOWA) for the District's water supply.

NOTE 8 - EMPLOYEE RETIREMENT PLAN

The District maintains an elective SEP retirement plan for employees. The employees are allowed to contribute up to 7.65% of their wages (which is withheld from their payroll) and the District matches up to this amount. The District paid \$17,869.94 into the retirement plan in 2022. Each employee is allowed to choose which company they want to invest with for their own retirement account.

NOTE 9 - SUBSEQUENT EVENTS

The District did not have any subsequent events through February 10, 2023, 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, 2022.



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## 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  
Mayes County Rural Water District #2  
Mayes County, 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 financial statements of the Mayes County Rural Water District #2, as of and for the year ended December 31, 2022, 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 February 10, 2023.

### Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Mayes County Rural Water District #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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Mayes County Rural Water District #2's internal control. Accordingly, I do not express an opinion on the effectiveness of Mayes County Rural Water District #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 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.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. I did identify certain deficiencies in internal control described in the accompanying Schedule of Findings as Items 22-01 and 22-02 that I consider to be material weaknesses.

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## Compliance and Other Matters


As part of obtaining reasonable assurance about whether the Mayes County Rural Water District #2's financial statements are free of material misstatement, I 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*,

## Mayes County Rural Water District #2's Response to Findings

Mayes County Rural Water District #2's responses to the findings identified in my audit are described in the accompanying Schedule of Findings. Mayes County Rural Water District #2's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

## Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.



April Adams CPA PLLC  
Ponca City, Oklahoma

February 10, 2023

MAYES COUNTY RURAL WATER DISTRICT #2  
SCHEDULE OF FINDINGS  
DECEMBER 31, 2022

INTERNAL CONTROL FINDINGS:

Item 22-01: Segregation of Duties

Criteria: A good system of internal control requires a proper segregation of duties to prevent one person from being in a position to authorize, execute, and record the same transaction.

Condition: Due to the size of the District's major areas of internal control, that would be prevalent in a larger District, such segregation of duties is not available for this size operation. Duties are concentrated in the hands of a few individuals, who are responsible for all phases of the accounting functions. Because of this lack of division of responsibility, internal control is determined to be weak, and in some instances, non-existent.

Cause/Effect: Due to the limited number of personnel, a breach of internal controls could occur and not be detected in the normal course of operations.

Recommendation: The Board should continue to be actively involved in the operations of the organization.

Response: Some compensating controls have been implemented by the Board and management plays a large role in oversight of the billing, collection and reconciliation function.

Item 22-02: Internal Control over Financial Reporting

Criteria: Per government auditing and accounting standards management must designate an individual or individuals that possess skill, knowledge and experience to the extent they can perform year-end closing adjustments and evaluate any non-attest services or audit adjustments performed by the independent auditor.

Condition: Material adjusting journal entries were required to arrive at the final adjusted trial balance.

Cause/Effect: As defined by *Government Auditing Standards*, district personnel do not possess the necessary skill, knowledge and experience. The District is not able to report accurate and timely financial information.

Recommendation: The District should get additional assistance with performing year-end closing and financial statement preparation.

Response: Management is taking into consideration the Auditor's recommendation and is working to improve performance in this area.

MAYES COUNTY RURAL WATER DISTRICT #2  
SCHEDULE OF FINDINGS  
DECEMBER 31, 2022

COMPLIANCE FINDINGS:

None