

**Leflore County
Rural Water District #2**

**Financial Statements
December 31, 2021 and 2020**

(With Independent Auditor's Report Thereon)

Leflore County Rural Water District #2

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Leflore County Rural Water District #2
Pocola, Oklahoma

Report on the Financial Statements

Opinion

We have audited the financial statements of the business-type activities of **Leflore County Rural Water District #2** (the District), as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise **Leflore County Rural Water District #2's** basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the business-type activities of **Leflore County Rural Water District #2**, as of December 31, 2021 and 2020, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of **Leflore County Rural Water District #2** and to meet our ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Leflore County Rural Water District #2's 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about **Leflore County Rural Water District #2's** ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risk of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 **Leflore County Rural Water District #2's** internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about **Leflore County Rural Water District #2's** ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Board of Directors
Leflore County Rural Water District #2

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-5 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2022, on our consideration of **Leflore 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 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 **Leflore County Rural Water District #2's** internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Landmark PLC". The signature is written in a cursive, flowing style.

Fort Smith, Arkansas
March 24, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

LeFlore County Rural Water District #2 (the District) was incorporated in 1966. It is run by five Board Members, which each holds a 3 year term and is elected at the annual meeting held the Fourth Thursday in February.

Our discussion and analysis of LeFlore County Rural Water District #2's financial performance provides an overview of the District's financial activities for the twelve months ended December 31, 2021.

Using the Annual Audit Report

This annual audit report consists of a series of financial statements and footnotes. The Statements of Net Position and related Statements of Revenues and Expenses, Changes in Net Position, and Cash Flows provide information about the activities of the District as a whole and present a longer-term view of the District's finances. The footnotes provide additional narrative concerning selected financial items.

Reporting the Utility as A Whole

The Statements of Net Position and related Statements of Revenues and Expenses, Changes in Net Position and Cash Flows report information about the District's activities and include all assets and liabilities using the accrual basis of accounting. All current revenue and expenses are taken into consideration, regardless of when cash was received or paid. These accounting practices are similar to the accounting methods used by most private sector companies.

Financial Highlights

The District had three capital improvement projects in 2021 (1) Phase III of the 12" Water Line Extension: In August of 2018 a preliminary engineering report was done for this project, in 2021 plans and permits have been received and the District is in the process of obtaining easements from property owners. (2) The Morris Street Project: This project began in July of 2013. In 2021, the District has put the full completion of this project on hold until the 12" project is completed in order to connect the Morris Street Project to the 12" project. This project should be completed in 2022 or beginning of 2023. (3) W McKenzie and Karl Street project: This project began in October of 2020. The District installed approximately 2900 feet of 6" water line and set 3 fire hydrants. This project was completed in April 2021.

The District has had no changes in terms of debt during 2021.

Payroll expenses for the District were higher than the previous year's payroll due to employees receiving merit raises, cost of living raises, some overtime throughout the year, and the hiring of part time help.

The capital projects are as follows:

The District had the following project expenses in 2021:

- Phase III of 12" Line: \$59,728.95
- The West McKenzie and Karl Street Project: \$13,842.31

Other capital improvements for the year 2021:

- The District had no large capital improvements for 2021.

Other purchases the District made in 2021:

- HP Copier: \$2,495.00
- 2021 Ram 1500 Regular Cab 4x4: \$22,196.00
- Transit kit: \$410.00
- 2" gas engine pump: \$240.00
- 3100 PSI Pressure Washer: \$350.00
- Cordless Recip Saw Kit: \$410.00

Operating revenues: Water sales and meter fees are the primary source of revenue for the District. Water rates increased effective July 17, 2020.

The actual number of gallons sold during 2021 was 139,472,700 gallons compared to 131,123,500 gallons during 2020. The number of gallons sold in 2021 increased due to numerous customers having water leaks.

Operating expenses: The largest expense item of the District is water purchases. The actual number of gallons purchased during 2021 was 220,258,720 gallons compared to 196,590,110 during 2020. Water purchases increased due to the District repairing numerous water leaks throughout the system and doing extensive flushing throughout 2021.

