

*Independent Auditor's Report*

***Rural Water, Sewer, Gas and Solid Waste Management***

***District No. 7, Grady County***

*Year Ended May 31, 2021*

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT  
DISTRICT NO. 7, GRADY COUNTY  
NINNEKAH, OKLAHOMA  
May 31, 2021**

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## INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Directors  
Rural Water, Sewer, Gas and Solid Waste Management District No. 7, Grady County  
Ninnekah, Oklahoma

### Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the business-type activities of Rural Water, Sewer, Gas and Solid Waste Management District No. 7, Grady County, Ninnekah, Oklahoma as of and for the year ended May 31, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes 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.

### 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 the 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 of 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**

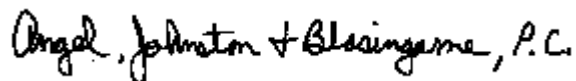
In our opinion, the financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of the business-type activities of the Rural Water, Sewer, Gas and Solid Waste Management District No. 7, Grady County, Ninnekah, Oklahoma as of May 31, 2021, and the 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 in Note 1.

### **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.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated July 12, 2021, 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.



Chickasha, Oklahoma  
July 12, 2021

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT  
DISTRICT NO. 7, GRADY COUNTY  
Statement of Net Position  
Modified Cash Basis  
For the Year Ended May 31, 2021**

**ASSETS**

**Current Assets**

Cash and cash equivalents	\$ 294,147
<i>Total Current Assets</i>	<u>294,147</u>

**Non Current Assets**

Land	371,957
Other capital assets, net of depreciation	<u>2,674,194</u>
<i>Total Non Current Assets</i>	<u>3,046,151</u>
<i>Total Assets</i>	<u><u>3,340,298</u></u>

**LIABILITIES**

**Current Liabilities**

Employee payable	<u>1,640</u>
<i>Total Current Liabilities</i>	<u>1,640</u>
<i>Total Liabilities</i>	<u><u>1,640</u></u>

**NET POSITION**

Net investment in capital assets	3,046,151
Unrestricted	<u>292,507</u>
<i>Total Net Position</i>	<u><u>\$ 3,338,658</u></u>

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

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT**  
**DISTRICT NO. 7, GRADY COUNTY**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Modified Cash Basis**  
**For the Year Ended May 31, 2021**

**Operating Revenues**

Water revenue	\$ 678,964
Sewer revenue	9,990
Late charges	10,509
Unit fees	42,639
Redeposits	62
Miscellaneous fees	621
<i>Total Operating Revenues</i>	<u>742,785</u>

**Operating Expenses**

Salaries	180,249
Retirement	13,411
Payroll taxes	13,789
Returned checks	3,025
Office expense	22,483
Wells	156,961
Operation and maintenance	147,535
Insurance	19,324
Professional fees	9,580
Depreciation expense	99,171
<i>Total Operating Expenses</i>	<u>665,528</u>

<i>Operating Income (Loss)</i>	<u>77,257</u>
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**Non-Operating Revenues (Expenses)**

Rent	4,648
<i>Total Non-Operating Revenues (Expenses)</i>	<u>4,648</u>

<i>Change in Net Position</i>	<u>81,905</u>
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<i>Net Position - Beginning of Year</i>	<u>3,256,753</u>
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<i>Net Position - End of Year</i>	<u><u>\$ 3,338,658</u></u>
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The accompanying notes are an integral part of the financial statements.

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT**  
**DISTRICT NO. 7, GRADY COUNTY**  
**Statement of Cash Flows**  
**Modified Cash Basis**  
**For the Year Ended May 31, 2021**

**Cash flows from operating activities**

Receipts from customers	\$ 742,785
Payments to employees	(207,449)
Payments to vendors	(358,908)
Other receipts	1,640
<i>Net cash provided by (used for) operating activities</i>	<u>178,068</u>

**Cash flows from capital and related financing activities**

Purchase of capital assets	(95,929)
Principal paid on capital debt	(10)
<i>Net cash provided by (used for) capital and related financing activities</i>	<u>(95,939)</u>

**Cash flows from investing activities**

Rental income	4,648
<i>Net cash provided by (used for) investing activities</i>	<u>4,648</u>

<i>Net increase (decrease) in cash and cash equivalents</i>	86,777
<i>Cash and cash equivalents at beginning of year</i>	207,370
<i>Cash and cash equivalents at end of year</i>	<u><u>\$ 294,147</u></u>

