

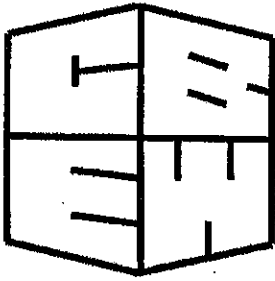
**RURAL WATER DISTRICT NO. 2
PAWNEE COUNTY
Terlton, Oklahoma**

**BASIC FINANCIAL STATEMENTS
December 31, 2020**

**RURAL WATER DISTRICT #2
PAWNEE COUNTY
Terlton, Oklahoma**

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INDEPENDENT AUDITOR'S REPORT

June 16, 2021

Board of Directors
Rural Water District No. 2
Pawnee County
Terlton, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Rural Water District No. 2, Pawnee County, Terlton, Oklahoma (the District), as of and for the 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 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 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 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Rural Water District No. 2, Pawnee County, Terlton, Oklahoma as of December 31, 2020, and the changes in financial position and 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

The District has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), 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 are not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2021, on our consideration of the Rural Water District No. 4'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 results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Rural Water District No. 4's internal control over financial reporting and compliance.

CBEW Professional Group, LLP

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Certified Public Accountants
Cushing, Oklahoma

**RURAL WATER DISTRICT #2
PAWNEE COUNTY
Terlton, Oklahoma**

**STATEMENT OF NET POSITION
December 31, 2020**

	December 31, 2020
Assets:	
Cash and cash equivalents (Note 1)	\$ 226,290
Investments	70,582
Temporarily restricted assets:	
Cash and cash equivalents (Note 1)	25,968
Restricted assets:	
Customer deposits (Note 1)	73,730
Receivables (net of allowance for uncollectible)	96,865
Prepaid expense	5,479
Capital assets:	
Land	15,075
Construction in process	2,191,272
Water system, buildings, improvements and equipment, net of depreciation (Notes 1 & 3)	<u>524,765</u>
Other:	
Other assets	<u>930</u>
Total assets	<u>3,230,756</u>
Deferred outflows of resources:	
Total deferred outflows	<u>-</u>
Current liabilities:	
Accounts payable	23,310
Fire dues collected and payable	1,866
Customer deposits	73,730
Current portion of notes payable (Note 3)	22,540
Total current liabilities	<u>121,446</u>
Long-term liabilities:	
Notes payable (Note 3)	<u>2,183,404</u>
Total long-term liabilities	<u>2,183,404</u>
Total liabilities	<u>2,304,850</u>
Deferred inflows of resources:	
Total deferred inflows	<u>-</u>
Net position:	
Net investment in capital assets	525,168
Temporarily restricted (Note 1)	25,968
Unrestricted	<u>374,770</u>
Total net position	<u>925,906</u>
Total liabilities and net position	<u>\$ 3,230,756</u>

The accompanying notes are an integral part of the basic financial statements.

**RURAL WATER DISTRICT #2
PAWNEE COUNTY
Terleton, Oklahoma**

**STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2020**

	December 31, 2020
Revenues:	
Water sales	\$ 627,289
Late charges	23,316
Miscellaneous income	<u>17,700</u>
Total revenues	<u>668,305</u>
Expenses:	
Bank charges	13,730
Contract services	4,931
Depreciation	47,569
Employee benefits	30,177
Insurance	13,336
Lab fees	4,817
Legal and accounting	7,139
Licenses and permits	2,435
Miscellaneous	1,803
Office supplies and postage	13,716
Payroll taxes	12,935
Repair and maintenance	10,293
Salaries and payroll expenses	156,865
Supplies	20,704
Telephone	5,872
Transportation	9,808
Utilities	4,618
Water purchases	<u>313,814</u>
Total expenses	<u>674,562</u>
Operating income (loss)	<u>(6,257)</u>
Other income and expense:	
Interest income	1,784
Benefit units	12,026
Interest expense	<u>(22,419)</u>
Total other income and expense	<u>(8,609)</u>
Change in net position - net income (loss)	(14,866)
Net position - beginning of year	<u>940,772</u>
Net position - end of year	\$ <u><u>925,906</u></u>

The accompanying notes are an integral part of the basic financial statements.

**RURAL WATER DISTRICT #2
PAWNEE COUNTY
Terlton, Oklahoma**

**STATEMENT OF CHANGES IN NET POSITION
For the Year Ended December 31, 2020**

	Net Position (Unrestricted)	Net Position (Temporarily Restricted)	Total Net Assets
Balance - beginning of year 12-31-19	\$ 914,804	\$ 25,968	\$ 940,772
Change in net position	<u>(14,866)</u>	<u>-</u>	<u>(14,866)</u>
Balance - end of year 12-31-20	<u><u>\$ 899,938</u></u>	<u><u>\$ 25,968</u></u>	<u><u>\$ 925,906</u></u>

The accompanying notes are an integral part of the basic financial statements.

