

AUDIT REPORT

TRI-COUNTY RURAL WATER DISTRICT #2

SEPTEMBER 30, 2020



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TRI-COUNTY RURAL WATER DISTRICT #2
SEPTEMBER 30, 2020

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Tri-County Rural Water District #2
Earlsboro, Oklahoma

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the Tri-County Rural Water District #2, as of and for the fiscal year ended September 30, 2020, as listed in the table of contents and the related notes to the financial statements.

Management's Responsibility 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. This includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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, and in accordance with Oklahoma Statutes. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of significant accounting

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estimates made, by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of the Tri-County Rural Water District #2, as of September 30, 2020, and the changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2021, on our consideration of the Tri-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 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 Tri-County Rural Water District #2's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in compliance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Kershaw CPA & Associates, P.C.

Kershaw CPA & Associates, PC
Muskogee, Oklahoma

February 12, 2021

TRI-COUNTY RURAL WATER DISTRICT #2
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
SEPTEMBER 30, 2020

	2020
<u>ASSETS</u>	
<u>Current Assets:</u>	
Cash and cash equivalents	\$ 419,265
Investments - Certificates of Deposit	481,465
	900,730
<u>Capital Assets:</u>	
Land	9,045
Other Capital Assets	10,137,730
Less: Accumulated Depreciation	(4,974,066)
	5,172,709
TOTAL ASSETS	\$ 6,073,439
<u>LIABILITIES & NET POSITION</u>	
<u>Current Liabilities:</u>	
Current Portion of Long-Term Debt	\$ 77,278
Accounts Payable	8,250
	85,528
<u>Long-term Liabilities:</u>	
Notes Payable - USDA Rural Development	2,436,434
Lease Purchase Payable	84,631
Less: Current Portion of Long-Term Debt	(77,278)
	2,443,786
TOTAL LIABILITIES	2,529,314
<u>Net Position:</u>	
Net investment in capital assets	2,736,276
Restricted for debt service	95,976
Unrestricted	711,874
	3,544,125
TOTAL LIABILITIES & NET POSITION	\$ 6,073,439

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TRI-COUNTY RURAL WATER DISTRICT #2
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - MODIFIED CASH BASIS
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2020

	2020
<u>Operating Revenue:</u>	
Water and sewer sales	\$ 1,389,859
Miscellaneous	125,397
Total Operating Revenue	1,515,257
<u>Operating Expenses:</u>	
Compensation and burden	438,243
Water Purchases	68,559
Operations and maintenance	174,041
Fuel and auto expense	55,517
Utilities	104,609
Engineering	2,260
Insurance	23,730
Professional services	23,267
Office supplies and expenses	36,378
Depreciation	306,795
Bad Debt	-
Other	20,573
Total Operating Expenses	1,253,971
Operating Income (Loss)	261,286
Other Revenues and (Expenses):	
Membership Fees	83,650
Road Bore Income	-
Interest Income	7,339
Interest Expense	(71,995)
Total Other Revenues and (Expenses)	18,994
Net Income (Loss) Before Contributions	280,279
Capital Contributions	-
Change in Net Position	280,279
Total Net Position, Beginning of Year	3,263,846
Total Net Position, Prior Year Adjustment	-
Total Net Position, End of Year	\$ 3,544,125

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**TRI-COUNTY RURAL WATER DISTRICT #2
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2020**

	2020
<u>Cash Flows from Operating Activities:</u>	
Cash Receipts from Customers	\$ 1,515,257
Payments to Suppliers and Laborers for Goods & Services	(938,926)
Net Cash Provided (Used) by Operating Activities	576,331
<u>Cash Flows from Capital & Related Financing Activities:</u>	
Additions to Capital Assets	(978,414)
Capital Contributions, including Insurance Proceeds	-
Membership Fees	83,650
Loan Proceeds	725,000
Principal paid on Debt	(71,112)
Interest paid on Debt	(71,995)
Net Cash Provided (Used) by Capital & Related Financing Activities	(312,872)
<u>Cash Flows from Investing Activities:</u>	
(Increase)Decrease in Investments	(7,239)
Interest Income	7,339
Net Cash Provided (Used) by Investing Activities	100
Net Increase (Decrease) in Cash and Cash Equivalents	263,559
Cash & Cash Equivalents, Beginning of Year	155,706
Cash & Cash Equivalents, Prior Year Adjustment	-
Cash & Cash Equivalents, End of Year	\$ 419,265
<u>Reconciliation of operating income (loss) to net cash provided</u>	
<u>operating activities:</u>	
Operating Income (Loss)	\$ 261,286
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation	306,795
Increase (Decrease) in Accounts Payable	8,250
Net Cash Provided (Used) by Operating Activities	\$ 576,331