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

Operating income (loss)	77,257
Adjustment to reconcile operating income to net cash provided (used) by operating activities:	
Employee Payable	1,640
Depreciation expense	99,171
<i>Net cash provided by (used for) operating activities</i>	<u><u>\$ 178,068</u></u>

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

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT  
DISTRICT NO.7, GRADY COUNTY  
Notes to Basic Financial Statements  
For the Year Ended May 31, 2021**

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**Note 1 – Summary of Significant Accounting Policies**

**1.A. Reporting Entity**

Grady County Rural Water, Sewer, Gas and Solid Waste Management District No. 7, Grady County (The District) was created in 1992 as a quasi-governmental unit under Oklahoma State Statute Title 82. The District is a body politic and corporate and an agency and legally constituted authority of the State of Oklahoma for the purpose of developing and providing an adequate rural water supply. Prior to 1992, it was accounted for as a non-profit corporation under Section 501(c)(12) of the Internal Revenue Code. The District provides water and limited sewer services to patrons within its District boundaries. A five person board duly elected by its members governs the District.

The District is under limited supervisory control of the Grady County Commissioners. After considering the lack of financial interdependency and the lack of exertion of significant influence over the District's operational matters, it was determined that the District is not a component unit of the Grady County governmental unit.

**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 are recorded when purchased and related depreciation is recorded.
- Long-term debt is recorded when incurred.



**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT  
DISTRICT NO.7, GRADY COUNTY  
Notes to Basic Financial Statements  
For the Year Ended May 31, 2021**

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

**1.C. Measurement Focus and Basis of Accounting, (continued)**

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.

**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.

Land – The District currently owns land valued at \$371,957.

Capital Assets – Capital assets are capitalized and stated at cost. A capitalization threshold of \$1,000 is used to report capital assets. Depreciation of exhaustible capital assets is recorded as an expense over the estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Building and Water System	40 years
Office Equipment	5 years
Other Equipment and Vehicles	5 to 15 years

Current Liabilities – Current liabilities of the District is comprised of one Line of Credit with First National Bank. (See Note 4)

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT  
DISTRICT NO.7, GRADY COUNTY  
Notes to Basic Financial Statements  
For the Year Ended May 31, 2021**

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

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

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 position that do not meet the definition of “restricted” or “net investment in capital assets.”

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 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 the 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.

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT  
DISTRICT NO.7, GRADY COUNTY  
Notes to Basic Financial Statements  
For the Year Ended May 31, 2021**

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**Note 2 - Deposits, Investments, and Collateral**

Deposits and Investments - The District's investment policy is governed by the board of directors and any restrictions in the bylaws.

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, but *Oklahoma Statutes* require collateral for all uninsured deposits of public trust funds in financial institutions. As of May 31, 2021, the District was under collateralized by \$43,965.

**Note 3 - Capital Assets**

Capital asset activity for the fiscal year ended May 31, 2021 was as follows:

	<u>Restated Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Non-Depreciable Assets:				
Land	\$ 371,957	\$ -	\$ -	\$ 371,957
Construction in progress	<u>9,903</u>	<u>85,644</u>	<u>-</u>	<u>95,547</u>
Total non-depreciable assets	<u>381,860</u>	<u>85,644</u>	<u>-</u>	<u>467,504</u>
Depreciable Assets:				
Buildings	192,238	6,085	-	198,323
Vehicles	94,482	-	-	94,482
Office Equipment	8,877	-	-	8,877
Water Lines/Improvements	<u>4,727,912</u>	<u>4,200</u>	<u>-</u>	<u>4,732,112</u>
Total depreciable assets	<u>5,023,509</u>	<u>10,285</u>	<u>-</u>	<u>5,033,794</u>
Less accumulated depreciation:				
Accumulated Depreciation	<u>(2,355,976)</u>	<u>(99,171)</u>	<u>-</u>	<u>(2,455,147)</u>
Net Depreciable Assets	<u>2,667,533</u>	<u>(88,886)</u>	<u>-</u>	<u>2,578,647</u>
Net Capital Assets	<u>\$ 3,049,393</u>	<u>\$ (3,242)</u>	<u>\$ -</u>	<u>\$ 3,046,151</u>

**Note 4 – Short-term Debt/ Line of Credit**

Changes in short-term obligations for the year ended May 31, 2021 are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Balance Due In 1 Year</u>
<b>Business-type Activities:</b>					
Notes from direct borrowings	<u>\$ 10.00</u>	<u>\$ -</u>	<u>\$ 10.00</u>	<u>\$ -</u>	<u>\$ -</u>

