

CHERRY TREE RURAL WATER DISTRICT
STILWELL, OKLAHOMA

AUDITED FINANCIAL STATEMENTS AND NOTES
For the Year Ended December 31, 2020

Audited by:

Robert St. Pierre CPA, P.C.
Certified Public Accountant
1113 North Second St.
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INDEPENDENT

AUDITOR'S

REPORT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Cherry Tree Rural Water District
Stilwell, Oklahoma

Opinions

We have audited the accompanying modified cash basis financial statements of the business-type activities, of the Cherry Tree Rural Water District as of and for the years ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Cherry Tree Rural Water 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 the Cherry Tree Rural Water District, as of December 31, 2020, 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 in Note 1.

Basis for Opinions

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 the Cherry Tree Rural Water District 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

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 opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles 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 Cherry Tree Rural Water 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 opinions. 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 judgment 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 judgment and maintain professional skepticism throughout the audit.
- 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.
- 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 Cherry Tree Rural Water 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 judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Cherry Tree Rural Water 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 **May 26, 2022**, on our consideration of the Cherry Tree Rural Water 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 Cherry Tree Rural Water 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 Cherry Tree Rural Water District's internal control over financial reporting and compliance.

Robert St. Pierre

Robert St. Pierre C.P.A., P.C.
Stilwell, Oklahoma
May 26, 2022

FINANCIAL

SECTION

**CHERRY TREE RURAL WATER DISTRICT
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
DECEMBER 31, 2020**

ASSETS	
	2020
CURRENT ASSETS (Note 3):	
Cash in Bank	\$ 98,019
	<u>98,019</u>
TOTAL CURRENT ASSETS	
	<u>98,019</u>
FIXED ASSETS (Note 9):	
Water System	928,874
Vehicles	85,808
Equipment	84,831
Buildings	16,000
<i>Accumulated Depreciation</i>	<u>(716,551)</u>
	<u>398,962</u>
NET FIXED ASSETS	
	<u>398,962</u>
TOTAL ASSETS	
	<u><u>\$ 496,981</u></u>
LIABILITIES & NET POSITION	
CURRENT LIABILITIES (Note 4):	
Current Portion of Long-Term Debt	\$ 33,452
	<u>33,452</u>
TOTAL CURRENT LIABILITIES	
	<u>33,452</u>
LONG-TERM LIABILITIES (Note 4):	
Long-Term Debt	<u>200,284</u>
TOTAL LONG TERM LIABILITIES	
	<u>200,284</u>
TOTAL LIABILITIES	
	<u><u>233,736</u></u>
NET POSITION:	
Invested in Capital Assets Net of Related Debt	165,226
Unrestricted	<u>98,019</u>
TOTAL NET POSITION	
	<u><u>\$ 263,245</u></u>

CHERRY TREE RURAL WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -
MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2020

	2020
REVENUE:	
Water Revenue	\$ 774,817
Sewer Income	15,505
Reconnect Fees	5,360
Late Penalty Income	21,871
Other Income	<u>22,609</u>
TOTAL OPERATING REVENUE	<u>840,162</u>
EXPENSES:	
Water Purchased	459,328
Labor-Manager and Meter Reader	147,540
Contract Labor	528
Fuel	13,257
Professional Fees	19,092
Payroll Taxes	12,429
Rent & Lease	4,800
Supplies	10,979
Office Expense	4,858
Postage & Delivery	13,922
Insurance	17,432
Telephone	1,972
Repairs and Maintenance	72,890
Chemicals, Field Supplies & Testing	1,941
Utilities	16,554
Miscellaneous	13,713
Depreciation	<u>29,620</u>
TOTAL OPERATING EXPENDITURES	<u>840,855</u>
NET INCOME FROM OPERATIONS	<u>(693)</u>
OTHER INCOME (EXPENSES):	
Interest Income	88
Cherokee Nation Reimbursement	23,000
Tower Rent Income	2,750
Membership Income	17,100
Interest Expense	<u>(8,428)</u>
TOTAL OTHER INCOME AND EXPENSE	<u>34,510</u>
CHANGE IN NET POSITION	33,817
NET POSITION, BEGINNING OF THE YEAR	<u>229,428</u>
NET POSITION, END OF THE YEAR	<u><u>\$ 263,245</u></u>

