

Independent Auditor's Report

Rural Water and Sewer District No. 5, Canadian County

Year Ended August 31, 2022

INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Directors
Rural Water and Sewer District No. 5, Canadian County
El Reno, Oklahoma

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying modified cash basis financial statements of the business-type activities of Rural Water and Sewer District No. 5, Canadian County, El Reno, Oklahoma, as of and for the year ended August 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the business-type activities of Rural Water and Sewer District No. 5, Canadian County, El Reno, Oklahoma, as of August 31, 2022, and the respective changes in modified cash basis financial position, and cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described on Note 1.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Rural Water and Sewer District No. 5, Canadian County, El Reno, Oklahoma and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter – Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1, and for determining that the modified cash basis of accounting is an acceptable basis for preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatements of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2022, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Angel, Johnston + Blessingame, P.C.

Chickasha, Oklahoma
December 30, 2022

**RURAL WATER AND SEWER DISTRICT NO. 5, CANADIAN COUNTY
EL RENO, OKLAHOMA
August 31, 2022**

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RURAL WATER AND SEWER DISTRICT NO. 5, CANADIAN COUNTY
Statement of Net Position
Modified Cash Basis
August 31, 2022

ASSETS

Current Assets

Cash and cash equivalents	\$	304,877
Restricted cash and cash equivalents		22,071
<i>Total Current Assets</i>		326,948

Non Current Assets

Other capital assets, net of depreciation		1,162,708
<i>Total Non Current Assets</i>		1,162,708

<i>Total Assets</i>		1,489,656
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LIABILITIES

Current Liabilities

Current portion of notes payable		24,083
<i>Total Current Liabilities</i>		24,083

Non Current Liabilities

Notes payable		960,560
<i>Total Non Current Liabilities</i>		960,560

<i>Total Liabilities</i>		984,643
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NET POSITION

Net investment in capital assets		178,065
Restricted for debt service		22,071
Unrestricted		304,877
		326,948

<i>Total Net Position</i>	\$	505,013
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The accompanying notes are an integral part of the financial statements.

RURAL WATER AND SEWER DISTRICT NO. 5, CANADIAN COUNTY
Statement of Revenues, Expenses and Changes in Net Position
Modified Cash Basis
For the Year Ended August 31, 2022

Operating Revenues	
Water revenue	\$ 441,092
Membership fees	51,376
Damages	5,328
Miscellaneous	754
<i>Total Operating Revenues</i>	<u>498,550</u>
 Operating Expenses	
Contract Labor	50,404
Parts	10,425
Maintenance and repair	3,908
Automobile allowance	6,520
Salaries	39,600
Payroll taxes	3,203
Water purchases	262,850
Propane	938
Electric	4,616
Telephone	1,614
Box Rent	100
Office supplies	966
Postage	1,370
Water test fees	1,907
Hydraulic Report	2,750
Insurance	7,484
Bank fee	744
Legal and professional	12,176
Maintenance agreement	7,044
Administrative fee	5,084
Miscellaneous	5,828
Depreciation expense	31,658
<i>Total Operating Expenses</i>	<u>461,189</u>
 <i>Operating Income (Loss)</i>	 <u>37,361</u>
 Non-Operating Revenues (Expenses)	
Interest income	87
Dividend income	126
Interest expense	(20,938)
<i>Total Non-Operating Revenues (Expenses)</i>	<u>(20,725)</u>
 <i>Change in Net Position</i>	 <u>16,636</u>
 <i>Net Position - Beginning of Year</i>	 <u>488,377</u>
 <i>Net Position - End of Year</i>	 <u>\$ 505,013</u>

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

RURAL WATER AND SEWER DISTRICT NO. 5, CANADIAN COUNTY

Statement of Cash Flows

Modified Cash Basis

For the Year Ended August 31, 2022

Cash flows from operating activities

Receipts from customers	\$ 498,550
Payments to employees	(39,600)
Payments to suppliers	(389,931)
<i>Net cash provided by (used for) operating activities</i>	<u>69,019</u>

Cash flows from capital and related financing activities

Interest expense	(20,938)
Principal paid on long-term debt	(24,341)
<i>Net cash provided by (used for) capital and related financing activities</i>	<u>(45,279)</u>

