

Marshall County Rural Water District #2

Independent Auditors Report

**As of and for the Years Ended
June 30, 2024 and 2023**

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Independent Auditors Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of Marshall County Rural Water District #2, as of and for the years ended June 30, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Marshall County Rural Water District #2, as of June 30, 2024 and 2023, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ending in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Marshall County Rural Water District #2 and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 Marshall County Rural Water District #2's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards 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 generally accepted auditing standards and *Government Auditing Standards*, we:

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

We are 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 we identified during the audit.

Required Supplementary Information

Management has omitted the management's discussion and analysis and budgetary comparison information 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 7, 2025, on our consideration of the Marshall County Rural Water District #2's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Marshall County Rural Water District #2's internal control over financial reporting and compliance.

Russell + Williams CPAs, P.C.

Edmond, Oklahoma
February 7, 2025

Marshall County Rural Water District #2

Statement of Net Position

June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
ASSETS		
Cash	\$ 3,947,196.73	\$ 2,973,627.82
Investments	5,220.00	5,220.00
Accounts Receivable (Less Allowance for Doubtful)	341,437.23	377,025.49
Membership Fees Receivable	63,060.00	83,038.00
Inventory	115,373.40	282,899.80
Prepaid Insurance	89,820.26	86,971.70
Total current assets	<u>4,562,107.62</u>	<u>3,808,782.81</u>
Capital assets, net	<u>21,587,834.56</u>	<u>19,386,152.70</u>
TOTAL ASSETS	<u><u>\$ 26,149,942.18</u></u>	<u><u>\$ 23,194,935.51</u></u>
LIABILITIES AND NET ASSETS		
Accounts Payable	\$ 34,437.29	\$ 175,797.66
Payroll Taxes Payable	9,909.62	9,133.48
Accrued Compensated Absences	59,803.04	43,562.01
Refundable Meter Deposits	25,586.00	25,586.00
Notes Payable - Current	1,859,555.52	1,071,056.00
Total current liabilities	<u>1,989,291.47</u>	<u>1,325,135.15</u>
Notes Payable - Long-term portion	<u>9,063,306.36</u>	<u>7,356,400.04</u>
Total Liabilities	<u>11,052,597.83</u>	<u>8,681,535.19</u>
NET POSITION		
Net Investment in Capital Assets	10,664,972.68	10,958,696.66
Unrestricted	<u>4,432,371.67</u>	<u>3,554,703.66</u>
Total Net Position	<u>15,097,344.35</u>	<u>14,513,400.32</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 26,149,942.18</u></u>	<u><u>\$ 23,194,935.51</u></u>

The accompanying notes are an integral part of these financial statements.

Marshall County Rural Water District #2
Statement of Revenues, Expenses, and Changes to Net Position
For the Year Ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Revenues:		
Water sales	\$ 4,872,434.23	\$ 4,923,063.98
Membership Fees	402,272.00	423,260.00
Developers Fees	144,000.00	181,000.00
Interest Income	70,168.77	51,361.64
Other Income	<u>73,863.42</u>	<u>153,945.37</u>
Total Revenues	5,562,738.42	5,732,630.99
Expenses:		
Advertising	1,184.33	605.98
Chemicals & Supplies	753,582.46	785,705.43
Depreciation	1,018,907.99	1,000,023.61
DEQ Fees	51,588.82	73,851.76
Dues and Fees	5,531.40	5,287.20
Employee Benefits - Health Insurance	142,705.12	135,586.22
Insurance and Bonds	109,527.42	91,709.89
Interest	464,648.92	266,138.54
Leased Equipment	21,214.60	25,225.70
Professional Fees	184,759.45	143,247.23
Office Supplies and Expense	31,518.69	25,408.95
Other Expenses	201,533.25	277,714.06
Payroll Taxes	68,346.48	61,227.43
Pension Plan Expense	34,650.00	33,275.00
Postage	48,154.00	51,646.00
Purchase of Water	118,873.81	65,011.24
Repairs and Maintenance	615,900.82	674,255.21
Salaries and Wages	796,690.98	749,128.17
Travel and Education	9,105.82	6,918.81
Truck and Tractor Expense	74,608.94	74,493.40
Utilities and Telephone	<u>225,761.09</u>	<u>252,845.74</u>
Total Expenses	4,978,794.39	4,799,305.57
Operating Income (Loss)	<u>583,944.03</u>	<u>933,325.42</u>
Non-Operating Revenue (Expenses):		
Net Change in Net Position	583,944.03	933,325.42
Beginning of Year Net Position	<u>14,513,400.32</u>	<u>13,580,074.90</u>
End of Year Net Position	<u><u>\$ 15,097,344.35</u></u>	<u><u>\$ 14,513,400.32</u></u>

The accompanying notes are an integral part of these financial statements.

