

AUDIT REPORT

DELAWARE COUNTY RURAL WATER DISTRICT #1

FEBRUARY 28, 2021

KERSHAW CPA & ASSOCIATES, PC

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DELAWARE COUNTY RURAL WATER DISTRICT #1
FEBRUARY 28, 2021

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DELAWARE COUNTY RURAL WATER DISTRICT #1
FEBRUARY 28, 2021

BOARD OF DIRECTORS

| <u>NAME</u> | <u>POSITION</u> | <u>TERM EXPIRATION</u> |
|-----------------|---------------------|------------------------|
| JOE HUTCHISON | CHAIRMAN | FEBRUARY 2022 |
| PATRICK SANDERS | VICE CHAIRMAN | FEBRUARY 2022 |
| GAIL SPERRY | SECRETARY/TREASURER | FEBRUARY 2023 |
| LARRY SLOAN | MEMBER | FEBRUARY 2023 |
| HEATH JOHNSTON | MEMBER | FEBRUARY 2021 |

Unaudited

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Delaware County Rural Water District #1
Delaware County, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Delaware County Rural Water District #1, as of and for the fiscal year ended February 28, 2021, 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 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 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. 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the

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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 qualified audit opinion.

Basis for Qualified Opinion

The utility billing program improperly accumulates delinquent customer late fees beyond the delinquent "shut off" date, causing accounts receivable to increase in perpetuity on uncollectible accounts receivable. Methodology should be employed to determine the amount of adjustments for late fees and bad debt expense by adjusting receivables for late fees and uncollectible accounts. Accounting principles generally accepted in the United States of America require that an adequate allowance be provided for uncollectible receivables, which would decrease the assets, net position and revenues. The amount by which this departure would affect the assets, net position and revenues has not been determined.

Qualified Opinion

In our opinion, except for the possible effects of the matter discussed in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above not present fairly, in all material respects, the financial position of the Delaware County Rural Water District #1, as of February 28, 2021, or the changes in financial position or cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial

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statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary and Other Information

The introductory section listed in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the District. Such additional information has not been subjected to the auditing procedures applied in our audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2021, on our consideration of the Delaware County Rural Water District #1's internal control over financial reporting and 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 Delaware County Rural Water District #1's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Delaware County Rural Water District #1's internal control over financial reporting and compliance.

Kershaw CPA & Associates, P.C.

Kershaw, CPA & Associates, PC
Muskogee, Oklahoma

June 10, 2021

EXHIBIT A

DELAWARE COUNTY RURAL WATER DISTRICT #1
STATEMENT OF NET POSITION
FEBRUARY 28, 2021

| | Total 2/28/2021 | Total (Memo Only) 2/29/2020 |
|--|----------------------------|--|
| <u>ASSETS</u> | | |
| <u>Current Assets:</u> | | |
| Cash in Bank | \$ 49,003 | \$ 32,874 |
| Certificates of Deposit | 96,069 | 94,466 |
| Accounts Receivable | 137,054 | 139,745 |
| Inventory | 10,366 | 10,366 |
| Prepaid Insurance | 6,705 | 1,942 |
| Total Current Assets | 299,197 | 279,394 |
| <u>Restricted Assets:</u> | | |
| BOK Debt Service Fund - Nt 2011 | 5,266 | 5,261 |
| Total Restricted Assets | 5,266 | 5,261 |
| <u>Capital Assets:</u> | | |
| Land | 12,652 | 12,652 |
| Building | 88,218 | 6,228 |
| Machinery & Equipment | 15,021 | 15,021 |
| Water System | 2,580,061 | 2,572,970 |
| Construction in Progress | - | - |
| Less: Accumulated Depreciation | (1,244,743) | (1,173,770) |
| Total Capital Assets | 1,451,209 | 1,433,102 |
| TOTAL ASSETS | \$ 1,755,672 | \$ 1,717,756 |
| <u>LIABILITIES & NET POSITION</u> | | |
| <u>LIABILITIES:</u> | | |
| <u>Current Liabilities:</u> | | |
| Accounts Payable | \$ 20,798 | \$ 17,242 |
| Accrued Interest Payable | 2,788 | 3,020 |
| Current Portion of Long-Term Debt | 6,058 | 5,839 |
| Total Current Liabilities | 29,644 | 26,101 |
| <u>Long-Term Liabilities:</u> | | |
| Notes Payable - OWRB | 188,122 | 193,961 |
| Less: Current Portion of Long-Term Debt | (6,058) | (5,839) |
| Total Long-Term Liabilities | 182,064 | 188,122 |
| TOTAL LIABILITIES | 211,708 | 214,223 |
| <u>NET POSITION:</u> | | |
| Net investment in capital assets | 1,263,087 | 1,239,141 |
| Restricted for debt service | 5,266 | 5,261 |
| Unrestricted | 275,611 | 259,131 |
| TOTAL NET POSITION | 1,543,964 | 1,503,533 |
| TOTAL LIABILITIES & NET POSITION | \$ 1,755,672 | \$ 1,717,756 |

