

AUDIT REPORT

MAYES COUNTY RURAL WATER DISTRICT #2
MAYES COUNTY, OKLAHOMA

DECEMBER 31, 2020

KERSHAW CPA & ASSOCIATES, PC

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MAYES COUNTY RURAL WATER DISTRICT #2
DECEMBER 31, 2020

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the Mayes County Rural Water District #2, as of and for the fiscal year ended December 31, 2020, and the related notes to the financial statements as listed in the table of contents.

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 Mayes County Rural Water District #2, Mayes County, Oklahoma, as of December 31, 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 11, 2021, on our consideration of the Mayes 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 Mayes 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* in considering Mayes County Rural Water District #2's internal control over financial reporting and compliance.

Kershaw CPA & Associates, P.C.

Kershaw CPA & Associates, PC
Muskogee, Oklahoma

February 11, 2021

**MAYES COUNTY RURAL WATER DISTRICT #2
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
DECEMBER 31, 2020**

<u>ASSETS</u>	<u>2020</u>
<u>Current Assets:</u>	
Cash and Cash Equivalents	\$ 502,991
Inventory	24,206
Total Current Assets	<u>527,196</u>
<u>Noncurrent Assets:</u>	
Certificates of Deposit	502,554
Restricted Certificate of Deposit	947,229
Restricted Cash	384,566
Land and Construction in Progress	22,107
Other Capital Assets, Net of Accumulated Depreciation	<u>6,171,718</u>
Total Noncurrent Assets	<u>8,028,174</u>
TOTAL ASSETS	<u><u>\$ 8,555,370</u></u>
<u>LIABILITIES</u>	
<u>Current Liabilities:</u>	
Meter Deposits	\$ 75,345
Current Portion of Long-Term Debt	<u>128,200</u>
Total Current Liabilities	<u>203,545</u>
<u>Long-Term Liabilities:</u>	
Note Payable - OWRB	1,480,800
Less: Current Portion of Long-Term Debt	<u>(128,200)</u>
Total Long-Term Debt	<u>1,352,600</u>
TOTAL LIABILITIES	<u>1,556,145</u>
<u>NET POSITION</u>	
Net investment in capital assets	4,713,025
Restricted for debt service	384,566
Restricted for capital improvements	947,229
Unrestricted	<u>954,405</u>
TOTAL NET POSITION	<u>6,999,225</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 8,555,370</u></u>

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

MAYES COUNTY RURAL WATER DISTRICT #2
STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET POSITION - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2020

	2020
<u>Operating Revenues:</u>	
Water sales	\$ 1,588,155
Misc Customer Fees	72,372
Total Operating Revenues	1,660,528
<u>Operating Expenses:</u>	
Payroll, Payroll Taxes and Benefits	322,684
Water Purchases	658,920
Insurance	17,408
Uniforms	4,453
Material and Field Supplies	71,198
Professional Fees	7,180
Fuel and Lubricants	9,305
Office Supplies and Postage	21,686
Repairs and Maintenance	67,604
Utilities and Telephone	26,313
Water Testing	6,447
Licenses and Dues	10,536
Bank Charges & Processing Fees	18,458
Returned Checks & ACH Payments	999
Misc. Expense	110
Depreciation Expense	364,273
Total Operating Expenses	1,607,575
Net Operating Income (Loss)	52,953
<u>Non-operating Revenues (Expenses):</u>	
Interest Income	28,742
Interest Expense	(62,789)
Membership Fees	65,374
Miscellaneous Income	-
Total Non-operating Revenues (Expenses)	31,327
Net Income (Loss) Before Contributions	84,280
Capital Contributions	52,229
Change in Net Position	136,509
Total Net Position, Beginning of Year	6,859,164
Total Net Position, Prior Year Adjustment	3,553
Total Net Position, End of Year	\$ 6,999,225

