

Marshall County Water Corporation

Independent Auditors Report

**As of and for the Years Ended
June 30, 2020 and 2019**

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Independent Auditors Report

To the Board of Directors
Marshall County Water Corporation
Madill, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the Marshall County Water Corporation (a nonprofit organization), which comprise the statement of financial position as of June 30, 2020 and 2019, and the related statements of activities and cash flows for the years then ended, 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 accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express opinions 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 entity'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 entity'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 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Marshall County Water Corporation, as of June 30, 2020 and 2019, and the changes in its net assets, and its cash flows for the years then ending in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 9, 2021, on our consideration of the Marshall County Water Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Marshall County Water Corporation's internal control over financial reporting and compliance.

Russell + Williams CPA's, P.C.

Oklahoma City, Oklahoma
February 9, 2021

Marshall County Water Corp.
Statement of Financial Position
June 30, 2020 and 2019

	2020	2019
ASSETS		
Cash	\$ 1,567,348.46	\$ 1,335,190.74
Certificate of Deposits	756,584.95	902,522.32
Cash - Restricted	663,864.00	572,368.61
Investments	5,220.00	5,220.00
Accounts Receivable (Less Allowance for Doubtful)	272,608.62	208,618.68
Membership Fees Receivable	106,332.00	64,308.00
Inventory	111,843.00	118,858.00
Prepaid Insurance	79,273.97	70,536.16
Total current assets	3,563,075.00	3,277,622.51
Capital assets, net	19,843,303.10	20,475,631.76
TOTAL ASSETS	\$ 23,406,378.10	\$ 23,753,254.27
 LIABILITIES AND NET ASSETS		
Accounts Payable	\$ 14,711.09	\$ 16,942.27
Payroll Taxes Payable	933.09	820.32
Accrued Interest Payable	6,711.45	7,934.30
Accrued Compensated Absences	75,287.15	76,104.97
Refundable Meter Deposits	25,586.00	24,926.00
Notes Payable - Current	623,572.00	616,389.00
Total current liabilities	746,800.78	743,116.86
Notes Payable - Long-term portion	10,617,146.24	11,324,752.32
Total Liabilities	11,363,947.02	12,067,869.18
NET POSITION		
Unrestricted	11,378,567.08	11,113,016.48
Temporary Restricted	663,864.00	572,368.61
Total Net Assets	12,042,431.08	11,685,385.09
TOTAL LIABILITIES AND NET ASSETS	\$ 23,406,378.10	\$ 23,753,254.27

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

Marshall County Water Corp.
Statement of Activities
For the Year Ended June 30, 2020 and 2019

	2020	2019
Unrestricted Net Assets:		
Revenues:		
Water sales	\$ 3,463,467.29	\$ 3,308,087.15
Membership Fees	223,436.00	142,887.03
Interest Income	21,029.44	24,770.89
Other Income	29,220.12	106,892.01
Released from Restrictions	(81,858.32)	(125,000.00)
Total Revenues	3,655,294.53	3,457,637.08
Expenses:		
Advertising	1,204.18	1,416.75
Bank Fees	24,155.00	18,348.05
Chemicals & Supplies	425,002.15	519,181.50
Depreciation	876,594.29	856,639.73
DEQ Fees	28,130.24	34,577.37
Dues and Fees	4,607.94	4,337.99
Employee Benefits - Health Insurance	108,387.31	113,550.84
Insurance and Bonds	87,180.46	80,951.48
Interest	434,361.02	479,241.39
Leased Equipment	25,006.43	23,106.14
Professional Fees	132,882.64	87,366.50
Office Supplies and Expense	20,539.03	12,953.49
Other Expenses	150,344.44	104,097.03
Payroll Taxes	41,157.45	40,942.11
Pension Plan Expense	28,125.00	29,700.00
Postage	38,898.00	32,663.95
Purchase of Water	-	343.50
Repairs and Maintenance	192,333.56	167,964.29
Salaries and Wages	529,017.33	505,948.50
Travel and Education	15,175.99	16,589.77
Truck and Tractor Expense	75,193.40	44,192.21
Utilities and Telephone	151,448.07	144,298.45
Total Expenses	3,389,743.93	3,318,411.04
Increase (Decrease) in Unrestricted Net Assets	265,550.60	139,226.04
Temporarily Restricted Net Assets:		
Interest Income	9,637.07	613.35
Released From Restrictions	81,858.32	125,000.00
Increase in Temporarily Restricted Net Assets	91,495.39	125,613.35
Increase (Decrease) in Net Assets	357,045.99	264,839.39
Net Assets, Beginning of Year	11,685,385.09	11,412,227.23
Net Assets, End of Year	\$ 12,042,431.08	\$ 11,677,066.62

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

Marshall County Water Corp.
Statement of Cash Flows
For the Year Ending June 30, 2020 and 2019

