

CUSTER COUNTY RURAL WATER
DISTRICT NO. 3

FINANCIAL STATEMENTS
AND AUDITOR'S REPORT

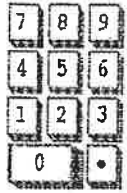
JUNE 30, 2021 AND 2020

**CUSTER COUNTY RURAL WATER
DISTRICT NO. 3**

TABLE OF CONTENTS

	<u>Page Number</u>
INDEPENDENT AUDITOR'S REPORT	1 - 3
 BASIC FINANCIAL STATEMENTS	
Balance Sheets	4
Statements of Activities	5
Statements of Changes in Net Position	6
Statements of Cash Flows	7
Notes to the Financial Statements	8 - 14
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 <u>Government Auditing Standards</u>	15 - 17
Schedule of Findings and Responses	18
Update on Prior Year Schedule of Findings and Responses	19

McCulley



&

McCulley

Certified Public Accountants

Glenn L. McCulley
Roselind C. McCulley

204 North Caddo
Post Office Box 1626
Weatherford, Oklahoma 73096

Voice (580) 772-8820
Fax (580) 772-0672

Email: mmcpas@cebridge.net

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Custer County Rural Water District No. 3
Custer, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the Custer County Rural Water District No. 3 as of and for the years ended June 30, 2021 and 2020, 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 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 risk 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 principles 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 Custer County Rural Water District No. 3 as of June 30, 2021 and 2020, and the respective changes in financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

The District has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require 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 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 is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued a report dated September 7, 2021, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

McCulley & McCulley

Weatherford, Oklahoma

September 7, 2021

**CUSTER COUNTY RURAL WATER DISTRICT NO. 3
BALANCE SHEETS**

	ASSETS	JUNE 30,	
		2021	2020
Current Assets			
Petty Cash		\$ 66	\$ 66
Cash in Bank		386,801	272,604
Certificates of Deposit		258,513	255,651
Accounts Receivable, Net		30,216	24,479
Prepaid Expenses		12,890	13,405
Total Current Assets		<u>688,486</u>	<u>566,205</u>
Restricted Assets			
Accounts Receivable, Net			100
Cash - Meter Deposits		28,987	27,787
Total Restricted Assets		<u>28,987</u>	<u>27,887</u>
Other Assets		<u>1,115</u>	<u>1,115</u>
Capital Assets, Net of Accumulated Depreciation		<u>832,109</u>	<u>850,168</u>
TOTAL ASSETS		<u><u>\$ 1,550,697</u></u>	<u><u>\$ 1,445,375</u></u>
LIABILITIES AND NET POSITION			
Current Liabilities			
Accounts Payable		\$	\$
Withheld and Accrued Payroll Taxes Payable		3,756	2,978
Accrued Compensated Absences		2,104	1,557
Customer Meter Deposits		28,987	27,887
Unearned Revenue		12,780	12,600
Total Current Liabilities		<u>47,627</u>	<u>45,022</u>
Long-Term Liabilities		<u>0</u>	<u>0</u>
Total Liabilities		<u>47,627</u>	<u>45,022</u>
Net Position			
Net Investment in Capital Assets		832,109	850,168
Unrestricted and Designated		670,961	550,185
Total Net Position		<u>1,503,070</u>	<u>1,400,353</u>
TOTAL LIABILITIES AND NET POSITION		<u><u>\$ 1,550,697</u></u>	<u><u>\$ 1,445,375</u></u>

The accompanying notes are an integral part of these statements.

CUSTER COUNTY RURAL WATER DISTRICT NO. 3
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	JUNE 30,	
	2021	2020
Operating Revenues		
Water Sales	\$ 398,373	\$ 357,981
Membership Income	2,000	7,000
Installation & Connection Charges	1,800	1,740
Late Charges	5,952	5,150
Insurance Rebates	1,383	1,128
Other Revenue	1,067	586
Total Operating Revenues	<u>410,575</u>	<u>373,585</u>
Operating Expenses		
Cost of Water	2,999	3,253
Salaries and Wages	131,992	118,014
Pension Plan	17,633	14,234
Payroll Taxes	10,716	9,811
Depreciation	49,112	47,946
Bad Debt Expense (Recovery)	(721)	942
Repairs and Maintenance	17,826	20,300
Insurance	15,585	14,052
Transportation	9,422	12,903
Utilities	29,824	26,587
Operating Supplies	33,012	34,591
Telephone	3,459	2,621
Office Supplies	6,372	5,924
Professional Services	2,600	2,200
Licenses, Dues, and Subscriptions	1,463	1,377
Director Fees	1,925	1,900
Miscellaneous Expense	4,668	1,363
Total Operating Expenses	<u>337,887</u>	<u>318,018</u>
Operating Income Before		
Nonoperating Revenues (Expenses)	72,688	55,567
Nonoperating Revenues (Expenses)		
Interest Income	3,286	6,572
Damages to Water Line	14,168	
Insurance Proceeds	13,243	
Loss on Disposition of Assets	(668)	(1,822)
Increase in Net Position	<u>\$ 102,717</u>	<u>\$ 60,317</u>

The accompanying notes are an integral part of these statements.

