

**WARD COUNTY WATER
IMPROVEMENT DISTRICT NO. 2**

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

For the year ended
January 31, 2021

WARD COUNTY WATER IMPROVEMENT DISTRICT NO. 2
ANNUAL FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORTS
FOR THE FISCAL YEAR ENDED JANUARY 31, 2021

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ANNUAL FILING AFFIDAVIT

STATE OF TEXAS }

COUNTY OF WARD }

I, Wanda Corrales, of the Ward County Water Improvement District No. 2 hereby swear, or affirm, that the District above has reviewed and approved at a meeting of the District’s Board of Directors on June 14, 2021, its annual audit report for the fiscal period ended January 31, 2021, and that copies of the annual audit have been filed in the District’s office located at 210 E. 2nd Street, Grandfalls, Texas 79742.

This filing affidavit and the attached copy of the audit report will be submitted to the Texas Commission on Environmental Quality to satisfy the annual filing requirements of Texas Water Code Section 49.194.

Date: _____

By: _____

Wanda Corrales, President

Sworn to and subscribed to before me this _____ day of _____.

(SEAL)

(Signature of Notary)

My Commission Expires On: _____



3444 N 1st, Suite 404
Abilene, Texas 79603
Phone 325.268.1033

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Ward County Water
Improvement District No. 2
Grandfalls, Texas:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Ward County Water Improvement District No. 2 (the District), as of and for the year ended January 31, 2021, and the related notes to the financial statements, which collectively comprise the District's basic 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the District, as of January 31, 2021, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-6 be presented to supplement the basic financial statements. Such 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. 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. There are schedules listed under Texas Supplementary Information that are supplementary information required by the Texas Commission on Environmental Quality. These schedules are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

Fullerton & Associates, PLLC

Fullerton & Associates, PLLC
Abilene, Texas

June 14, 2021

WARD COUNTY WATER IMPROVEMENT DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JANUARY 31, 2021

As management of the Ward County Water Improvement District, No. 2, (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended January 31, 2021.

Financial Highlights

Government-Wide Financial Statements

- The assets of the District exceeded its liabilities at the close of the 2021 fiscal year by \$5,191,886 (*net position*).
- As of January 31, 2021, \$4,689,232 (*unrestricted*) may be used to meet the government's ongoing obligations to citizens and \$502,654 of the District's equity is invested in capital assets.
- The District's total assets increased by \$247,842 during the 2021 fiscal year.
- The net position (*equity*) of the District increased by \$228,502 during the 2021 fiscal year.

Fund Financial Statements

- As of the close of the current fiscal year, the District's general fund reported an ending unassigned fund balance of \$4,689,149 which reflects an increase of \$204,547 for the year ended January 31, 2021.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components:

- 1) government- wide financial statements,
- 2) fund financial statements, and
- 3) notes to the financial statements.

This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The *statement of net position* presents information on all the District's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

The government-wide financial statements reflect functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the District include general government, maintenance, and roads. The government-wide financial statements, as well as the fund financial statements can be found on pages 8-9 of this report.

Fund Financial Statements

A *fund* is a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the funds of the District can be divided into two categories: governmental funds and proprietary funds.

WARD COUNTY WATER IMPROVEMENT DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JANUARY 31, 2021

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus on governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenue, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains one governmental funds. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, which is considered to be a major fund and the Cemetery Care Fund, which is also a major fund.

The governmental fund financial statements can be found on pages 8-9 of this report, with the reconciliations between the governmental fund's statements and the government wide statements on pages 10-11.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 12-17 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$5,191,886 at the end of 2021.

As of January 31, 2021, \$502,654 of the District's net position (10%) reflects its investment in capital assets (e.g., buildings, and road improvements). The District uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending.

The District's Net Position

	Governmental Activities		Governmental Activities
	2021		2020
Assets			
Current assets	\$ 4,709,572	\$	4,492,124
Noncurrent assets	502,654		472,260
Total assets	5,212,226		4,964,384
Liabilities			
Current liabilities	20,340		1,000
Total liabilities	20,340		1,000
Net position			
Net investment in capital assets	502,654		472,260
Unrestricted	4,689,232		4,491,124
Total net position	\$ 5,191,886	\$	4,963,384

WARD COUNTY WATER IMPROVEMENT DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JANUARY 31, 2021