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

**MAYES COUNTY RURAL WATER DISTRICT #2
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2020**

	2020
<u>Cash Flows from Operating Activities:</u>	
Cash Receipts from Customers	\$ 1,672,608
Payments for Employee Expenses	(322,684)
Payments to Suppliers for Goods & Services	(926,552)
Net Cash Provided (Used) by Operating Activities	423,372
<u>Cash Flows from Capital & Related Financing Activities:</u>	
Purchase of Capital Assets	(99,065)
Membership Fees	65,374
Capital Contributions, including Grant Income	52,229
Principal paid on long-term debt	(136,400)
Interest paid on Debt	(62,789)
Net Cash Provided (Used) by Capital & Related Financing Activities	(180,650)
<u>Cash Flows from Investing Activities:</u>	
Interest Income	28,742
Net Cash Provided (Used) by Investing Activities	28,742
Net Increase (Decrease) in Cash and Cash Equivalents	271,464
Cash & Cash Equivalents, Beginning of Year	2,051,386
Cash & Cash Equivalents, Prior Year Adjustment	14,490
Cash & Cash Equivalents, End of Year	\$ 2,337,340
<u>Reconciliation of operating income (loss) to net cash provided</u>	
<u>operating activities:</u>	
Operating Income (Loss)	\$ 52,953
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation	364,273
(Increase)Decrease in Inventory	(5,934)
Increase(Decrease) in Customer Deposits	12,080
Net Cash Provided (Used) by Operating Activities	\$ 423,372
Supplemental Information:	
Unrestricted Cash and Cash Equivalents	\$ 502,991
Certificates of Deposit - Unrestricted	502,554
Certificates of Deposit & Savings - Reserved for Improvements	947,229
Restricted Cash & Cash Equivalents - BOK Reserve & Debt Ser	384,566
Total Cash & Cash Equivalents	\$ 2,337,340

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

MAYES COUNTY RURAL WATER DISTRICT #2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. Reporting Entity

Mayes County Rural Water District #2 was incorporated under the Rural Water District Act of Oklahoma in 1965, for the purpose of acquiring water rights, and to build and acquire pipelines 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.

The membership consists of approximately 2,850 users, each entitled to one vote. The Board of Directors consists of 9 members serving 3-year terms. The vacant Board seats are elected at the annual meeting, and following, the Board of Directors meet and elect a chairman, vice-chairman, and secretary-treasurer.

The District is an independent, self-contained reporting entity with no associated component units. It is operated in a manner similar to private business enterprise where the cost (expenses, including depreciation) of providing water services is financed through user charges. The District purchases its water from Oklahoma Ordnance Works Authority (OOWA).

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

MAYES COUNTY RURAL WATER DISTRICT #2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

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).

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

MAYES COUNTY RURAL WATER DISTRICT #2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

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

D. Financial Position

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the District considers all cash on hand, demand deposit and highly liquid investments, with an original maturity of three months or less to be a cash and cash equivalents.

Investments

Investments consist of certificates of deposit maturing in the following fiscal year with interest paid quarterly or biannually at varying rates.

Inventory

The District has an inventory of pipe and other miscellaneous repair parts on hand. Inventory is recorded at cost using the first-in-first-out (FIFO) method.

Capital Assets

Property, plant and equipment are recorded at cost. Donated capital assets are reported at estimated fair market value at the date of donation.

MAYES COUNTY RURAL WATER DISTRICT #2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

All reported assets are depreciated on the straight-line basis over their estimated useful lives ranging from five to fifty years. Purchases of capital items in excess of \$500.00 that increase the capacity or operation efficiency or extend the useful life of any asset are capitalized.

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.

Equity Classification

Equity is classified as net position and displayed in three components:

1. *Net investment in capital assets* – Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.
2. *Restricted* - Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through 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 of capital assets or the restricted component of net position.

MAYES COUNTY RURAL WATER DISTRICT #2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

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 accordance 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 (such as estimated useful lives in determining depreciation expense); 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 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.