CUSTER COUNTY RURAL WATER DISTRICT NO. 3
STATEMENTS OF CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	<u>JUNE 30,</u>	
	<u>2021</u>	<u>2020</u>
Net Position		
Beginning of Year	\$ 1,400,353	\$ 1,340,036
Increase in Net Position For the Year Then Ended	<u>102,717</u>	<u>60,317</u>
End of Year	<u>\$ 1,503,070</u>	<u>\$ 1,400,353</u>

The accompanying notes are an integral part of these statements.

CUSTER COUNTY RURAL WATER DISTRICT NO. 3
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	JUNE 30,	
	2021	2020
Cash Flows from Operating Activities		
Cash Received from Customers	\$ 406,939	\$ 371,657
Cash Paid for Goods and Services	(128,640)	(128,849)
Cash Paid to Employees	(159,016)	(140,965)
Net Cash Provided by Operating Activities	<u>119,283</u>	<u>101,843</u>
Cash Flows from Noncapital Financing Activities		
Proceeds from Insurance Claims	13,243	
Proceeds from Damages to Water Lines	14,168	
Net Cash (Used for) Non Capital Financing Activities	<u>27,411</u>	<u>0</u>
Cash Flows From Investing Activities		
Purchase of Capital Assets	(31,721)	(33,100)
Interest Received on Cash and Cash Equivalents	3,286	6,572
Net Cash (Used for) Investing Activities	<u>(28,435)</u>	<u>(26,528)</u>
Cash Flows from Financing Activities		
Net Cash (Used for) Financing Activities	<u>0</u>	<u>0</u>
Net Increase (Decrease) in Cash and Cash Equivalents	118,259	75,315
Cash and Cash Equivalents		
Beginning of Year	<u>556,108</u>	<u>480,793</u>
End of Year	<u>\$ 674,367</u>	<u>\$ 556,108</u>
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities:		
Operating Income	\$ 72,688	\$ 55,567
Adjustments to Reconcile Operating Income to		
Net Cash Provided by Operating Activities:		
Depreciation	49,112	47,946
Changes in Assets & Liabilities:		
(Increase) in Accounts Receivable	(4,916)	(3,108)
Increase (Decrease) in Allowance for Loss	(721)	942
(Increase) Decrease in Prepaid Expenses	515	(1,778)
Increase in Withheld and Accrued Payroll Taxes Pay.	778	857
Increase in Accrued Compensated Absences	547	237
Increase in Unearned Revenue	180	180
Increase in Customer Meter Deposits	1,100	1,000
Total Adjustments	<u>46,595</u>	<u>46,276</u>
Net Cash Provided By Operating Activities	<u>\$ 119,283</u>	<u>\$ 101,843</u>

The accompanying notes are an integral part of these statements.

**CUSTER COUNTY RURAL WATER DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING JUNE 30, 2021 AND 2020**

Note 1 - Significant Accounting Policies.

The accounting policies of the Custer County Rural Water District No. 3 (the District) conform to accounting principles generally accepted in the United States of America applicable to government organizations. 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The following is a summary of the more significant policies.

A. The Reporting Entity.

The District provides water to its members within its geographic boundaries. The District is governed by a seven member Board of Directors who are elected by the participating members. These financial statements include all of the funds under the control of the Board of Directors relevant to the operations of the District.

B. Basis of Presentation.

The accounts of governmental entities are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund have a separate set of accounts which are comprised of each fund's assets, liabilities, net position, revenues and expenses. The activities of the District are organized into a single fund, an enterprise fund (proprietary fund type).

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

**CUSTER COUNTY RURAL WATER DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING JUNE 30, 2021 AND 2020**

Note 1 - Significant Accounting Policies (continued).

C. Basis of Accounting.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement focus applied.

Enterprise funds use the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the obligation is incurred.

D. Accounts Receivable, Net.

Accounts receivable consists of the amounts owed to the District by customers for water sales, late fees, memberships and supplies paid by the District for the benefit of the customer and to be reimbursed by them, net of any allowance for loss. Allowance for losses on receivables are recorded when management believes a receivable is uncollectible. Management periodically reviews its receivables to determine what is collectible. At June 30, 2021 and 2020, management has set an allowance for loss of \$2,810 and \$3,531, respectively.

