

**McIntosh County Rural Water District No. 13
Henryetta, Oklahoma**

Financial Statements and Auditor's Reports

Year Ended October 31, 2022

Audited by

**BLEDSON, HEWETT & GULLEKSON
CERTIFIED PUBLIC ACCOUNTANTS, PLLLP**

BROKEN ARROW, OK

McIntosh County Rural Water District No. 13
Henryetta, Oklahoma
October 31, 2022

BOARD OF DIRECTORS

Chairman

Vincent Williams

Vice-Chairman

David Berry

Secretary/Treasurer

Stretch May

Members

Brock Barber

R. Wyatt Secor

FIELD MANAGER

Scott Gillan

OFFICE MANAGER

Rhonda Roberts

BOOKKEEPER

Jamie Long

McIntosh County Rural Water District No. 13
Henryetta, Oklahoma
October 31, 2022

TABLE OF CONTENTS

	<u>Page</u>
Table of Contents	1
Independent Auditor's Report	2
Management's Discussion and Analysis	5
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	9
Disposition of Prior Year Significant Deficiencies	11
Schedule of Audit Results	12
<u>COMBINED FINANCIAL STATEMENTS:</u>	
Statement of Net Position	13
Statement of Revenues, Expenses and Changes in Net Position	14
Statement of Cash Flows	15
Notes to Financial Statements	16
<u>OTHER SUPPLEMENTARY INFORMATION:</u>	
Schedule of Water Rates and Customers (unaudited)	23



BLEDSON, HEWETT & GULLEKSON
CERTIFIED PUBLIC ACCOUNTANTS, PLLLP

Eric M. Bledsoe, CPA
Jeffrey D. Hewett, CPA
Christopher P. Gullekson, CPA

P.O. BOX 1310 • 121 E. COLLEGE ST. • BROKEN ARROW, OK 74013 • (918) 449-9991 • (800) 522-3831 • FAX (918) 449-9779

INDEPENDENT AUDITOR'S REPORT

Board of Directors
McIntosh County Rural Water District No. 13
Henryetta, Oklahoma

Report on the Audit of the Financial Statements

We have audited the accompanying modified cash basis financial statements of the McIntosh County Rural Water District No. 13, Henryetta, Oklahoma (the District), as of and for the year ended October 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Opinion

As discussed in Note 1, the District prepares its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of the District as of October 31, 2022, and the respective changes in modified cash basis financial position and its cash flows for the year then ended, in accordance with the modified cash basis of accounting described in Note 1.

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 the District 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 opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. 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.

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 District'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

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 opinions. 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 the District'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 the District'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.

Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 - 8 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The prior year "memorandum only" comparative information and the supplementary information on page 23 are presented for the purposes of additional analysis and are not a required part of the basic financial statements of the District. Such information has not been subjected to the auditing procedures applied in our audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 5, 2022, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 the District's internal control over financial reporting and compliance.

Bledsoe, Hewett & Gullekson

Bledsoe, Hewett & Gullekson
Certified Public Accountants, PLLLP

December 5, 2022

McINTOSH COUNTY RURAL WATER DISTRICT NO. 13, HENRYETTA, OK
MANAGEMENT'S DISCUSSION AND ANALYSIS

October 31, 2022

Our discussion and analysis of the McIntosh County Rural Water District No. 13, Henryetta, Oklahoma, McIntosh County's financial performance provides an overview of the District's financial activities for the fiscal year ended October 31, 2022. Please read it in conjunction with the District's financial statements that begin on page 13.

FINANCIAL HIGHLIGHTS:

- The District's total operating revenue exceeded total operating expenses by \$115,632, an increase of \$30,576 compared to the prior year.
- The District's overall total net position increased by \$34,464 in the current fiscal year.
- The District continued to make timely payments on their existing OWRB loan.
- The District added \$36,142 in capital assets in 2022, which included some office equipment and a water line extension.
- Membership numbers continued to be strong in 2022, with 609 total active users at fiscal year-end.

Using This Report

This report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the District's basis of accounting.

Basis of Accounting

The District has elected to present its financial statements on the modified cash basis of accounting, which is a basis of accounting other than generally accepted accounting principles.