Finance-related Legal & Contractual Provisions

The District is in compliance with the reserve requirement of the loan agreement.

MAYES COUNTY RURAL WATER DISTRICT #2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

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 - CUSTODIAL CREDIT RISK RELATED TO DEPOSITS

Custodial Credit Risk

At December 31, 2020, the District held deposits of approximately \$2,337,340 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 trusts whose beneficiary is a county, municipality or school district.

MAYES COUNTY RURAL WATER DISTRICT #2
NOTES TO FINANCIAL STATEMENTS
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- 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.).

The District has the following credit risk: 100% in Certificates of Deposit (\$1,449,783).

NOTE 4 - RESTRICTED ASSETS

The terms of the loan agreement with the Oklahoma Water Resources Board (OWRB) require that the District maintain funds for the use of servicing debt in the amount of 125% of the total annual payment. The deposits with the Bank of Oklahoma (BOK) trust account is sufficient to fulfill this requirement. Management has elected to restrict the use of cash deposited in certificates of deposit to be used for capital improvements. There is no other legal restriction on the certificates of deposit.

NOTE 5 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended December 31, 2020, was as follows:

	12/31/19 Balance	Additions	Deductions	12/31/20 Balance
Capital assets not being depreciated:				
Land	\$ 22,107	\$ -	\$ -	\$ 22,107
Total capital assets not being depreciated	22,107	-	-	22,107
Other capital assets:				
Distribution System	11,100,062	70,773	-	11,170,835
Buildings and Improvements	104,774	-	-	104,774
Meter Reading System	705,470	-	-	705,470
Furniture and Fixtures	28,360	-	-	28,360
Computers and Accessories	4,536	-	-	4,536
Tools and Equipment	410,123	28,292	-	438,415
Total other capital assets at historical cost	12,353,326	99,065	-	12,452,390
Less accumulated depreciation for:				
Distribution System	(5,157,772)	(286,660)	-	(5,444,432)
Buildings and Improvements	(69,434)	(2,635)	-	(72,068)
Meter Reading System	(306,405)	(54,643)	-	(361,049)
Furniture and Fixtures	(27,074)	(496)	-	(27,570)
Computers and Accessories	(3,744)	(345)	-	(4,089)
Tools and Equipment	(351,970)	(19,494)	-	(371,464)
Total accumulated depreciation	(5,916,400)	(364,273)	-	(6,280,673)
Other capital assets, net	6,436,926	(265,208)	-	6,171,718
Total capital assets, net	\$ 6,459,033	\$ (265,208)	\$ -	\$ 6,193,825

MAYES COUNTY RURAL WATER DISTRICT #2
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2020

An adjustment of \$10,938 was made to beginning depreciation to correct accumulated depreciation from \$5,905,462 to \$5,916,400. Depreciation expense for the current year was \$364,273.

NOTE 6 - LONG-TERM DEBT

On May 26, 2005, Mayes County Rural Water District #2 borrowed \$4,050,000 from the Oklahoma Water Resources Boards. Loan issuance costs of \$78,307 paid out of loan funds are carried as a deferred charge on the balance sheet and will be amortized over the life of the loan. Substantially all capital assets, accounts receivable, and assignment of revenues are pledged as security for the OWRB note. The note bears interest at an initial rate of 3.27% from May 26, 2005 through September 30, 2005 and after that date until maturity the interest rate may be adjusted periodically not exceeding applicable statutory limits. This note will mature on April 1, 2035. Payments are made by the 15th day of each month to the trustee bank, Bank of Oklahoma, and placed into a restricted debt service account. A debt service reserve account as part of the loan agreement must maintain a minimum balance of 125% of the maximum annual amount required for debt service. Earnings from debt service and debt service reserve accounts are placed into the debt service reserve fund. Semi-annual note payments are made each March 15th, and September 15th, from the debt service account.