Cash flows from investing activities

Investment income	213
<i>Net cash provided by (used for) investing activities</i>	<u>213</u>

<i>Net increase (decrease) in cash and cash equivalents</i>	23,953
<i>Cash and cash equivalents at beginning of year</i>	302,995
<i>Cash and cash equivalents at end of year</i>	<u>\$ 326,948</u>

Reconciliation of operating income (loss) to net cash provided (used) by operating activities

Operating income (loss)	37,361
Adjustment to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	31,658
<i>Net cash provided by (used for) operating activities</i>	<u>\$ 69,019</u>

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

RURAL WATER AND SEWER DISTRICT NO. 5, CANADIAN COUNTY

Notes to Basic Financial Statements For the Year Ended August 31, 2022

Note 1 – Summary of Significant Accounting Policies

1.A. Reporting Entity

Rural Water and Sewer District No. 5, Canadian County, Oklahoma (the District) was incorporated in 2002 under the laws of the State of Oklahoma in accordance with O.S. Title 82 and is a nonprofit corporation under Section 501(c)(12) of the Internal Revenue Code. The purpose of the District is to provide a water works system including distribution lines, pumping stations and storage facilities to service the members of the District. Prior to 2002, it was known as Heaston Rural Water Corporation.

The District is governed by a Board of Directors that consists of five members elected by the general membership.

1.B. Basis of Presentation

The District's fund is an enterprise fund. Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. All activities of the District are business-type activities. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

1.C. Measurement Focus and Basis of Accounting

Measurement focus refers to how transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recognized and recorded in the financial statements regardless of the measurement focus applied.

The District's financial statements use the economic resources measurement focus and are presented on the modified cash basis of accounting. Revenues are recognized when they are received and expenses are recorded when paid with the following modifications:

- Capital assets and the depreciation of those assets, where applicable.
- Long-term debt is recorded when incurred.

This basis is a basis of accounting other than accounting principles generally accepted in the United States of America. If the District utilized the basis of accounting recognized as generally accepted, the financial statements would use the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred.

RURAL WATER AND SEWER DISTRICT NO. 5, CANADIAN COUNTY

**Notes to Basic Financial Statements
For the Year Ended August 31, 2022**

Note 1 – Summary of Significant Accounting Policies, (continued)

1.D. Assets, Liabilities and Net Position,

Cash & Cash Equivalents – The District considers all cash on hand, demand deposit accounts, interest bearing checking accounts and time deposit accounts including certificates of deposit and U.S. Treasury bills with maturities of three months or less to be cash and cash equivalents.

Restricted Assets – Restricted assets include assets that are legally restricted as to their use. The primary restricted assets are debt restrictions and covenants.

Capital Assets – The District’s assets acquired are capitalized and stated at historical cost or estimated historical cost, if actual historical cost is not available. A record of fixed assets has not been maintained by the District and have not been reported on the balance sheet in prior years. Therefore, the original cost of all fixed assets was estimated based on the Notes to Basic Financial Statements from the prior 7 years audits located on the Oklahoma State Auditor’s website. The District’s Board reviewed and approved all asset additions to the balance sheet and asset report.

Waterline System	30 to 40 Years
Office Equipment	5 to 10 Years
Other Equipment and Vehicles	5 to 15 Years

Current Liabilities – Current liabilities of the District is comprised of the current portion of long-term debt. (See Note 5).

Non-Current Liabilities – Long-term debt to be repaid from the District’s resources are reported as non-current liabilities in the Statement of Net Position. The long-term debt is presently comprised of one (1) note. See Note 5.

Net Position – Net position is divided into three components:

- a. *Net Investment in Capital Assets* – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributed to the acquisition, construction, or improvements of those assets.
- b. *Restricted net position* – Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c. *Unrestricted net position* – All other net assets that do not meet the definition of “restricted” or “net investment in capital assets.”

RURAL WATER AND SEWER DISTRICT NO. 5, CANADIAN COUNTY

**Notes to Basic Financial Statements
For the Year Ended August 31, 2022**

Note 1 – Summary of Significant Accounting Policies, (continued)

1.D. Assets, Liabilities and Net Position, (continued)

It is the District’s policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

1.E. Revenues and Expenses

Operating and Non-Operating Revenues – Operating revenues are considered those whose cash flows are related to operating activities, while revenue as related to financing, capital and investing activities are reported as non-operating.