CHERRY TREE RURAL WATER DISTRICT
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2020

	2020
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Inflows:	
Payments Received from Customers	\$ 840,162
Cash Outflows:	
Payments to Employees and Related Taxes	(160,497)
Payments to Suppliers for Goods and Services	<u>(650,738)</u>
Net Cash Provided (Used) by Operating Expenses	<u>28,927</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Additions to Capital Assets	-
Membership Income	17,100
Grant Income	23,000
Other Income	2,750
Interest Income	<u>88</u>
Net Cash Provided (Used) for Investing Activities	<u>42,938</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Principal Reduction of Long-Term Debt	(36,405)
Borrowing of Long Term Debt	-
Interest Payments on Notes	<u>(8,428)</u>
Net Cash Provided(Used) for Capital & Related Financing Activities	<u>(44,833)</u>
NET CASH INFLOW (OUTFLOW) FROM ALL ACTIVITIES	27,032
CASH AND CASH EQUIVALENTS BEGINNING OF THE YEAR	<u>70,987</u>
CASH AND CASH EQUIVALENTS END OF THE YEAR	<u>\$ 98,019</u>
Interest Expense	<u>\$ 8,428</u>

**CHERRY TREE RURAL WATER DISTRICT
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2020**

	2020
Reconciliation of Operating Income (Loss to Net Cash)	
Provided by Operating Activities:	
Operating Income	\$ (693)
Depreciation	29,620
(Increase) Decrease in:	
Accounts Receivable	-
Prepaid Insurance	-
(Increase) Decrease in:	
Accounts Payable	-
Payroll Taxes Payable	-
	-
Net Cash Provided (Used) by Operating Activities	\$ 28,927

FINANCIAL

STATEMENT

NOTES

**CHERRY TREE RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cherry Tree Rural Water District, (the district) was Incorporated as a Rural Water District by the Board of County Commissioners October 17th, 1969, under the provisions of Title 82, O.S. 1981 Sections 1324.1-1324.26 inclusive, for the purpose of providing water to the members it serves. Membership in the water district consists of water users who have paid the required membership and connection fees. The district is exempt from federal and state taxes.

The board consists of 5 members serving a term of 5 years. The terms are staggered one, two, and three years. The officers are elected at the annual meeting each year.

A. Reporting Entity

Cherry Tree Rural Water District is an independent, self-contained reporting entity with no associated component units. It is operated in a manner similar to a private business enterprise where the cost (expenses, including depreciation) of providing water services is financed through user charges.

B. Measurement Focus, Basis of Accounting and Basis of Presentation

The financial statements of the district were prepared in accordance with accounting principles of a other comprehensive basis of accounting (OCBOA).

The basic financial statements of the district have been prepared on the modified cash basis, which is a comprehensive basis of accounting (OCBOA) other than accounting principles generally accepted in the United States of America.

The district's basic financial statements consist of a statement of net position, a statement of revenue, expenses, and changes in net position, and a statement of cash flows. Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The financial statements are prepared using the modified cash basis of accounting.

The district's financial statements are prepared using the modified cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the district's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the district are described in the appropriate section in this note.

As a result of the use of this modified cash basis of accounting, certain assets, and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

C. Assets, Liabilities and Equity

1. Deposits and Investments

Oklahoma Statutes authorize the district to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the district can invest in direct debt securities of the United States of America unless such an investment is expressly prohibited by law.

All the bank deposits are carried at cost plus accrued interest. For purposes of the statements of cash flows, the district considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Custodial Credit Risk

As of December 31, 2020, the district held deposits of approximately \$98,019 in one bank. All deposits were covered by FDIC insurance on December 31, 2020. The district's cash deposits consisted of a checking account.

The district does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The district has no policy that limits its investment choices other than the limitation of state law as follows:

Direct obligations of the U.S. Government, its agencies, and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.

Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.

With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.

County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality, or school district.

Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.

Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

2. Fair Value of Financial Instruments

The district's financial instruments include cash and cash equivalents and notes payable. The district's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of net position. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

3. Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

4. Capital Assets

Additions to the water storage delivery system and other equipment are recorded at cost or, if contributed property, at their estimated acquisition value at time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. The district maintains a capitalization threshold of \$2,000 for assets that increase the capacity or operation efficiency or extend the useful life of any assets, are capitalized.