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

EXHIBIT B

DELAWARE COUNTY RURAL WATER DISTRICT #1
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED FEBRUARY 28, 2021

| | <u>FYE 2/28/21</u> | <u>Total (Memo Only) FYE 2/29/20</u> |
|---|----------------------------|--|
| <u>Operating Revenues:</u> | | |
| Water Sales | \$ 411,871 | \$ 361,597 |
| Membership Fees | 16,245 | 5,875 |
| Other Income, including late fees | 2,396 | 654 |
| Total Operating Revenues | <u>430,512</u> | <u>368,125</u> |
| <u>Operating Expenses:</u> | | |
| Water Purchases | 242,294 | 200,339 |
| Accounting & Legal | 3,050 | 850 |
| Bank Charges | - | - |
| Contract Labor | 15,758 | 39,030 |
| Director's Fees | 1,300 | 1,500 |
| Depreciation Expense | 70,249 | 63,725 |
| Dues & Subscriptions | 3,228 | 3,051 |
| Insurance | 6,254 | 5,869 |
| Equipment Rental | - | - |
| Repairs & Maintenance | 21,471 | 29,868 |
| Miscellaneous | 6,773 | 5,157 |
| Office Expense | 2,045 | 1,722 |
| Postage | 2,081 | 2,277 |
| Salaries & Wages | 75,394 | 44,497 |
| Payroll Tax Expense | 7,309 | 6,744 |
| Telephone | - | - |
| Utilities | 7,568 | 7,573 |
| Total Operating Expenses | <u>464,773</u> | <u>412,202</u> |
| Operating Income (Loss) | <u>(34,261)</u> | <u>(44,077)</u> |
| <u>Non-Operating Revenues (Expenses):</u> | | |
| Interest Income | 1,697 | 2,683 |
| Interest Expense | (6,071) | (6,681) |
| Total Non-operating Revenues (Expenses) | <u>(4,374)</u> | <u>(3,997)</u> |
| Net Income (Loss) Before Contributions | <u>(38,634)</u> | <u>(48,074)</u> |
| Capital Contributions | <u>28,490</u> | <u>31,830</u> |
| Change in Net Position | <u>(10,144)</u> | <u>(16,244)</u> |
| Total Net Position - Beginning | 1,503,533 | 1,519,777 |
| Total Net Position - Prior Year Adjustment | <u>50,576</u> | <u>-</u> |
| Total Net Position - Ending | <u><u>\$ 1,543,964</u></u> | <u><u>\$ 1,503,533</u></u> |

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

EXHIBIT C

**DELAWARE COUNTY RURAL WATER DISTRICT #1
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED FEBRUARY 28, 2021**

| | <u>2/28/21</u> | <u>Memo Only 2/29/20</u> |
|---|-------------------|----------------------------------|
| <u>Cash Flows from Operating Activities:</u> | | |
| Cash Receipts from Customers | \$ 433,203 | \$ 357,293 |
| Payments to Suppliers for Goods & Services | (304,579) | (262,281) |
| Payments to Employees & Laborers | (91,151) | (83,526) |
| Net Cash Provided (Used) by Operating Activities | <u>37,472</u> | <u>11,486</u> |
| <u>Cash Flows from Capital & Related Financing Activities:</u> | | |
| Additions to Capital Assets | (37,781) | (32,980) |
| Grant Income / Capital Contributions | 28,490 | 31,830 |
| Loan Proceeds | - | - |
| Principal paid on Debt | (5,839) | (5,663) |
| Interest paid on Debt | (6,303) | (6,752) |
| Net Cash Provided (Used) by Capital & Related Financing Activities | <u>(21,432)</u> | <u>(13,565)</u> |
| <u>Cash Flows from Investing Activities:</u> | | |
| (Increase) in Restricted Assets | (5) | (42) |
| Interest Income | 1,697 | 2,683 |
| Net Cash Provided (Used) by Investing Activities | <u>1,692</u> | <u>2,641</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 17,732 | 562 |
| Cash & Cash Equivalents, Beginning of Year | 127,341 | 126,778 |
| Cash & Cash Equivalents, Prior Year Adjustment | - | - |
| Cash & Cash Equivalents, End of Year | <u>\$ 145,072</u> | <u>\$ 127,341</u> |
| <u>Reconciliation of operating income (loss) to net cash provided operating activities:</u> | | |
| Operating Income (Loss) | \$ (34,261) | \$ (44,077) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities | | |
| Depreciation Expense | 70,249 | 63,725 |
| (Increase)Decrease in Accounts Receivable | 2,691 | (10,832) |
| (Increase)Decrease in Inventory | - | - |
| (Increase)Decrease in Prepaid Expenses | (4,763) | (119) |
| Increase(Decrease) in Accounts Payable | 3,556 | 2,788 |
| Increase(Decrease) in Payroll Liabilities | - | - |
| Net Cash Provided (Used) by Operating Activities | <u>\$ 37,472</u> | <u>\$ 11,486</u> |