Marshall County Rural Water District #2
Statement of Cash Flows
For the Year Ending June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Cash Flows Provided (Used) by Operating Activities		
Increase (Decrease) in Net Position	\$ 583,944.03	\$ 933,325.42
Adjustments to Reconcile Net Cash Provided (Used) by Operations:		
Depreciation	1,018,907.99	1,000,023.61
(Increase) Decrease in Receivables	55,566.26	270,174.81
(Increase) Decrease in Inventory	167,526.40	(149,174.80)
(Increase) Decrease in Prepaid Expenses	(2,848.56)	(4,212.02)
Increase (Decrease) in Payables	(124,343.20)	20,544.83
Net Cash Provided (Used) by Operating Activities	<u>1,698,752.92</u>	<u>2,070,681.85</u>
Cash Flows Provided (Used) by Investing Activities		
Purchases of Fixed Assets	(3,220,589.85)	(693,633.18)
Net Cash Provided (Used) by Investing Activities	<u>(3,220,589.85)</u>	<u>(693,633.18)</u>
Cash Flows Provided (Used) by Financing Activities		
Principal paid on long term debt	2,495,405.84	(1,113,861.46)
Net Cash Flows From Capital and Related Financing Activities	<u>2,495,405.84</u>	<u>(1,113,861.46)</u>
Net Increase (Decrease) in Cash	973,568.91	263,187.21
Cash, Beginning of the Year	2,973,627.82	2,710,440.61
Cash, End of the Year	<u><u>\$ 3,947,196.73</u></u>	<u><u>\$ 2,973,627.82</u></u>

The accompanying notes are an integral part of these financial statements.

MARSHALL COUNTY RURAL WATER DISTRICT #2
Notes to Basic Financial Statements
June 30, 2024 and 2023

Note 1: Summary of Significant Accounting Policies

Financial Reporting Entity

The Marshall County Rural Water District #2 was originally incorporated on August 13, 1970 as Marshall County Water Corporation. The Corporation was exempt from Federal and State income taxes under Section 501(C)(12) of the Internal Revenue Code. Members voted in a special meeting held on January 12, 2023 to convert from a Water Corporation to a Rural Water District. The Marshall County Water Corporation was officially dissolved on June 30, 2023 and began operating as Marshall County Rural Water District #2 on July 1, 2023. The purpose of the District is to provide for the use and benefit of its members, a water works and distribution system.

Basis of Presentation, Measurement Focus, and Basis of Accounting

The District is financed and operated in a manner similar to a private business enterprise, where the intent of the governing body is that the costs of providing water to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses Incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The District uses one fund which is a proprietary fund of a business-type activity as described above. This fund is reported on the accrual basis of accounting; consequently, all revenue is included when earned, and all expenses are recognized when the obligation is incurred.

Proprietary fund equity is reported as restricted net assets (funds that are restricted to a particular use), unrestricted net assets, and investments in capital assets net of related debt.

Operating revenues and expenses for proprietary funds are those that result from providing water, sewer, and solid waste collection services.

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts in various funds. Actual results could differ from those estimates.

Note 2: Stewardship, Compliance and Accountability

Budget

The District prepares an annual estimated budget of cash receipts and disbursements for the purpose of adjusting water rates if necessary and as a forecast of cash receipts and disbursements required by the USDA Rural Development. This does not meet the definition of a legally required and adopted budget and accordingly is not presented.

Risk Management

The District's business activity is with customers located within a portion of Marshall County, Oklahoma. As of June 30, 2024, and 2023, the District's net receivables were \$341,437 and

MARSHALL COUNTY RURAL WATER DISTRICT #2
Notes to Basic Financial Statements
June 30, 2024 and 2023

\$377,025, respectively. An overall decline in the economic condition of the area could affect the collection of those net receivables.

The District is exposed to various risks of loss related to theft of and damage to assets, errors and omissions, injuries to employees, and natural disasters. The District purchases commercial insurance to cover these possible liabilities.