The Financial Statements

One of the most important questions asked about the District's finances is, "Is the District as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position, the Statement of Revenue, Expenses and Changes in Net Position and the Statement of Cash Flows report information about the District and about its activities in a way that helps answer this question.

These three statements report the District's net position and the changes in them. You can think of the District's net position – the difference between assets and liabilities – as one way to measure the District's financial health or financial position. Over time, increases or decreases

in the District's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in water rates paid or charged and the condition of the District's water system, to assess the overall health of the District.

The District has only one type of fund or activity, which is defined as *Business-type activities*. This is considered a proprietary fund. This means the District charges a fee to customers to help it cover all or most of the cost of certain services it provides.

Net Position, and Changes in Net Position

The District's Net Position was higher in 2022, increasing from \$1,332,766 to \$1,367,230. Our analysis below focuses on the Net Position (Table 1) and Changes in Net Position (Table 2) of the District's business-type activities.

Table 1 – Net Position:

	2022	2021	Variances
Current and other assets	\$ 594,797	578,372	16,425
Capital assets, net	907,433	954,394	(46,961)
Total Assets	<u>\$ 1,502,230</u>	<u>1,532,766</u>	<u>(30,536)</u>
Current liabilities	\$ 65,000	65,000	-
Long-term liabilities	70,000	135,000	65,000
Total Liabilities	<u>\$ 135,000</u>	<u>200,000</u>	<u>65,000</u>
Invest. In capital assets, net of related debt	\$ 772,433	754,394	18,039
Restricted	83,028	88,683	(5,655)
Unrestricted	511,769	489,689	22,080
Total Net Position	<u>\$ 1,367,230</u>	<u>1,332,766</u>	<u>34,464</u>

Net Position of the District increased by 2.52 percent (\$1,367,230 compared to \$1,332,766). Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – increased from \$489,689 to \$511,769.

Table 2 – Changes in Net Position:

	<u>2022</u>	<u>2021</u>	<u>Variances</u>
Revenues:			
Charges for services	\$ 558,029	460,443	97,586
Reimbursements	30,220	-	30,220
Other collections	10,796	6,538	4,258
Membership income	7,000	13,000	(6,000)
Interest	822	410	412
Total Revenues	<u>606,867</u>	<u>480,391</u>	<u>126,476</u>
Expenses:			
Salaries, taxes and benefits	200,065	173,953	(26,112)
Maintenance and water	64,714	69,585	4,871
Other expenses	112,313	71,724	(40,589)
Depreciation	83,101	79,663	(3,438)
Interest on debt	7,416	10,317	2,901
Lost deposits - write off theft	104,794	-	(104,794)
Total Expenses	<u>572,403</u>	<u>405,242</u>	<u>(167,161)</u>
Changes in Net Position	34,464	75,149	(40,685)
Net Position, Beginning	<u>1,332,766</u>	<u>1,257,617</u>	<u>75,149</u>
Net Position, Ending	<u>\$ 1,367,230</u>	<u>1,332,766</u>	<u>34,464</u>

The District's total revenues increased by 20.84 percent (\$126,476). The total cost of all services increased by 13.34 percent (\$62,367), not including the lost deposits write off, which consisted of outstanding deposits that will not be deposited and needed to be removed from the accounting software.

Capital Assets

At October 31, 2022, the District had \$907,433 invested in capital assets, net of depreciation, including land, the water plant and system, vehicles and equipment. Capital assets of \$36,142 were added in 2022, which included the purchase of various office equipment and a water line extension.

Long-Term Debt

The promissory note with the Oklahoma Water Resources Board was approved in 2009. The note was for \$835,000 and will be paid back in bi-annual payments over 15 years, at an interest rate of 1.145%. The loan balance at October 31, 2022 was \$135,000.

Economic Factors and Next Year's Budget and Rates

For the upcoming fiscal year ending October 31, 2023, the District's budget is fairly consistent with the prior fiscal year. The normal cost of operation continues to increase for all areas of the economy, and rural water is not exempt from these increases.

The District opened a Capital Improvements bank account in November, 2022. The District intends to transfer money into this account each month as a savings for future District capital projects.

Contacting the District's Management

This report is designed to provide our customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the District Office at 395977 E 1150 RD, Henryetta, OK 74437 or call (918) 652-8709.