Non-operating income: The interest earned on certificates of deposit and two checking accounts in 2021 is lower than 2020. This is due to interest rates decreasing.

Summary

The District's financial position changed during 2021 with a net \$188,675. The income and cash were used for capital improvements of \$98,262. It is management's opinion that the present water rates are adequate to fund operations and maintenance and needed capital improvements at this time. The District ended the year 2021 with \$100,000 in CD's and fixed assets of \$2,940,742 compared to \$2,844,011 in 2020. The District is in compliance with all State and Federal water quality and environmental regulations.

Leflore County Rural Water District #2

Statements of Net Position December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Current Assets		
Cash on hand	\$ 1,864	\$ 1,236
Cash		
Revenue	670,908	497,874
Operations and maintenance	15,538	16,653
Certificates of deposit	100,000	100,000
Accounts receivable	73,002	71,149
Interest receivable	85	85
Inventory	79,092	95,771
Prepaid expenses	9,631	8,820
Total Current Assets	950,120	791,588
Restricted Assets		
Cash		
Revenue - meter deposits	103,065	94,665
Property and Equipment, net	1,555,280	1,524,396
Other Assets		
Utility deposits	75	75
TOTAL ASSETS	<u>\$ 2,608,540</u>	<u>\$ 2,410,724</u>

See accompanying notes to financial statements.

Leflore County Rural Water District #2

Statements of Net Position December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
LIABILITIES AND NET POSITION		
Current Liabilities		
(Payable from Current Assets)		
Accounts payable	\$ 39,688	\$ 39,050
Payroll taxes withheld and accrued	6,572	5,049
Accrued wages	766	2,186
Total Current Liabilities (Payable from Current Assets)	<u>47,026</u>	<u>46,285</u>
Restricted Current Liabilities		
(Payable from Restricted Assets)		
Customer deposits	<u>103,065</u>	<u>94,665</u>
Total Current Liabilities (Payable from Restricted Assets)	<u>103,065</u>	<u>94,665</u>
Net Position		
Invested in capital assets	1,555,280	1,524,396
Unrestricted	<u>903,169</u>	<u>745,378</u>
	<u>2,458,449</u>	<u>2,269,774</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 2,608,540</u></u>	<u><u>\$ 2,410,724</u></u>

See accompanying notes to financial statements.

Leflore County Rural Water District #2

Statements of Revenues, Expenses, and Changes in Net Position Years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
REVENUES		
Water sales, net of bad debts of \$1,944 and \$1,962, respectively	\$ 941,060	\$ 831,169
Late fees	26,534	22,556
Meter fees	<u>20,960</u>	<u>18,606</u>
Total Revenues	<u>988,554</u>	<u>872,331</u>
COSTS OF REVENUES		
Water purchases	345,193	287,707
Line maintenance	<u>96,798</u>	<u>138,220</u>
Total Costs of Revenues	<u>441,991</u>	<u>425,927</u>
GROSS PROFIT	<u>546,563</u>	<u>446,404</u>
OPERATING EXPENSES		
Deferred compensation	12,994	12,195
Depreciation	67,378	74,694
Dues and permits	3,272	5,815
Insurance	47,425	45,566
Interest	-	99
Miscellaneous	2,353	2,738
Office supplies	11,487	10,816
Payroll taxes	14,151	13,019
Postage	8,791	6,387
Printing and publication	34	6
Professional services	13,652	13,616
Telephone	2,543	2,332
Truck - gas and oil	10,668	7,773
Truck repairs	3,717	6,742
Uniforms	-	40
Utilities	8,922	8,231
Wages	<u>166,564</u>	<u>160,621</u>
Total Operating Expenses	<u>373,951</u>	<u>370,690</u>
OPERATING INCOME	<u>172,612</u>	<u>75,714</u>

See accompanying notes to financial statements.