Expenses – The District reports expenses relating to the use of economic resources.

1.F. Estimates

Certain estimates are made in the preparation of these modified cash basis financial statements, such as estimated lives for capital assets depreciation. Estimates are based on management’s best judgment and may vary from actual results.

Note 2 - Deposits, Investments, and Collateral

Deposits and Investments – The District does not have a written investment policy at this time.

Custodial Credit Risk - Deposits – Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The District does not have a written policy for custodial credit risk. The Federal Deposit Insurance Corporation (FDIC) insures deposits up to \$250,000 at each institution for all demand deposit accounts and up to \$250,000 at each institution for all time and savings accounts. The National Credit Union Administration (NCUA) insures deposits up to \$250,000 at credit unions. As of August 31, 2022, the District’s funds exceeded the NCUA insurance exposing \$4,811 to custodial credit risk.

Note 3 – Restricted Assets

Restricted assets as of August 31, 2022 were as follows:

<u>Type of Restricted Assets</u>	<u>Restricted Cash and Cash Equivalents</u>
BOK – OWRB Note	\$ 22,071
Total Restricted Assets	\$ 22,071

RURAL WATER AND SEWER DISTRICT NO. 5, CANADIAN COUNTY

**Notes to Basic Financial Statements
For the Year Ended August 31, 2022**

Note 4 - Capital Assets Activity

Capital asset activity for the year ended August 31, 2022 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Depreciable assets:				
Equipment	3,200	-	-	3,200
Office Equipment	1,025	-	-	1,025
Software	1,600	-	-	1,600
Water Line/ Improvements	<u>1,451,239</u>	<u>-</u>	<u>-</u>	<u>1,451,239</u>
Total depreciable assets	<u>1,457,064</u>	<u>-</u>	<u>-</u>	<u>1,457,064</u>
Less accumulated depreciation:				
Accumulated Depreciation	<u>262,698</u>	<u>31,658</u>	<u>-</u>	<u>294,356</u>
Net depreciable assets	<u>1,194,366</u>	<u>(31,658)</u>	<u>-</u>	<u>1,162,708</u>
Net Capital Assets	<u>\$ 1,194,366</u>	<u>\$ (31,658)</u>	<u>\$ -</u>	<u>\$ 1,162,708</u>

Note 5 – Long-term Debt

Changes in long-term obligations for the year ended August 31, 2022, are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Balance Due in 1 year</u>
Business-type Activities:					
Notes from direct borrowings	<u>\$ 1,008,984</u>	<u>\$ -</u>	<u>\$ 24,341</u>	<u>\$ 984,643</u>	<u>\$ 24,083</u>

On June 22, 2018, the District borrowed \$1,161,000 from the Oklahoma Water Resources Board (OWRB) to construct improvement to the drinking water system. The note carries an interest rate of 2.47% plus an administrative fee of 0.5% on the outstanding balance. The District is required to make monthly payments of principal, interest, and administrative fees to the Local Trustee and the Local Trustee shall remit semi-annual payments of \$26,778 to OWRB. The note matures on March 15, 2049. During the year principal payments of \$24,341 were made. The balance of this loan at August 31, 2022 is \$984,643.

RURAL WATER AND SEWER DISTRICT NO. 5, CANADIAN COUNTY
Notes to Basic Financial Statements
For the Year Ended August 31, 2022

Note 5 – Long-term Debt, (continued)

Utility Gross Revenues Pledge – The District has pledged future gross water utility revenues to repay the \$1,161,000 Series 2018 Drinking Water SRF Promissory Note to OWRB. Proceeds from the note provided financing for water system improvements. The note is payable from gross water revenues and is payable through 2049. Gross water utility revenues were \$441,092. Debt service payments of \$45,279 for the current fiscal year were 10% of gross water utility revenues.

