

AUDIT REPORT

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

DECEMBER 31, 2023



April Adams CPA PLLC

PO Box 1355

Ponca City, Oklahoma 74602

Phone: (580) 762-1040

Fax: (580) 762-1047

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
MCINTOSH COUNTY, OKLAHOMA
DECEMBER 31, 2023

Table of Contents

	<u>Page</u>
Introductory Section:	
Board of Directors (unaudited)	3
Independent Auditor's Report.....	4-7
Basic Financial Statements:	
Exhibit A - Statement of Net Position - Modified Cash Basis ...	8
Exhibit B - Statement of Revenues, Expenses, and Changes in Net Position - Modified Cash Basis	9
Exhibit C - Statement of Cash Flows - Modified Cash Basis	10
Notes to the Financial Statements	11-19
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>	20-22
Schedule of Findings	23

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
MCINTOSH COUNTY, OKLAHOMA
DECEMBER 31, 2023

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>	<u>TERM EXPIRATION</u>
Jeff McPeak	Chairman	2026
Greg Hefner	Vice-Chairman	2025
Kenneth Pemberton	Secretary/Treasurer	2026
Mike Williams	Member	2027
Clint Walker	Member	2025

April Adams CPA PLLC

PO Box 1355

Ponca City, Oklahoma 74602

Phone: (580) 762-1040

Fax: (580) 762-1047

Email: cpa@apriladamscpa.com

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 Audit of the Financial Statements

Opinion

I have audited the modified cash-basis financial statements of Rural Water, Sewer, and Solid Waste Management District No. 2, McIntosh County, Oklahoma, as of and for the year ended December 31, 2023, and the related notes to the financial statements, as listed in the table of contents.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash-basis financial position of the Rural Water, Sewer, and Solid Waste Management District No. 2, McIntosh County as of December 31, 2023, and the respective modified cash-basis changes in 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 Rural Water, Sewer, and Solid Waste Management District No. 2, McIntosh County 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.

April Adams CPA PLLC

PO Box 1355

Ponca City, Oklahoma 74602

Phone: (580) 762-1040

Fax: (580) 762-1047

Email: cpa@apriladamscpa.com

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Rural Water, Sewer, and Solid Waste Management District No. 2, McIntosh County's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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

April Adams CPA PLLC

PO Box 1355

Ponca City, Oklahoma 74602

Phone: (580) 762-1040

Fax: (580) 762-1047

Email: cpa@apriladamscpa.com

effectiveness of the Rural Water, Sewer, and Solid Waste Management District No. 2, McIntosh County's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Rural Water, Sewer, and Solid Waste Management District No. 2, McIntosh County'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 Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory information section listed in the accompanying table of contents but does not include the basic financial statements and my auditor's report thereon. My opinion on the basic financial statements does not cover the other information, and I do not express an opinion or any form of assurance thereon.

In connection with my audit of the basic financial statements, my responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, I conclude that an uncorrected material misstatement of the other information exists, I am required to describe it in my report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated May 7, 2024, on my consideration of the Rural Water, Sewer, and Solid Waste Management District No. 2, McIntosh County'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

April Adams CPA PLLC

PO Box 1355

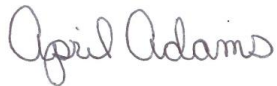
Ponca City, Oklahoma 74602

Phone: (580) 762-1040

Fax: (580) 762-1047

Email: cpa@apriladamscpa.com

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.



April Adams CPA PLLC
Ponca City, Oklahoma

May 7, 2024

**RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
MCINTOSH COUNTY, OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
DECEMBER 31, 2023**

	<u>2023</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS:</u>	
Cash and Cash Equivalents	\$ 581,618
TOTAL CURRENT ASSETS	<u>581,618</u>
<u>NONCURRENT ASSETS:</u>	
<u>RESTRICTED ASSETS:</u>	
Restricted Certificates of Deposit	67,352
Restricted BOK Trust Accounts	226,456
TOTAL RESTRICTED ASSETS	<u>293,808</u>
<u>CAPITAL ASSETS:</u>	
Land	25,483
Construction in Progress	12,500
Other Capital Assets	5,021,500
Less: Accumulated Depreciation	<u>(2,887,810)</u>
NET CAPITAL ASSETS	<u>2,171,672</u>
TOTAL NON-CURRENT ASSETS	<u>2,465,481</u>
TOTAL ASSETS	<u>3,047,099</u>
<u>LIABILITIES & NET POSITION</u>	
<u>CURRENT LIABILITIES:</u>	
Current maturity of long-term debt	<u>106,134</u>
Total Current Liabilities	<u>106,134</u>
LONG-TERM LIABILITIES	<u>1,900,831</u>
TOTAL LIABILITIES	<u>2,006,965</u>
<u>NET POSITION:</u>	
Net investment in capital assets	164,708
Restricted for debt service	293,808
Unrestricted	<u>581,618</u>
TOTAL NET POSITION	<u>\$ 1,040,134</u>