Commitments and Contingencies

The District participates in state and federally assisted loan and grant programs. These programs are subject to program compliance audits by grantors or their representatives. Accordingly, the District's compliance with applicable loan and grant requirements will be established at some future date. The amount, if any, of expenses which may be disallowed by the granting agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

Note 3: Detail Notes On Transaction Classes and Accounts

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/expenses.

Cash and Equivalents

For the purpose of the Statement of Net Assets, "cash" includes all demand, savings accounts, and certificates of deposits of the District. For the purpose of the proprietary fund Statement of Cash Flows, "cash and equivalents" includes all demand and savings accounts, and certificates of deposit with an original maturity of three months or less.

Deposits are classified into the following three categories: (1) Insurance or collateralized with securities held by the entity or by its agent or in the entity's name (Category 1); (2) Collateralized with securities held by the pledging financial institutions trust department or agent In the entity's name (Category 2); and (3) Uncollateralized, including any bank balance that is collateralized with securities held by the pledging institution, or by its trust department or agent but not in the entity's name (Category 3).

All of the District's cash accounts are considered Category 1. The accounts are covered by FDIC insurance up to \$250,000. At June 30, 2024 all accounts were covered by either the federal depository insurance or other collateral.

Accounts Receivable

Accounts receivables consist of all revenues earned at year-end and not yet received. Allowances for doubtful accounts are based on accounts that are over 90 days old at the end of the accounting year.

Capital Assets

Capital assets used in the District's operations are stated at cost less accumulated depreciation.

MARSHALL COUNTY RURAL WATER DISTRICT #2
Notes to Basic Financial Statements
June 30, 2024 and 2023

Depreciation is provided on the straight-line method at various rates based on the estimated useful lives of the assets. Generally, estimated useful lives of five years for trucks and tractors, ten years for furniture, fixtures and equipment, and thirty years for the building and water system are used. Maintenance and repairs as well as renewals and betterments of small amounts are charged against Income as incurred whereas major renewals or betterments which extend the life or increase the value of property are capitalized.

Note 4: Accounts Receivable

Accounts Receivable

Accounts receivables are amounts due from members for water services. An allowance for doubtful accounts has been set up for those accounts that have been due for greater than 90 days.

Accounts receivables as June 30, 2024 and 2023 consisted of the following:

	2024	2023
Customer Receivables	\$ 359,437	\$ 395,025
Allowance for Doubtful Accounts	(18,000)	(18,000)
Net	<u>\$ 341,437</u>	<u>\$ 377,025</u>

Note 5: Membership Receivables

The District also has members who are paying their membership fees on an installment basis. Members who use this installment method make a \$100 down payment and an agreed upon monthly payment until the fee is paid in full. An allowance for doubtful accounts has been set up for those accounts that are in arrears for greater than one year. Membership receivables at June 30, 2024 and 2023 consisted of the following:

	2024	2023
Membership receivables	63,060	83,038
	<u>\$ 63,060</u>	<u>\$ 83,038</u>

Note 6: Investments

At June 30, 2024 and 2023, the District held the following investments:

Oklahoma Rural Water Association:	
Assurance reserve cash deposit, at cost, earning interest at variable rates.	\$ 5,000
Federated Electric Company:	
Dividends previously invested, at cost	220
Total Investments	<u>\$ 5,220</u>

MARSHALL COUNTY RURAL WATER DISTRICT #2
Notes to Basic Financial Statements
June 30, 2024 and 2023

Note 7: Property and Equipment

Fixed assets are carried at cost with depreciation being provided using the straight-line method. Maintenance and repairs are charged to expense as incurred. Improvements are capitalized. The following schedule summarizes the estimated useful lives of the various fixed asset categories and acquisitions for the years ended:

Capital asset activity for the year ended June 30, 2024 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Water System	32,493,636	2,988,958	-	35,482,594
Land	478,649	-	-	478,649
Buildings	370,575	-	-	370,575
Equipment	1,078,046	231,631	-	1,309,677
Total	34,420,906	3,220,590	-	37,641,496
Less: Accumulated Depreciation	(15,034,753)	(1,018,908)	-	(16,053,661)
Net Capital Assets	<u>\$ 19,386,153</u>			<u>\$ 21,587,835</u>