The District's Changes in Net Position

	Governmental Activities		Governmental Activities	
	2021		2020	
Program revenues:				
Charges for services	\$	10,400	\$	7,540
General revenues:				
Property taxes		38,316		34,538
Maintenance and operations		76,623		33,213
Investment earnings		90,681		114,742
Miscellaneous		222,408		703,311
Total revenues		438,428		893,344
Expenses:				
Personnel expenses		101,832		98,183
Administrative expenses		36,082		37,137
Operating expenses		39,859		37,946
Depreciation expense		56,729		49,116
Total expenses		234,502		222,382
Change in net position		203,926		670,962
Other revenues and expense				
Insurance recovery		53,241		-
Loss on disposition of assets		(28,665)		-
Total other revenues and expenses		24,576		-
Beginning balance, net position		4,963,384		4,292,422
Ending balance, net position	\$	5,191,886	\$	4,963,384

FINANCIAL ANALYSIS OF THE GOVERNMENTS FUNDS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of Fiscal Year 2021, the District's governmental General Fund reported an ending fund balance of \$4,689,149, all of which was unassigned and available for spending at the District's discretion. This represents well over 23 years of operating equity based on fiscal year 2021 general fund expenditures.

WARD COUNTY WATER IMPROVEMENT DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JANUARY 31, 2021

CAPITAL ASSETS

The District's investment in capital assets for its governmental activities amounts to \$502,654 (net of accumulated depreciation) as of January 31, 2021. This investment in capital assets includes the District equipment, machinery, buildings, and canals.

The District's Capital Assets
(net of depreciation)

	2021		2020
Land	\$ 6,691	\$	6,691
Buildings, improvements, & canals	624,596		541,260
Furniture, fixtures, equipment	528,143		528,143
Total capital assets depreciated	1,152,739		1,069,403
Total accumulated depreciation	(656,776)		(603,834)
Net capital assets depreciated	495,963		465,569
Total capital assets	\$ 502,654	\$	472,260

Additional information on the District's capital assets can be found in Note 4 on page 16.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances for those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the District's Office Manager, Ward County Water Improvement District, No. 2, P. O. Box 328, Grandfalls, TX 79742

BASIC FINANCIAL STATEMENTS

WARD COUNTY WATER IMPROVEMENT DISTRICT NO. 2
GOVERNMENTAL FUNDS BALANCE SHEET AND STATEMENT OF NET POSITION
JANUARY 31, 2021

		Governmental Activites
ASSETS		
Cash	\$	2,408,289
Investments		2,290,000
Taxes receivable		8,977
Interest receivable		2,306
Due from other funds		-
Capital assets:		
Land		6,691
Furniture and fixtures		19,569
Machinery and equipment		508,574
Buildings and improvements		377,987
Canals		246,609
Accumulated depreciation		(656,776)
Total capital assets (net of accumulated depreciation)		502,654
Total assets	\$	5,212,226
 LIABILITIES		
Accounts payable	\$	19,298
Bond payable		1,000
Payroll liabilities		42
Total liabilities		20,340
 DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue - property taxes		-
Total inflows of resources		-
 FUND BALANCE/NET POSITION		
Fund Balance		
Unassigned		-
Committed for flood control		-
Total Fund Balances		-
Total Liabilities, Deferred Inflows, and Fund Balances	\$	20,340
 Net Position:		
Invested in capital assets, net of debt		502,654
Unrestricted		4,689,232
Total Net Position	\$	5,191,886

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

WARD COUNTY WATER IMPROVEMENT DISTRICT NO. 2
GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE AND STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JANUARY 31, 2021

	Governmental Activities
REVENUES	
Irrigation water sales	\$ 10,400
Property taxes	38,316
Trust income	38,347
Cemetery fees	1,800
Equipment usage	74,823
Red Bluff water sales	222,408
Investment earnings	52,334
Total revenues	438,428
EXPENDITURES	
Irrigation water sales	9,600
Payroll	74,900
Payroll taxes	6,988
Contract labor	12,602
Fuel	5,493
Office supplies	6,333
Bonds and insurance	9,252
Directors fees	7,342
Education and miscellaneous	130
Repair and maintenance	24,766
Utilities	2,353
Dues and subscriptions	87
Election expenses	-
Appraisal district fees	243
Advertising	-
Professional fees	15,382
Tax collection fees	2,302
Capital outlay	-
Capital outlay	-
Depreciation	56,729
Total expenditures/expenses	234,502
Excess (Deficiency) of Revenues over Expenditures	203,926
Other Financing Sources/Uses	
Insurance recovery	53,241
Gain (Loss) on removal of assets	(28,665)
Net Change in Fund Balance	228,502
Change in Net Position	
FUND BALANCE/NET POSITION	
Beginning of the year	4,963,384
FUND BALANCES/NET POSITION AT END OF PERIOD	\$ 5,191,886