BLEDSON, HEWETT & GULLEKSON
CERTIFIED PUBLIC ACCOUNTANTS, PLLLP

Eric M. Bledsoe, CPA
Jeffrey D. Hewett, CPA
Christopher P. Gullekson, CPA

P.O. BOX 1310 • 121 E. COLLEGE ST. • BROKEN ARROW, OK 74013 • (918) 449-9991 • (800) 522-3831 • FAX (918) 449-9779

**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**

Board of Directors
McIntosh County Rural Water District No. 13
Henryetta, Oklahoma

We have audited 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, the modified cash basis financial statements of the McIntosh County Rural Water District No. 13, McIntosh, Oklahoma (the District), as of and for the year ended October 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 5, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District'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 our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of District's internal control. Accordingly, we do not express an opinion on the effectiveness of District'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of audit results as 22-1, we identified a significant deficiency in the internal controls that was considered to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance 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 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.

Bledsoe, Hewett & Gullekson

Bledsoe, Hewett & Gullekson
Certified Public Accountants, PLLLP

December 5, 2022

McINTOSH COUNTY RURAL DISTRICT NO. 13
Disposition of Prior Year's Significant Deficiencies
October 31, 2022

21-1 – Lack of Segregation of Duties

The exception that there were inherent limitations resulting from a small number of employees performing functions that would normally be divided among employees were a larger number available which prevented a proper segregation of accounting functions which is necessary to assure adequate internal accounting controls continued in the current fiscal year.

21-2 – Bank Reconciliations

The bank accounts were properly reconciled each month and the balances agreed with the financial statements. This finding was corrected for the 2021-22 fiscal year.

21-3 – Safeguarding of Assets

The District strengthened internal controls during the 2021-22 fiscal year. Both employees in the office are involved in counting and reconciling daily deposits.

McINTOSH COUNTY RURAL WATER DISTRICT NO. 13
Schedule of Audit Results
October 31, 2022

Section 1 – Summary of Auditor’s Results:

1. An unmodified opinion report was issued on the modified cash basis financial statements.
2. The audit disclosed a reportable condition in the internal controls, item 22-1, which was considered a material weakness.
3. The audit disclosed no instances of noncompliance which were material to the financial statements.

Section 2 – Findings relating to the financial statements required to be reported in accordance with GAGAS:

22-1 – Lack of Segregation of Duties

Condition-

The inherent limitations resulting from a small number of employees performing functions that would normally be divided among employees were a larger number available prevent a proper segregation of accounting functions, which is necessary in order to assure adequate internal accounting controls.

Criteria-

An organization should ensure that there is a proper segregation of duties regarding cash collections and the payment of expenses.

Cause-

The District is not large enough to justify the hiring of additional personnel.

Effect-

There is always the possibility that not all collections are actually receipted or deposited, and the possibility that funds expended are not used for actual District obligations.

Recommendation-

The current procedures should not be changed. However, there should be additional personnel instilled into the collection, receipt, deposit, reconciliation and payment procedures when this becomes economically possible.

Response-

Additional personnel will be hired when the actual funds are available. The District is small cannot afford to hire additional personnel.

McINTOSH COUNTY RURAL WATER DISTRICT NO. 13
Statement of Net Position - Modified Cash Basis
October 31, 2022

	<u>2022</u>	<u>-Memorandum- -Only- 2021</u>
<u>ASSETS</u>		
Current Assets:		
Cash in bank - unrestricted	\$ 511,769	\$ 489,689
Cash in bank - restricted (debt service)	82,028	87,683
Total current assets	<u>593,797</u>	<u>577,372</u>
Capital Assets:		
Water system & lines	2,883,524	2,853,305
Equipment and tools	199,430	193,509
Buildings	58,080	58,080
Total capital assets	3,141,034	3,104,894
Less: accumulated depreciation	<u>(2,233,601)</u>	<u>(2,150,500)</u>
Capital assets, net	<u>907,433</u>	<u>954,394</u>
Other Assets:		
ORWA reserve certificate	<u>1,000</u>	<u>1,000</u>
TOTAL ASSETS	<u>\$ 1,502,230</u>	<u>\$ 1,532,766</u>
<u>LIABILITIES</u>		
Current Liabilities:		
Current maturities of long-term debt	\$ 65,000	\$ 65,000
Non-Current Liabilities:		
Long-Term Debt, less current maturities-	<u>70,000</u>	<u>135,000</u>
Total Liabilities	<u>\$ 135,000</u>	<u>\$ 200,000</u>
<u>NET POSITION</u>		
Net investment in capital assets	772,433	754,394
Restricted	83,028	88,683
Unrestricted assets	<u>511,769</u>	<u>489,689</u>
Total Net Position	<u>1,367,230</u>	<u>1,332,766</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 1,502,230</u>	<u>\$ 1,532,766</u>