Leflore County Rural Water District #2

Statements of Revenues, Expenses, and Changes in Net Position Years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
NON-OPERATING REVENUES		
Miscellaneous income	14,047	6,884
Interest income	<u>2,016</u>	<u>2,752</u>
Total Non-Operating Revenues	<u>16,063</u>	<u>9,636</u>
CHANGE IN NET POSITION	188,675	85,350
NET POSITION, BEGINNING OF YEAR	<u>2,269,774</u>	<u>2,184,424</u>
NET POSITION, END OF YEAR	<u><u>\$ 2,458,449</u></u>	<u><u>\$ 2,269,774</u></u>

See accompanying notes to financial statements.

Leflore County Rural Water District #2

Statements of Cash Flows Years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 995,101	\$ 873,492
Payments to vendors	(550,977)	(568,878)
Payments to employees	(180,978)	(172,459)
Net Cash From Operating Activities	<u>263,146</u>	<u>132,155</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital expenditures	(98,262)	(85,841)
Principal payments on capital lease obligation	-	(8,890)
Net Cash (Used For) Capital and Related Financing Activities	<u>(98,262)</u>	<u>(94,731)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipts of miscellaneous income	14,047	6,884
Receipts of interest and royalty income	<u>2,016</u>	<u>2,752</u>
Net Cash From Investing Activities	<u>16,063</u>	<u>9,636</u>
NET CHANGE IN CASH	180,947	47,060
CASH, BEGINNING OF YEAR	<u>610,428</u>	<u>563,368</u>
CASH, END OF YEAR	<u><u>\$ 791,375</u></u>	<u><u>\$ 610,428</u></u>

See accompanying notes to financial statements.

Leflore County Rural Water District #2

Statements of Cash Flows Years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES:		
Operating income	<u>\$ 172,612</u>	<u>\$ 75,714</u>
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	67,378	74,694
Change in:		
Accounts receivable - trade	(1,853)	(8,204)
Inventory	16,679	(19,884)
Prepaid expenses	(811)	322
Accounts payable	638	(610)
Payroll taxes withheld and accrued	1,523	401
Accrued wages	(1,420)	357
Customer deposits	<u>8,400</u>	<u>9,365</u>
Total adjustments	<u>90,534</u>	<u>56,441</u>
Cash From Operating Activities	<u><u>\$ 263,146</u></u>	<u><u>\$ 132,155</u></u>

See accompanying notes to financial statements.

Leflore County Rural Water District #2

Notes to Financial Statements December 31, 2021 and 2020

NOTE 1: NATURE OF ACTIVITIES

Nature of Business

Leflore County Rural Water District #2 (the District) was organized to provide suitable water to customers in the City of Pocola, Oklahoma and the surrounding community. Treated water is acquired solely from the Poteau Valley Improvement Authority and transmitted in District water lines to the customers.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The District's policy is to prepare its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recognized in the period in which they are earned. Expenses are recognized in the period in which they are incurred. Operating revenues in the enterprise fund are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net position, revenues, and expenditures/expenses. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The fund in these financial statements is a proprietary fund, described as follows:

Proprietary Funds

Enterprise funds – Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public safety, management control, accountability, or other purposes.

Leflore County Rural Water District #2

Notes to Financial Statements December 31, 2021 and 2020

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounts Receivable

The District considers accounts receivable to be fully collectible. Accordingly, no allowance for doubtful accounts is deemed necessary. If accounts become uncollectible, they will be charged to operations when that determination is made. Determination of uncollectibility is made by management based on knowledge of individual customers and consideration of such factors as current economic conditions. Credit extended to customers is generally uncollateralized.

Past-due status is based on contractual terms. Past-due accounts are charged a \$7.50 late fee for accounts not paid by the 15th of the month following the billing.

Inventory

Inventory is stated at the lower of cost (first-in, first-out method) or net realizable value. Inventory consists primarily of pipe and related supplies.

Property and Equipment

Property and equipment is stated at cost. Depreciation of property and equipment is computed on the straight-line method over the estimated useful lives of the assets, which range from three to fifty years. At December 31, 2021 and 2020, the District had fully depreciated assets still in use with an original cost of approximately \$565,000 and \$562,000, respectively. Property and equipment includes construction in progress of \$123,092 and \$84,112 at December 31, 2021 and 2020, respectively. These amounts will not be depreciated until they are completed and placed in service.

