

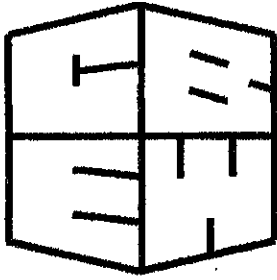
**RURAL WATER AND SEWER DISTRICT NO. 4
LINCOLN COUNTY
Lincoln, Oklahoma**

**BASIC FINANCIAL STATEMENTS
June 30, 2021**

**RURAL WATER AND SEWER DISTRICT #4
LINCOLN COUNTY
Lincoln, Oklahoma**

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Charles E. Crooks, Jr., CPA – Trisha J. Rieman, CPA – Gabrielle Conchola, CPA

INDEPENDENT AUDITOR'S REPORT

August 10, 2021

Board of Directors
Rural Water and Sewer District No. 4
Lincoln County
Lincoln, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Rural Water and Sewer District No. 4, Lincoln County, Lincoln, Oklahoma (the District), as of and for the year ended June 30, 2021, 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 and Sewer District No. 4, Lincoln County, Lincoln, Oklahoma as of June 30, 2021, 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 August 10, 2021, on our consideration of the Rural Water and Sewer 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 and Sewer District No. 4's internal control over financial reporting and compliance.

CBEW Professional Group, LLP

CBEW Professional Group, LLP
Certified Public Accountants
Cushing, Oklahoma

**RURAL WATER AND SEWER DISTRICT NO. 4
LINCOLN COUNTY
Agra, Oklahoma**

**STATEMENT OF NET POSITION
June 30, 2021**

	June 30, 2021
Current assets:	
Cash and cash equivalents (Note 1)	\$ 386,884
Receivables (net of allowance for uncollectible)	92,054
Prepaid insurance	17,766
Temporarily restricted:	
Cash and cash equivalents (Note 2)	-
Restricted assets:	
Customer deposits (Note 2)	1,100
Total current assets	<u>497,804</u>
Capital assets:	
Land	72,441
Construction in progress	1,487,558
Water system, equipment and vehicles net of depreciation (Note 4)	<u>1,426,257</u>
Total capital assets	<u>2,986,256</u>
Total assets	<u>3,484,060</u>
Deferred outflows of resources:	
Total deferred outflows	<u>-</u>
Current liabilities:	
Accounts payable	26,283
Customer meter deposits	1,100
Payroll taxes payable	623
Current portion of notes payable (Note 3)	-
Total current liabilities	<u>28,006</u>
Long-term liabilities:	
Notes payable (Note 3)	<u>1,847,447</u>
Total long-term liabilities	<u>1,847,447</u>
Total liabilities	<u>1,875,453</u>
Deferred inflows of resources:	
Total deferred inflows	<u>-</u>
Net position:	
Net investment in capital assets	(348,749)
Temporarily restricted (Note 2)	-
Unrestricted	<u>1,957,356</u>
Total net position	<u>\$ 1,608,607</u>

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

**RURAL WATER AND SEWER DISTRICT NO. 4
LINCOLN COUNTY
Agra, Oklahoma**

**STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2021**

	June 30, 2021
Revenues:	
Water revenue	\$ 682,486
Sewer revenue	45,589
Late penalties	18,707
Other income	26,274
Total revenues	773,056
Expenses:	
Advertising	-
Bookkeeping and computer expense	10,911
Chemicals	11,861
Depreciation	86,752
Donations	375
Employee benefits	48,789
Fees and dues	5,296
Franchise tax	1,574
Fuel	10,134
Insurance	25,727
Lab tests	13,129
Legal and accounting	20,555
Meetings and training	6,081
Miscellaneous	3,498
Office supplies and postage	5,180
Operating supplies	50,452
Payroll taxes	21,087
Rent/lease expense	6,770
Repairs and maintenance	25,509
Utilities and telephone	40,207
Wages	237,821
Water purchases	126,161
Total expenses	757,869
Operating Income	15,187
Other income and expense:	
Capital improvement income	130,130
System development fee	31,500
Loan issue costs	(119,313)
Interest income	321
Interest expense	(48,765)
Total other income and expense	(6,127)
Change in net position - net income (loss)	9,060
Net position - beginning of year	1,599,547
Net position - end of year	\$ 1,608,607