<u>Year Ending August 31,</u>	<u>Business-type Activities</u>	
	<u>Notes from Direct Borrowings</u>	
	<u>Principal</u>	<u>Interest</u>
2023	\$ 24,083	\$ 24,512
2024	24,735	23,969
2025	25,564	23,280
2026	26,340	22,635
2027	27,139	21,970
2028-2032	148,417	99,269
2033-2037	172,428	79,301
2038-2042	200,232	56,178
2043-2047	232,520	29,325
2048-2049	<u>103,185</u>	<u>3,265</u>
	<u>\$ 984,643</u>	<u>\$ 383,704</u>

The District's outstanding long-term notes from direct borrowings related to business-type activities of \$984,643 is secured by and entitled to the protection of a Loan Agreement for Drinking Water SRF Loan dated as of June 1, 2018, by and between the District and the OWRB (the "Drinking Water SRF Loan Agreement"). The security for the Note includes a pledge and assignment of revenues derived by the District from its operation of the water system of the District (hereinafter, the "System") pursuant to the terms of the Drinking Water SRF Loan Agreement. The Note is further secured by a Security Agreement dated June 1, 2018, by the District to the OWRB (the "Security Agreement"), and the provisions of the Trust Agreement dated as of June 1, 2018, by and between the District and the Local Trustee (referred to herein as the "Indenture"). If the District defaults on any payments, the defaulted amount carries an interest rate of 14%.

RURAL WATER AND SEWER DISTRICT NO. 5, CANADIAN COUNTY

**Notes to Basic Financial Statements
For the Year Ended August 31, 2022**

Note 5 – Long-term Debt, (continued)

Upon the occurrence of an Event of Default, the OWRB, acting by and through the Attorney General of the State of Oklahoma, and the Trustee Bank shall have all the rights and remedies at law or equity as may be allowed by law, or pursuant to the provisions of this Loan Agreement, including but not limited to, suit for specific performance of any or all of the covenants of the Borrower contained in this Loan Agreement or in the Note; appointment of temporary trustees to take over, operate, and maintain the System on a profitable basis and ensure the payment of the principal of and interest and administrative fees on the Note and any other Borrower indebtedness; suit at law or equity to enforce or enjoin the action or inaction of parties under the provisions of this Loan Agreement.

Note 6 – Water Purchase Contract

On August 28, 2014, the District entered into a contract with El Reno Municipal Authority and City of El Reno which sets the cost of the water purchased by the District for a period of 20 years. The contract allows the District to purchase a maximum of 5,000,000 gallons per month with the option to request additional gallons from El Reno Municipal Authority on a case by case basis. The current rates are as follows: 1 – 749,999 = \$3.60, 750,000 – 1,499,999 = \$3.78, 1,500,000 – 2,000,000 = \$3.97 and 2,000,000 and up = \$4.17. A change in price per gallon is at the discretion of El Reno Municipal Authority and City of El Reno but will never be greater than the lowest rate charged to any other purchaser from El Reno Municipal Authority. The District will be given a 90 day notice before any rate increase. After the 20 year period, the contract will automatically renew for 10 years unless terminated in advance.

Note 7 - Risk Management

The District is exposed to various risks of loss related torts; theft of, damage to, and destruction of assets; business interruptions; errors and omissions; injuries to employees; employee health; and natural disasters. The District manages these various risks of loss by securing commercial insurance. Management believes such insurance coverage is sufficient to preclude any significant uninsured losses to the District. There have been no significant reductions in insurance coverage from the prior year and settlements have not exceeded coverage in the past three years.

Note 8 - Commitments and Contingencies

The District is not involved with any legal proceedings, which normally occur in the course of governmental operations at this time. While legal proceedings cannot be foreseen, the District feels that any settlement or judgment not covered by insurance would not have a material effect on the financial condition of the District.

RURAL WATER AND SEWER DISTRICT NO. 5, CANADIAN COUNTY

Notes to Basic Financial Statements

For the Year Ended August 31, 2022

Note 9 - Subsequent Events

Subsequent events were evaluated through the date of the audit report, which is the date the financial statements were available to be issued and it has been determined that no additional information needs to be added to the financial statements.