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

Water System	40 years
Buildings	30 years
Equipment	3-5 years
Office Equipment	3-5 years
Vehicles	5 years

5. Net Position

In the basic financial statements, net position represents the difference between assets and liabilities. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets.

a. Resource Use Policy

It is in the district's policy for all funds that when an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources, including net positions, are available, the district considers restricted amounts to be spent first before any unrestricted amounts are used.

D. Revenues, Expenses and Other Changes in Net Position

1. Operating Revenues and Expenses

Operating revenues and expenses are principally from water sales and connection fees charged to new system subscribers. Customer water consumption is determined by monthly meter readings taken by the district. The water sales from subscriber water consumption are recognized as revenue when paid in accordance with the modified cash basis of accounting. Operating expense consist of those costs necessary to operate and maintain the water distribution system and for general administration of the district.

2. Non-Operating Revenue and Expenses

Non-operating revenues and expenses consist of investment earnings, interest expense incurred on the district's notes payable and gains and losses on sales or the abandonment of long-lived assets.

NOTE 2: EVALUATION OF SUBSEQUENT EVENTS

The district has evaluated subsequent events through May 26, 2022, the date which the financial statements were available to be issued.

NOTE 3: CASH AND EQUIVALENTS

UNRESTRICTED	<u>2020</u>
Cash in Checking Carson Community Bank	\$ 98,019
TOTAL UNRESTRICTED CASH	<u>\$ 98,019</u>

NOTE 4: LONG-TERM DEBT

The district has the following notes:

Smart Meter Loan with Armstrong Bank dated November 2, 2016, with an original loan balance of \$300,000, bearing interest at 2.98% and a maturity date of November 2, 2031.

New Holland Equipment loan with CNH Industrial, dated August 8, 2019, with an original loan balance of \$43,000, bearing interest at 5.75% and a maturity date of August 12, 2024.

Ford Truck Loan with Welch State Bank dated April 16, 2019, with an original loan balance of \$37,081, bearing interest at 4.29%, and a maturity date of April 16, 2022.

The schedule of future maturities at December 31, 2020:

Payable to :	Date Note Matures	Collateral Pledged	Rate of Interest	Original Balance	Balance At 12/31/2020
Armstrong Bank	11/2/2031	Revenues/Assets	2.98%	\$ 300,000	\$ 199,150
CNH Industrial	8/12/2024	Equipment	5.75%	43,000	23,769
Welch State Ban	4/16/2022	Truck	4.29%	37,081	10,817
				<u>\$ 380,081</u>	<u>\$ 233,736</u>

The total future scheduled maturities of long-term debt are as follows:

Years ending December 31:

	PRINCIPAL	INTEREST
Current Portion	\$ 33,452	\$ 7,187
2021	28,740	5,971
2022	27,128	4,976
2023	25,726	3,980
2024	21,657	3,243
2025	22,311	2,588
2026-2030	74,722	3,652
<hr/>		
TOTAL	<u>\$ 233,736</u>	<u>\$ 31,597</u>

NOTE 5: COMMITMENTS AND CONTINGENCIES

The district currently participates in various grant programs. These grants are subject to audit by the grantor agency or their representatives. Such audits could lead to requests for reimbursement to the grantor agency for services disallowed under the terms of the contract. Presently, the district is not aware of any pending requests, and in the opinion of management, any such amounts would not be considered material.

NOTE 6: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

As a local government unit, the district is subject to various federal, state, and local laws and contractual regulations. In accordance with Government Auditing Standards, the auditor has issued a report on his consideration of the district's internal control over financial reporting and tested its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be read in conjunction with this report in considering the results of the audit.

NOTE 7: DEFICIT NET POSITION

As indicated in the financial statements, there is no deficit net position for the district for this fiscal year.

NOTE 8: RISK MANAGEMENT

The district is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The district continues to carry commercial insurance for these risks, including general and auto liability, property damage, and public officials' liability.

