

**Pontotoc County Rural Water District No. 8
Ada, Oklahoma**

Financial Statements and Auditor's Reports

Year Ended December 31, 2022

Audited by

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

BROKEN ARROW, OK

Pontotoc County Rural Water District No. 8
Ada, Oklahoma
Board of Directors
December 31, 2022

BOARD OF DIRECTORS

Chairman

Randy Floyd

Vice Chairman

Josh Sutton

Secretary/Treasurer

Wade Pennington

Members

Levi Garrett

Larry Little

Vaden Morgan

J.E. Quinton

MANAGER

Joyce Williams

Pontotoc County Rural Water District No. 8
Ada, Oklahoma
December 31, 2022

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Pontotoc County Rural Water District No. 8
Ada, Oklahoma

Report on the Audit of the Financial Statements

We have audited the accompanying combined fund type and account group financial statements-regulatory basis of the Pontotoc County Rural Water District No. 8, Ada, Oklahoma (the District), as of and for the year ended December 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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2022 and the respective changes in financial position and its cash flows for the year then ended, 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 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 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 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 6-9 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 April 6, 2023 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

April 6, 2023

Pontotoc County Rural Water District No. 8
Management's Discussion and Analysis
December 31, 2022

Our discussion and analysis of the Rural Water District No. 8, Pontotoc County's financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2022. Please read it in conjunction with the District's financial statements that begin on page 14.

FINANCIAL HIGHLIGHTS

- The District's total operating revenues exceeded total operating expenses by \$577,326. Overall, the District had a net gain of \$527,328 and its cash and cash equivalents increased by \$386,823 in the current fiscal year.
- Membership in the District continues to increase, from 1,922 in 2021 to 1,947 in 2022.
- The District had a shop/storage building constructed in 2022 and added a truck and backhoe during the current fiscal year to its capital assets.
- A water rate increase was approved effective April 1, 2022 to keep up with increased costs and inflation.
- Interest earnings were down in 2022 due to falling interest rates.

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 in the accrual basis of accounting. According to the accrual basis, revenues are recorded when earned and expenses are recognized when incurred. This policy is in accordance with 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 Revenues, 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 \$4,851,523 to \$5,378,851. 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:

| | <u>2022</u> | <u>2021</u> | <u>Variances</u> |
|--------------------------------|---------------------|------------------|------------------|
| Current and other assets | \$ 2,543,585 | 2,143,919 | 399,666 |
| Capital assets, net | <u>4,375,816</u> | <u>4,323,476</u> | <u>52,340</u> |
| Total Assets | <u>\$ 6,919,401</u> | <u>6,467,395</u> | <u>452,006</u> |
| Current liabilities | \$ 56,273 | 62,335 | (6,062) |
| Long-term liabilities | <u>1,484,277</u> | <u>1,553,537</u> | <u>(69,260)</u> |
| Total Liabilities | <u>\$ 1,540,550</u> | <u>1,615,872</u> | <u>(75,322)</u> |
| Invest. In capital assets, net | | | |
| of related debt | \$ 2,907,209 | 2,800,921 | 106,288 |
| Unrestricted | <u>2,471,642</u> | <u>2,050,602</u> | <u>421,040</u> |
| Total Net Position | <u>\$ 5,378,851</u> | <u>4,851,523</u> | <u>527,328</u> |

Net Position of the District increased by 10.9 percent (\$5,378,851 compared to \$4,851,523). 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 \$2,050,602 to \$2,471,642.

Table 2 – Changes in Net Position:

| | <u>2022</u> | <u>2021</u> | <u>Variances</u> |
|------------------------------|---------------------|------------------|------------------|
| Revenues: | | | |
| Charges for services | \$ 1,651,547 | 1,288,453 | 363,094 |
| Miscellaneous reimbursements | 5,430 | 41,872 | (36,442) |
| Interest | 6,806 | 10,294 | (3,488) |
| Total Revenues | <u>1,663,783</u> | <u>1,340,619</u> | <u>323,164</u> |
| Expenses: | | | |
| Salaries, taxes and benefits | 335,471 | 303,155 | (32,316) |
| Maintenance and repairs | 218,065 | 270,578 | 52,513 |
| Other expenses | 353,261 | 299,036 | (54,225) |
| Depreciation/Amortization | 172,854 | 192,302 | 19,448 |
| Interest on debt | 56,804 | 58,882 | 2,078 |
| Total Expenses | <u>1,136,455</u> | <u>1,123,953</u> | <u>(12,502)</u> |
| Changes in Net Position | 527,328 | 216,666 | 310,662 |
| Net Position, Beginning | <u>4,851,523</u> | <u>4,634,857</u> | <u>216,666</u> |
| Net Position, Ending | <u>\$ 5,378,851</u> | <u>4,851,523</u> | <u>527,328</u> |

The District's total revenues increased by 24.1 percent (\$323,164), and the total cost of all operations increased by 1.1 percent (\$12,502).

