

**Grady County Rural
Water District #6**

Audit Report
For Year Ending June 30, 2021

Scott Northrip, CPA

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Independent Auditor's Report

To the Board of Directors of
Grady County Rural Water District #6
Amber, Oklahoma

Report on the Audit of the Financial Statements

Opinion

I have audited the accompanying financial statements of Grady County Rural Water District #6, (District), as of and for the years ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Grady County Rural Water District #6, as of June 30, 2021, and the respective changes in modified cash basis financial position and its cash flows for the year then ended in accordance with modified cash basis of accounting described in Note 1.

Basis for Opinion

I conducted the audit in accordance with auditing standards generally accepted in the United States of America (GAAS). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of the District and to meet my other ethical responsibilities, in accordance with the relevant ethical requirements relating to the audits. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair representation of the financial statements in accordance with accounting principle generally accepted in the United States of America and 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 12 months after the date of the financial statements and no conditions were found that raise substantial doubt.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my 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 GAAS 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, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with GAAS, I: a) exercised professional judgement and maintained professional skepticism throughout the audit, b) identify and assess the risks of material misstatement 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, c) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed, d) evaluate 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, e) conclude whether, in our judgment, 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, and f) 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 I identified during the audit.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, I have also issued my report dated June 1, 2022, on my consideration of the District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is 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 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.

Scott Northrip, CPA

Certified Public Accountant

June 1, 2022

Rural Water, Sewer and Solid Waste Management

District No. 6, Grady County

Statement of Net Position (Modified Cash Basis)

As of June 30, 2021

ASSETS:

Current Assets:

Cash & Cash Equivalents	\$ 2,654,602	
Restricted Cash & Cash Equivalents	151,337	
Other Receivables	-	
Total Current Assets		\$ 2,805,939

Noncurrent Assets:

Construction in Progress	\$ -	
Capital Assets: (Note 5)		
Land	390,133	
Other Capital Assets, net of depreciation	10,784,902	
Total Noncurrent Assets		\$ 11,175,035

TOTAL ASSETS

\$ 13,980,974

LIABILITIES AND NET POSITION:

Current Liabilities:

Cougar Well Membership Deposits	\$ 52,000	
Payroll Tax & Benefits Payable	2,657	
Member Utility Deposits	102,488	
Prepaid Memberships	1,442	
Current Portion of Long-term Liabilities	455,691	
Total Current Liabilities		\$ 614,278

Long-Term Liabilities: (Note 9)

Notes Payable - net of current portion		\$ 11,168,395
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Net Position:

Net Investment in Capital Assets	\$ (160,782)	
Restricted Fund Balance (Note 4)	151,337	
Unrestricted Fund Balance	2,207,746	
TOTAL NET POSITION		\$ 2,198,301

TOTAL LIABILITIES AND NET POSITIONS

\$ 13,980,974

See accompanying notes to the financial statements.

Rural Water, Sewer and Solid Waste Management

District No. 6, Grady County

Statement of Revenues and Expenses (Modified Cash Basis)
For the Year Ending June 30, 2021

OPERATING REVENUES:

Water Sales	\$ 1,641,243	
Late Fees	18,556	
Membership & Meter Installation	96,728	
Reimbursements	193,314	
Miscellaneous Fees	3,529	
Construction	407,058	
Refunds	(3,797)	
Tower Lease	6,060	
Installation Road Bore	18,071	
Total Operating Revenues		\$ 2,380,762

OPERATING EXPENSES:

Water Purchases	\$ 20,566	
Depreciation Expense	379,926	
Interest Expense	251,396	
Utilities & Communication	81,831	
Salaries & Wages Expense	409,107	
Installation & Repairs	244,689	
Contract Labor	605,159	
Legal & Professional Fees	442,033	
Employee Benefits	73,956	
Insurance	42,417	
Payroll Tax Expense	34,755	
Office Supplies & Postage	22,235	
Vehicle & Travel Expense	50,824	
Lab Fees	13,360	
Permit Fees	2,114	
Chemical Expense	2,185	
Miscellaneous Expense	2,503	
Total Operating Expenses		\$ 2,679,056

OPERATING INCOME (LOSS)	\$ (298,294)
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OTHER REVENUES (EXPENSES):

Investment Revenues	\$ 3,668	
Gain on Sale of Assets	25,114	
Total Other Revenues(Expenses)		\$ 28,782

NET REVENUES (EXPENSES)	\$ (269,512)
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See accompanying notes to the financial statements.

**Rural Water, Sewer and Solid Waste Management
District No. 6, Grady County**

Statement of Changes in Net Position (Modified Cash Basis)
For the Year Ending June 30, 2021

Balance, July 1		\$ 2,467,813
Net Revenues (Expenses)	(269,512)	
Prior Period Adjustment (Note 10)	-	
Total Changes in Net Position		<u>\$ (269,512)</u>
Balance, June 30		<u><u>\$ 2,198,301</u></u>

See accompanying notes to the financial statements.