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TRI-COUNTY RURAL WATER DISTRICT #2
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES & OPERATIONS

As discussed further in Note 1.C, these financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) established by the Governmental Accounting Standards Board (GASB). These modified cash-basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

A. Organization & Reporting Entity

The Tri-County Rural Water District #2 (the "District") was organized on June 4, 1984 under the Rural Water, Sewer, Gas and Solid Waste Management District Act, Title 82, 1324.3 of the laws of the State of Oklahoma. The District was organized to acquire water and water rights; to build and acquire waterlines and other facilities; and to operate the same for the purpose of furnishing water to serve the needs of owners and occupants of land located within the District (including Pottawatomie, Seminole and Lincoln Counties), in accordance with the adopted by-laws.

B. Basis of Presentation

The accounts of the District are organized on the basis of proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net position, revenues and expenses. Enterprise Funds account for activities (1) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (2) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (3) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

TRI-COUNTY RURAL WATER DISTRICT #2
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

C. Measurement Focus and Basis of Accounting

Measurement Focus

The District utilizes an economic resources measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), net financial position, and cash flows. All assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent or financial or nonfinancial) associated with their activities are generally reported within the limitations of the modified cash basis of accounting.

Basis of Accounting

The financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modifications to the cash basis of accounting to report in the statements of net position cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include investments, capital assets and related depreciation, and short-term and long-term liabilities arising from cash transactions or events.

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue billed or provided services not yet collected and other accrued revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

If the District utilized the basis of accounting recognized as generally accepted in the United States, the fund financial

TRI-COUNTY RURAL WATER DISTRICT #2
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

statements for proprietary fund types would use the accrual basis of accounting.

D. Financial Position

Cash and Cash Equivalents

For the purpose of financial reporting, cash and cash equivalents includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less.

Capital Assets (Property, Plant & Equipment)

Property and equipment are recorded at cost as of the date of acquisition. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	10-40 years
Furniture, fixtures and equipment	5-10 years
Waterline system	10-40 years

Purchases of capital items in excess of \$2,000.00 that increase the capacity or operation efficiency or extend the useful life of any asset are capitalized. Repairs and maintenance are expensed as incurred.

Income Taxes

The District is conducting its affairs as a local government and has no provisions for income tax.

Long-Term Debt

Long-term debt is reported at face value, net of applicable discounts and deferred loss on refunding. Costs related to the issuance of debt are deferred and amortized over the lives of various debt issues.

Net Position Classifications

Net Position is classified 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

TRI-COUNTY RURAL WATER DISTRICT #2
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.

2. *Restricted.* Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. *Unrestricted.* Net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

It is the District's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

Revenues, expenditures & expenses

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

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting used by the District requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

As a local government unit, the District is subject to various federal, state, and local laws and contractual regulations. In accordance with Government Auditing Standards, the auditor has issued a report on his consideration of the District's internal control over financial reporting and tested its compliance with certain provisions

TRI-COUNTY RURAL WATER DISTRICT #2
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

of laws, regulations, contracts and grants. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be read in conjunction with this report in considering the results of the audit.

Deficit Fund Balance or Retained Earnings

As indicated in the financial statements, there are no fund balance or retained earnings deficits for the District for this fiscal year.

NOTE 3 - CASH AND INVESTMENTS

Custodial Credit Risk

At September 30, 2020, the District held deposits of approximately \$900,730 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name.

Investment Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The District has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public

TRI-COUNTY RURAL WATER DISTRICT #2
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2020

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 4 - RESTRICTED ASSETS

The loan agreements with the United States Department of Agriculture Rural Development (USDA) requires the District to set aside into a Reserve Account an accumulated amount equal to the sum of the annual installments (\$134,004), after which deposits may be suspended, except to replace withdrawals. The District cannot withdraw funds from the reserve account without USDA approval.