Capital Assets

At December 31, 2022 the District had \$4,375,816 invested in capital assets, net of depreciation, including land, the water system, vehicles and equipment. The District had capital asset additions of \$223,894 during the 2022 fiscal year.

Long-Term Debt

The District has an outstanding loan in the amount of \$1,600,000 loan to finance the water main extension project. The District began making principal payments on this note in July 2020. The note is for 20 years, with a current interest rate of 3.75%. At December 31, 2022 the balance owed on this loan was \$1,468,607.

Economic Factors and Next Year's Budget and Rates

The District attempts to absorb their rate and expense increases but may be forced to further increase customer rates if additional expense increases are incurred.

The District's budget for fiscal year 2023 will remain much like previous years budgets. Your Board of Directors does anticipate small budget changes made primarily to better allow for office and field personnel operations, without the necessity of hiring additional part-time or permanent employees.

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 P.O. Box 127, Ada, OK 74820 or call (580) 436-3065.



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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**

Board of Directors
Pontotoc County Rural Water District No. 8
Ada, 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 financial statements of the Pontotoc County Rural Water District No. 8, Ada, Oklahoma (the "District"), as of and for the year ended December 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 April 6, 2023.

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. 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 were not identified.

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

April 6, 2023

PONTOTOC COUNTY RURAL DISTRICT NO. 8
Disposition of Prior Year's Significant Deficiencies
December 31, 2022

There were no prior year significant deficiencies.

PONTOTOC COUNTY RURAL WATER DISTRICT NO. 8
Schedule of Audit Results
December 31, 2022

Section 1 – Summary of Auditor’s Results:

1. An unmodified opinion report was issued on the financial statements.
2. The audit did not identify any material weaknesses and did not report any significant deficiencies not considered to be material weaknesses in the internal controls over financial reporting.
3. The audit disclosed no instances of noncompliance which are material to the financial statements.

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

NONE

PONTOTOC COUNTY RURAL WATER DISTRICT NO. 8
STATEMENT OF NET POSITION
DECEMBER 31, 2022

| | | -Memorandum- -Only- 2021 |
|---|----------------------------|--------------------------------|
| <u>ASSETS:</u> | <u>2022</u> | |
| Current assets: | | |
| Cash | \$ 1,796,206 | 1,427,498 |
| Investments | 571,196 | 564,390 |
| Reserved cash - rent deposits | 15,670 | 4,361 |
| Accounts Receivable | 121,648 | 108,289 |
| Prepaid insurance | 18,065 | 17,281 |
| Total current assets | <u>2,522,785</u> | <u>2,121,819</u> |
| Capital assets: | | |
| Land | 40,218 | 40,218 |
| Buildings | 607,525 | 463,631 |
| Water distribution system | 6,275,211 | 6,275,211 |
| Furniture and fixtures | 32,238 | 32,238 |
| Vehicles | 248,167 | 168,167 |
| Water rights | 186,777 | 186,777 |
| Total capital assets | <u>7,390,136</u> | <u>7,166,242</u> |
| Less: accumulated depreciation | <u>(3,014,320)</u> | <u>(2,842,766)</u> |
| Total capital assets | <u>4,375,816</u> | <u>4,323,476</u> |
| Other assets: | | |
| Loan costs-net of amortization | <u>20,800</u> | <u>22,100</u> |
| TOTAL ASSETS | <u>\$ 6,919,401</u> | <u>6,467,395</u> |
| <u>LIABILITIES:</u> | | |
| Current liabilities: | | |
| Accounts payable | <u>\$ 56,273</u> | <u>62,335</u> |
| Long-term liabilities: | | |
| Refundable deposits | 15,670 | 30,982 |
| Long-term notes payable | 1,468,607 | 1,522,555 |
| Total long-term liabilities | <u>1,484,277</u> | <u>1,553,537</u> |
| Total Liabilities | <u>1,540,550</u> | <u>1,615,872</u> |
| <u>NET POSITION:</u> | | |
| Net investment in capital assets | 2,907,209 | 2,800,921 |
| Unrestricted | <u>2,471,642</u> | <u>2,050,602</u> |
| Total Net Position | <u>5,378,851</u> | <u>4,851,523</u> |
| TOTAL LIABILITIES AND NET POSITION | <u>\$ 6,919,401</u> | <u>6,467,395</u> |