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT  
DISTRICT NO.7, GRADY COUNTY  
Notes to Basic Financial Statements  
For the Year Ended May 31, 2021**

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**Note 4 – Short-term Debt/ Line of Credit, (continued)**

The District entered into an open end line of credit with First National Bank (FNB LOC #101052333) in the amount of \$200,270 on October 26, 2018. The District was advanced \$100,000 initially and later advanced \$125,000. The remaining balance of \$125,270 was rolled into a new line of credit (FNB LOC #101058054). On June 3, 2019 the District was advanced an additional \$330,250. On June 9, 2019 the LOC was again rolled over (FNB LOC #101058808) with a line of credit limit of \$496,839. the Prime Rate as published in the Wall Street Journal. The interest rate will never be more than 21.000% or less than 5.750%. The initial variable interest rate of 6.000% may change on June 10, 2019 and every day thereafter, the “change date”. Prior to each change date, FNB will calculate a new interest rate. The note is secured by an agreement dated July 9, 2019 evidencing security interest in All accounts now owned or hereafter acquired together with the proceeds therefrom to include but not limited to all Operating Revenues. The LOC is for the purpose of capital improvements. Payments made totaled \$10 with interest expense of \$.41. The note balance on May 31, 2021 was \$0.

**Note 5 - Meter Deposits**

Prior to 1980 the District collected refundable meter deposits from the water line users. Since that time, it has been policy for new members to pay a non-refundable membership and installation fee. Because the District’s records disclosing meter deposits have been subsequently destroyed, there is no documentation as to who still has a refundable meter deposit outstanding. The District feels this amount is not material and that they would have sufficient funds available to refund any outstanding meter deposits.

**Note 6 - Employee Pension Plan**

**Simplified Employee Pension** - On February 4, 1999, the District enacted a Simplified Employee Pension Plan (SEP Plan) utilizing the IRS Form 5305-SEP for its employees. A SEP Plan is a written arrangement described in section 408(k) of the Internal Revenue Code that provides a simplified way to make contributions toward employees’ retirement income. Under a SEP Plan, contributions can be made to an employee’s individual retirement account or annuity account. The SEP Plan is a defined contribution plan. The District administers the SEP Plan and has the authority to make amendments. The custodian of the SEP Plan is New York Life Insurance and Annuity Corporation.

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT  
DISTRICT NO.7, GRADY COUNTY  
Notes to Basic Financial Statements  
For the Year Ended May 31, 2021**

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**Note 6 - Employee Pension Plan, (continued)**

Employee Eligibility Requirements – Eligibility is limited to employees who are at least 21 years old and have performed services for the District in at least 1 year of the immediately preceding 5 years. This SEP Plan does not include employees covered under a collective bargaining agreement, nonresident aliens, or employees whose total compensation during the year is less than \$400.

Contributions – For each calendar year, the District will contribute a matching contribution to each eligible employee's SEP account of 8% of the employee's compensation for the calendar year. Contributions are made on a monthly basis. Contributions made during the fiscal year are as follows: District - \$13,411, Employees - \$0.

Vesting Requirements - All contributions made under this SEP Plan are fully vested and nonforfeitable.

No Withdrawal Restrictions – The District does not impose any withdrawal restrictions.

**Note 7 - Water Rights Lease**

The District leases water rights from area residents to provide the water service to its customers. The District currently is party to five separate leases for such water rights:

- 1) Adams lease (\$1,159.68/month) – started in 1981 with no definite term, renewable month to month and a 2.5% yearly escalation.
- 2) Voreck lease (\$18.75/month) – started in 1990 for a 40 year term with renegotiations every three years.
- 3) Rust lease (\$700.00/month) – started in 1998 for a 40 year term with renegotiations every five years. \$350/month per well makes up the \$700/month starting July 1, 2020.
- 4) Sumner lease (\$368.96/month) – started in 1999 for a 40 year term with a set payment scheduled for 5 years.
- 5) Agricultural lease (\$1,000/year) – started May 20, 2020, ends June 30, 2021.

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT  
DISTRICT NO.7, GRADY COUNTY  
Notes to Basic Financial Statements  
For the Year Ended May 31, 2021**

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**Note 8 - Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to, or 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 9 - Commitments and Contingencies**

*Contingencies – Grant Program Involvement* - In the normal course of operations, the District may participate in various federal and state grant programs from year to year. Amounts received or receivable from grantor agencies are often subject to audit and adjustment by the grantor agency. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund. The amount, if any, of expenditures which may be disallowed by the grantor agency cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

**Note 10 - Subsequent Events**

Management has evaluated subsequent events through the date of the audit report, which is the date the financial statements were available to be issued and has 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, Sewer, Gas and Solid Waste Management District No. 7, Grady County  
Ninnekah, 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, Sewer, Gas and Solid Waste Management District No. 7, Grady County, Ninnekah, Oklahoma, as of and for the year ended May 31, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated, July 12, 2021. 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.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Rural Water, Sewer, Gas and Solid Waste Management District No. 7, Grady County, Ninnekah, Oklahoma's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing an 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.