NOTE 5 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended September 30, 2020, was as follows:

	Balance at Sept. 30, 2019	Additions	Deductions	Balance at Sept. 30, 2020
Land	\$ 9,045	\$ -	\$ -	\$ 9,045
Water treatment plant	3,034,814	-	-	3,034,814
Building	89,010	7,525	-	96,535
Furniture & equipment	485,104	64,443	-	549,546
Waterline system	5,550,389	906,446	-	6,456,835
Construction in progress	-	-	-	-
Subtotal	<u>9,168,361</u>	<u>978,414</u>	<u>-</u>	<u>10,146,775</u>
Less: Accum. Depr.	(4,667,271)	(306,795)	-	(4,974,066)
Total Capital Assets (Net of Depreciation)	<u>\$ 4,501,091</u>	<u>\$ 671,619</u>	<u>\$ -</u>	<u>\$ 5,172,709</u>

NOTE 6 - LONG TERM DEBT

The District has note 91-01 dated April 5, 2004 with the USDA Rural Development, with an original amount of \$600,000 due in monthly installments of \$2,652 beginning May 2004 through April 2044 at an interest rate of 4.375%.

The District also has note 91-02 dated November 2, 2012 with the USDA Rural Development, with an original amount of \$1,553,930 due in

TRI-COUNTY RURAL WATER DISTRICT #2
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

monthly installments of \$5,346 beginning December 2, 2012 and continuing thereafter at an interest rate of 2.75%.

The District also has note 91-03 dated February 12, 2020 with the USDA Rural Development, with an original amount of \$348,752.03 due in monthly installments of \$1,448 beginning June 29, 2020 and continuing thereafter at an interest rate of 3.00%. This loan was transferred to the District when taking over Seminole County Rural Water District #7.

The District also has note 91-04 dated February 17, 2020 with the USDA Rural Development, with an original amount of \$376,247.97 due in monthly installments of \$1,721 beginning August 21, 2020 and continuing thereafter at an interest rate of 3.75%. This loan was transferred to the District when taking over Seminole County Rural Water District #7.

The District entered into an Equipment Lease-Purchase Agreement dated June 5, 2019 with Welch State Bank, with an original amount of \$112,549.99 due in monthly installments of \$2,073 beginning July 2019 through June 2024 at an interest rate of 3.99% for the purchase of a John Deere Backhoe, International Day Cab and Big Tex Trailer.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended September 30, 2020:

	Balance at September 30, 2019	Additions	Deductions	Balance at September 30, 2020
USDA Note 91-01	\$ 429,631	\$ -	\$ 13,294	\$ 416,337
USDA Note 91-02	\$ 1,331,946	\$ -	\$ 27,875	\$ 1,304,071
USDA Note 91-03	\$ -	\$ 348,752	\$ 4,079	\$ 344,674
USDA Note 91-04	\$ -	\$ 376,248	\$ 4,896	\$ 371,352
Lease Purchase - WSB	\$ 105,599	\$ -	\$ 20,969	\$ 84,631
Total Long-Term Debt	<u>\$ 1,867,176</u>	<u>\$ 725,000</u>	<u>\$ 71,112</u>	<u>\$ 2,521,064</u>

TRI-COUNTY RURAL WATER DISTRICT #2
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2020

Debt Services Requirements to Maturity

USDA Note 91-01:

Year Ended September 30,	Principal	Interest	Annual Payment
2021	\$ 13,885	\$ 17,939	\$ 31,824
2022	14,505	17,319	31,824
2023	15,152	16,672	31,824
2024	15,829	15,995	31,824
2025	16,535	15,289	31,824
2026-2030	94,429	64,691	159,120
2031-2035	117,472	41,648	159,120
2036-2040	128,529	13,171	141,700
Total	<u>\$ 416,337</u>	<u>\$ 202,723</u>	<u>\$ 619,060</u>

USDA Note 91-02:

Year Ended September 30,	Principal	Interest	Annual Payment
2021	\$ 28,649	\$ 35,503	\$ 64,152
2022	29,447	34,705	64,152
2023	30,267	33,885	64,152
2024	31,110	33,042	64,152
2025	31,976	32,176	64,152
2026-2030	173,746	147,014	320,760
2031-2035	199,325	121,435	320,760
2036-2040	228,670	92,090	320,760
2041-2045	262,335	58,425	320,760
2046-2050	288,546	19,833	308,379
Total	<u>\$ 1,304,071</u>	<u>\$ 608,107</u>	<u>\$ 1,912,179</u>

TRI-COUNTY RURAL WATER DISTRICT #2
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2020