	2020	2019
Cash Flows Provided (Used) by Operating Activities		
Increase (Decrease) in Net Assets	\$ 357,045.99	\$ 273,157.86
Adjustments to Reconcile Net Cash Provided (Used) by Operations:		
Depreciation	876,594.29	856,639.73
(Increase) Decrease in Receivables	(106,013.94)	67,285.38
(Increase) Decrease in Inventory	7,015.00	(1,940.00)
(Increase) Decrease in Prepaid Expenses	(8,737.81)	(2,072.05)
Increase (Decrease) in Payables	(3,499.08)	(46,932.93)
Net Cash Provided (Used) by Operating Activities	1,122,404.45	1,146,137.99
Cash Flows Provided (Used) by Investing Activities		
(Increase) Decrease in Certificate of Deposits	145,937.37	(5,591.27)
(Increase) Decrease in Restricted Reserves	(91,495.39)	(133,931.82)
Purchases of Fixed Assets	(244,265.63)	(427,673.29)
Net Cash Provided (Used) by Investing Activities	(189,823.65)	(567,196.38)
Cash Flows Provided (Used) by Financing Activities		
Principal paid on long term debt	(700,423.08)	(892,720.58)
Net Cash Flows From Capital and Related Financing Activiti	(700,423.08)	(892,720.58)
Net Increase (Decrease) in Cash	232,157.72	(313,778.97)
Cash, Beginning of the Year	1,335,190.74	1,648,969.71
Cash, End of the Year	\$ 1,567,348.46	\$ 1,335,190.74

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

MARSHALL COUNTY WATER CORPORATION
Notes to Basic Financial Statements
June 30, 2020 and 2019

Note 1: Summary of Significant Accounting Policies

Financial Reporting Entity

The Marshall County Water Corporation was incorporated on August 13, 1970. The Corporation is exempt from Federal and State income taxes under Section 501(C)(12) of the Internal Revenue Code. The purpose of the Corporation is to provide for the use and benefit of its members, a water works and distribution system.

Basis of Accounting

The financial statements of the Corporation have been prepared using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Cash and Equivalents

For the purpose of the Statement of Cash Flows, the Corporation considers all highly liquid demand instruments purchased (excluding the restricted accounts) with a maturity of three months or less to be cash equivalents.

Inventory

Inventory which consist of pipe, fittings and chemicals are stated at cost.

Credit Risk

The Corporation maintains cash in demand deposits accounts with federally insured banks. At times, the balance in the accounts may be in excess of federally insured limits. When limits are exceeded, the financial institution pledges securities for the amount over the limit.

Financial instruments that potentially subject the Corporation to concentrations of credit risk consist principally of trade receivables. Credit risk is generally diversified due to the large number of members comprising the Corporation's customer base and each has a relatively small balance.

Risk Management

The Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees, and natural disasters. The Corporation manages this risk through the purchase of commercial insurance policies. Claims are recognized when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which non have been reported, are considered. The Corporation has had no claims that exceeded its insurance coverage.

MARSHALL COUNTY WATER CORPORATION
Notes to Basic Financial Statements
June 30, 2020 and 2019

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Accordingly, actual results could differ from those estimates.

Income Tax Status

The Corporation qualifies as a tax-exempt organization under Section 501(C)(12) of the Internal Revenue Code and, therefore, has no provision for federal or state income taxes. The Corporation did not have taxable non-related business income during the fiscal years ended June 30, 2020 and 2019. The Corporation files information tax returns. The tax years that remain subject to examination by tax jurisdictions are 2020, 2019, and 2018.

Commitments and Contingencies

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

The Corporation did not have any pending litigation or potential non-disclosed liabilities that management believes would have a material effect on the financial statements.

Note 2: Accounts Receivable

Accounts Receivable

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

Accounts receivables as June 30, 2020 and 2019 consisted of the following:

	2020	2019
Customer Receivables	\$ 290,609	\$ 226,619
Allowance for Doubtful Accounts	(18,000)	(18,000)
Net	\$ 272,609	\$ 208,619

Note 3: Membership Receivables

The Corporation also has members who are paying their membership fees on an installment basis. Members who use this installment method make a \$100 down payment and an agreed upon monthly payment until the fee is paid in full. An allowance for doubtful accounts has been set up for those accounts that are in arrears for greater than one year. Membership receivables at June 30, 2020

MARSHALL COUNTY WATER CORPORATION
Notes to Basic Financial Statements
June 30, 2020 and 2019

and 2019 consisted of the following:

	2020	2019
Membership receivables	106,332	64,308
	\$ 106,332	\$ 64,308

Note 4: Property and Equipment

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

Capital asset activity for the year ended June 30, 2020 is as follows:

	Beginning		Ending	
	Balance	Additions	Reductions	Balance
Water System	30,350,554	110,324	-	30,460,878
Land	461,249	17,400	-	478,649
Buildings	370,575	-	-	370,575
Equipment	677,861	116,542	(21,889)	772,514
Total	31,860,239	244,266	(21,889)	32,082,616
Less: Accumulated Depreciation	(11,384,607)	(876,594)	21,889	(12,239,312)
Net Capital Assets				\$ 19,843,303

Capital asset activity for the year ended June 30, 2019 is as follows:

	Beginning		Ending	
	Balance	Additions	Reductions	Balance
Water System	29,987,501	363,053	-	30,350,554
Land	461,249	-	-	461,249
Buildings	370,575	-	-	370,575
Equipment	613,240	64,621	-	677,861
Total	31,432,565	427,673	-	31,860,238
Less: Accumulated Depreciation	(10,527,967)	(856,640)	-	(11,384,607)
Net Capital Assets				\$ 20,475,632

Note 5: Restricted Reserves

Restricted assets are cash and cash equivalents, whose use is limited by legal requirements. Restricted cash with fiscal agent represents amounts required by debt covenant to be segregated for debt payments and accrued interest on the notes.