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

**RURAL WATER AND SEWER DISTRICT NO. 4
LINCOLN COUNTY
Agra, Oklahoma**

**STATEMENT OF CHANGES IN NET POSITION
For the Year Ended June 30, 2021**

	<u>Net Position (Unrestricted)</u>	<u>Net Position (Temporarily Restricted)</u>	<u>Total Net Position</u>
Balance - beginning of year 6-30-20	\$ 1,501,605	\$ 97,942	\$ 1,599,547
Change in net position	<u>107,002</u>	<u>(97,942)</u>	<u>9,060</u>
Balance - end of year 6-30-21	\$ <u><u>1,608,607</u></u>	\$ <u><u>-</u></u>	\$ <u><u>1,608,607</u></u>

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

**RURAL WATER AND SEWER DISTRICT NO. 4
LINCOLN COUNTY
Agra, Oklahoma**

**STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2021**

	<u>June 30, 2021</u>
Cash flows from operating activities:	
Cash received from customers	\$ 872,812
Cash payments to suppliers	(511,013)
Cash payments to employees	(237,821)
Net cash provided by operating activities	<u>123,978</u>
Cash flows from capital and related financing activities:	
System development and capital improvement fees	161,630
Loan issue costs	(119,313)
Acquisition & construction of capital assets	(1,169,393)
Principal paid on debt	(870,605)
Proceeds received from notes	2,031,839
Interest paid on debt	(48,765)
Net cash used in capital and related financing activities	<u>(14,607)</u>
Cash flows from investing activities:	
(Purchase) liquidation of investments	-
Interest income	321
Net cash provided by investing activities	<u>321</u>
Net increase (decrease) in cash	109,692
Cash and cash equivalents at beginning of year	<u>278,292</u>
Cash and cash equivalents at end of year	\$ <u><u>387,984</u></u>
Reconciliation of operation income to net cash provided by operating activities:	
Operating Income (loss)	\$ <u>15,187</u>
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	86,752
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	99,756
(Increase) decrease in prepaid expenses	1,562
Increase (decrease) in accounts payable	(75,434)
Increase (decrease) in meter deposits	(100)
Increase (decrease) in payroll taxes payable	(3,745)
Total adjustments	<u>108,791</u>
Net cash provided by operating activities	\$ <u><u>123,978</u></u>

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

**RURAL WATER AND SEWER DISTRICT NO. 4
LINCOLN COUNTY
Lincoln, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2021**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rural Water and Sewer District No. 4, Lincoln County, Oklahoma (the District), was created under the provisions of Title 82, O.S. 1981, Sections 1324.1-1324.26 inclusive, for the purpose of providing water and sewer to the members it serves. Membership in the district consists of users who have paid the required membership and connection fees. The District is exempt from federal and state income taxes.

The District is a governed entity administered by a Board of Directors that acts as the authoritative and legislative body of the entity. The Board is comprised of 7 elected members. The vacant Board seats are elected at the annual meeting, and following, the Board of Directors meet and elect a chairman, vice-chairman, secretary and treasurer.

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

A. Reporting Entity

Rural Water and Sewer District No. 4 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 and sewer 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 AND SEWER DISTRICT NO. 4
LINCOLN COUNTY
Lincoln, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2021**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities and Equity (Continued)

1. Deposits and Investments (Continued)

Custodial Credit Risk

At June 30, 2021, the District held deposits of approximately \$387,834 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit, are usually 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. The District was under collateralized by \$137,834 at June 30, 2021.

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 June 30, 2021 are as follows:

Type	Weighted Average Maturity (Months)	Credit Rating	Market Value	Cost
Investments				
Money Market	N/A	AAAm	\$ 387,834	\$ 387,834
Total investments			<u>\$ 387,834</u>	<u>\$ 387,834</u>

**RURAL WATER AND SEWER DISTRICT NO. 4
LINCOLN COUNTY
Lincoln, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2021**

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: 100% in Money Market funds (\$387,834).

2. 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.

3. 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.

4. Inventories

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

5. 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.

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

Water and sewer system	40 years
Building and improvements	40 years
Equipment	10 years
Office equipment	10 years

**RURAL WATER AND SEWER DISTRICT NO. 4
LINCOLN COUNTY
Lincoln, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2021**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities and Equity (Continued)

6. 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.

7. 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.

8. 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 and sewer 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.

3. Bad Debts

The District uses the direct write-off method for recognizing bad debts. Under the direct write-off method, accounts receivable are charged to income during the period they are determined to be uncollectible. The use of this method does not result in a material difference from the valuation method required by generally accepted accounting principles.