USDA Note 91-03:

Year Ended September 30,	Principal	Interest	Annual Payment
2021	\$ 7,141	\$ 10,235	\$ 17,376
2022	7,351	10,025	17,376
2023	7,574	9,802	17,376
2024	7,804	9,572	17,376
2025	8,042	9,334	17,376
2026-2030	44,031	42,849	86,880
2031-2035	51,147	35,733	86,880
2036-2040	59,413	27,467	86,880
2041-2045	69,015	17,865	86,880
2046-2050	80,169	6,711	86,880
2051	2,988	12	3,000
Total	<u>\$ 344,674</u>	<u>\$ 179,606</u>	<u>\$ 524,280</u>

USDA Note 91-04:

Year Ended September 30,	Principal	Interest	Annual Payment
2021	\$ 5,788	\$ 14,864	\$ 20,652
2022	7,064	13,588	20,652
2023	7,333	13,319	20,652
2024	7,613	13,039	20,652
2025	7,904	12,748	20,652
2026-2030	44,278	58,982	103,260
2031-2035	53,394	49,866	103,260
2036-2040	64,387	38,873	103,260
2041-2045	77,642	25,618	103,260
2046-2050	93,627	9,633	103,260
2051	2,321	9	2,330
Total	<u>\$ 371,352</u>	<u>\$ 250,538</u>	<u>\$ 621,890</u>

Lease Purchase - WSB

Year Ended September 30,	Principal	Interest	Annual Payment
2021	\$ 21,815	\$ 3,061	\$ 24,876
2022	22,704	2,172	24,876
2023	23,628	1,248	24,876
2024	16,483	307	16,790
2025	-	-	-
Total	<u>\$ 84,631</u>	<u>\$ 6,788</u>	<u>\$ 91,418</u>

TRI-COUNTY RURAL WATER DISTRICT #2
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 7 - NET POSITION

As described in Note 1 above, equity is classified as net position and displayed in three components:

1. Net investment in capital assets
2. Restricted
3. Unrestricted

The restricted net position includes amounts related to Note 4 above.

NOTE 8 - CONTINGENCIES

Litigation

According to management there were no known contingent liabilities at September 30, 2020, which would have a material effect on the financial statements.

Grant Program Involvement

In the normal course of operations, the District participates in various Federal or State grant or 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 9 - WATER LEASE

The District has entered into a 50-year lease agreement with a private party that expires on December 31, 2052, for the purpose of purchasing water for the duration of the agreement. The cost of water purchased per 1,000 gallons is as follows:

January 1, 2002-December 31, 2010:	\$ 0.0393
January 1, 2011-December 31, 2028:	Adjusted annually
January 1, 2029-December 31, 2052:	Price renegotiated

The District entered into a perpetual lease agreement with a private party on May 16, 2002, for the purpose of water, for the consideration of \$0.393 per 1,000 gallons sold.

TRI-COUNTY RURAL WATER DISTRICT #2
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 10 - SUBSEQUENT EVENTS

The District did not have any subsequent events through February 12, 2021, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending September 30, 2020.

NOTE 11 - ACCOUNTS PAYABLE

The District's use of the modified cash basis of accounting does not usually include accounts payable but sometimes because the District has already put certain capital assets into use and begun depreciating them, those invoices are included as accounts payable at yearend.

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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
Tri-County Rural Water District #2
Earlsboro, 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, and in accordance with Oklahoma Statutes, the modified cash basis financial statements of the Tri-County Rural Water District #2 as of and for the year ended September 30, 2020, and the related notes to the financial statements, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles, and have issued our report thereon dated February 12, 2021.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected

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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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings as Item 20-01 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Tri-County Rural Water District #2's financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

Tri-County Rural Water District #2's Response to Findings

Tri-County Rural Water District #2's response to the findings identified in our audit is described in the accompanying Schedule of Findings. Tri-County Rural Water District #2's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

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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.

Kershaw CPA & Associates, P.C.
Kershaw CPA & Associates, PC
Muskogee, Oklahoma

February 12, 2021

TRI-COUNTY RURAL WATER DISTRICT #2
SCHEDULE OF FINDINGS
SEPTEMBER 30, 2020

INTERNAL CONTROL FINDINGS:

Item 20-01: Segregation of Duties

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

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

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

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

Response: The Board continues to be actively involved in the operations of the District.

COMPLIANCE FINDINGS:

None