**RURAL WATER DISTRICT #2
PAWNEE COUNTY
Terlton, Oklahoma**

**STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2020**

	December 31, 2020
Cash flows from operating activities:	
Cash received from customers	\$ 655,544
Cash payments to suppliers for goods & contractors & other services	(620,721)
Net cash provided by operating activities	<u>34,823</u>
Cash flows from capital and related financing activities:	
Acquisition & construction of capital assets	(1,994,759)
Principal paid on debt	(21,284)
Interest paid on debt	(22,419)
Net change in meter deposits	2,939
Proceeds of issuance of debt	2,115,233
Benefit units	12,026
Net cash used in capital and related financing activities	<u>91,736</u>
Cash flows from investing activities:	
(Purchase) liquidation of investments - unrestricted	-
Interest income	1,784
Net cash provided by investing activities	<u>1,784</u>
Net increase (decrease) in cash	128,343
Cash and cash equivalents at beginning of year	<u>197,645</u>
Cash and cash equivalents at end of year	<u>\$ 325,988</u>
Reconciliation of operation income to net cash provided by operating activities:	
Operating income (loss)	\$ <u>(6,257)</u>
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	47,569
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(12,761)
(Increase) decrease in prepaid expenses	2,527
(Increase) decrease in other assets	-
Increase (decrease) in accounts payable	3,576
Increase (decrease) in fire dues payable	169
Total adjustments	<u>41,080</u>
Net cash provided by operating activities	<u>\$ 34,823</u>

The accompanying notes are an integral part of the basic financial statements.

**RURAL WATER DISTRICT NO. 2
PAWNEE COUNTY
Terlton, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2020**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rural Water District No. 2, Pawnee County, Oklahoma (the District), was created under the provisions of Title 82, O.S. 1981, Sections 1301-1321 on the 2nd day of January, 1970. The purpose of the District is to acquire water and water rights; to build and acquire pipelines and other facilities; and to operate the same for the purpose of providing water to serve the needs of owner and occupants of land located withing the District, and others as authorized by the by-laws. The District is exempt from federal and state income taxes.

The District is a governed by a Board of Directors that acts as the authoritative and legislative body of the entity. The Board of Directors is comprised of elected board members. All Board members serve without pay.

The more significant of the government's accounting policies are described below.

A. Reporting Entity

Rural Water District No. 2 is an independent, self-contained reporting entity with no associated component units. It is operated in a manner similar to a private business enterprise where the cost (expenses, including depreciation) of providing water services is financed through user charges. The District purchases all of its water from Lone Chimney Water Association.

B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with Generally Accepted Accounting Principles (GAAP) promulgated in the United States of America. The accounting and financial reporting treatment is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation are included on the statement of net position. The operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Depreciation expense is provided for capital assets based upon estimated useful lives.

Financial activity is accounted for on the flow of economic resources measurement focus using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

C. Assets, Liabilities and Equity

1. Deposits and Investments

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

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

**RURAL WATER DISTRICT NO. 2
PAWNEE COUNTY
Terlton, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2020**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities and Equity (Continued)

1. Deposits and Investments (Continued)

Custodial Credit Risk

At December 31, 2020, the District held deposits of approximately \$396,370 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit, are entirely covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name.

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.
- 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 investments held at December 31, 2020 are as follows:

Type	Weighted Average Maturity (Months)	Credit Rating	Market Value	Cost
Investments				
Money Market	N/A	AAAm	\$ 325,788	\$ 325,788
CDs	18 Months		70,582	70,582
Total investments			<u>\$ 396,370</u>	<u>\$ 396,370</u>

**RURAL WATER DISTRICT NO. 2
PAWNEE COUNTY
Terlton, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2020**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities and Equity (Continued)

1. Deposits and Investments (Continued)

Concentration of Investment Credit Risk

The District places no limit on the amount it may invest in any one issuer. The District has the following of credit risk: 82% in Money Market funds (\$325,788) and 18% in CDs (\$70,582).

2. Restricted Cash and Investments

The restricted cash is the result of financial requirements note indentures between the District and the Rural Development. Under the terms and provisions of the promissory note, these funds may be maintained so long as the notes are outstanding. The District is required to make monthly contributions in a reserve account until an amount equal to the annual debt service of \$25,968 has been reached. In addition, certain funds are restricted for customer deposits and are reflected as an asset and a corresponding liability.

3. Fair Value of Financial Instruments

The District's financial instruments include cash and cash equivalents, accounts receivable, accounts payable and notes payable. The District's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying values 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.

4. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

5. Inventories

Inventories consist primarily of water stored in lines for use in the distribution process. Inventory is expensed when purchased.

6. Capital Assets

Additions to the water storage delivery system and other equipment are recorded at cost or, if contributed property, at their estimated acquisition value at time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. The District maintains a capitalization threshold of \$500 and an estimated useful life in excess of two (2) years.