**RURAL WATER AND SEWER DISTRICT NO. 4
LINCOLN COUNTY
Lincoln, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2021**

2. TEMPORARILY RESTRICTED ASSETS

The restricted cash is the result of financial requirements of various note indentures between the District and the Oklahoma Water Resources Board (OWRB) consist of funds held in reserve funds. Under the terms and provisions of the OWRB promissory note, these special funds are maintained with the Trustee bank for the benefit of the holders of the bond and are not subject to lien or attachment by any other creditors. Monies contained in the funds held by the Trustee are required to be continuously invested in authorized securities that mature not later than the respective dates when the funds shall be required for the purpose intended by the bonds. The funds are temporarily restricted but with prior written approval from OWRB, the funds can also be used for making improvements to the water system or for debt service. Under the terms and provisions of the promissory note, these funds may be maintained so long as the notes are outstanding. The loans were paid off and the restriction was released during the year. In addition, certain funds are restricted for customer deposits and are reflected as an asset and a corresponding liability.

3. LONG-TERM DEBT

Long-term debt consists of four notes, two with the Oklahoma Water Resource Board (OWRB), one with Communities United and one with Bancfirst. The notes are secured by the water works system including distribution lines, pump stations, reservoirs and vehicles.

These notes are listed as follows:

OWRB Loan – Payable in annual installments of varying amounts 3.4% interest with an original stated maturity of June 2029. This loan was paid off in the current year.

OWRB Loan – Payable in annual installments of \$ at 2.57% interest with an original stated maturity of June 2029. This loan was paid off in the current year.

Communities Unlimited – Original amount of \$500,000, only principal advances have taken place. Interest only payments are to made during the first 24 months of the term. This loan was paid off in the current year.

Bancfirst Loan – Original amount of \$2,141,000, only principal advances have taken place. Interest only payments are made.

The following is a summary of long-term debt transactions during the year:

	Balance June 30, 2020	Additions	Reductions	Balance June 30, 2021	Current Portion
OWRB	\$ 110,000	\$ -	\$ 110,000	\$ -	\$ -
OWRB	296,998	-	296,998	-	-
Communities Unlimited	279,215	184,392	463,607	-	-
Bancfirst	-	1,847,447	-	1,847,447	-
Total	<u>\$ 686,213</u>	<u>\$ 2,031,839</u>	<u>\$ 870,605</u>	<u>\$ 1,847,447</u>	<u>\$ -</u>

**RURAL WATER AND SEWER DISTRICT NO. 4
LINCOLN COUNTY
Lincoln, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2021**

4. CAPTIAL ASSETS

The following is a summary of changes in property, plant and equipment.

	Balance June 30, 2020	Additions	Deletions	Balance June 30, 2021
Land	\$ 72,442	\$ -	\$ -	\$ 72,442
Construction in progress	318,165	1,169,392	-	1,487,557
Vehicles	66,924	-	-	66,924
Buildings and improvements	95,477	-	-	95,477
Water system	2,405,154	-	-	2,405,154
Sewer system	199,715	-	-	199,715
Meter installation	117,891	-	-	117,891
Office equipment	75,176	-	-	75,176
Machinery and equipment	183,811	-	-	183,811
Total	<u>3,534,755</u>	<u>1,169,392</u>	<u>-</u>	<u>4,704,147</u>
Less accumulated depreciation	1,631,139	86,752	-	1,717,891
Net	<u>\$ 1,903,616</u>	<u>\$ 1,082,640</u>	<u>\$ -</u>	<u>\$ 2,986,256</u>

5. RISK MANAGEMENT

Rural Water and Sewer District No. 4 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.

6. WATER PURCHASE COMMITMENT

The governing board of Rural Water and Sewer District No. 4, Lincoln County, Lincoln, Oklahoma, together with seven other cities and rural water districts located in Noble, Lincoln, and Payne Counties, Oklahoma, have jointly formed Lone Chimney Water Association. The purpose of the Association is to provide a water system for the benefit of its members and other users. The District has entered into various loan agreements with the United States Department of Agriculture, Rural Development and the Oklahoma Water Resources Board to provide financing for the facility. Under the terms of the agreement regarding Rural Water and Sewer District No. 4, each member has contracted to purchase a minimum amount of water from the Association during the 40-year term of the notes. In addition, each individual member is proportionately liable for any debts that exceed the assets of the Association to the extent of one and one-half times the percentage of ownership interest held by the entity pursuant to the agreement. The District is contingently liable for 8% of the obligations of the Association, which total approximately \$3,825,730 to the Bank of Oklahoma at the year-end. The District's contingent share of Lone Chimney Water Association's debt is \$306,058.

**RURAL WATER AND SEWER DISTRICT NO. 4
LINCOLN COUNTY
Lincoln, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2021**

6. WATER PURCHASE COMMITMENT (Continued)

At June 30, 2021, Rural Water and Sewer District No. 4 was obligated to purchase a minimum of 1.44 million gallons of water annually, currently at a cost of \$101,088. The rates charged for the water can be adjusted every three years as necessary to provide sufficient revenues for the Association.