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

DELAWARE COUNTY RURAL WATER DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Delaware County Rural Water District #1 is a non-profit governmental organization. The organization was incorporated on February 22, 1977. Its purpose is to provide for the use and benefit of its members a water processing and distribution system, including physical facilities necessary for its operations and maintenance.

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 assets, 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).

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The District uses the accrual basis of accounting, which is in accordance with U.S. generally accepted accounting principles. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

DELAWARE COUNTY RURAL WATER DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2021

D. Assets, Liabilities, & Equity

Cash & Cash Equivalents

For the purpose of financial reporting, "cash & 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

The District's fixed assets are stated at cost. Depreciation is computed using the straight-line method over the estimated useful life of the assets. Expenditures for major renewals and betterments which extend the useful lives of the fixed assets are capitalized. 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. Expenditures for maintenance and repairs are expensed as incurred.

| <u>Class of Asset</u> | <u>Estimated Useful Life</u> |
|----------------------------|------------------------------|
| Water Distribution Systems | 40 years |
| Buildings | 25 years |
| Equipment | 5 years |

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

DELAWARE COUNTY RURAL WATER DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2021

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.

E. 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.

F. Memorandum Only

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

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

DELAWARE COUNTY RURAL WATER DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2021

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 has one loan with OWRB that requires a Debt Service Fund with BOK Trust.

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 February 28, 2021, the District held deposits of approximately \$150,338 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.

DELAWARE COUNTY RURAL WATER DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2021

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

NOTE 4 - RESTRICTED ASSETS

The loan agreement with the Oklahoma Water Resources Board for the District's basic financing requires that certain monies be put in a trust type account. These funds are restricted to servicing the loan with the OWRB. Monthly payments are made to a debt service account and then invested upon receipt by the loan trustee, Bank of Oklahoma NA. Semi-annual payments are then made by the trustee from this account to OWRB. Additionally, another account was required to be maintained from which note payments could be made if the District was unable to make its scheduled monthly payments. This is the debt service reserve account. When funds are received by the Trustee they are immediately invested in securities guaranteed by the United States Government. The earnings from the debt service and the debt service reserve account are accumulated in the debt service reserve account.

Balance of each account at February 28, 2021 is:

| | |
|-----------------------------|--------------------|
| Debt Service Reserve Fund | \$ -0- |
| Debt Service Fund | \$ -0- |
| Debt Service Fund - Nt 2011 | <u>\$ 5,265.70</u> |
| Total Restricted Funds | \$ 5,265.70 |

NOTE 5 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended February 28, 2021, was as follows:

DELAWARE COUNTY RURAL WATER DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2021

| | Balance at 2/29/2020 | Additions | Deductions | Balance at 2/28/2021 |
|---|-------------------------|-----------|------------|-------------------------|
| Land | \$ 12,652 | \$ - | \$ - | \$ 12,652 |
| Buildings | 6,228 | 81,990 | - | 88,218 |
| Machinery, equipment, furniture and fixtures | 15,021 | - | - | 15,021 |
| Water Systems | 2,572,970 | 7,091 | - | 2,580,061 |
| Construction in Progress | - | - | - | - |
| Subtotal | 2,606,872 | 89,081 | - | 2,695,952 |
| Less: Accum. Depr. | (1,173,770) | (70,973) | - | (1,244,743) |
| Total Capital Assets (Net of Depreciation) | \$ 1,433,102 | \$ 18,107 | \$ - | \$ 1,451,209 |