Rural Water, Sewer and Solid Waste Management District No. 6, Grady County

Statement of Cash Flows
For the Year Ending June 30, 2021

CASH FLOWS FROM OPERATING ACTIVITIES:

Receipts from customers	\$ 2,380,762	
Payments to suppliers	(1,519,333)	
Payments to employees & benefits	(517,818)	
Net Cash Provided by Operating Activities		\$ 343,611

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Purchase of capital assets	\$ (105,057)	
Payments for Land	(1,500)	
Proceeds from Loans	11,737,000	
Principal payments on notes payable	(11,987,316)	
Interest paid on notes payable	(251,396)	
Prior period adjustments	-	
Proceeds from sale of assets	25,114	
Net Cash Used In Capital & Related Financing Activities		\$ (583,155)

CASH FLOWS FROM INVESTING ACTIVITIES:

Investment Receipts	\$ 3,668	
Other Proceeds	-	
Net Cash Provided from Investing Activities		\$ 3,668

INCREASE (DECREASE) IN CASH AND INVESTMENTS	\$ (235,876)
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Cash and Investment Balance - Beginning	3,041,815
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CASH AND INVESTMENT BALANCE - ENDING	\$ 2,805,939
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Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:

Operating Income (Loss)	\$ (298,294)	
Adjustments to reconcile operating income to net cash provided (used) by Operating Activities:		
Interest Expense	251,396	
Depreciation expense	379,926	
Change in assets and liabilities:		
Payroll Tax & Beenefits Payable	2,657	
Member Utility Deposits	7,926	
Net Cash Provided from Operating Activities		\$ 343,611

See accompanying notes to the financial statements.

Rural Water, Sewer and Solid Waste Management District No. 6, Grady County

Notes to the Financial Statements
For the Year Ending June 30, 2021

Note 1 - Significant Accounting Policies

Organization:

Rural Water, Sewer, and Solid Waste Management District No. 6, Grady County, Oklahoma (District) was incorporated under the laws of the State of Oklahoma in accordance with O.S. Title 82, as a subdivision of the State of Oklahoma. The District operates and maintains a water distribution system to its members within its designated area in Grady County. The District is governed by a board of five elected by the membership.

Basis of Accounting:

The District is a proprietary fund type of entity and uses the modified cash method of accounting which reports revenues when received and expenses when paid. The District is not legally required to adopt a budget or report on budget comparisons in this report. This basis is a comprehensive 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.

Fixed Assets and Depreciation:

The District records its capital assets at their historical cost or donated value. Depreciation is calculated on each individual asset using the straight-line method of depreciation at the asset's estimated useful life. The District estimates the useful lives of the assets based on the type of asset. The lives range from 5 to 40 years.

Income Tax:

The District is exempt from federal and state income taxes under IRS Code Section 115 (a) as an agency of the State of Oklahoma.

Note 2 - Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 3 - Contingencies

The District didn't have any contingencies as of the date of the audit.

Note 4 - Restricted Net Position

The District has restricted cash in the amount of \$151,337 for debt service payments made to Bancfirst that administers the loan payments to the Oklahoma Water Resources Board.

Rural Water, Sewer and Solid Waste Management

District No. 6, Grady County

Notes to the Financial Statements
For the Year Ending June 30, 2021

Note 5 - Changes in Capital Assets

	Balance 7/1/2020	Additions	Disposed	Balance 6/30/2021
Water System Plant Assets	\$ 15,094,627	\$ 54,292	\$ -	\$ 15,148,919
Office Furniture & Fixtures	32,029	-	-	32,029
Equipment	106,602	21,260	-	127,862
Vehicles	179,385	29,505	(27,660)	181,230
Buildings & Improvements	596,929	-	-	596,929
Total Assets	\$ 16,009,572	\$ 105,057	\$ (27,660)	\$ 16,086,969
Accumulated Depreciation:				
Water System Plant Assets	\$ 4,544,455	\$ 332,617	\$ -	\$ 4,877,072
Office Furniture & Fixtures	25,007	1,129	-	26,136
Equipment	80,879	6,058	-	86,937
Vehicles	155,415	20,467	(27,660)	148,222
Buildings & Improvements	144,045	19,655	-	163,700
Less: Accumulated Depreciation	4,949,801	379,926	(27,660)	5,302,067
Net Fixed Assets	\$ 11,059,771	\$ (274,869)	\$ -	\$ 10,784,902

Note 6 - Compensated Absences

As a result of the District's use of the modified cash basis of accounting, accrued liabilities related to compensated absences (accumulated but unused vacation, eligible sick leave and compensated time earned but unpaid at year-end) are not reflected in the financial statements.