The accompanying notes to the financial statements are an integral part of this statement

McINSTOSH COUNTY RURAL WATER DISTRICT NO. 13
Statement of Revenues, Expenses and Changes in Net Position -
Modified Cash Basis
For The Year Ended October 31, 2022

	2022	-Memorandum- -Only- 2021
Revenue from Operations:		
Water sales & services	\$ 558,029	\$ 460,443
Memberships	7,000	13,000
Other income and fees	10,796	6,538
Total revenue from operations	<u>575,825</u>	<u>479,981</u>
Expenses from Operations:		
Water purchases	32,103	17,389
Salary and taxes	167,962	156,564
Insurance	12,097	11,278
System maintenance and repair	64,714	69,585
Office and postage	17,270	11,984
Professional fees	20,818	3,985
Utilities and telephone	31,035	28,785
Vehicle expenses	16,943	11,809
Miscellaneous	5,457	3,883
Depreciation	83,101	79,663
Due and fees	8,693	0
Total expenses from operations	<u>460,193</u>	<u>394,925</u>
Operating Income (Loss)	115,632	85,056
Non-operating income:		
Interest earnings	822	410
Reimbursements	30,220	0
Total other income	<u>31,042</u>	<u>410</u>
Non-operating expenses:		
Lost deposits due to theft	(104,794)	0
Interest paid on debt	(7,416)	(10,317)
Total other expenses	<u>(112,210)</u>	<u>(10,317)</u>
Change in Net Position	34,464	75,149
Total Net Position, beginning of period	<u>1,332,766</u>	<u>1,257,617</u>
Total Net Position, end of period	<u><u>\$ 1,367,230</u></u>	<u><u>\$ 1,332,766</u></u>

The accompanying notes to the financial statements are an integral part of this statement

McINTOSH COUNTY RURAL WATER DISTRICT NO. 13
Statement of Cash Flows - Modified Cash Basis
For Year Ended October 31, 2022

	2022	-Memorandum- -Only- 2021
Cash Flows from Operating Activities:		
Receipts from customers	\$ 575,982	\$ 486,069
Payments to employees	(167,962)	(156,564)
Payments to vendors	(209,287)	(158,697)
Net cash provided by operating activities	<u>198,733</u>	<u>170,808</u>
Cash Flows from Capital and Relayed Financial Activities:		
Lost deposits due to theft	(104,794)	0
Principal payments on long-term debt	(65,000)	(60,000)
Interest payments on long-term debt	(8,055)	(10,317)
Customer reimbursement	30,500	0
Purchase of capital assets	(36,141)	(42,100)
Net cash provided by (used in) capital and relayed financial activities	<u>(183,490)</u>	<u>(112,417)</u>
Cash Flows from Investing Activities:		
Interest revenue	<u>822</u>	<u>410</u>
Net cash provided by (used in) investing activities	<u>822</u>	<u>410</u>
Net increase (decrease) in cash and equivalents	16,065	58,801
Cash and cash equivalents, beginning of period	<u>577,732</u>	<u>518,571</u>
Cash and cash equivalents, end of period	<u><u>\$ 593,797</u></u>	<u><u>\$ 577,372</u></u>
Reconciliation of operating net income (loss) to net cash provided by operating activities:		
Net income (loss) from operations	\$ 115,632	\$ 91,145
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation Expense	<u>83,101</u>	<u>79,663</u>
Net Cash Provided by Operating Activities	<u><u>\$ 198,733</u></u>	<u><u>\$ 170,808</u></u>

The accompanying notes to the financial statements are an integral part of this statement

McINTOSH COUNTY RURAL WATER DISTRICT NO. 13

Henryetta, Oklahoma

Notes to the Financial Statements

October 31, 2022

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

The McIntosh County Rural Water District No. 13 (the District) was incorporated in 2002 under the Laws of the State of Oklahoma in accordance with Title 82 of the Oklahoma Statutes, as a subdivision of the State of Oklahoma. The District operates and maintains a water treatment and distribution system within McIntosh County, Oklahoma, and provides potable water services for members around Henryetta, Oklahoma.