Additional information: The District board of trustees voted in September 2013 to make a one million dollar principal reduction payment on this note and to pay an additional \$30,000 principal payment twice yearly. However, the District has not been consistently making these additional payments since 2017.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended December 31, 2020:

	Balance at December 31, 2019	Additions	Deductions	Balance at December 31, 2020
Notes Payable	\$ 1,617,200	\$ -	\$ (136,400)	\$ 1,480,800
Total Long-Term Debt	<u>\$ 1,617,200</u>	<u>\$ -</u>	<u>\$ (136,400)</u>	<u>\$ 1,480,800</u>

MAYES COUNTY RURAL WATER DISTRICT #2
 NOTES TO FINANCIAL STATEMENTS
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Debt Services Requirements to Maturity

The annual debt service requirements to maturity, including principal only (variable interest rate), for long-term debt, as of December 31, 2020, are as follows:

Long-Term Notes Payable:

Year Ending June 30,	Principal
2021	\$ 128,200
2022	135,400
2023	142,900
2024	150,900
2025	159,300
2026	168,100
2027-2030	596,000
Total	<u>\$ 1,480,800</u>

NOTE 7 - FUND EQUITY

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

Restricted amounts are described in Note 4 above.

NOTE 8 - CONTINGENCIES

Litigation

According to the District's management, there were no known contingent liabilities at December 31, 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/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,

MAYES COUNTY RURAL WATER DISTRICT #2
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although it is believed the amount, if any, would not be material.

NOTE 9 - ECONOMIC DEPENDENCE

Mayes County Rural Water District #2 is dependent upon the Oklahoma Ordnance Works Authority (OOWA) for the District's water supply.

NOTE 10 - EMPLOYEE RETIREMENT PLAN

The District maintains an elective SEP retirement plan for employees. The employees are allowed to contribute up to 7.65% of their wages (which is withheld from their payroll) and the District matches up to this amount. The District paid \$27,704.46 into the retirement plan in 2020. The plan is maintained by the Legend Group.

NOTE 11 - SUBSEQUENT EVENTS

The District did not have any subsequent events through February 11, 2021, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending December 31, 2020.

NOTE 12 - PRIOR YEAR ADJUSTMENT

Prior year adjustments were made to cash and cash equivalents that totaled \$14,490. Adjustments were also made to beginning depreciation in the amount of \$10,937. The net adjustment to Total Net Position was \$3,553.

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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
Mayes County Rural Water District #2
Mayes County, 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 financial statements of the Mayes County Rural Water District #2, as of and for the year ended December 31, 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 11, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Mayes 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 Mayes County Rural Water District #2's internal control. Accordingly, we do not express an opinion on the effectiveness of Mayes 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 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. We did identify certain

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deficiencies in internal control described in the accompanying Schedule of Findings as Items 20-01 and 20-2 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Mayes 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*.

Mayes County Rural Water District #2's Response to Findings

Mayes County Rural Water District #2's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. Mayes 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 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 11, 2021

MAYES COUNTY RURAL WATER DISTRICT #2
SCHEDULE OF FINDINGS
DECEMBER 31, 2020

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 organization.

Response: Some compensating controls have been implemented by the Board and management plays a large role in oversight of the billing, collection and reconciliation function.

Item 20-02: Internal Control over Financial Reporting

Criteria: Per government auditing and accounting standards management must designate an individual or individuals that possess skill, knowledge and experience to the extent they can perform year-end closing adjustments and evaluate any non-attest services or audit adjustments performed by the independent auditor.

Condition: Material adjusting journal entries were required to arrive at the final adjusted trial balance.

Cause/Effect: As defined by *Government Auditing Standards*, district personnel do not possess the necessary skill, knowledge and experience. The District is not able to report accurate and timely financial information.

Recommendation: The District should get additional assistance with performing year-end closing and financial statement preparation.

Response: Management is taking into consideration the Auditor's recommendation and is working to improve performance in this area.