The accompanying notes are an integral part of the financial statements

PONTOTOC COUNTY RURAL WATER DISTRICT NO. 8
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2022

| | 2022 | -Memorandum- -Only- 2021 |
|---|----------------------------|---|
| Operating Revenues: | | |
| Water revenue | \$ 1,606,537 | 1,227,213 |
| Benefit units | 39,450 | 55,920 |
| Reconnect fees | 5,560 | 5,320 |
| Other sales and services | 5,430 | 41,872 |
| Total operating revenues | <u>1,656,977</u> | <u>1,330,325</u> |
| Operating Expenses: | | |
| Salaries and taxes | 335,471 | 303,155 |
| Testing | 5,640 | 3,725 |
| Utilities | 77,693 | 60,116 |
| Water purchases | 153,672 | 135,443 |
| Office and postage | 21,119 | 23,239 |
| Insurance | 45,107 | 41,471 |
| Line materials | 193,346 | 213,325 |
| Line repairs | 19,079 | 53,528 |
| Dues and fees | 2,416 | 3,690 |
| Vehicles | 29,453 | 15,728 |
| Professional fees | 13,359 | 3,511 |
| Credit card fees | 9,374 | 10,723 |
| Miscellaneous | 1,068 | 51 |
| Depreciation | 171,554 | 194,834 |
| Amortization | 1,300 | 2,532 |
| Total expenses from operations | <u>1,079,651</u> | <u>1,065,071</u> |
| Operating Income (Loss) | 577,326 | 265,254 |
| Non-Operating Revenues (Expenses): | | |
| Interest income | 6,806 | 10,294 |
| Interest paid on long-term debt | (56,804) | (58,882) |
| Total Non-Operating Revenues (Expenses) | <u>(49,998)</u> | <u>(48,588)</u> |
| Change in Net Position | 527,328 | 216,666 |
| Total Net Position, beginning of period | <u>4,851,523</u> | <u>4,634,857</u> |
| Total Net Position, end of period | <u>\$ 5,378,851</u> | <u>4,851,523</u> |

The accompanying notes are an integral part of the financial statements

PONTOTOC COUNTY RURAL WATER DISTRICT NO. 8
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022

| | <u>2022</u> | <u>-Memorandum- -Only- 2021</u> |
|--|----------------------------|---|
| Cash Flows from Operating Activities: | | |
| Receipts from customers | \$ 1,642,471 | 1,305,681 |
| Payments to employees | (335,555) | (303,332) |
| Payments to vendors | (592,253) | (554,794) |
| Net Cash Provided by (used in) Operating Activities | <u>714,663</u> | <u>447,555</u> |
| Cash Flows from Capital and Related Financing Activities: | | |
| Capital asset (additions) sale | (223,894) | (192,977) |
| Principal paid on long-term debt | (53,948) | (51,870) |
| Interest paid on long-term debt | (56,804) | (58,882) |
| Net Cash Provided by (used in) Capital and Related Financing Activities | <u>(334,646)</u> | <u>(303,729)</u> |
| Cash Flows from Investing Activities: | | |
| Interest earned on investments | <u>6,806</u> | <u>10,294</u> |
| Net increase (decrease) in cash and cash equivalents | 386,823 | 154,120 |
| Cash and cash equivalents, beginning of period | <u>1,996,249</u> | <u>1,842,129</u> |
| Cash and cash equivalents, end of period | <u><u>\$ 2,383,072</u></u> | <u><u>1,996,249</u></u> |
| Reconciliation of operating income (loss) to net cash provided by operating activities: | | |
| Operating Income (loss) | \$ 577,326 | 265,254 |
| Adjustments to reconcile net income to net cash provided (used) by operating activities: | | |
| Depreciation Expense | 171,554 | 194,834 |
| Amortization Expense | 1,300 | 2,532 |
| Change in assets and liabilities: | | |
| (Increase) decrease in accounts receivable | (13,359) | (29,544) |
| (Increase) decrease in prepaid insurance | (784) | (734) |
| Increase (decrease) in accounts payable | (5,978) | 13,890 |
| Increase (decrease) in taxes payable | (84) | (177) |
| Increase (decrease) in rent deposits | (15,312) | 1,500 |
| Net cash provided by operating activities | <u><u>\$ 714,663</u></u> | <u><u>447,555</u></u> |

The accompanying notes are an integral part of the financial statements

PONTOTOC COUNTY RURAL WATER DISTRICT NO. 8
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

Note A – Significant Accounting Policies

Business Activity

Pontotoc County Rural Water District No. 8 (the District) was formed under the provisions of Title 82, O.S. 1981, Sections 1324.1-1324.26 inclusive. The District operates as a nontaxable government agency to service residents of the Pontotoc County Rural Water District No. 8. The District's primary income is from the sale of water to its members in an area around Latta, Oklahoma.

