

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

TAHLEQUAH, OKLAHOMA

**AUDITED FINANCIAL STATEMENTS AND NOTES
For the Year Ended December 31, 2020 and 2021**

Audited by:

**Robert St. Pierre CPA, P.C.
Certified Public Accountant
1113 North Second St.
Stilwell, OK 74960**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Cherokee County Rural Water District No. 3
Tahlequah, Oklahoma

Opinions

We have audited the accompanying financial statements of the business-type activities, of the Cherokee County Rural Water District No. 3 as of and for the years ended December 31st, 2020, and 2021, and the related notes to the financial statements, which collectively comprise the Cherokee County Rural Water District No. 3'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 financial position of the business-type activities, of the Cherokee County Rural Water District No. 3, as of December 31st, 2020, and 2021, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 Cherokee County Rural Water District No. 3 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.

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 Cherokee County Rural Water District No. 3'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 Cherokee County Rural Water District No 3'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 Cherokee County Rural Water District No 3'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 Matters

Required Supplementary Information

The district has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires 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 (GASB), who considers it to be an essential part of the 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 our report dated February 24, 2022, on our consideration of the Cherokee County Rural Water District No. 3'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 Cherokee County Rural Water District No. 3'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 Cherokee County Rural Water District No. 3's internal control over financial reporting and compliance.

Robert St. Pierre

Robert St. Pierre C.P.A., P.C.
Certified Public Accountant
February 24, 2022

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 3
STATEMENTS OF NET POSITION
DECEMBER 31, 2020 & 2021

ASSETS	2021	2020
CURRENT ASSETS:		
Petty Cash (Note 3)	\$ 1,040	\$ 1,040
Cash in Bank (Note 3)	1,348,249	1,041,539
Certificate of Deposit	149,688	147,226
Edward Jones Brokerage Account	136,429	180,343
Accounts Receivable (net of allowance) (Note 4)	177,693	98,311
Prepaid Insurance	20,229	21,152
Inventory	<u>87,934</u>	<u>76,598</u>
TOTAL CURRENT ASSETS	<u>1,921,262</u>	<u>1,566,209</u>
RESTRICTED ASSETS:		
BancFirst Bond Debt Service	<u>46,864</u>	<u>47,126</u>
TOTAL RESTRICTED ASSETS	<u>46,864</u>	<u>47,126</u>
FIXED ASSETS:		
Land (Note 13)	69,866	69,866
Vehicles (Note 13)	138,331	138,331
Buildings (Note 13)	173,634	171,254
Office Furniture and Equipment (Note 13)	441,471	435,641
Water System (Note 13)	7,558,363	7,521,735
Construction in Progress	10,257	10,257
Accumulated Depreciation (Note 13)	<u>(3,072,426)</u>	<u>(2,852,135)</u>
NET FIXED ASSETS	<u>5,319,496</u>	<u>5,494,949</u>
TOTAL ASSETS	<u><u>\$ 7,287,622</u></u>	<u><u>\$ 7,108,284</u></u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts Payable	\$ 28,355	\$ 17,825
Payroll Taxes Payable	1,622	1,410
Rent House Deposit	600	600
Accrued Compensated Absences	12,358	10,231
Current Portion of Long-Term Debt (Note 5)	<u>148,639</u>	<u>144,988</u>
TOTAL CURRENT LIABILITIES	<u>191,574</u>	<u>175,054</u>
LONG TERM LIABILITIES		
Note Payables (Note 5)	<u>2,922,185</u>	<u>3,070,511</u>
TOTAL LONG TERM LIABILITIES	<u>2,922,185</u>	<u>3,070,511</u>
TOTAL LIABILITIES	<u>3,113,759</u>	<u>3,245,565</u>
NET POSITION		
Invested in Capital Assets Net of Related Debt	2,248,672	2,279,450
Restricted for debt service	46,864	47,126
Unrestricted	<u>1,878,327</u>	<u>1,536,143</u>
TOTAL NET POSITION	<u>4,173,863</u>	<u>3,862,719</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 7,287,622</u></u>	<u><u>\$ 7,108,284</u></u>