Fund Accounting

The District is accounted for within the framework of enterprise fund accounting. Propriety Fund Type Enterprise Funds are used to account for operations that are operated in a manner similar to private business enterprises wherein the intent of the District's Board of Directors is to recover the cost of providing goods and services through user charges.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Assets, liabilities, revenues and expenses are recognized on the cash basis modified to include depreciation and amortization of capitalized assets, prepaid payroll taxes, and other significant line expansion cost, and accrued liabilities for federal and state payroll taxes payable. Under this basis, revenues are recognized when collected rather than when earned, and expenses are generally recognized when paid rather than when incurred. Consequently, accounts receivable, trade accounts payable, prepaid expenses other than prepaid payroll tax and prepaid installation cost, and certain accrued expenses are not included in the financial statements. This is a comprehensive basis of accounting other than generally accepted accounting principles.

Budgetary Data

The District is required by its loan agreements to prepare annually an estimated budget.

Assets, Liabilities and Net Position:

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents consist of unrestricted cash in the checking accounts.

McINTOSH COUNTY RURAL WATER DISTRICT NO. 13

Henryetta, Oklahoma

Notes to the Financial Statements

October 31, 2022

Note 1 – Summary of Significant Accounting Policies - (cont'd)

Capital Assets

Capital assets are valued at cost, depreciation is computed by use of the straight-line method. The estimated useful lives of these assets are as follows:

Land	n/a
Office furniture & fixtures	5 years
Equipment & tools	5 years
Transportation equipment	5 years
Water & sewer system	40 years
Buildings	25 years
Computer equipment	3 years

The dollar threshold for capitalization has been set at \$1,000.

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 constructional 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.

McINTOSH COUNTY RURAL WATER DISTRICT NO. 13

Henryetta, Oklahoma

Notes to the Financial Statements

October 31, 2022

Note 1 – Summary of Significant Accounting Policies - (cont'd)

Revenues, expenditures & expenses

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

Governmental Accounting Standards Board Statement No. 34

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

1. For the first time the financial statement should include:
 - a. A Management Discussion and Analysis (MD&A) section providing analysis of the District’s overall financial position and results of operations.
 - b. Financial statements prepared using full accrual accounting for all of the District’s activities, except for including the General capital assets or infrastructure (liens, pump stations, etc.).
2. A change in the fund financial statements to focus on major funds.

Although the District has elected to include the MD&A, the financial statements are prepared on a modified cash basis, as described in *Basis of Accounting* paragraph above.

Income Taxes

The District is exempt from income taxes as a political subdivision of the State of Oklahoma.

Memorandum Totals

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

McINTOSH COUNTY RURAL WATER DISTRICT NO. 13

Henryetta, Oklahoma

Notes to the Financial Statements

October 31, 2022

Note 2- Cash and Equivalents

The District's cash accounts at October 31, 2022 are detailed as follows:

Cash on hand	\$ 200
First National Bank & Trust, Henryetta, Ok-	
Operations account	162,719
Depreciation account	371,117
Capital Improvements account	-
Plus: Outstanding deposits	604
Less: Outstanding checks	<u>(22,871)</u>
Total Cash	<u>\$ 511,769</u>
 OWRB Debt Service:	
BancFirst-	
Debt service accounts	<u>\$ 82,028</u>

Custodial Credit Risk

At October 31, 2022 the District held deposits of approximately \$615,864 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 obligation 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.

McINTOSH COUNTY RURAL WATER DISTRICT NO. 13

Henryetta, Oklahoma

Notes to the Financial Statements

October 31, 2022

Note 2- Cash and Equivalents – (cont'd)

- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a. – d.).

Note 3 – Restricted Assets

Cash in Bank

The District reports restricted cash and cash equivalents for use as debt reserve. These monies are held as a reserve for the Oklahoma Water Resources Board loan. The District has also purchased reserve certificate totaling \$1,000 from the Oklahoma Rural Water Association Assurance Group (ORWAA). These certificates are held as a deposit by ORWAA as a self-insurance reserve.