E. Capital Assets.

All capital assets are valued at historical cost. Capital assets with a historical cost > \$500 are depreciated on the straight-line basis over the estimated useful life of the asset. A summary of the capital assets and the service lives by type of asset at June 30, 2021 and 2020, are as follows:

<u>Estimated Useful Life</u>	
Wells, Lines and Buildings	10 - 65 yrs.
Vehicles	5 yrs.
Furniture and Fixtures	3 - 5 yrs.
Pumps and Equipment	3 - 5 yrs.

CUSTER COUNTY RURAL WATER DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING JUNE 30, 2021 AND 2020

Note 1 - Significant Accounting Policies (continued).

F. Accrued Compensated Absences.

The District has established a compensated absences policy which gives all full time employees compensation for vacation leave. This policy gives two weeks vacation leave for those with one year of continuous employment and three weeks for those with ten years or more. Vacation leave will be paid whether taken or not at the end of the calendar year. Employees may also earn one calendar day per month sick leave which can accumulate to 36 days, along with 3 personal days each year that cannot be accumulated. Unused sick leave or personal days will not be paid to the employee. These financial statements accrue only for the unused vacation leave at June 30, 2021 and 2020.

G. Net Position.

Net position is classified into three components:

1. Net investment in capital assets - Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any debt attributable to these assets.
2. Restricted net position - Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional revisions or enabling legislation.
3. Unrestricted net position - All other net position that do not meet the definition of the other two above. These include amounts designated by management for a particular purpose.

H. Operating Revenues and Expenses.

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from nonexchange transactions or ancillary activities.

CUSTER COUNTY RURAL WATER DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2021 AND 2020

Note 2 - Cash in Bank and Certificates of Deposit.

Cash in bank includes the District's demand deposits and savings accounts. The District's certificates of deposit are recorded at cost, which approximates market value. Certificates of deposit are authorized investments for the District. The District uses the state statutes as a deposit policy for custodial credit risk. The District has custodial credit risk which is defined as the risk that in the event of a bank failure, the District's deposits may not be returned to it. The Federal Government has increased the federal deposit insurance to \$250,000. All of the District's deposits at June 30, 2021 and 2020, are secured by federal deposit insurance or collateralized by the bank.

	JUNE 30	
	2021	2020
Carrying Balance	\$674,301	\$556,042
Bank Balance	682,079	572,299
Insured	508,508	505,646
Not Insured but		
Collateralized by Bank	173,571	66,653
Not Insured or		
Collateralized	-0-	-0-

For the purpose of the Statement of Cash Flows, the District considers cash and cash equivalents to be petty cash, cash in bank, certificates of deposit, and restricted assets.

Note 3 - Restricted Assets.

Restricted assets consist of cash and accounts receivable restricted for customer deposits and which are offset by a related liability payable.

CUSTER COUNTY RURAL WATER DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING JUNE 30, 2021 AND 2020

Note 4 - Capital Assets.

Capital assets and its changes consist of the following:

	June 30, 2020	Additions	Deletions	June 30, 2021
Tank Sites - Land *	\$ 5,000	\$	\$	\$ 5,000
Office Building - Land *	2,154			2,154
Wells, Lines & Buildings	1,933,599	7,727		1,941,326
Vehicles	42,172	24,865	(22,872)	44,165
Furniture and Fixtures	12,090	1,129		13,219
Pumps and Equipment	84,486		(1,219)	83,267
Total Capital Assets	<u>2,079,501</u>	<u>33,721</u>	<u>(24,091)</u>	<u>2,089,131</u>
Less Accumulated Depreciation for:				
Wells, Lines & Buildings	(1,129,763)	(39,811)		(1,169,574)
Vehicles	(38,360)	(4,873)	20,204	(23,029)
Furniture and Fixtures	(11,403)	(238)		(11,641)
Pumps and Equipment	(49,807)	(4,190)	1,219	(52,778)
Total Accumulated Depr.	<u>(1,229,333)</u>	<u>(49,112)</u>	<u>21,423</u>	<u>(1,257,022)</u>
Net Capital Assets	<u>\$ 850,168</u>	<u>\$ (15,391)</u>	<u>\$ (2,668)</u>	<u>\$ 832,109</u>
	June 30, 2019	Additions	Deletions	June 30, 2020
Tank Sites - Land *	\$ 5,000	\$	\$	\$ 5,000
Office Building - Land *	2,154			2,154
Wells, Lines & Buildings	1,933,599			1,933,599
Vehicles	42,172			42,172
Furniture and Fixtures	12,090			12,090
Pumps and Equipment	66,468	33,100	(15,082)	84,486
Total Capital Assets	<u>2,061,483</u>	<u>33,100</u>	<u>(15,082)</u>	<u>2,079,501</u>
Less Accumulated Depreciation for:				
Wells, Lines & Buildings	(1,090,175)	(39,588)		(1,129,763)
Vehicles	(33,785)	(4,575)		(38,360)
Furniture and Fixtures	(11,168)	(235)		(11,403)
Pumps and Equipment	(59,519)	(3,548)	13,260	(49,807)
Total Accumulated Depr.	<u>(1,194,647)</u>	<u>(47,946)</u>	<u>13,260</u>	<u>(1,229,333)</u>
Net Capital Assets	<u>\$ 866,836</u>	<u>\$ (14,846)</u>	<u>\$ (1,822)</u>	<u>\$ 850,168</u>