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 3
STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2020 & 2021

	2021	2020
REVENUE:		
Water Sales	\$ 1,197,550	\$ 1,164,156
Other Operating Revenues	32,721	29,727
TOTAL OPERATING REVENUE	<u>1,230,271</u>	<u>1,193,883</u>
EXPENSES		
Water Purchases	99,197	71,097
Treatment Plant & Supplies	46,617	39,997
Salaries and Related Expenses	392,436	360,498
Vehicle Expenses	16,223	9,769
Contract Services	11,617	20,002
Postage	9,539	8,724
Board Meeting Expense	2,143	2,017
Repairs & Maintenance	133,503	88,471
Admin & Trustee Fees	12,310	13,266
Telephone/Utilities	67,934	53,742
Office Expenses	10,640	9,509
Professional Fees	8,625	8,100
Equipment Leases	5,958	5,598
Insurance	32,121	42,276
Licenses / Subscriptions / Dues	14,119	15,223
Bank Services Charges	98	309
Travel	17	68
Miscellaneous	2,606	(251)
Depreciation	219,745	217,414
TOTAL OPERATING INCOME	<u>1,085,448</u>	<u>965,829</u>
OPERATING INCOME (LOSS)	<u>144,823</u>	<u>228,054</u>
NON-OPERATING INCOME & EXPENSE		
Interest Income	10,676	27,826
Miscellaneous Income	112,431	5,676
Rent Revenue	950	3,475
Grant Revenue Cherokee Nation	82,350	85,000
Line Relocation Engineering Fees	83,690	-
Line Relocation Reimbursements	(83,690)	-
Membership Income	52,500	45,000
Interest Expense	(92,586)	(96,499)
TOTAL NON-OPERATING INCOME AND EXPENSE	<u>166,321</u>	<u>70,478</u>
NET INCOME FROM OPERATIONS	311,144	298,532
NET POSITION BEG OF THE YEAR	3,862,719	3,564,187
NET POSITION END OF YEAR	<u>\$ 4,173,863</u>	<u>\$ 3,862,719</u>

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 3
STATEMENTS OF CASH FLOWS
December 31, 2020 and 2021

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Inflows:		
Payments Received from Customers	\$ 1,118,168	\$ 1,187,110
Other cash Received	34,848	3,569
Cash Outflows:		
Payments for Salaries & Wages	(392,436)	(360,498)
Payments to Suppliers for Goods and Services	<u>(472,938)</u>	<u>(392,431)</u>
Net Cash Provided (Used) by Operating Activities	<u>287,642</u>	<u>437,750</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Additions to Capital Assets	(44,839)	(192,183)
Capital Contributions-Grants	82,350	85,000
Borrowing of Long Term Debt	-	83,276
Principal Reduction of Long-Term Debt	(144,675)	(120,302)
Interest Payments on Notes	<u>(92,586)</u>	<u>(96,499)</u>
Net Cash Provided (Used) for Capital & Related Financing Activities	<u>(199,750)</u>	<u>(240,708)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
(Purchase) of Investment Account	41,999	(112,396)
Membership Income	52,500	45,000
Miscellaneous Income	113,381	9,150
Interest Income	10,676	27,826
Net Cash Provided (Used) for Investing Activities	<u>218,556</u>	<u>(30,420)</u>
NET CASH INFLOW (OUTFLOW) FROM ALL ACTIVITIES	306,448	166,622
CASH AND CASH EQUIVALENTS BEGINNING OF THE YEAR	<u>1,089,705</u>	<u>923,083</u>
CASH AND CASH EQUIVALENTS END OF THE YEAR	<u>\$ 1,396,153</u>	<u>\$ 1,089,705</u>
INTEREST EXPENSE	<u>\$ 92,586</u>	<u>\$ 96,499</u>

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 3
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 and 2021