NOTE 9: CAPITAL ASSETS

Capital asset balances and activity for the year ended December 31, 2020, were as follows:

	Balance		Balance	
	January 1, 2020	Additions	Reductions	December 31, 2020
Capital Assets				
Water Distribution System	\$ 928,874	-	-	\$ 928,874
Buildings and Building Improvements	16,000	-	-	16,000
Equipment	84,831	-	-	84,831
Vehicles	85,808	-	-	85,808
Total Capital Assets being Depreciated	<u>1,115,513</u>	-	-	<u>1,115,513</u>
Less: Accumulated Depreciation	<u>686,930</u>	<u>29,620</u>	-	<u>716,551</u>
Business-Type Activities, Capital Assets, Net	<u>\$ 428,583</u>	<u>(29,620)</u>	-	<u>\$ 398,962</u>

SUPPLEMENTARY

INFORMATION

ROBERT ST. PIERRE C.P.A., P.C.

Certified Public Accountant

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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

To the Board of Directors
Cherry Tree Rural Water District
Stilwell, Oklahoma

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Cherry Tree Rural Water District as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise Cherry Tree Rural Water District's basic financial statements and have issued our report thereon dated **May 26, 2022**.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Cherry Tree Rural Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Cherokee Cherry Tree Rural Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Cherry Tree Rural Water District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. 2020-1, 2020-2, 2020-3.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cherry Tree Rural Water District'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 determination of financial statement amounts. However, providing an

opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Cherry Tree Rural Water District 's Response to Findings

Cherry Tree Rural Water District 's response to the findings identified in our audit is described in the accompanying schedule of findings. Cherry Tree Rural Water 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.

Robert St. Pierre

Robert St. Pierre C.P.A., P.C.
Stilwell, Oklahoma
May 26, 2022

SCHEDULE OF FINDINGS AND RESPONSES

2020-1

Segregation of Duties

Criteria: The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

Condition: Presently, the same individual (office manager) that is responsible for billing and adjustments, also posts payments to subsidiary accounts receivable ledgers. In addition, the same person issues all disbursement checks and has check signing authority and responsibility for the bank reconciliations. This condition was also reported in 2019.

Cause: The entity'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 membership and other billing and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: Management and the board should consider a formal evaluation of their risks associated with this lack of duties segregation over assets. In response to the identified risks, consideration should be given to identifying and implementing compensating duties to act as controls that could help mitigate the risks associated with lack of segregation of duties, such as management performing review procedures for the reconciliation of accounts.

Responsible Official's Response: The district concurs with the recommendation and will continue to remain active in their oversight authority and remain aware of the limited internal controls. Board members will also consult the Small Office Internal Control guide issued by the Oklahoma State Auditor.

2020-2

Invoice Authorization

Criteria: Internal control refers to the methods and procedures used to provide reasonable assurance regarding the achievement of objectives in the following categories: Safeguarding assets, ensuring validity of financial records and reports, promoting adherence to policies, procedures, regulations, and laws, promoting adherence to policies and procedures, regulations and laws and promoting effectiveness and efficiency of operations. Internal control also refers to how an entity processes, summarizes, and records the financial transactions. In general terms, sound internal controls are simply good business practices.

Condition: Past management did not have strong internal controls in place for promoting effectiveness and efficiency of operations and in some instances, internal controls were virtually non-existent.

Cause: The district did not have strong internal controls in place for documenting transactions and proper authorization of those transactions.

Effect or Potential Effect: Expenses were not always properly posted to the accounting records.

Recommendation: The district needs to review all internal controls and have policies and procedures in place to ensure proper recording of all income and expenses.

Responsible Official's Response: The district is aware of the problem and will take steps to correct these issues going forward.

2020-3

Bank Reconciliations

Condition: Bank reconciliations are performed in the accounting software. The software allows bank reconciliations to be completed as though they are in balance when they are not in balance with the general ledger. Bank reconciliations are also not prepared monthly and there are stale checks and deposits that should be reconciled or removed.

Cause: The financial statements contain misstatements and omit financial information.

Recommendation: Management should implement policies and procedures that require bank reconciliations to be performed every month. The reconciled balance should then be compared to the financial statements prior to the statements being released to the board.

Responsible Official's Response: Management agrees with the finding and will look to implement policies and procedures regarding the preparation of the bank reconciliations.