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

WARD COUNTY WATER IMPROVEMENT DISTRICT NO. 2
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JANUARY 31, 2021

	<u>January 31, 2021</u>
Total Fund Balances - Governmental Funds Balance Sheet	\$ 4,689,149
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds balance sheet. The net effect is to increase net position.	502,654
Certain assets, such as property taxes receivable, are not available to pay for current-period expenditures and are not recognized as revenue in the governmental	<u>83</u>
Net Position of Governmental Activities on the Statement of Net Position	\$ <u><u>5,191,886</u></u>

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

WARD COUNTY WATER IMPROVEMENT DISTRICT NO. 2
RECONCILIATION OF STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED JANUARY 31, 2021

	For the year ended <u>January 31, 2021</u>
Net Change in Fund Balances - Total Governmental Funds	\$ 204,547
Amounts reported for governmental activities in the statement of activities are different because:	
Current year capital outlays are expenditures in the fund financial statements, but they are shown as increases in capital assets in the government-wide financial statements. The net effect of including capital outlays is to increase net position.	115,788
Depreciation expense is not reflected in the governmental funds but is recorded in the government-wide financial statements as an expense and an increase to accumulated depreciation. The net effect of recording current year depreciation expense is to decrease net position.	(56,729)
Current year losses of fixed assets are not shown as resources used in the fund financial statements, but are a decrease in net position on the statement of activities.	(28,665)
Revenues in the government-wide financial statements that do not provide current financial resources, like unavailable property taxes, are not reported as revenues in the governmental funds. The current year difference between what was unavailable at the end of the prior year and the end of this year is a decrease to net position.	<u>(6,439)</u>
Change in Net Position of Governmental Activities on the Statement of Activities	\$ <u><u>228,502</u></u>

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

WARD COUNTY WATER IMPROVEMENT DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JANUARY 31, 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Ward County Water Improvement District No. 2 (the District) is an independent governmental unit which provides flood control, canal maintenance, and water for farming use to the public in Ward County, TX. The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also complies with the requirements of the Texas Commission on Environmental Quality (TCEQ) and its Water District Financial Management Guide, as well as the requirements of contracts and grants of agencies from which the District receives funds. The more significant of the District's accounting policies are described below.

REPORTING ENTITY

The Board of Directors is elected by the public, and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. There are no component units included within the reporting entity.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District does not have any business-type activities in the year ended January 31, 2021.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

WARD COUNTY WATER IMPROVEMENT DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JANUARY 31, 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- continued

Property taxes, sales taxes, franchise taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental fund:

General Fund - The General Fund is the government's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Amounts reported as *program revenues* include:

- 1) charges to customers or applicants for goods, services, or privileges provided,
- 2) operating grants and contributions, and
- 3) capital grants and contributions, including special assessments.

Internally dedicated resources are reported as *general revenues* rather than as program revenue. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

BUDGETARY CONTROL

Typically, an annual budget is submitted to the Board of Directors in accordance with TCEQ's Water District Financial Management Guide. The proposed fiscal year budget must be approved before the close of the current fiscal year (Rule 293.97b). All annual appropriations lapse at fiscal year-end. Encumbrance accounting is not utilized by the District. See required budget to actual comparison for the year ended January 31, 2021, on page 18 of this report.

USE OF 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 revenue and expenditures during the reported period. Actual results could differ from those estimates.

WARD COUNTY WATER IMPROVEMENT DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JANUARY 31, 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- continued

CASH AND CASH INVESTMENTS

The District cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments for the District are reported at fair value.

The District's depository bank places the District's deposits into the Certificate of Deposit Account Registry Service (CDARS). The District's depository bank acts as custodian of the funds, while other FDIC insured banks provide insurance coverage.

RECEIVABLES AND PAYABLES

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (the current portion of interfund loans) or "advances to/from other funds" (the non-current portion of interfund loans).

All trade and tax receivables are shown net of an allowance for uncollectibles.

CAPITAL ASSETS

Capital assets, which include District machinery and equipment, and, buildings and improvements, are reported in the applicable governmental activities' column in the government-wide financial statements. In the governmental fund financial statements, capital assets are recorded as expenditures. Capital assets are defined by the District as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Capital assets are stated at historical cost or estimated cost if actual historical cost is not available. The cost of normal maintenance and repairs that does not add to the value of the asset or materially extend the lives is not capitalized.

The estimated useful lives of capital assets are as follows:

Furniture and equipment	5-10 years
Buildings and improvements	15-50 years
Canals	50 years

FUND BALANCE CLASSIFICATIONS

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The District has \$0 in nonspendable funds for the year ended January 31, 2021.

Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The District has \$0 in restricted funds as of January 31, 2021.

WARD COUNTY WATER IMPROVEMENT DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JANUARY 31, 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- continued

FUND BALANCE CLASSIFICATIONS- continued

Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors of the District. These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The District has no committed funds for the year ended January 31, 2021.

Assigned – This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Directors or through the Board delegating this responsibility to management through the budgetary process. The District has no assigned funds for the year ended January 31, 2021.

Unassigned – This classification includes the residual fund balance for the General Fund. The unassigned also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The District would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

NOTE 2: DEPOSITS AND INVESTMENTS

Custodial credit risk – deposits. Deposits in financial institutions are carried at cost which approximates fair value. On January 31, 2021, the District had cash and cash investments, which represents cash on hand, demand deposits and interest-bearing savings accounts at federally insured local banks. On January 31, 2021, the District's deposits were fully secured by federal depository insurance and pledged securities held by the District's agent in the District's name.

District Policies and Legal and Contractual Provisions Governing Investments – The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize and investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

Statutes authorize the District to invest in (1) obligations of the U. S. Treasury, certain U. S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) banker's acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

The District's temporary investments consist of certificates of deposit with maturities of more than three months, but less than two years.

WARD COUNTY WATER IMPROVEMENT DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JANUARY 31, 2021

NOTE 3: PROPERTY TAXES RECEIVABLE

Property taxes are collected and remitted to the District by Ward county. Taxes levied annually on October 1 are due in full by January 31, or one-half by November 30 and one-half by June 30. Major tax payments are received October through January.

In the governmental fund financial statements, property taxes receivables are recorded in the General Fund. As of January 31, 2021, the receivables represent delinquent taxes receivables. If they are not received within 60 days of yearend, they are recorded as deferred revenue. Conversely, in the government-wide financial statements, property taxes receivable and related revenue include all amounts due to the District regardless of the timing of their subsequent payment. Over time, substantially all property taxes are collected.

NOTE 4: CAPITAL ASSETS

A summary of changes in governmental capital assets for the year ended January 31, 2021, is as follows:

	<u>Beginning</u> <u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balances</u>
Governmental Activities				
Capital assets not depreciated				
Land	\$ 6,691	\$ -	\$ -	\$ 6,691
Total capital assets not depreciated	<u>6,691</u>	<u>-</u>	<u>-</u>	<u>6,691</u>
Capital assets being depreciated				
Furniture and fixtures	8,271	-	-	8,271
Office Equipment	11,298	-	-	11,298
Machinery and equipment	508,574	-	-	508,574
Buildings and improvements	294,651	115,788	(32,452)	377,987
Canals	<u>246,609</u>	<u>-</u>	<u>-</u>	<u>246,609</u>
Total capital assets being depreciated	1,069,403	115,788	(32,452)	1,152,739
Less accumulated depreciation for:				
Furniture and fixtures	(8,271)	-	-	(8,271)
Office Equipment	(11,298)	-	-	(11,298)
Machinery and equipment	(218,180)	(45,342)	-	(263,522)
Buildings and improvements	(121,593)	(11,290)	3,787	(129,096)
Canals	<u>(244,492)</u>	<u>(97)</u>	<u>-</u>	<u>(244,589)</u>
Total accumulated depreciation	(603,834)	(56,729)	3,787	(656,776)
Total capital assets being depreciated, net	<u>465,569</u>	<u>59,059</u>	<u>(28,665)</u>	<u>495,963</u>
Governmental activities capital assets, net	<u>\$ 472,260</u>	<u>\$ 59,059</u>	<u>\$ (28,665)</u>	<u>\$ 502,654</u>

NOTE 5: RISK FINANCING

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; and errors or omissions. These risks are covered by commercial insurance purchased from independent third parties and through the Texas Municipal League (TML) Intergovernmental Risk Pool, a public entity risk pool for the benefit of 2,175 individual governmental units located within the state. TML Intergovernmental Risk Pool (Pool) is considered a self-sustaining risk pool that provides coverage for its members. The District's contributions to the Pool are limited to the amount of premiums as calculated at the beginning of each fund year. The Pool's liability is limited to the coverage that the District elects as stated in the Pool's Declaration of Coverage for that fund year. The District settled a claim in the year under audit in the amount of \$53,241, due to a fire that destroyed a building owned by the District.

