

RURAL WATER DISTRICT NO. 16
CHEROKEE COUNTY, OKLAHOMA

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

Audited by:

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

TABLE OF CONTENTS
For the Year Ended December 31, 2021

	<u>Pages</u>
INDEPENDENT AUDITOR'S REPORT	1-2
STATEMENT OF NET POSITION	3
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION	4
STATEMENT OF CASH FLOWS	5
NOTES TO FINANCIAL STATEMENTS	6-10
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 <i>GOVERNMENT AUDITING STANDARDS</i>	11-12
SCHEDULE OF FINDINGS AND RESPONSES	13-14

INDEPENDENT

AUDITOR'S

REPORT

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

Certified Public Accountant

1113 North Second St.
Stilwell, Oklahoma 74960
Phone: (918) 696-4983
Fax: (918) 696-4867

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Rural Water District No. 16
Cherokee County, Oklahoma

Report on the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities, of the Rural Water District No. 16, Cherokee County, Oklahoma as of and for the years ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Rural Water District No. 16 '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 Rural Water District No. 16, as of December 31, 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 Rural Water District No. 16 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 Rural Water District No. 16 '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 Rural Water District No. 16'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 Rural Water District No. 16'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.

Management is responsible for the other information included in the annual report. The other information comprises the management's discussion and analysis and budgetary comparison information but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated **August 31, 2022**, on our consideration of the Rural Water District No. 16 '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 Rural Water District No. 16 '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 Rural Water District No. 16 's internal control over financial reporting and compliance.

Robert St. Pierre

Robert St. Pierre C.P.A., P.C.
Stilwell, Oklahoma
August 31, 2022

FINANCIAL

SECTION

**RURAL WATER DISTRICT NO. 16
CHEROKEE COUNTY, OKLAHOMA**

**STATEMENT OF NET POSITION
December 31, 2021**

	December 31, 2021
ASSETS	
Current assets:	
Cash	\$ 160,474
Restricted cash	192,846
Accounts receivable	79,171
Allowance for Doubtful Accounts	(7,222)
Returned checks receivable	125
Total current assets	425,394
Noncurrent assets:	
Capital assets:	
Land	20,304
Water Lease	80,730
Buildings	73,213
Plant & facilities	4,742,813
Furniture & fixtures	97,067
Vehicles & equipment	152,269
Less accumulated depreciation	(2,967,630)
Total capital assets	2,198,766
Total Assets	\$ 2,624,160
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 2,864
Accrued Compensated Absences	4,507
Accrued Payroll Liabilities	40,261
Current portion lease payable	70,209
Total current liabilities	117,841
Noncurrent liabilities:	
Water Lease payable	65,050
Lease payable	2,521,865
Less: current portion	(70,206)
Total noncurrent liabilities	2,516,709
Total Liabilities	2,634,550
NET POSITION	
Net Investment in Capital Assets	(323,099)
Restricted for Debt Service	192,504
Restricted for Capital and Other	342
Unrestricted	119,863
Total Net Position	\$ (10,390)

**RURAL WATER DISTRICT NO. 16
CHEROKEE COUNTY, OKLAHOMA**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Year Ending December 31, 2021**

	2021
Operating Revenues:	
Water sales (net of adjustments)	\$ 795,036
Penalties, fees, service charges and miscellaneous	6,270
Total operating revenues	801,306
Operating Expenses:	
Automobile Expense	23,097
Bank Service Charges	134
Computer and Internet Expenses	7,080
Contract Labor	11,071
Contract Service	54,775
Credit Card Expenses	592
Dues and Subscriptions	7,281
Equipment Rental	2,702
Health Insurance	13,197
Insurance Expense	26,200
Lab Fees	24,878
Meals and Entertainment	103
Medical	165
Meeting Expense	580
Office Supplies	729
Payment Fees	381
Payroll Expenses	220,869
Payroll Tax Expenses	18,007
Postage and Delivery	172
Professional Fees	29,730
Repairs and Maintenance	45,422
Software	1,305
Supplies	18,379
Tags	570
Telephone Expense	5,881
Utilities	51,816
Bad Debt	7,222
Depreciation Expense	208,743
Interest Expense	92,482
Operating Expenses	873,563
Operating Income	(72,257)
Nonoperating revenue (expense)	
New benefit units	19,300
Other income	42,567
Total nonoperating revenue (expense)	61,867
Change in net position	(10,390)
Net position beginning of period	-
Net position end of period	\$ (10,390)