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 have not been 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. 2021-001, 2021-003.

### **Compliance and Other Matters**

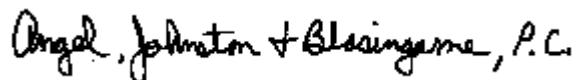
As part of obtaining reasonable assurance about whether Rural Water, Sewer, Gas and Solid Waste Management District No. 7, Grady County, Ninnekah, Oklahoma's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, 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 2021-002.

### **Rural Water, Sewer, Gas and Solid Waste Management District No. 7, Grady County, Ninnekah, Oklahoma's, Response to Findings**

Rural Water, Sewer, Gas and Solid Waste Management District No. 7, Grady County, Ninnekah, Oklahoma's response to the findings identified in our audit is described in the attached corrective action plan. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Chickasha, Oklahoma  
July 12, 2021

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT  
DISTRICT NO. 7, GRADY COUNTY  
Schedule of Findings and Responses  
For the Year Ended May 31, 2021**

**2021-001**     *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 emergency service related cash payments and is responsible for service billing and adjustments, also balances the daily cash drawer, posts payments to customer accounts, 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.

**2021-002**     *Criteria* – Oklahoma Statutes Title 62, Section 511-517 & 348.1 require deposits of public funds not exceed the federal insurance limit unless secured by acceptable collateral. Collateral, valued at market value, is required to secure uninsured deposits and includes a requirement that the treasurer review and determine the market value of the collateral not less than quarterly.

*Condition* – As of May 31, 2021, the District’s funds held at First National Bank & Trust Co. exceeded FDIC coverage and collateral coverage was not adequate, exposing \$43,965 to custodial credit risk.

*Cause* – A 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 bank failure.

*Recommendation* – We recommend the Authority obtain a written collateral agreement with the bank and the Treasurer should review the sufficiency of collateral pledged as needed, but not less than on a quarterly basis.

*Management Response* – See Corrective Action Plan.

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT  
DISTRICT NO. 7, GRADY COUNTY  
Schedule of Findings and Responses  
For the Year Ended May 31, 2021**

**2021-003**     *Criteria* – District should reconcile financial statements on a regular basis in order to have accurate information for decision making.

*Condition* – Accounting records are not being reconciled on a regular basis.

*Cause* – District was unable to reconcile financial statements as of May 31, 2021.

*Effect or Potential Effect* – Not keeping financial statements reconciled on a regular basis can result in unrecorded transactions on financial statements.

*Recommendation* – We recommend the District regularly reconcile financial statements in order to maintain accurate financial information.

*Management Response* – See Corrective Action Plan.

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT  
DISTRICT NO. 7, GRADY COUNTY  
Schedule of Prior Year Findings  
For the Year Ended May 31, 2021**

**2020-001**    *Condition* – Presently the same individual performs all accounting functions; receives emergency service related cash payments and is responsible for service billing and adjustments, also balances the daily cash drawer, posts payments to customer accounts, makes bank deposits, writes checks and reconciles the monthly bank statements and prepares monthly financial summaries.

*Current Status* – Condition still exists.

**2020-002**    *Condition* – During our testing of billing adjustments made to water accounts, we noticed that account adjustments can be made without prior approval from the Board.

*Current Status* – Condition has been resolved.

## ***AUTHORITY'S CORRECTIVE ACTION PLAN***

AUDIT FINDINGS  
CORRECTIVE ACTION PLAN

AUDIT YEAR 5/31/21

AUDIT FINDING REFERENCE NUMBER: 2021-001

MANAGEMENT RESPONSE: Board has addressed, by  
hiring a part time position. Responsible to  
prepare financial statements, and reconcile accounts

AUDIT FINDING REFERENCE NUMBER: 2021-002

MANAGEMENT RESPONSE: On 6/7/21 Board meeting,  
action was taken to collateralize uninsured  
funds

AUDIT FINDING REFERENCE NUMBER: 2021-003

MANAGEMENT RESPONSE: Will implement regularly  
reconciled financial statements

John Donnell  
Board Chairman  
7-12-21

Date