Basis of Accounting

The financial statements are prepared on an accrual basis of accounting, which is in compliance with accounting principles generally accepted in the United States of America (GAAP), and which recognizes revenues when earned and expenses as incurred. Interest earnings on certificates of deposit are recorded when such interest is actually received by the District. Generally accepted accounting principles include all relevant Government Accounting Standards Board (GASB) pronouncements.

Cash

The District's cash accounts are with the First United Bank, Ada, Oklahoma, and are detailed as follows:

| | December 31, | |
|--------------------------|---------------------|------------------|
| | 2022 | 2021 |
| Operating Account | \$ 1,796,674 | 1,428,015 |
| Less: Outstanding checks | <u>(468)</u> | <u>(517)</u> |
| Balance | <u>\$ 1,796,206</u> | <u>1,282,340</u> |

At December 31 2022 the District allocated the above cash balance into the following areas:

| | |
|---------------------|-----------------------------|
| \$ 39,105 | Building Fund |
| 97,349 | Capital Expenditure Fund |
| 395,546 | Future Water Expense Fund |
| <u>1,264,206</u> | Operating Funds (remaining) |
| <u>\$ 1,796,206</u> | Total |

PONTOTOC COUNTY RURAL WATER DISTRICT NO. 8
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

Note A – Significant Accounting Policies – cont’d

Reserved Account

The reserve account is a rental deposit account. These funds have been deposited in a checking account at First United Bank, Ada, Oklahoma, which is insured by the federal government. At December 31, 2022 the reserved balance was \$15,670.

Investments

The District had the following outstanding investments at December 31, 2022:

| | |
|---|-------------------|
| Oklahoma Heritage Bank: | |
| Certificate of deposit No. 31000193, due 4-20-23 | \$ 285,598 |
| Certificate of deposit No. 31000194, due 4-20-23 | <u>285,598</u> |
| Total | <u>\$ 571,196</u> |

Deposits and Investments

Oklahoma Statutes authorize the District to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the District can invest in direct debt securities of the United States unless such an investment is expressly prohibited by law.

Bank deposits are held at several financial institutions and are carried at cost. For purposes of statements of cash flows, the District considers cash and all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Custodial Credit Risk - At December 31, 2022 the District held deposits of approximately \$2,383,541 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit, are entirely 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.

PONTOTOC COUNTY RURAL WATER DISTRICT NO. 8
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

Note A – Significant Accounting Policies – cont’d

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 limitations 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).

Capital Assets

Any items purchased or constructed in excess of \$1,000 and a useful life of over two years is considered a capital (fixed) asset by the District and will be depreciated over a specific time. Depreciation of the waterworks system and improvements is provided using the straight-line method based on a forty-year life. Equipment is depreciated over a 5–7-year life. Depreciation expense for the year is presented as an operating expense and closed, along with other operating expenses, directly to retained earnings.

PONTOTOC COUNTY RURAL WATER DISTRICT NO. 8
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

Note A – Significant Accounting Policies – cont’d

The capital asset information for the District is shown below:

| | 12/31/2021 | | | 12/31/2022 |
|-----------------------------------|---------------------|---------------|-----------|------------------|
| | Amount | Additions | Deletions | Amount |
| Land | \$ 40,218 | - | - | 40,218 |
| Office equipment | 32,238 | | - | 32,238 |
| Plant and water sys. | 6,275,211 | - | - | 6,275,211 |
| Vehicles & equip. | 168,167 | 80,000 | - | 248,167 |
| Buildings | 463,631 | 143,894 | - | 607,525 |
| Water Rights | 186,777 | - | | 186,777 |
| Total Capital Assets | 7,166,242 | 223,894 | - | 7,390,136 |
| Less: Accumulated Depreciation | (2,842,766) | (171,554) | - | (3,014,320) |
| Total | <u>\$ 4,325,333</u> | <u>52,340</u> | <u>-</u> | <u>4,375,816</u> |

Note B – Accounts Receivable

Billings for accounts receivable at December 31, 2022 were \$121,648. Allowance for doubtful accounts was not computed on these amounts.