	2021	2020
Reconciliation of Operating Income (Loss to Net Cash)		
Provided by Operating Activities:		
Operating Income	\$ 144,823	\$ 228,054
Depreciation and Amortization	219,745	217,414
(Increase) Decrease in:		
Accounts Receivable	(79,382)	(6,773)
Prepaid Insurance	923	(225)
Inventory	(11,336)	(1,999)
(Increase) Decrease in:		
Accounts Payable	10,742	(2,290)
Accrued Compensated Absences	2,127	3,569
	<hr/>	<hr/>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 287,642</u></u>	<u><u>\$ 437,750</u></u>

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020 and 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cherokee County Rural Water District No. 3, was incorporated as a Rural Water District by the Board of County Commissioners on June 13, 1966 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 to allow the election of one director each year. The officers are elected at the annual meeting each year.

A. Reporting Entity

Cherokee County Rural Water District No. 3 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 accompanying financial statements have been prepared on the accrual basis of accounting in accordance with Generally Accepted Accounting Principles (GAAP) promulgated in the United States of America. The accounting and financial reporting treatment is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation are included on the statement of net position. The operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in net total assets. Depreciation expense is provided for capital assets based upon estimated useful lives. Financial activity is accounted for on the flow of economic resources measurement focus using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

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

At December 31, 2021 the District held deposits of approximately \$1,681,230 in 8 accounts. The District used insured sweep accounts to manage the risk associated with having balances in excess of FDIC limits. The District's cash deposits consisted of interest-bearing certificates of deposit, a restricted debt service account as well as various checking accounts.

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.).

The investments held at December 31, 2020 and 2021 are as follows:

Investments	Rate	Maturity Date	Face Value	2020 Value	2021 Value
Cash	0.00%		\$ -	\$ 1,835	\$ 2,286
American Express Centurian BK CD	2.25%	4/19/2021	40,000	40,268	-
American Express Centurian BK CD	2.40%	4/19/2022	40,000	41,189	40,260
Wells Fargo BK NA Sioux Falls	3.25%	6/6/2023	45,000	48,401	46,778
Wells Fargo BK NA Sioux Falls	2.75%	5/3/2024	45,000	48,651	47,105
Bank of Cherokee County	1.10%	9/1/2021	46,000	46,849	47,285
Armstrong Bank	2.00%	2/12/2025	100,000	100,377	102,403
			<u>\$ 316,000</u>	<u>\$ 327,570</u>	<u>\$ 286,117</u>

2. Fair Value of Financial Instruments

The District's financial instruments include cash and cash equivalents, accounts receivable, accounts payable 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 in conformity with generally accepted accounting principles 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. Inventories

Inventories consist primarily of water line supplies for the addition of new water lines and repair of old water lines. Inventory is valued at cost, principally on a first-in, first-out basis, but not in excess of market.

5. 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. Non-cash contributions relate to both existing and new members of the district. If installation of water lines is required to a member's property, the district performs this service for the member at cost. The member's payment for such installation is recorded as a capital asset contribution. The District maintains a capitalization threshold of \$500 and an estimated useful life in excess of two (2) years.

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

Water System	10-50	Years
Buildings	10-25	Years
Equipment	7-10	Years
Office Equipment	5-10	Years
Vehicles	5	Years

6. Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused sick time. Full-time employees are granted vacation and sick leave benefits in varying amounts to specified maximums depending on tenure.

7. 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.

8. 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 district personnel. The water sales from subscriber water consumption billed but unpaid at the district year-end are recognized as revenue in the current year and reported in the statement of net position as accounts receivable. 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.

3. Bad Debts

The District uses the direct write-off method for recognizing bad debts. Under the direct write-off method, accounts receivable are charged to income during the period they are determined to be uncollectible. The use of this method does not result in a material difference from the valuation method required by generally accepted accounting principles.

NOTE 2: EVALUATION OF SUBSEQUENT EVENTS

The District has evaluated subsequent events through February 24, 2022 the date which the financial statements were available to be issued.