Note 4 – Capital Assets

The following is a summary of the property, plant and equipment of the District as of October 31, 2022:

	Balance at Oct. 31, 2021	Additions	Deletions	Balance at Oct. 31, 2022
Land	\$ -	-	-	-
Water system & lines	2,853,304	30,220	-	2,883,524
Equipment and tools	193,508	5,922	-	199,430
Buildings	58,080	-	-	58,080
Subtotal	3,104,892	36,142	-	3,141,034
Less: Accumulated Depreciation	(2,150,500)	(83,101)	-	(2,233,601)
Total	<u>\$ 954,392</u>	<u>(46,959)</u>	<u>-</u>	<u>907,433</u>

McINTOSH COUNTY RURAL WATER DISTRICT NO. 13

Henryetta, Oklahoma

Notes to the Financial Statements

October 31, 2022

Note 5 – Notes Payable

Long-Term Debt consists of a loan with the Oklahoma Water Resources Board (OWRB). The District borrowed \$835,000 from OWRB to refinance existing debt and make system improvements.

The notes payable at October 31st, are detailed as follows:

	<u>2022</u>	<u>2021</u>
OWRB loan FAP-09-002-L, issued for \$835,000, dated 11-24-09, at 1.145% interest, due in semi-annual installments, final payment due in 2024	<u>\$ 135,000</u>	<u>200,000</u>

The estimated maturities for long-term debt mortgages for the next five (5) years, and in total, thereafter, are detailed as follows:

<u>Year Ending October 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 65,000	5,361	70,361
2024	<u>70,000</u>	<u>2,797</u>	<u>72,797</u>
Total	<u>\$ 135,000</u>	<u>8,158</u>	<u>143,158</u>

Rate Covenant

Under the terms of the OWRB loan, the District is required to maintain a schedule of rates or charges for services sufficient to provide funds which together with other revenues pledged will provide net revenues available for debt service equal to at least 125% of the maximum annual debt service requirement. The ratio for the current fiscal year is calculated as follows:

Income from operations	\$ 575,825
Add:	
Depreciation and amortization	<u>83,101</u>
Income available for debt service	<u>\$ 658,926</u>
Debt service:	
Interest expense	\$ 8,055
Principal payments	<u>65,000</u>
Total debt service requirements	<u>\$ 73,055</u>
Debt service coverage ratio	<u>9.0</u>

McINTOSH COUNTY RURAL WATER DISTRICT NO. 13

Henryetta, Oklahoma

Notes to the Financial Statements

October 31, 2022

Note 6 – Contingencies

Litigation

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

Federally Assisted Programs

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

Note 7 – Insurance Coverage

The District is exposed to various levels of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries a commercial blanket of coverage and worker's compensation for risk of loss.

There has been no significant reduction in the District's insurance coverage from the previous year. In addition, there have been no settlements in excess of the District's coverage in any of the prior three fiscal years.

Note 8 – Benefits

The District does not provide retirement or insurance benefits to employees.

Note 9 – Subsequent Events

The District did not have any subsequent events through December 5, 2022 which is the date of the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending October 31, 2022.

McINTOSH COUNTY RURAL DISTRICT NO. 13
Schedule of Water Rates and Customers
-Unaudited Information-
October 31, 2022

Water Rates

Residential

0 gallons	=	\$32.00 minimum
0 – 1,000 gallons	=	\$10.00 per thousand
1,001 – 2,000 gallons	=	\$11.50 per thousand
2,001 – 3,000 gallons	=	\$12.00 per thousand
3,001 – 4,000 gallons	=	\$12.50 per thousand
4,001 – 5,000 gallons	=	\$13.00 per thousand
5,001 – 20,000 gallons	=	\$16.00 per thousand
Over 20,000 gallons	=	\$24.50 per thousand

Water Loss

2021-22

Total gallons purchased and produced	46,240,170
Total gallons sold to District customers	<u>(29,548,780)</u>
Total water loss	<u>16,691,390</u>
Percentage of water loss	<u>36.10%</u>

Customers

The District had 609 active customers at the close of the fiscal year.

Current membership fee structure:

- \$75 per meter if meter is already in place
- \$1,000 per meter for new meter