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

**RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
MCINTOSH COUNTY, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - MODIFIED CASH BASIS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2023**

	<u>2023</u>
<u>OPERATING REVENUES:</u>	
Water Sales	\$ 788,235
New installations	7,800
Other income	-
TOTAL OPERATING REVENUES	<u>796,035</u>
<u>OPERATING EXPENSES:</u>	
NFMHO	11,415
Professional fees & Dues	74,278
Office Expense	12,528
Payroll & related expenses	219,185
Operations: Repairs & Supplies	101,776
Insurance	32,816
Utilities	28,695
Telephone	5,840
Vehicles	10,806
Miscellaneous expense	3,633
Depreciation	156,315
Total Operating Expenses	<u>657,287</u>
NET OPERATING INCOME (LOSS)	<u>138,748</u>
<u>OTHER REVENUES (EXPENSES):</u>	
Interest Income	23,453
Interest Expense	(76,675)
Insurance Proceeds	-
Total Other Revenues (Expenses)	<u>(53,221)</u>
Net Income (Loss) Before Contributions	<u>85,526</u>
Capital Contributions	<u>-</u>
CHANGE IN NET POSITION	85,526
TOTAL NET POSITION, Beginning of Year	1,012,688
TOTAL NET POSITION, Prior Year Adjustment	<u>(58,081)</u>
TOTAL NET POSITION, End of Year	<u><u>\$ 1,040,134</u></u>

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

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
MCINTOSH COUNTY, OKLAHOMA
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2023

	<u>2023</u>
<u>Cash Flows from Operating Activities:</u>	
Cash Receipts from Customers	\$ 796,035
Payments to Suppliers for Goods & Services	(281,788)
Payments to Employees & Laborers	(219,185)
Net Cash Provided (Used) by Operating Activities	<u>295,062</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>	
Additions to Capital Assets	(47,809)
Capital Contributions - Loan Forgiveness	-
Proceeds from long-term debt	-
Principal paid on long-term debt	(100,887)
Interest paid on Debt	(89,099)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(237,795)</u>
<u>Cash Flows from Investing Activities:</u>	
Net activity with restricted accounts	(6,501)
Interest Income	23,453
Net Cash Provided (Used) by Investing Activities	<u>16,952</u>
Net Increase (Decrease) in Cash and Cash Equivalents	74,219
Cash & Cash Equivalents, Beginning of Year	504,755
Cash & Cash Equivalents, Prior Year Adjustment	2,644
Cash & Cash Equivalents, End of Year	<u><u>\$ 581,618</u></u>
<u>Reconciliation of operating income (loss) to net cash provided</u>	
<u>operating activities:</u>	
Operating Income (Loss)	\$ 138,748
Adjustments to reconcile operating income (loss) to net cash	
provided (used) by operating activities	
Depreciation & Amortization	156,315
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 295,062</u></u>

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

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

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

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

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

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

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 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, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

D. Financial Position

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

Capital 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

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

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

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

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.

Income Taxes

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

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

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 and

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

the financial statements are presented on the modified cash-basis of accounting.

NOTE 2 - CASH AND INVESTMENTS

Custodial Credit Risk

At December 31, 2023, the District held deposits of approximately \$875,426 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.
- 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 (\$67,352).

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 3 - RESTRICTED ASSETS

The loan agreements 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.

NOTE 4 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended December 31, 2023, was as follows:

	12/31/22 Balance	Additions	Deductions	12/31/23 Balance
Capital assets not being depreciated:				
Land	\$ 25,483	\$ -	\$ -	\$ 25,483
Construction in Progress	12,500	-	-	12,500
Total capital assets not being depreciated	37,983	-	-	37,983
Other capital assets:				
Water Tower	309,652	-	-	309,652
Office building, equipment and fixtures	151,342	3,468	-	154,810
Transportation equipment	58,440	-	-	58,440
Heavy equipment	49,349	-	-	49,349
Water treatment facility	3,977,506	44,341	-	4,021,848
Lines and storage	423,001	-	-	423,001
Storage Building	4,400	-	-	4,400
Total other capital assets at historical cost	4,973,691	47,809	-	5,021,500
Less accumulated depreciation for:				
Water Tower	(214,026)	(7,721)	-	(221,747)
Office building, equipment and fixtures	(112,362)	(4,393)	-	(116,755)
Transportation equipment	(56,040)	(1,600)	-	(57,640)
Heavy equipment	(49,349)	-	-	(49,349)
Water treatment facility	(1,915,168)	(121,231)	-	(2,036,398)
Lines and storage	(380,701)	(21,150)	-	(401,851)
Storage Building	(3,850)	(220)	-	(4,070)
Total accumulated depreciation	(2,731,496)	(156,315)	-	(2,887,810)
Other capital assets, net	2,242,195	(108,505)	-	2,133,689
Total Capital Assets, net	\$ 2,280,178	\$ (108,505)	\$ -	\$ 2,171,672

NOTE 5 - 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

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

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 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, 2023:

	Balance at December 31, 2022	Additions	Deductions	Balance at December 31, 2023
OWRB FAP-14-0005-L	\$ 1,700,000	\$ -	\$ (85,000)	\$ 1,615,000
OWRB ORF-20-0004-DW	247,377	-	(15,887)	231,490
Total Long-Term Debt	1,947,377	-	(100,887)	1,846,490
Less: Current Portion	(100,887)			(106,134)
Less: Discount on OWRB	(4,924)	-	354	(4,570)
Plus: Premium on OWRB	177,823	-	(12,778)	165,045
Net Long-Term Debt	<u>\$ 2,019,389</u>	<u>\$ -</u>	<u>\$ (113,311)</u>	<u>\$ 1,900,831</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, 2023, are as follows:

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

Year Ending December 31,	Note Payable - OWRB FAP-14-0005-L		
	Principal	Interest	Total
2024	\$ 90,000	\$ 81,435	\$ 171,435
2025	95,000	77,475	172,475
2026	100,000	72,345	172,345
2027	105,000	66,945	171,945
2028	110,000	61,275	171,275
2029-2033	640,000	211,065	851,065
2034-2036	475,000	39,885	514,885
Total	<u>\$ 1,615,000</u>	<u>\$ 610,425</u>	<u>\$ 2,225,425</u>

Year Ending December 31,	Note Payable - OWRB ORF-20-0004-DW			
	Principal	Interest	Admin	Total
2024	\$ 16,134	\$ 2,520	\$ 1,156	\$ 19,811
2025	16,405	2,334	1,071	19,811
2026	16,671	2,152	987	19,811
2027	16,941	1,967	903	19,811
2028	17,208	1,784	819	19,811
2029-2033	90,340	5,973	2,740	99,053
2034-2036	57,791	1,124	516	59,431
Total	<u>\$ 231,490</u>	<u>\$ 17,856</u>	<u>\$ 8,191</u>	<u>\$ 257,537</u>

NOTE 6 - RETIREMENT PLAN

The District does not provide a retirement plan for employees.

NOTE 7 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District continues to carry commercial insurance for these risks, including general and auto liability, property damage, and public officials liability. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

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.

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 8 - INSURANCE COVERAGE

Property Coverage

Insurer	ORWA Assurance Group
Expiration	June 1, 2024
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, 2024

NOTE 9 - 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.

NOTE 10 - SUBSEQUENT EVENTS

The District did not have any subsequent events through May 7, 2024, 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, 2023.

NOTE 10 - PRIOR YEAR ADJUSTMENT

A prior year adjustment of \$61,504 was made to equity to remove accruals from the financial statements. The District maintains its financial statements on a modified cash-basis of accounting.

There were also adjustments made to beginning cash and investments of \$2,644 & \$779. This resulted in a net adjustment of \$58,081 to Total Net Position.

April Adams CPA PLLC

PO Box 1355

Ponca City, Oklahoma 74602

Phone: (580) 762-1040

Fax: (580) 762-1047

Email: cpa@apriladamscpa.com

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

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the modified cash basis financial statements of the Rural Water, Sewer, and Solid Waste Management District No. 2, McIntosh County, as of and for the year ended December 31, 2023, 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 my report thereon dated May 7, 2024.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Rural Water, Sewer, and Solid Waste Management District No. 2, McIntosh County'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 Rural Water, Sewer, and Solid Waste Management District No. 2, McIntosh County's internal control. Accordingly, I 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

April Adams CPA PLLC

PO Box 1355

Ponca City, Oklahoma 74602

Phone: (580) 762-1040

Fax: (580) 762-1047

Email: cpa@apriladamscpa.com

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. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified. I did identify certain deficiencies in internal control described in the accompanying Schedule of Findings that I consider to be significant deficiencies. Those deficiencies are listed as Item 2023-01.

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, 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*.

Rural Water, Sewer, & Solid Waste Management District No. 2's Response to Findings

Rural Water, Sewer, & Solid Waste Management District No. 2's response to the findings identified in our audit is described in the accompanying Schedule of Findings. Rural Water, Sewer & Solid Waste Management District No. 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

April Adams CPA PLLC

PO Box 1355

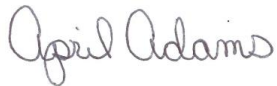
Ponca City, Oklahoma 74602

Phone: (580) 762-1040

Fax: (580) 762-1047

Email: cpa@apriladamscpa.com

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

May 7, 2024

RURAL WATER, SEWER, GAS & SOLID WASTE MANAGEMENT DISTRICT #8
MCINTOSH COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2023

INTERNAL CONTROL FINDINGS:

Item 2023-01: 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: The District relied on the auditor to propose entries after audit procedures. The District was not able to report accurate financial information without the required adjustments.

Recommendation: The District should consider making required yearend adjusting entries without auditor assistance when preparing the financial statements.

Response: Management will take into consideration the Auditor's recommendation and will work to improve performance in this area.

COMPLIANCE FINDINGS:

None reported