Capital asset activity for the year ended June 30, 2023 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Water System	31,874,959	618,677	-	32,493,636
Land	478,649	-	-	478,649
Buildings	370,575	-	-	370,575
Equipment	1,003,090	74,956	-	1,078,046
Total	33,727,273	693,633	-	34,420,906
Less: Accumulated Depreciation	(14,034,730)	(1,000,024)	-	(15,034,754)
Net Capital Assets	<u>\$ 19,692,543</u>			<u>\$ 19,386,153</u>

Note 8: Long-Term Debt

In August 2020, the District consolidated all of its outstanding Rural Development debt into one note payable with a local bank to save on interest. This new note carries an interest rate of 3.89% and is for a term of 120 months. At the end of the term the District will make a balloon payment to payoff the remaining portion. Payments of \$82,010, which includes interest, are to be made each month beginning on October 10, 2020. The District is also making additional principal only payments of \$32,990 each month. The balance of the loan at June 30, 2024 is \$7,447,524.

MARSHALL COUNTY RURAL WATER DISTRICT #2
Notes to Basic Financial Statements
June 30, 2024 and 2023

The following is a schedule of the annual payments:

Year	Payments	Principal	Interest
2025	1,380,000	1,113,471	266,529
2026	1,380,000	1,157,566	222,434
2027	1,380,000	1,203,407	176,593
2028	1,380,000	1,251,063	128,937
2029	1,380,000	1,300,607	79,393
2030	1,447,984	1,421,409	26,575
	<u>\$ 8,347,984</u>	<u>\$ 7,447,524</u>	<u>\$ 900,460</u>

In September 2024, the District took out a new loan in the amount of \$4,000,000 to replace all of its meters. This new note carries an interest rate of 5.36% and is for a term of 60 months. Payments of \$76,143, which includes interest, are to be made each month beginning on October 21, 2024. The balance of the loan at June 30, 2024 is \$3,475,338.

The following is a schedule of the annual payments:

Year	Payments	Principal	Interest
2025	913,713	746,085	167,828
2026	913,713	787,072	126,641
2027	913,713	830,311	83,402
2028	913,713	875,925	37,787
2030	237,975	235,946	2,029
	<u>\$ 3,892,826</u>	<u>\$ 3,475,338</u>	<u>\$ 417,687</u>

Note 9: Accrued Compensated Absences

Full-time employees are entitled to a minimum of two weeks (10 working days) of vacation pay each year after their first 90 days of employment. At June 30, 2024 and 2023, employees had accrued unused vacation and accrued comp time of \$59,803 and \$43,562.

Note 10: Pension Plan

During the year ended June 30, 2024 and 2023, the District contributed \$34,650 and \$33,275 respectively, to employee individual retirement accounts. After being employed for 90 days, full-time employees and part-time employees can have \$100 and \$50 a month, respectively, contributed to their individual retirement accounts.

Note 11: Water Purchase Agreement

The District purchases water under a 50-year contract from a local landowner, who is also the District's attorney. The agreed upon purchase price is adjusted, after each five-year period, based on the relative change in the Consumer Price Index over the latest five-year period. The next price adjustment period is schedule to begin January 1, 2023. For the year ended June 30, 2024 and 2023 the District purchased \$118,874, and \$65,011 of water under this contract.

MARSHALL COUNTY RURAL WATER DISTRICT #2
Notes to Basic Financial Statements
June 30, 2024 and 2023

Note 12: Fair Value of Financial Instruments

The definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosure about the use of fair value measurements in an effort to make the measurement of fair value more consistent and comparable.

Level 1: Quoted prices in active markets for identical securities.

Level 2: Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment spread and credit risk).

Level 3: Significant unobservable inputs (including the District's own assumptions in determining the fair value of investments).

The District's financial instruments include cash and cash equivalents, certificates of deposit, inventory, accounts receivable, accounts payable, and notes payable. The District's estimate of fair value of all financial instruments does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying statement of net position. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Note 13: Evaluation of Subsequent Events

Subsequent events have been evaluated through February 7, 2025 which is the date the financial statements were issued.

Russell & Williams CPA's, P.C.

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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
Marshall County Rural Water District #2
Madill, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the accompanying financial statements of Marshall County Rural Water District #2, which comprise the statement of financial position as of June 30, 2024 and 2023, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 7, 2025.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Marshall County Rural Water District #2'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Marshall County Rural Water District #2's internal control. Accordingly, we do not express an opinion on the effectiveness of the Marshall 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 Marshall County Rural Water District #2's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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.

Russell + Williams CPAs, P.C.

Oklahoma City, Oklahoma
February 7, 2025