WARD COUNTY WATER IMPROVEMENT DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JANUARY 31, 2021

NOTE 6: OMITTED STATEMENTS

The District does not provide water or sewer services to household users. Therefore, as permitted by the TCEQ Management Guide, the Texas Required Supplementary Schedule TSI-1, part 2 and 3 has not been prepared. Part 4 of that same schedule has been omitted because the District does not levy standby fees. The District also does not have any long-term debt. As permitted by the Management Guide, TSI-5 and TSI-6 have not been prepared.

NOTE 7: SUBSEQUENT EVENTS

The District has evaluated subsequent events through June 11, 2021, the date which the financial statements were available for issue and found nothing of importance to disclose.

REQUIRED SUPPLEMENTARY INFORMATION

WARD COUNTY WATER IMPROVEMENT DISTRICT NO. 2
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL COMPARISON – GENERAL FUND
FOR THE YEAR ENDED JANUARY 31, 2021

	Actual Results Cash Basis	Final Budgeted Results	Variance from Budget - Favorable (Unfavorable)	GAAP Adjustments	Actual Results GAAP Basis
REVENUES					
Irrigation water sales	\$ 10,400	10,000	\$ 400	-	10,400
Property taxes	44,755	15,000	29,755	(6,439)	38,316
Trust income	38,347	37,811	536	-	38,347
Cemetery fees	1,800	1,000	800	-	1,800
Equipment usage	74,823	1,000	73,823	-	74,823
Red Bluff water sales	222,408	111,000	111,408	-	222,408
Investment earnings	52,334	300,000	(247,666)	-	52,334
Insurance recovery	53,241	-	53,241	-	53,241
Total revenues	498,108	475,811	22,297	(6,439)	491,669
EXPENDITURES					
Irrigation water sales	9,600	10,000	400	-	9,600
Payroll	74,900	75,000	100	-	74,900
Payroll taxes	6,988	15,500	8,512	-	6,988
Contract labor	12,602	25,000	12,398	-	12,602
Fuel	5,493	8,200	2,707	-	5,493
Office supplies	6,333	5,500	(833)	-	6,333
Bonds and insurance	9,252	15,000	5,748	-	9,252
Directors fees	7,342	7,800	458	-	7,342
Education and miscellaneous	130	900	770	-	130
Repair and maintenance	24,766	25,000	234	-	24,766
Utilities	2,353	3,000	647	-	2,353
Dues and subscriptions	87	500	413	-	87
Election expenses	-	-	-	-	-
Appraisal district fees	243	600	357	-	243
Advertising	-	2,000	2,000	-	-
Professional fees	15,382	13,000	(2,382)	-	15,382
Tax collection fees	2,302	2,800	498	-	2,302
Capital outlay	115,788	50,000	(65,788)	(115,788)	-
Depreciation	-	-	-	56,729	56,729
Total expenditures	293,561	259,800	(33,761)	(59,059)	234,502
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	204,547	216,011	56,058	52,620	257,167
OTHER FINANCING SOURCES (USES)					
Loss on fire	-	-	-	(28,665)	(28,665)
NET CHANGE IN FUND BALANCES	\$ 204,547	\$ 216,011	\$ 56,058	\$ 23,955	\$ 228,502

WARD COUNTY WATER IMPROVEMENT DISTRICT NO. 2

TEXAS SUPPLEMENTARY INFORMATION

TSI-1 SERVICES AND RATES

FOR THE YEAR ENDED JANUARY 31, 2021

1. Services Provided by the District during the Fiscal Year:

Irrigation

2. Retail Service Providers:

Omitted because the District does not provide retail service

3. Total Water Consumption during the Fiscal Year:

Omitted because the District does not provide retail service

4. Standby Fees (authorized only under TWC Section 49.231):

Omitted because the District does not provide retail service

5. Location of District:

County in which the District is located: Ward County Texas

Is the District located entirely within one county?

<input checked="" type="checkbox"/>	Yes
<input type="checkbox"/>	No

Is the District located within a city?

<input type="checkbox"/>	Entirely
<input checked="" type="checkbox"/>	Partially
<input type="checkbox"/>	Not at all

City(ies) in which the District is located: Grandfalls, Texas

Is the District located within a city's extra territorial jurisdiction (ETJ)?

<input type="checkbox"/>	Entirely
<input type="checkbox"/>	Partially
<input checked="" type="checkbox"/>	Not at all

ETJ in which the District is located: N/A

Are Board members appointed by an office outside the District?