Long-Lived Assets

Financial Accounting Standards Board (FASB) Accounting Standards Codification (Codification) Topic *Property, Plant and Equipment*, Section *Subsequent Measurement* requires that long-lived assets and certain identifiable intangibles held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The application of this Codification Topic has not materially affected the District's reported earnings, financial condition or cash flows.

Income Taxes

The District is a public body and, as such, is exempt from income taxes under Section 501(a) of the Internal Revenue Code and a similar state statute.

Leflore County Rural Water District #2

Notes to Financial Statements December 31, 2021 and 2020

NOTE 3: DEPOSITS IN FINANCIAL INSTITUTIONS

Deposits in financial institutions are financial instruments that could potentially subject the District to a risk of accounting loss to the extent of the uninsured/uncollateralized portion of those deposits. The District maintains deposit balances in two financial institutions and at times may exceed federally insured limits. The amounts of these deposits are displayed on the Balance Sheets as "Cash" and "Certificates of deposit," and does not include cash on hand.

	<u>Bank Balance</u>	<u>Book Balance</u>
Insured (FDIC)	\$ 350,000	\$ 350,000
Uninsured		
Collateralized	541,509	539,511
Uncollateralized	<u>-</u>	<u>-</u>
	<u>\$ 891,509</u>	<u>\$ 889,511</u>

NOTE 4: CONCENTRATION OF CREDIT RISK AND MAJOR SUPPLIERS

The District has no formal policy on managing credit risk. Financial instruments that potentially subject the District to credit risk consist primarily of accounts receivable. The District provides water services to commercial and residential users within the Pocola area. At December 31, 2021 and 2020, the District has extended credit to regular customers (accounts receivable) of \$73,002 and \$71,149, respectively.

The District purchases all of its water from one supplier.

Significant losses are covered by commercial insurance for all major programs for which the District retains risk of loss. For insured programs, there have been no significant reductions in insurance coverage.

Leflore County Rural Water District #2

Notes to Financial Statements December 31, 2021 and 2020

NOTE 5: PROPERTY AND EQUIPMENT

A summary of changes in property and equipment follows:

	Balance January 1, 2021	Additions	Deletions/ Transfers	Balance December 31, 2021
Construction in progress	\$ 84,112	\$ 73,571	\$ 34,591	\$ 123,092
Real estate and right-of-way	17,250	-	-	17,250
Buildings and improvements	107,752	-	-	107,752
Office furniture and equipment	18,517	2,495	1,299	19,713
Vehicles and equipment	312,611	22,196	232	334,575
Water system and towers	<u>2,303,769</u>	<u>34,591</u>	<u>-</u>	<u>2,338,360</u>
	2,844,011	132,853	36,122	2,940,742
Less: accumulated depreciation	<u>1,319,615</u>	<u>67,378</u>	<u>1,531</u>	<u>1,385,462</u>
Total	<u>\$ 1,524,396</u>	<u>\$ 65,475</u>	<u>\$ 34,591</u>	<u>\$ 1,555,280</u>

	Balance January 1, 2020	Additions	Deletions/ Transfers	Balance December 31, 2020
Construction in progress	\$ 48,793	\$ 35,319	\$ -	\$ 84,112
Real estate and right-of-way	17,250	-	-	17,250
Buildings and improvements	107,752	-	-	107,752
Office furniture and equipment	17,897	620	-	18,517
Vehicles and equipment	263,077	49,902	368	312,611
Water system and towers	<u>2,303,769</u>	<u>-</u>	<u>-</u>	<u>2,303,769</u>
	2,758,538	85,841	368	2,844,011
Less: accumulated depreciation	<u>1,245,289</u>	<u>74,694</u>	<u>368</u>	<u>1,319,615</u>
Total	<u>\$ 1,513,249</u>	<u>\$ 11,147</u>	<u>\$ -</u>	<u>\$ 1,524,396</u>

Leflore County Rural Water District #2

Notes to Financial Statements December 31, 2021 and 2020

NOTE 6: CAPITAL LEASE OBLIGATION

A backhoe was obtained under a capital lease and has been capitalized and included under property and equipment on the Balance Sheets. During the year ended December 31, 2020, the capital lease was paid in full. Interest paid during the years ended December 31, 2021 and 2020 amounted to \$-0- and \$99, respectively.