* non-depreciable assets

CUSTER COUNTY RURAL WATER DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING JUNE 30, 2021 AND 2020

Note 5 - Other Assets.

Other assets consist of a reserve certificate issued by the Oklahoma Rural Water Association Assurance Group. It earns a variable rate of interest and can be redeemed by the District upon written demand (providing the net position of the Oklahoma Rural Water Association Assurance Group equal or exceed \$125,000). The total amount of this reserve certificate is \$1,000. The balance of other assets is utility deposits paid.

Note 6 - Unearned Revenue.

Pasture Meters are billed on an annual basis in advance. The amount in the financial statements for unearned revenue represents the unearned portion of water billed for these pasture meters as of June 30, 2021 and 2020.

Note 7 - Pension Plan.

On August 4, 1992, the Board of Directors approved a Simplified Employee Pension plan for any full-time employee. The District has established a monthly contribution of 15% to comply with Internal Revenue Service regulations. The employees' length of service requirement to be eligible for this plan is six months. Employees are not required to contribute to this plan. For the fiscal year ending June 30, 2021 and 2020, the total employer contributions amounted to \$17,633 and \$14,234, respectively. Covered salaries for fiscal year 2021 and 2020 totaled \$116,952 and \$94,890, respectively. Total salaries for fiscal year 2021 and 2020 were \$131,444 and \$117,777, respectively.

Note 9 - Risk Management.

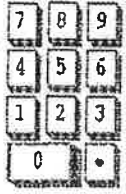
The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters. The District purchases commercial insurance to reduce their risk of loss. This insurance has a \$1,000 deductible for capital assets (except for the generators), personal injuries, and errors & omissions. The generators have a \$250 deductible.

**CUSTER COUNTY RURAL WATER DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING JUNE 30, 2021 AND 2020**

Note 10 - Net Position - Designated or Restricted.

On November 4, 1997, the District's Board of Directors designated the District's savings accounts and certificate of deposits to be used for system improvements, expansions, and emergencies. Designated net position totaled \$289,047 and \$284,295 for the year ending June 30, 2021 and 2020, respectively.

McCulley



&

McCulley

Certified Public Accountants

Glenn L. McCulley
Roselind C. McCulley

204 North Caddo
Post Office Box 1626
Weatherford, Oklahoma 73096

Voice (580) 772-8820
Fax (580) 772-0672

Email: mmcpas@cebridge.net

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Custer County Rural Water District No. 3
Custer, Oklahoma

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 Custer County Rural Water District No. 3 as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 7, 2021. The District has not presented the management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be, a part of the basic financial statements.

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 and 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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. Therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed in the Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses. We considered the deficiencies described in the accompanying Schedule of Findings and Responses as item 1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not the objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance or other matters that are required to be reported under Government Auditing Standards.

District Response to Findings

The District's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit the District's response, 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.

McCulley & McCulley

Weatherford, Oklahoma

September 7, 2021

CUSTER COUNTY RURAL WATER DISTRICT NO. 3
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2021

1. Lack of Segregation of Duties.

CONDITION AND EFFECT - The District does not have adequate segregation of duties since it only has one office employee. Material errors or fraud could occur and not be found in a timely manner.

RECOMMENDATION - The District should segregate the duties to the extent possible should new employees be hired.

RESPONSE - The District has surety bond insurance to reduce any risk of loss. The District believes the cost of hiring additional employees is not economically feasible.

CUSTER COUNTY RURAL WATER DISTRICT NO. 3
UPDATE ON PRIOR YEAR'S SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2021

1. Lack of Segregation of Duties.

CONDITION AND EFFECT - The District does not have adequate segregation of duties since it only has one office employee. Material errors or fraud could occur and not be found in a timely manner.

RECOMMENDATION - The District should segregate the duties to the extent possible should new employees be hired.

RESPONSE - The District has surety bond insurance to reduce any risk of loss. The District believes the cost of hiring additional employees is not economically feasible.

UPDATED COMMENT - Situation is the same. Comment repeated.