USDA-Rural Development requires monies to be held in reserve accounts. These reserve funds are to equal note payments for one year. This reserve cannot be used for operations without

MARSHALL COUNTY WATER CORPORATION
Notes to Basic Financial Statements
June 30, 2020 and 2019

permission from USDA-Rural Development. To be fully funded, these reserve funds must total \$663,864. These reserve funds total \$663,864 and \$572,369 respectively for the years ended June 30, 2020 and 2019.

Note 6: Investments

At June 30, 2020 and 2019, the Corporation held the following investments:

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

Note 7: Long-Term Debt

On May 28, 1998, the Corporation signed a forty-year note payable with Rural Economic and Community Development Agency (RECD) for a total amount of \$5,000,000. The proceeds were to be advanced to the Corporation as needed, with an interest rate of 4.5%. Payments of \$22,500, which include interest, are to be made each month beginning on June 28, 1998. The balance of the loan at June 30, 2020 is \$2,998,599.

On April 17, 2004, the Corporation signed a second note payable with Rural Economic and Community Development Agency (RECD) for a total amount of \$780,000. The proceeds were to be advanced to the Corporation as needed, with an interest rate of 4.5%. Payments of \$3,514, which include interest, are to be made each month beginning on May 17, 2004. The balance of the loan at June 30, 2020 is \$572,442.

Both of these loans with RECD are secured by substantially all of the Corporation's previously unpledged assets.

On June 23, 2010, the Corporation signed a forty-year note payable with USDA-Rural Development for a total amount of \$7,857,150. The proceeds were to be advanced to the Corporation as needed, with an interest rate of 3.25%. Payments of \$29,308, which include interest, are to be made each month beginning on July 23, 2010. The balance of the loan at June 30, 2020 is \$6,477,815.

On April 14, 2019, the Corporation signed a promissory note for \$3,000,000 for system improvements. The proceeds were to be advanced to the Corporation as needed, with an interest rate of 4.99%. Payments of \$31,915, which include interest, are to be made each month beginning on August 3, 2020. The balance of the loan at June 30, 2020 is \$1,191,863.

The following is a schedule of the annual payments:

MARSHALL COUNTY WATER CORPORATION
Notes to Basic Financial Statements
June 30, 2020 and 2019

Year	Payments	Principal	Interest
2021	1,046,846	623,572	423,274
2022	1,046,846	652,030	394,816
2023	1,046,846	681,819	365,027
2024	936,577	602,226	334,351
2025	663,864	348,128	315,736
2026-2031	3,319,320	1,960,560	1,358,760
2031-2036	3,319,320	2,386,165	933,155
2036-2041	2,086,626	1,541,331	545,295
2041-2046	1,801,253	1,506,416	294,837
2046-2049	1,098,936	938,473	55,273
	<u>\$ 16,366,435</u>	<u>\$ 11,240,719</u>	<u>\$ 5,020,526</u>

Note 8: Accrued Compensated Absences

Full-time employees are entitled to a minimum of two weeks (10 working days) of vacation pay each year after their first 90 days of employment. At June 30, 2020 and 2019, employees had accrued unused vacation and accrued comp time of \$75,287 and \$76,105.

Note 9: Pension Plan

During the year ended June 30, 2020 and 2019, the Corporation contributed \$28,125 and \$29,700 respectively, to employee individual retirement accounts. After being employed for 90 days, full-time employees and part-time employees can have \$100 and \$50 a month, respectively, contributed to their individual retirement accounts.

Note 10: Water Purchase Agreement

The Corporation purchases water under a 50-year contract from a local landowner, who is also the Corporation's attorney. The agreed upon purchase price is adjusted, after each five-year period, based on the relative change in the Consumer Price Index over the latest five-year period. The next price adjustment period is schedule to begin January 1, 2020. For the year ended June 30, 2020 and 2019 the Corporation purchased \$-0- and \$344 of water under this contract.

Note 11: Fair Value of Financial Instruments

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

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

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

Level 3: Significant unobservable inputs (including the Corporation's own assumptions in

MARSHALL COUNTY WATER CORPORATION
Notes to Basic Financial Statements
June 30, 2020 and 2019

determining the fair value of investments).

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

Note 12: Evaluation of Subsequent Events

The Corporation has evaluated subsequent events through February 9, 2021, which is the date the financial statements were issued.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Marshall County Water Corporation
Madill, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the accompanying financial statements of Marshall County Water Corporation, which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 9, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Marshall County Water Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Marshall County Water Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Marshall County Water Corporation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Marshall County Water Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Russell + Williams CPAs, P.C.

Oklahoma City, Oklahoma
February 9, 2021