Note C – Memorandum Totals

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

Note D – Long-Term Debt

During 2019 the District approved a \$1,600,000 loan with First United Bank. The term is for 20 years, at an interest rate of 3.75% for 60 months, then interest adjusted every five years after. The District made interest only payments on this note until all proceeds were paid out, and then begin making principal and interest payments on the note in July 2020.

PONTOTOC COUNTY RURAL WATER DISTRICT NO. 8
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

Note D – Long-Term Debt – cont’d

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

| | <u>2022</u> | <u>2021</u> |
|--|---------------------|------------------|
| First United Bank, 20 year term loan, dated 2019, issued for \$1,600,000, at 3.75% interest | <u>\$ 1,468,607</u> | <u>1,522,555</u> |

The scheduled maturities for the next five years, and in five-year totals thereafter, are detailed as follows:

| | <u>Principal</u> | <u>Interest</u> |
|---------|---------------------|-----------------|
| 2023 | \$ 56,695 | 54,057 |
| 2024 | 58,858 | 51,894 |
| 2025 | 61,104 | 49,648 |
| 2026 | 63,435 | 47,317 |
| 2027 | 65,855 | 44,897 |
| 2028-32 | 363,878 | 189,881 |
| 2033-37 | 443,848 | 109,912 |
| 2038-41 | <u>354,934</u> | <u>39,049</u> |
| Total | <u>\$ 1,468,607</u> | <u>586,655</u> |

The District is required to maintain a minimum Debt Service Coverage Ratio of 1.50:1.00 measured annually. Debt Service Coverage Ratio is defined as the proportion of earnings before interest, taxes, depreciation and amortization to the required debt service of the District. Operating results for the year ended December 31, 2022 are summarized below:

| | |
|---------------------------------------|-------------------|
| Income from operations | \$ 577,326 |
| Add: Interest income | 6,806 |
| Depreciation | 171,554 |
| Amortization | <u>1,300</u> |
| Income available for debt service (a) | <u>\$ 756,986</u> |
| Debt Service for 2023: | |
| Interest payments | \$ 54,057 |
| Principal payments | <u>56,695</u> |
| Total debt service (b) | <u>\$ 110,752</u> |
| Debt service coverage ratio (a/b) | <u>6.83</u> |

As of December 31, 2022, the District had met the requirements of the rate covenant as described above.

PONTOTOC COUNTY RURAL WATER DISTRICT NO. 8
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

Note E – Employee Benefits

The District has an approved Simplified Employee Pension (SEP) plan for all employees. The District will contribute 5.0% of compensation. Employees have the option to have additional amounts withheld from their compensation.

Note F – Subsequent Events

Management has evaluated subsequent events through April 6, 2023 which is the date the financial statements were available to be issued and have determined that no additional information needs to be added to the financial statements.

PONTOTOC COUNTY RURAL WATER DISTRICT NO. 8
Schedule of Water Rates and Customers
-Unaudited Information-
December 31, 2022

Water Rates

| | | |
|-------------------------|---|---|
| 0 – 2,000 gallons | = | \$30.00 minimum bill |
| 2,000 – 3,000 gallons | = | additional \$6.50 per thousand gallons |
| 3,000 – 4,000 gallons | = | additional \$6.75 per thousand gallons |
| 4,000 – 5,000 gallons | = | additional \$7.00 per thousand gallons |
| 5,000 – 10,000 gallons | = | additional \$7.25 per thousand gallons |
| 10,000 – 15,000 gallons | = | additional \$7.50 per thousand gallons |
| 15,000 – 30,000 gallons | = | additional \$7.75 per thousand gallons |
| 30,000 – 50,000 gallons | = | additional \$10.00 per thousand gallons |
| 50,000 – 80,000 gallons | = | additional \$12.00 per thousand gallons |
| Over 80,000 gallons | = | additional \$14.00 per thousand gallons |

Water Loss

| | <u>2022</u> | <u>2021</u> |
|--|----------------------|----------------------|
| Total gallons pumped and purchased | 169,075,300 | 161,256,700 |
| Total gallons sold to District customers | <u>(139,841,760)</u> | <u>(128,534,084)</u> |
| Total water loss | <u>29,233,540</u> | <u>32,722,616</u> |
| Percentage of water loss | <u>17.29%</u> | <u>20.29%</u> |

Customers

The District had 1,947 customers at the close of the fiscal year.

Current membership/tap fee is \$1,350 per sign up.