**RURAL WATER DISTRICT NO. 2
PAWNEE COUNTY
Terlton, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2020**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities and Equity (Continued)

6. Capital Assets (Continued)

Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Water system	40 years
Buildings	40 years
Equipment	5-10 years
Vehicles	5 years
Office equipment	5 years

7. Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused vacation time. Full-time employees are granted vacation and sick leave benefits in varying amounts to specified maximums depending on tenure. The District has not accrued compensated absences because the amount, if any, would not be material to the financial statements.

8. Net Position

In the basic financial statements, net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets.

9. Resource Use Policy

It is in the District's policy for all funds that when an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources, including net positions, are available, the District considers restricted amounts to be spent first before any unrestricted amounts are used.

D. Revenues, Expenses and Other Changes in Net Position

1. Operating Revenues and Expenses

Operating revenues and expenses are principally from water sales and connection fees charged to new system subscribers. Customer water consumption is determined by monthly meter readings taken by the customer and once annually by District personnel. The water sales from subscriber water consumption billed but unpaid at the District's year-end are recognized as revenue in the current year and reported in the statement of net position as accounts receivable. Operating expense consist of those costs necessary to operate and maintain the water distribution system and for general administration of the District.

2. Non-Operating Revenue and Expenses

Non-operating revenues and expenses consist of investment earnings, interest expense incurred on the District's notes payable and gains and losses on sales or the abandonment of long-lived assets.

**RURAL WATER DISTRICT NO. 2
PAWNEE COUNTY
Terlton, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2020**

3. LONG-TERM DEBT (Continued)

Annual cash requirements to amortize these notes are as follows:

Year Ending December 31,	Payments Due
2021	\$ 27,168
2022	27,168
2023	27,168
2024	<u>19,462</u>
Total	100,966
Less interest	<u>(10,255)</u>
Note balance	\$ <u><u>90,711</u></u>

4. RISK MANAGEMENT

Rural Water District No. 2 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 District continues to carry commercial insurance for these risks, including general and auto liability, property damage, and public officials' liability. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

5. DEFERRED COMPENSATION AND PENSION PLAN

The District offers a simple individual retirement plan for employees. The District has approved a contribution to the employee's IRA account each month. Employees are allowed to contribute a portion of their own salary each month. All amounts are 100% vested at the date of contribution. The District's contributions to the plan for the year were \$1,223.

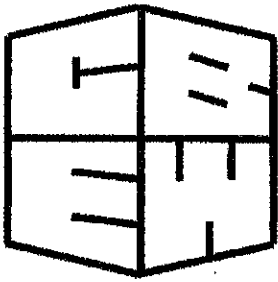
6. SUBSEQUENT EVENTS

Management has evaluated subsequent events and transactions through the date of the audit report, which is the date the financial statements were available to be issued. Management is currently evaluating the impact of the COVID-19 pandemic on the District and has concluded that while it is reasonably possible that the virus could have a negative effect on the District's financial position and results of its operations, the specific impact is not readily determinable as of the date of these financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The construction loan with Oklahoma State Bank has been paid off with another note issued by Rural Development.

**RURAL WATER DISTRICT NO. 2
PAWNEE COUNTY
Terlton, Oklahoma**

**REPORT REQUIRED BY *GOVERNMENT AUDITING STANDARDS*
December 31, 2020**



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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

June 16, 2021

Board of Directors
Rural Water District No. 2
Pawnee County
Terlton, 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 business-type activities of the Rural Water District No. 2, Pawnee County, Terlton, Oklahoma (the District), as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 16, 2021. The District did not present the Management's Discussion and Analysis required by the Governmental Accounting Standards Board.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses as finding 2020-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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*.

District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The District'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.

CBEW Professional Group, LLP

CBEW Professional Group, LLP
Certified Public Accountants
Cushing, Oklahoma

**RURAL WATER DISTRICT NO. 2
PAWNEE COUNTY
Terlton, Oklahoma**

**SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2020**

2020-001. Internal Control – Segregation of Duties

Criteria: The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets and reconciliation of those asset accounts is an important control activity needed to adequately protect the district's assets and ensure accurate financial reporting.

Condition: Presently the same individual that receives utility service-related cash payments is also responsible for service billing and adjustment, also balances the daily cash drawer, posts payments to subsidiary accounts receivable ledger and reconciles the monthly bank statements. In addition, only limited oversight is provided over this individual in the conduct of their daily functions.

Cause: The district's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

Effect or Potential Effect: Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to utility billing and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: We recommend that management and the board should consider a formal evaluation of their risks associated with this lack of duties segregation over utility cash and receivables. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with lack of segregation of duties, such as providing increased management oversight and an independent reconciliation of accounts. For example, the entity might consider soliciting the assistance of independent volunteer labor to perform certain functions including performing compensating procedures where applicable.

Responsible Official's Response: The district concurs with the recommendation, although, the cost to correct this condition might exceed the benefit, the district has made certain changes in procedures that will improve the overall lack of segregation of duties and has implemented compensating procedures as appropriate.