NOTE 3: CASH AND EQUIVALENTS

Unrestricted Cash consists of the following:	2021	2020
Petty Cash	\$ 1,040	\$ 1,040
Armstrong Capital Account	315,820	220,996
Armstrong Construction Account	192,406	181,913
Armstrong Operating	<u>840,023</u>	<u>638,630</u>
TOTAL UNRESTRICTED CASH	1,349,289	1,042,579
Restricted Cash	<u>46,864</u>	<u>47,125</u>
TOTAL CASH	<u><u>\$ 1,396,153</u></u>	<u><u>\$ 1,089,704</u></u>

NOTE 4: ACCOUNTS RECEIVABLE

Accounts receivable consists of trade receivables. An aging of accounts receivable is presented below. An allowance for doubtful accounts has been established at this time for the accounts that are over sixty days overdue.

	2021	2020
Current	\$ 82,012	\$ 84,114
30-60 Days	10,397	11,250
Over 60 Days	1,593	2,947
Over 90 Days	3,483	961
Allowance for Doubtful Accounts	<u>(3,483)</u>	<u>(961)</u>
Total Accounts Receivables	94,002	98,311
Line Relocation Receivables	<u>83,691</u>	<u>-</u>
Total Receivables	<u><u>\$ 177,693</u></u>	<u><u>\$ 98,311</u></u>

NOTE 5: LONG TERM DEBT

On July 21st, 2011, the District signed a promissory note with OWRB for \$3,110,000 to complete an advanced refunding of a 2009 bond issue. This promissory note bears interest at the rate of 3.54% and matures September 15th, 2040.

On March 11th, 2016, the District signed a promissory note with Armstrong Bank for \$913,000. This note was changed on October 3rd, 2018 and a new promissory note was signed. The note bears interest at the rate of 2.89% and is payable in monthly installments, the note is set to mature on January 14th, 2035.

On February 13, 2020, the District signed a promissory note with Armstrong Bank for \$98,924. The note bears interest at the rate of 2.50% and is payable in monthly installments, the note is set to mature on February 13, 2025. The District pledged a CD as collateral in order to receive a preferred interest rate.

The District had the following long-term debt and bonds payable at December 31, 2021:

Payable to	Date Note Matures	Collateral Pledged	Rate of Interest	Original Balance	Balance At 12/31/2021
Armstrong Bank	1/14/2035	Water Storage	2.89%	\$ 761,397	\$ 642,734
Armstrong Bank	2/13/2025	Certificate of Deposit	2.50%	98,924	64,090
OWRB	9/15/2040	Pledged Revenues	3.54%	3,110,000	2,364,000
				<u>\$ 3,970,321</u>	<u>\$ 3,070,824</u>

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

Years ending December 31 :

	PRINCIPAL	INTEREST
Current Portion	\$ 148,639	\$ 102,080
2023	154,336	97,686
2024	159,081	93,347
2025	147,087	88,416
2026	147,939	83,520
2027-2031	820,683	338,460
2032-2036	856,059	191,618
2037-2041	637,000	52,353
TOTAL	<u>\$ 3,070,824</u>	<u>\$ 1,047,480</u>

NOTE 6: COMMITMENTS AND CONTINGENCIES

Cherokee County Rural Water District No. 3, 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 Cherokee County Rural Water District No. 3, is not aware of any pending requests, and in the opinion of management, any such amounts would not be considered material.

NOTE 7: 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 8: FINANCE- RELATED LEGAL AND CONTRACTUAL PROVISIONS

The terms of the loan agreements require Reserve Accounts as shown in Note 1. All the requirements have been met.

NOTE 9: DEFICIT NET POSITION

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

NOTE 10: RESTRICTED ASSETS

The Cash in Trust Fund account is an account that is an offset to the Revenue Bonds Payable as shown in Note 1. This fund is the Debt Service Fund held by BancFirst Bank. The balance of this account is \$46,864 and \$47,126 for 2021 and 2020 respectively.

NOTE 11: SIMPLE IRA

The district has a Simple IRA plan covering all full-time employees. Participants can contribute up to 6% of their salary. The district matches the participants' contribution up to a maximum of 3% of participants' wages. The district's contributions to the plan were \$6,846 and \$6,873 for 2021 and 2020, respectively.