<input type="checkbox"/>	Yes
<input checked="" type="checkbox"/>	No

If yes, by whom? N/A

WARD COUNTY WATER IMPROVEMENT DISTRICT NO. 2
TEXAS SUPPLEMENTARY INFORMATION
TSI-2 GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED JANUARY 31, 2021

Personnel Expenditures - including benefits*	\$	89,230
Professional Fees		
Auditing		15,382
Legal		
Purchased Services for Resale		
Irrigation Water		9,600
Contracted Services		
Contract Labor		12,602
Utilities		2,353
Repairs and Maintenance		24,766
Administrative Expenditures		
Advertising		-
Office Supplies		6,333
Insurance		9,252
Tax Collection Fees		2,302
Appraisal District Fees		243
Election Expenditures		-
Other Administrative Expenditures		217
Capital Outlay		
Capitalized Assets		115,788
Expenditures Not Capitalized		
Other Expenditures		
Other		5,493
 TOTAL EXPENDITURES	 \$	 <u>293,561</u>

WARD COUNTY WATER IMPROVEMENT DISTRICT NO. 2
TEXAS SUPPLEMENTARY INFORMATION
TSI-3 TEMPORARY INVESTMENTS
FOR THE YEAR ENDED JANUARY 31, 2021

General	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Accrued Interest Receivable at End of Year
Tejas Bank - Monahans, Texas					
Certificate of Deposit	26922	0.35%	1/31/2021	\$ 100,000	\$ -
Tejas Bank - Monahans, Texas					
Certificates of Deposit (CDARS Program)					
United Community Bank	1023804057	0.11%	5/23/2021	200,000	19
First Independence Bank	1023904469	0.10%	6/10/2021	150,000	-
Citizens Bank	1023917374	0.10%	6/17/2021	9,000	-
Emigrant Bank	1023917374	0.10%	6/17/2021	241,000	21
Bank Hapoalim B.M.	1022338842	2.44%	2/25/2021	233,000	483
Prosperity Bank	1022338842	2.44%	2/25/2021	207,000	429
First Business Bank	1022800333	1.80%	7/15/2021	200,000	306
First Business Bank	1022803146	1.80%	7/15/2021	33,000	50
Independence Bank	1022803146	1.80%	7/15/2021	67,000	103
Trust Bank	1023037706	1.55%	9/16/2021	150,000	198
Merrick Bank	1023428276	1.51%	1/13/2022	21,500	28
Park National Bank	1023428276	1.51%	1/13/2022	228,500	293
BOKF, National Association	1023556665	1.37%	2/24/2022	187,000	218
United Bank	1023556665	1.37%	2/24/2022	63,000	73
Oakwood Bank	1023689282	0.50%	4/7/2022	200,000	85
Total Certificates of Deposit				\$ 2,290,000	\$ 2,306
Demand Account (ICS Program)					
Bank of the West	3514	0.03%		248,355	-
BankUnited	58979	0.03%		248,355	-
Centric Bank	7461	0.03%		248,355	-
Customers Bank	34444	0.03%		248,355	-
MidFirst Bank	4063	0.03%		248,355	-
Newtown Savings Bank	18199	0.03%		42,293	-
River City Bank	18983	0.03%		248,355	-
Sterling National Bank	30337	0.03%		248,355	-
TBK Bank, SSB	23498	0.03%		248,355	-
The Camden National Bank	4255	0.03%		248,351	-
Total Demand Deposits				\$ 2,277,484	\$ -
Total Investments				\$ 4,567,484	\$ 2,306

WARD COUNTY WATER IMPROVEMENT DISTRICT NO. 2
 TEXAS SUPPLEMENTARY INFORMATION
 TSI-4 – TAXES LEVIED AND RECEIVABLE
 FOR THE YEAR ENDED JANUARY 31, 2021

Taxes Receivable, Beginning of Year					Maintenance Taxes
2020 Original Tax Levy					\$ 8,535
(adjust for supplementals/abatements/adjustments)					31,329
Total to be accounted For					7,247
Tax Collections					<u>47,111</u>
Current Year					\$ 21,868
Prior Years					14,256
Total Collections					<u>36,124</u>
Taxes Receivable, End of Year					\$ 10,987
Taxes Receivable, By Year					
2020 Tax Roll				2016 Roll	\$ 9,461
2019 Tax Roll and Prior					1,526
Taxes Receivable, End of Year					<u>10,987</u>
Property Valuations				2017 Roll	
Minerals, Industrial & Utilities					\$ 36,030,300
Real Estate & Personal Property					9,322,030
Total Property Valuations					<u>45,352,330</u>
Tax Rates per \$100 Valuation:				2018 Roll	
Maintenance Tax Rate					\$ 0.01458
Debt Service Rate					-
Other Tax Rate					-
Total Tax Rates per \$100 Valuation					<u>0.01458</u>
Original Tax Levy					\$ 6,299
Percentage of Taxes Collected to Taxes Levied					<u>72.245%</u>
				2019 Roll	
					\$ 183,218,116
					9,758,564
					<u>192,976,680</u>
				2020 Roll	
					\$ 216,746,810
					11,237,509
					<u>227,984,319</u>
					\$ 0.01408
					-
					<u>0.01372</u>
					\$ 31,329
					<u>69.801%</u>
					\$ 233,713,990
					10,740,350
					<u>244,454,340</u>
					\$ 0.01458
					28,136
					<u>33,539</u>
					<u>78.857%</u>
					\$ 63,139,930
					9,537,800
					<u>72,677,730</u>
					\$ 0.01458
					10,596
					<u>6,299</u>
					<u>88.464%</u>