NOTE 6 - LONG-TERM DEBT

On December 15, 2011, the District entered into a loan agreement with Oklahoma Water Resource Board. This loan is a Series 2011 Drinking Water SRF Promissory Note with an original loan amount of \$260,000.00, which was reduced to \$234,177.33. The proceeds of this Note will be used by the District to construct improvements to the drinking water system benefiting the customers of the District. The fixed assets, accounts receivable and assignment revenues are pledged as security on this note. The loan has an interest rate of 2.86% per annum plus an administrative fee at the rate of 0.5% per annum on the outstanding balance of disbursed loan proceeds. This loan will mature March 15, 2042.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended February 28, 2021:

| | Balance at 2/29/20 | Additions | Deductions | Balance at 2/28/21 |
|----------------------|-----------------------|-----------|-------------|-----------------------|
| OWRB ORF-11-0007-DW | \$ 193,960.98 | \$ - | \$ 5,838.90 | \$ 188,122.08 |
| Total Long-Term Debt | \$ 193,960.98 | \$ - | \$ 5,838.90 | \$ 188,122.08 |

Debt Services Requirements to Maturity

The annual debt service requirements to maturity, including principal and interest for the fixed rate loan, for long-term debt, as of February 28, 2021, are as follows:

DELAWARE COUNTY RURAL WATER DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2021

OWRB Loan:

| Year Ended February 28, | Principal | Interest | Admin | Total |
|----------------------------|-------------------|------------------|------------------|-------------------|
| 2022 | \$ 6,058 | \$ 5,138 | \$ 946 | \$ 12,142 |
| 2023 | 6,266 | 4,961 | 915 | 12,142 |
| 2024 | 6,481 | 4,777 | 883 | 12,142 |
| 2025 | 6,688 | 4,601 | 852 | 12,142 |
| 2026 | 6,934 | 4,392 | 816 | 12,142 |
| 2027-2031 | 38,396 | 18,789 | 3,523 | 60,708 |
| 2032-2036 | 45,464 | 12,773 | 2,472 | 60,708 |
| 2037-2041 | 53,830 | 5,652 | 1,227 | 60,708 |
| 2042-2043 | 18,006 | 163 | 92 | 18,260 |
| Total | <u>\$ 188,122</u> | <u>\$ 61,245</u> | <u>\$ 11,725</u> | <u>\$ 261,092</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

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

NOTE 8 - CONTINGENCIES

Litigation

The District currently has no pending litigation.

Federally Assisted Programs

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

DELAWARE COUNTY RURAL WATER DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2021

NOTE 9 - EMPLOYEE RETIREMENT PLAN

The District does not provide an employee retirement plan.

NOTE 10 - SUBSEQUENT EVENTS

The District did not have any subsequent events through the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending February 28, 2021.

NOTE 11 - PRIOR YEAR ADJUSTMENT

A prior year adjustment was made to capitalize the building expenses paid directly by a REAP grant in the previous fiscal year in the amount of \$51,300. A second adjustment was made to correct beginning accumulated depreciation by \$724.50. These two adjustments resulted in a net change to Net Position of \$50,575.50.

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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
Delaware County RWD #1
Delaware 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, the financial statements of the Delaware County Rural Water District #1, as of and for the year ended February 28, 2021, and the related notes to the financial statements, and have issued our report thereon dated June 10, 2021, which was a qualified opinion because of the GAAP departure in accounting for uncollectible receivables. Management has omitted the MD&A required by accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Delaware County Rural Water District #1'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 Delaware County Rural Water District #1's internal control. Accordingly, we do not express an opinion on the effectiveness of Delaware County Rural Water District #1'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.

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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 21-01 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Delaware County Rural Water District #1'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.

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

June 10, 2021

DELAWARE COUNTY RURAL WATER DISTRICT 1
SCHEDULE OF FINDINGS
FEBRUARY 28, 2021

INTERNAL CONTROL FINDINGS

Item 21-01 - Segregation of Duties:

Criteria - The segregation of duties is important to have adequate control over financial assets.

Condition - The District has the same employees performing work normally segregated between two or more employees, including receiving funds and posting those funds to the District's books.

Cause - The District's small size limits the amount of staffing needed to properly segregate the accounting functions.

Effect - The lack of segregation of duties could increase the risk that misstatements material to the financial statements could occur and not be detected within a timely manner.

Recommendation - The lack of segregation of duties is a common deficiency in District's the size of Delaware County RWD #1. The governing body should be aware of the increased risk and develop policies and procedures to reduce the effect of the internal control deficiency.

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