Future purchase commitments at current rates are as follows:

June 30,	Amounts Due
2022	\$ 101,088
2023	101,088
2024	101,088
2025	101,088
2026	101,088
2027-2031	505,440
2032-2035	404,352
Total	\$ <u>1,415,232</u>

7. RETIREMENT PLAN

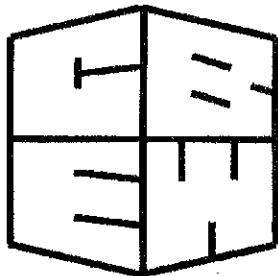
The District maintains a defined contribution retirement plan for its qualified employees. The District contributes 7% of the employee's gross wages to this plan. The amount contributed by the District during the year ended June 30, 2020 was \$14,296.

8. 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.

**RURAL WATER AND SEWER DISTRICT NO. 4
LINCOLN COUNTY
Lincoln, Oklahoma**

**REPORT REQUIRED BY *GOVERNMENT AUDITING STANDARDS*
June 30, 2021**



CBEW Professional Group, LLP

Certified Public Accountants

P.O. Box 790

Cushing, OK 74023

918-225-4216 FAX 918-225-4315

Charles E. Crooks, Jr., CPA – Trisha J. Rieman, CPA – Gabrielle Conchola, CPA

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

August 10, 2021

Board of Directors
Rural Water and Sewer District No. 4
Lincoln County
Lincoln, 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 and Sewer District No. 4, Lincoln County, Lincoln, Oklahoma (the District), as of and for the year ended June 30, 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 August 10, 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) as a basis for designing 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 findings 2021-001.

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 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*.

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, according, 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 AND SEWER DISTRICT NO. 4
LINCOLN COUNTY
Lincoln, Oklahoma**

**SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2021**

2021-001. Internal Control – Material Adjusting Journal Entries

Criteria: The district's management is responsible for internal controls over accounting and financial reporting. This responsibility includes the design and implementation of controls over the fair and complete presentation of the district's annual financial statements in accordance with generally accepted accounting principles (GAAP) from trial balances derived from the district's accounting records. For trial balances to be both complete and accurate, the district must have effective internal controls over recording, processing, summarizing, and adjusting accounting data. As evidence of effective internal controls over accounting and financial reporting, there should generally be few, if any, material adjustments to the trial balances required that are detected and corrected solely as a result of the financial statement audit. In other words, district management should not rely on the external auditor to detect and correct material misstatements in the books and records as part of its internal controls, but rather should have its own procedures designed and in place that are independent of the external auditor to provide reasonable, although not absolute, assurance that material misstatements will be detected and corrected in its trial balances prior to audit.

Condition: The district's trial balances for the year ended June 30, 2021, required a number of material adjusting journal entries in order for the financial statements to be prepared in accordance with GAAP. These necessary adjusting entries, identified solely as a result of the financial statement audit, included such adjustments as the following: Capitalize asset expenditures, note payables, accounts payable, depreciation and accounts receivable.

Cause: The district's accounting and financial reporting staff does not possess the formal knowledge, expertise and education, relative to the complex nature of applying GAAP applicable to state and local governments, sufficient to provide reasonable assurance that the trial balances used for preparing the GAAP financial statements are complete and accurate prior to audit. As a result, management has had to rely on the external auditors to identify and correct a number of material misstatements in the trial balances. However, as required by professional standards, management had the capacity to review, understand and accept the adjusting entries proposed by the auditor in order to take full responsibility for them and the related financial statements.

Effect or Potential Effect: As a result of this condition, without assistance from its external auditors, the district lacks the necessary internal controls over the completeness and accuracy of the trial balances that are used in the preparation of its financial statements in accordance with GAAP. This condition can result in undetected and uncorrected material misstatements in the financial statements that are not detected by management and may also not be detected by the financial statement audit. In addition, if management's intentions are to continue to rely on the external auditor to detect and correct material misstatements, this condition could place the auditor in a questionable position regarding auditor independence since management is responsible for the completeness and accuracy of the financial statements.

Recommendation: The district should consider designing and implementing sufficient internal controls over the completeness and accuracy of trial balances by obtaining additional knowledge, expertise, and continuing education to apply GAAP in the development of working trial balances that will be used to prepare the district's annual financial statements. This could be achieved through employment of qualified accounting staff or the outsourcing of these control activities to a qualified accounting firm other than the external auditor.

Responsible Official's Response: The district concurs with the recommendation, and will strive to expand their knowledge and understanding to identify and correct material misstatements timely in order to prepare complete and accurate financial statements.