Note 7 - Employee Pension and Other Benefits

The District established the Grady County Rural Water District #6 Retirement Plan and Trust (plan), a defined contribution plan, effective January 1, 1990. Plan assets are administered by The Capital Financial Group American Funds Plan. Employer contributions for each employee are 100% vested. The authority to establish and amend the provisions of the plan rests with the District. The District contributes 7% of eligible employees' gross wages. The employer contribution were \$20,381 for the year ending June 30, 2021.

Note 8 - Components of Cash and Equivalents

	Restricted	Interest Rate	6/30/2021 Balance
Petty Cash		0.00%	\$ 423
Checking - First National Bank (Operating)		0.00%	125,425
Checking - First National Bank (Gross Revenue)		0.10%	1,483,665
Money Market - First National Bank		0.22%	660,011
Debt Reserve - Bancfirst	Restricted	0.02%	151,337
Money Market - First National Bank (Depreciation)	Reserved	0.20%	279,164
Checking - First National Bank (Member Deposits)	Reserved	0.10%	105,914
Total Cash and Equivalents			\$ 2,805,939

Rural Water, Sewer and Solid Waste Management District No. 6, Grady County

Notes to the Financial Statements
For the Year Ending June 30, 2021

Note 9 - Long Term Liabilities

The District has five 40 year notes with Rural Development, an agency of the United States Department of Agriculture. The loans are fixed interest notes. The notes are secured by the assets of the District. Rural Development requires the District to reserve enough funds to pay an amount equal to a year's total payments. The District makes monthly payments on the notes. The notes also require a reserve for short-lived assets.

The District borrowed \$11,737,000 from Oklahoma Water Resources Board and paid the Rural Development notes in full during the year. The District makes monthly payments to Bancfirst into a debt service account and the principal and interest are paid semi-annually on March 15 and September 15 for 22.5 years.

Note Number	Date of Note	Annual Payment	Balance 6/30/2021	Balance 6/30/2020	Interest Rate
91-08	5/9/1983	7,368	-	16,525	5.00%
91-10	5/9/1983	17,676	-	47,306	5.00%
91-11	6/3/2018	33,516	-	496,526	4.50%
91-12	6/17/2018	376,320	-	7,257,573	3.50%
91-13	6/17/2018	213,516	-	4,056,472	3.50%
2020a	12/15/2020	31,065	510,443	-	3.50%
2020b	12/15/2020	605,345	11,113,643	-	1.70%
		<u>\$ 648,396</u>	<u>\$ 11,624,086</u>	<u>\$ 11,874,402</u>	
Less: Current Portion			455,691	231,070	
Net Balance			<u><u>\$ 11,168,395</u></u>	<u><u>\$ 11,643,332</u></u>	

Current Portion:

	2020a	2020b
2022	13,413	442,278
2023	13,890	429,329
2024	14,338	436,039
2025	14,894	443,777
2026	15,423	451,187

Note 10 - Prior Period Adjustments

There were no prior period adjustments in the financial statements.

Note 11 - Evaluation of Subsequent Events

The subsequent events of the District have been evaluated through December 31, 2021.

SCOTT NORTHRIP, CPA

P.O. Box 642, Hobart, Oklahoma 73651

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
Grady County Rural Water District #6
Amber, Oklahoma

I 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 basic financial statements of Grady County Rural Water District #6 (District), as of and for the year ending June 30, 2021, and have issued my report thereon dated June 1, 2022.

Compliance and Other Matters

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

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I considered the District's internal control over financial reporting (internal control) to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing 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.

Report on Compliance and Internal Controls-Continued

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Given these limitations, during my audit I did not identify any deficiencies in internal control that I considered to be material weaknesses. I did identify certain deficiencies in internal control described in the accompanying schedule of findings that I consider to be significant.

Response to Findings

Grady County Rural Water District #6's response to the findings identified in our audit is described in the accompanying schedule of findings. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I 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.

Scott Northrip

Certified Public Accountant

June 1, 2022

Rural Water, Sewer and Solid Waste Management
District No. 6, Grady County
Schedule of Findings and Responses
For the Year Ending June 30, 2021

1) District's check book contained blank, pre-signed checks.

Criteria: The internal control procedures require that checks on be prepared and signed when the expenditure is to be made and substantiating evidence supports the check.

Condition: The pre-signed checks were a finding in the previous year's audit. The pre-signed checks are kept in a locked cabinet. Pre-signed was caused by the inconvenience of finding available signers.

Effect: The signed blank check could lead to unauthorized expenditures.

Recommendation: The District should only signed checks after expenditures are ready to be paid and compared to proper supporting documentation.

Response: The District will consider the recommendations.