NOTE 12: 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. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

NOTE 13: LEASES

At December 31, 2021 the district had two leases for office equipment as follows:

Lessor	Date of Lease	Leased Items	Payment Amount	Lease Term	Date of Maturity
RLS Business Services	6/19/2018	FPI2320 Folder Inserter	276.00	63 Mo	8/19/2023
KS State Bank	6/1/2018	Postal Machine	29.00	63 Mo	8/1/2023

NOTE 14: CAPITAL ASSETS

Capital asset balances and activity for the year ended December 31, 2020 and 2021, were as follows:

2021	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, not being Depreciated:				
Land	\$ 69,866	-	-	\$ 69,866
TOTAL Capital Assets, not being Depreciated	69,866	-	-	69,866
Capital Assets, being Depreciated				
Buildings	171,255	-	-	171,255
Water Distribution System	7,445,548	36,629	-	7,482,177
Machinery and Equipment	501,065	8,210	-	509,275
Office Equipment	10,761	-	-	10,761
Vehicles	138,332	-	-	138,332
TOTAL Capital Assets, being Depreciated	8,266,961	44,839	-	8,311,800
Less Accumulated Depreciation for:				
Accumulated Depreciation	(2,852,681)	(219,745)	-	(3,072,426)
TOTAL Accumulated Depreciation	(2,852,681)	(219,745)	-	(3,072,426)
TOTAL Capital Assets, Being Depreciated, Net	5,414,280	(174,906)	-	5,239,374
Capital Assets, Net	\$ 5,484,146	(174,906)	-	\$ 5,309,240
2020	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, not being Depreciated:				
Land	\$ 69,866	-	-	\$ 69,866
TOTAL Capital Assets, not being Depreciated	69,866	-	-	69,866
Capital Assets, being Depreciated				
Buildings	171,255	-	-	171,255
Water Distribution System	7,367,239	78,309	-	7,445,548
Machinery and Equipment	397,447	103,618	-	501,065
Office Equipment	10,761	-	-	10,761
Vehicles	138,332	-	-	138,332
TOTAL Capital Assets, being Depreciated	8,085,034	181,927	-	8,266,961
Less Accumulated Depreciation for:				
Accumulated Depreciation	(2,634,720)	(217,414)	-	(2,852,134)
TOTAL Accumulated Depreciation	(2,634,720)	(217,414)	-	(2,852,134)
TOTAL Capital Assets, Being Depreciated, Net	5,450,314	(35,487)	-	5,414,827
Capital Assets, Net	\$ 5,520,180	(35,487)	-	\$ 5,484,693

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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
Cherokee County Rural Water District No. 3
Tahlequah, 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 the business-type activities of Cherokee County Rural Water District No. 3, as of and for the years ended December 31, 2020 and 2021, and the related notes to the financial statements, which collectively comprise Cherokee County Rural Water District No. 3's basic financial statements and have issued our report thereon dated February 24, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Cherokee County Rural Water District No. 3's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Cherokee County Rural Water District No. 3's internal control. Accordingly, we do not express an opinion on the effectiveness of Cherokee County Rural Water District No. 3'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. We identified certain deficiencies in internal control, described in the accompanying schedule of findings as items 2021-1 that we consider to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cherokee County Rural Water District No. 3'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Cherokee County Rural Water District No. 3's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Cherokee County Rural Water District No. 3's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Cherokee County Rural Water District No. 3's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

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

Robert St. Pierre

Robert St. Pierre CPA, PC
Stilwell, OK
February 24, 2022

SCHEDULE OF FINDINGS AND RESPONSE

2021-1

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 that is responsible for billing and adjustments; posts payment to subsidiary accounts receivable ledgers and reconciles the monthly bank statements. In addition, only limited oversight is provided over this individual in the conduct of their daily functions. This condition was also reported in 2020.

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 strive to implement procedures and compensating duties to help mitigate the risks associated with the lack of segregation of duties.

**INDEPENDENT
AUDITOR'S
REPORTS**

FINANCIAL

SECTION

FINANCIAL

STATEMENT

NOTES

SUPPLEMENTARY

INFORMATION