NOTE 7: EMPLOYEE BENEFITS

In October 1987, the District established a deferred compensation (defined contribution) plan for its employees. Under this plan, up to 10% of the gross wages of all participating employees may be withheld to be contributed to the plan, and the District contributes 8% of each employee's gross wages to the plan. Net deferred compensation charged against income amounted to \$12,994 and \$12,195 during the years ended December 31, 2021 and 2020, respectively.

Employees must be employed ten years to be fully vested. New employees hired from the date of the plan forward have the option of whether or not to participate in the plan with the written consent of the District. The unvested portion of deferred compensation is jointly held, by the District and the employee, in individual savings accounts totaling \$40,654 and \$55,439 during the years ended December 31, 2021 and 2020, respectively. During the years ended December 31, 2021 and 2020, there was no unvested deferred compensation forfeited and returned to the District.

NOTE 8: NONCASH INVESTING AND FINANCING ACTIVITIES

During the year ended December 31, 2021, the District disposed of fully depreciated assets totaling \$1,531. During the year ended December 31, 2020, the District disposed of assets totaling \$368.

NOTE 9: RISKS AND UNCERTAINTIES

As of the date of the Independent Auditor's Report, the COVID-19 pandemic has had an adverse impact on both domestic and global financial markets and operations. Management is unable to accurately predict how the COVID-19 pandemic will affect the results of the District's operations due to uncertainties surrounding the severity of the disease and the duration of the outbreak.

NOTE 10: SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 24, 2022, the date that the financial statements were available to be issued.



**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**

Board of Directors
Leflore County Rural Water District #2
Pocola, Oklahoma

Report on the Financial Statements

We have audited, 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, the financial statements of **Leflore County Rural Water District #2** (the District) as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 24, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered **Leflore County Rural Water District #2's** internal control over financial reporting (internal control) as a basis for designing 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and responses as item 2021-001, we did identify a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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 District'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. As described above, we identified a certain deficiency in internal control that we consider to be a material weakness.

Board of Directors
Leflore County Rural Water District #2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Leflore County Rural Water District #2'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 financial statements. 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*.

We have noted certain matters that we have reported to management of **Leflore County Rural Water District #2** in a separate letter dated March 24, 2022.

The District's Response to Findings

The District's responses to the findings identified in our audit are 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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Landmark PLC". The signature is written in a cursive, flowing style.

Fort Smith, Arkansas
March 24, 2022

Leflore County Rural Water District #2

Schedule of Findings and Responses Year ended December 31, 2021

2021-001: Segregation of Duties

Condition: During the year ended December 31, 2021, there was not a complete segregation of duties related to certain financial transactions, including receiving cash, preparing deposits, reconciling bank statements, and recording all transactions and adjustments to the general ledger.

Criteria and Cause: A proper segregation of duties is an integral part of any internal control system. Ideally, duties should be segregated to prevent one person from being in a position to authorize transactions, record transactions and maintain custody of assets of the District. Our review of the District's financial reporting system disclosed that, primarily due to the limited number of accounting personnel, there are inherent limitations in the District's controls in this regard.

Effect: A lack of proper segregation of duties increases the risk that errors or fraud may occur and not be detected in a timely manner.

Recommendation: While we realize that the District does not presently have the staff necessary to achieve a complete segregation of duties, and that the employment of additional personnel for the purpose of segregating duties may not be possible from a cost-benefit standpoint, we believe there are certain instances where duties can and should be reassigned to ensure that no one employee has access to both physical assets and the related accounting records or to all phases of a transaction. We recommend that the Board work closely with management to determine ways to reassign duties with existing personnel to maximize segregation of duties.

Views of Responsible Officials and Corrective Actions: The District does not presently have the staff necessary to achieve a complete segregation of duties, and the employment of additional personnel for the purpose of segregating duties may not be possible from a cost-benefit standpoint. However, the District will continually evaluate the cost/benefit of improving internal controls and implement additional controls as considered necessary and appropriate.