WARD COUNTY WATER IMPROVEMENT DISTRICT NO. 2
TEXAS SUPPLEMENTARY INFORMATION
TSI-7a – COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES—GENERAL FUND—FIVE YEARS ENDED
FOR THE YEAR ENDED JANUARY 31, 2021

	AMOUNTS					PERCENT OF TOTAL REVENUES				
	2021	2020	2019	2018	2017	2021	2020	2019	2018	2017
REVENUES										
Irrigation Water Sold	\$ 10,400	\$ 7,540	\$ 7,800	\$ 14,400	\$ -	2.3%	0.8%	0.4%	0.6%	0.0%
Interest - Temporary Investments	52,334	76,931	40,324	4,899	186	11.8%	8.5%	2.1%	0.2%	0.1%
U. S. Trust Interest Revenues	38,347	37,811	28,653	21,176	15,677	8.6%	4.2%	1.5%	0.9%	10.7%
Tax Revenues	44,424	44,177	14,101	11,055	7,810	10.0%	4.9%	0.7%	0.5%	5.3%
Penalties & Interest	331	165	179	140	101	0.1%	0.0%	0.0%	0.0%	0.1%
Applications - Canal Crossing	74,823	27,528	48,655	52,176	22,228	16.8%	3.0%	2.6%	2.2%	15.2%
Red Bluff - Water Sales	222,408	703,311	1,703,281	2,254,764	92,591	50.0%	77.9%	89.7%	95.5%	63.3%
Cemetery Fees & Other Income	1,800	5,685	2,083	1,557	7,665	0.4%	0.6%	0.1%	0.1%	5.2%
Sale of General Fixed Assets	-	-	54,000	699	-	0.0%	0.0%	2.8%	0.0%	0.0%
Total Revenues	\$ 444,867	\$ 903,148	\$ 1,899,076	\$ 2,360,866	\$ 146,258	100.0%	100.0%	100.0%	100.0%	100.0%
EXPENDITURES/EXPENSES										
Service Operations										
Irrigation Water Purchased	\$ 9,600	\$ 6,960	\$ 7,200	\$ 10,800	\$ -	2.2%	0.8%	0.4%	0.5%	0.0%
Salaries/Payroll/Taxes/Benefits	89,230	95,163	90,699	60,924	36,170	20.1%	10.5%	4.8%	2.6%	24.7%
Bank Service Charges	-	234	8	-	3	0.0%	0.0%	0.0%	0.0%	0.0%
Utilities & Telephones	2,353	1,986	1,576	1,673	1,617	0.5%	0.2%	0.1%	0.1%	1.1%
Dues & Subscriptions	87	376	117	65	65	0.0%	0.0%	0.0%	0.0%	0.0%
Auditing & Accounting Services	15,382	16,995	12,269	5,699	5,993	3.5%	1.9%	0.6%	0.2%	4.1%
Equipment & Ditch Repairs	24,766	23,184	45,169	21,570	2,377	5.6%	2.6%	2.4%	0.9%	1.6%
Tax Collection Fees	2,302	2,263	2,279	2,476	2,483	0.5%	0.3%	0.1%	0.1%	1.7%
Fuel & Lubricants	5,493	6,094	6,931	1,741	454	1.2%	0.7%	0.4%	0.1%	0.3%
Insurance (Net of Claims)	9,252	10,232	7,664	5,779	5,958	2.1%	1.1%	0.4%	0.2%	4.1%
Auto & Mileage	-	15	2	-	-	0.0%	0.0%	0.0%	0.0%	0.0%
Election Expenditures	-	-	-	-	657	0.0%	0.0%	0.0%	0.0%	0.4%
Supplies - Office	6,333	4,960	5,382	2,830	1,732	1.4%	0.5%	0.3%	0.1%	1.2%
Legal Fees/Legal Advertising	-	1,106	1,074	1,093	342	0.0%	0.1%	0.1%	0.0%	0.2%
Ward County Appraisal Board	243	155	70	-	-	0.1%	0.0%	0.0%	0.0%	0.0%
Consulting Fees/Contract Labor	12,602	3,018	1,957	4,964	1,700	2.8%	0.3%	0.1%	0.2%	1.2%
Education & Miscellaneous	130	523	149	542	100	0.0%	0.1%	0.0%	0.0%	0.1%
Survey	-	-	-	-	-	0.0%	0.0%	0.0%	0.0%	0.0%
Capital Outlay	115,788	93,097	263,579	88,826	-	26.0%	10.3%	13.9%	3.8%	0.0%
Total Expenditures/Expenses	\$ 293,561	\$ 266,361	\$ 446,125	\$ 208,982	\$ 59,651	66.0%	29.5%	23.5%	8.9%	40.8%
Excess (Deficiency) of Revenues over expenses	\$ 151,306	\$ 636,787	\$ 1,452,951	\$ 2,151,884	\$ 86,607	34.0%	70.5%	76.5%	91.1%	59.2%