***REPORT ON INTERNAL CONTROL
AND COMPLIANCE***

**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***

The Honorable Board of Directors
Rural Water and Sewer District No. 5, Canadian County
El Reno, 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 modified cash basis financial statements of the business-type activities of the Rural water and Sewer District No. 5, Canadian County, El Reno, Oklahoma, as of and for the year ended August 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated, December 30, 2022. Our report on the financial statements disclosed, that, as described in Note 1 to the financial statements, the District prepares its financial statements on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Rural water and Sewer District No. 5, Canadian County, El Reno, Oklahoma'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and responses as item 2022-001 to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and responses as item 2022-002 to be significant deficiencies.

Report on Compliance and Other Matters

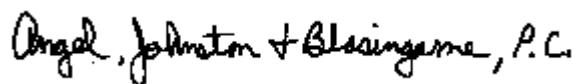
As part of obtaining reasonable assurance about whether Rural water and Sewer District No. 5, Canadian County, El Reno, Oklahoma's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2022-002.

Rural water and Sewer District No. 5, Canadian County, El Reno, Oklahoma's, Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Rural water and Sewer District No. 5, Canadian County, El Reno, Oklahoma's response to the findings identified in our audit and described in the accompanying corrective action plan. The District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.



Chickasha, Oklahoma
December 30, 2022

RURAL WATER AND SEWER DISTRICT NO. 5, CANADIAN COUNTY
Schedule of Findings and Responses
For the Year Ended August 31, 2022

2022-001 *Criteria* – The segregation of duties and responsibilities between different individuals for custody of assets, record keeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the District’s assets and ensure accurate financial reporting.

Condition – Presently the same individual performs all accounting functions; receives cash payments, makes bank deposits, writes checks and reconciles the monthly bank statements and prepares monthly financial summaries.

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

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

Recommendation – While it may not be cost effective to hire the additional administrative staff that would be necessary in order to adequately segregate the responsibilities, the Board should consider a formal evaluation of their risks associated with this lack of segregation of duties. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with lack of segregation of duties.

Management Response – See Corrective Action Plan.

2022-002 *Criteria* – Deposits that exceed the National Credit Union Administration (NCUA) insurance should have pledged collateral to secure the District’s deposits in the event of a credit union failure.

Condition – The District did not have adequate collateral pledged to cover deposits held at El Reno RIL Credit Union. As of August 31, 2022, \$4,811 was not insured by NCUA or collateralized.

Cause – Lack of monitoring through proper procedures and controls.

Effect or Potential Effect – Without sufficient collateral pledged, uncollateralized and uninsured deposits are at risk in the event of a credit union failure.

Recommendation – Recommend management request a collateral agreement and monitor credit union balances to ensure adequate collateral pledged to minimize deposit risk in the event of a credit union failure, or deposit monies exceeding NCUA insurance in a different bank or credit union.

Management Response – See Corrective Action Plan.

RURAL WATER AND SEWER DISTRICT NO. 5, CANADIAN COUNTY
Schedule of Prior Year Audit Findings
For the Year Ended August 31, 2022

2021-001 *Condition* – Presently the same individual performs all accounting functions; receives cash payments, makes bank deposits, writes checks and reconciles the monthly bank statements and prepares monthly financial summaries.

Current Status – Condition still exists.

2021-002 *Condition* – The District did not have adequate collateral pledged to cover deposits held at El Reno RIL Credit Union. As of August 31, 2021, \$32,010 was not insured by NCUA or collateralized.

Current Status – Condition still exists.

DISTRICT'S CORRECTIVE ACTION PLAN

AUDIT FINDINGS
CORRECTIVE ACTION PLAN

AUDIT YEAR 2022

AUDIT FINDING REFERENCE NUMBER: 2022-001

MANAGEMENT RESPONSE: _The District does not have the resources to segregate duties and responsibility. The Board Chairman continues to meet, review, and approve all payments monthly. The district does not take cash payments. The district only accepts checks, money orders or the district member can pay with a credit card through our website through a third-party biller. The district does not see any of the credit card information.

AUDIT FINDING REFERENCE NUMBER: 2022-02

MANAGEMENT RESPONSE: _Rock Island Credit Union does not have a collateral pledged for funds over 250,000.00. The district opened an account at Great Plains Bank to move the additional funds to keep them protected. The district book keeper will continue to monitor and move funds when necessary.

Fred Kappas

Board Chairman

12-30-22

Date