WARD COUNTY WATER IMPROVEMENT DISTRICT NO. 2
TEXAS SUPPLEMENTARY INFORMATION
TSI-8 BOARD MEMBERS, KEY PERSONNEL, AND CONSULTANTS
FOR THE YEAR ENDED JANUARY 31, 2021

Complete District Mailing Address	P. O. Box 328, Grandfalls, Texas 79742
District Business Telephone Number	(432) 547-2036
Submission Date of the most recent District Registration Form (TWC 36.054 and 49.054)	Not Applicable
Limit on Fees of Office that a Director may receive during a fiscal year:	\$150 per meeting

<u>Names of Board Members</u>	<u>Terms of Office (Elected or Appointed) or Date Hired</u>	<u>Fees of Office Paid* FYE 01-31-21</u>	<u>Expense Reimburse- ments FYE 01-31-21</u>	<u>Title at Year End</u>
Wanda Corrales	(Elected) 05-20 - 05-24	\$ 2,100	\$ -	Director and President
Kurt Brandenburg	(Elected) 05-20 - 05-24	\$ 1,650	\$ -	Director and Vice President
Randy McAlister	(Elected) 05-20 - 05-24	\$ 2,100	\$ -	Director and Secretary/Treasurer
Larry Vinson	(Elected) 05-20 - 05-24	\$ 1,950	\$ -	Director
Charles L. Corean	(Elected) 05-20 - 05-24	\$ -	\$ -	Director and General Manager

Key Administrative Personnel:

Charles L. Corean	October 5, 1999	\$ 20,250	\$ -	General Manager
George W. T. Brandenburg	April 12, 2008	\$ 16,100	\$ 854	Ditch Rider
T. D. Brandenburg	October 1, 2021	\$ 12,000	\$ 3,674	Ditch Rider
Judy Corean	May 18, 2012	\$ 20,250	\$ -	Office Manager
Keith Brandenburg	October 1, 2018	\$ 6,300	\$ 2,038	Ditch Rider

Consultants:

Smith & Rives, PC	Before 1984	\$ 15,382	-	Auditor
Fullerton & Associates	January 11, 2021			

* Fees of Office are the gross amounts paid to a director during the District's year.

COMPLIANCE AND INTERNAL CONTROL SECTION



3444 N 1st, Suite 404
Abilene, Texas 79603
Phone 325.268.1033

Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters based on an Audit of the Financial Statements
performed in accordance with Government Auditing Standards

To the Board of Directors
Ward County Water Improvement District No. 2
Grandfalls, TX

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 the governmental activities, each major fund, and the aggregate remaining fund information of the Ward County Water Improvement District No. 2 (the District) as of and for the year ended January 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 June 11, 2021.

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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the following schedule of findings that we consider to be material weaknesses.

Schedule of Findings:

- Preparation of the financial statements—The District does not prepare its financial statements, notes to the financial statements, or management's discussion and analysis, in accordance with GAAP. Therefore, the District does not have any internal controls over financial statement preparation or its reporting cycle.

Compliance and Other Matters

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

and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards

Ward County Water Improvement District No.2's Response to Findings

The District has weighed the costs and benefits of preparing their own financial statements and finds it much more cost efficient to outsource their compilation. Additionally, the District is actively training its administrative personnel both on GAAP accounting and proper internal control procedures to implement segregation of duties in their small accounting office.

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.

Fullerton & Associates, PLLC

Fullerton & Associates, PLLC
Abilene, Texas

June 14, 2021