**RURAL WATER DISTRICT NO. 16
CHEROKEE COUNTY, OKLAHOMA**

**STATEMENT OF CASH FLOWS
For the Year Ending December 31, 2021**

	2021
Cash flows from operating activities:	
Receipts from customers	\$ 786,629
Payments to suppliers	(423,080)
Payments to employees	(194,108)
Net cash provided (used) by operating activities	169,441
Cash flows from noncapital financing activities:	
Other Non-Operating Income	42,567
Net cash provided (used) by noncapital financing activities	42,567
Cash flows from capital and related financing activities:	
New benefit units	19,300
Purchase of capital assets	(79,810)
Principal paid on capital debt	(121,892)
Net cash provided (used) by capital and related financing activities	(182,402)
Cash flows from investing activities:	
Cash and Equivalents from Acquisition	323,714
Net increase (decrease) in cash and cash equivalents	353,320
Cash balance beginning of year	-
Cash balance end of year (non-restricted & restricted)	\$ 353,320
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (72,257)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Cash flows reported in other categories:	
Depreciation expense	208,743
Change in assets and liabilities:	
Accounts receivable	(14,677)
Accrued payroll	40,261
Compensated Absences	4,507
Accounts payable	2,864
Net cash provided by operating activities	\$ 169,441
Additional Cash Flow Information	
Interest Paid	\$ 92,482

FINANCIAL

STATEMENT

NOTES

**RURAL WATER DISTRICT NO. 16
CHEROKEE COUNTY, OKLAHOMA**

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2021**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Cherokee County Rural Water District Number 16 (the District) complies with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations.) The accounting and reporting framework and the more significant accounting policies established by GAAP and used by the District are discussed below.

A. REPORTING ENTITY

The District was organized on September 21, 2020, under Title 82, O.S. Supp. 1972, Sections 1324.1 to 1324.26 for the purpose of providing a water works system including all physical facilities, improvements, and services necessary for executing that purpose, in Cherokee county. Since the District is a political subdivision of the State of Oklahoma, under Title 82, it is exempt from Federal and State income taxes.

The membership consists of approximately 1,100 benefit unit holders, each entitled to one vote. Subscribers to benefit units pay a \$ 1,500 subscription fee (\$ 1,000 prior), which is non- refundable, and entitles the holder to one line from the District's water system. The Board of Directors consist of 5 members serving 3-year terms. The vacant Board seats are filled at the annual meeting, and following, the Board of Directors meet and elect a Chairman, Vice-Chairman, Secretary and Treasurer.

The District is currently leasing all infrastructure assets from Lake Region Electric Development Cooperation, Inc (discussed in Note 2). The lease will stay in place until the District completes a financing agreement with the USDA Rural Development which is in process as of December 31, 2021.

B. BASIS OF ACCOUNTING

The District's policy is to prepare its financial statements on the accrual basis of accounting. Accordingly, revenue and the related assets are recognized when earned, and expenditures are recognized when the obligation is incurred.

C. CASH AND CASH EQUIVALENTS

For the purpose of financial reporting, "cash and cash equivalents" include all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less.

D. INVENTORY

The District has no material inventories that it owns, supplies are used or recognized when they are needed.

E. FIXED ASSETS

The District recognizes purchases or donations of assets of \$5,000 or more as capitalized assets. All fixed assets are recorded at their original acquisition cost. Depreciation is provided in the financial statements utilizing the following estimated useful lives:

	<u>Years</u>
Building	25
Plant and Facilities	25-40
Furniture and Fixtures	5
Vehicles and Equipment	5-15

A summary of the fixed asset accounts for the year ended December 31, 2021, is as follows:

	Balance at December 31, 2020	Assets Transferred from LRED January 1, 2021	Additions	Deletions	Balance at December 31, 2021
CAPITAL ASSETS NOT BEING DEPRECIATED:					
Land	\$ -	\$ 20,304	\$ -	\$ -	\$ 20,304
Total Capital Assets Not Being Depreciated	-	20,304	-	-	20,304
OTHER CAPITAL ASSETS:					
Buildings	-	73,213	-	-	73,213
Plant and Facilities	-	4,651,040	44,675	-	4,695,715
Furniture and Fixtures	-	111,533	-	-	111,533
Vehicles and Equipment	-	149,766	35,135	-	184,901
Capital Lease	-	80,730	-	-	80,730
Total Other Capital Assets at Historical Cost	-	5,066,281	79,810	-	5,146,092
LESS ACCUMULATED DEPRECIATION FOR:					
Buildings	-	30,996	1,830	-	32,826
Plant and Facilities	-	2,478,553	188,697	-	2,667,250
Furniture and Fixtures	-	71,203	11,970	-	83,173
Vehicles and Equipment	-	149,020	2,209	-	151,229
Capital Lease	-	29,115	4,037	-	33,152
Total Accumulated Depreciation	-	2,758,887	208,743	-	2,967,630
OTHER CAPITAL ASSETS, NET	-	2,307,394	(128,933)	-	2,178,462
CAPITAL ASSETS, NET	\$ -	\$ 2,327,698	\$ (128,933)	\$ -	\$ 2,198,766

F. DEPOSITS AND INVESTMENTS

Cash and investments include all deposits held by financial institutions - money market accounts, savings accounts and certificates of deposit. At year-end, the bank balance of the District's deposits totaled \$ 353,320. The District's deposits were covered by FDIC insurance up to \$250,000, leaving \$103,320 uncollateralized.

Investment Interest Rate Risk – 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.

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

<u>ACCOUNT NAME</u>	<u>BALANCE</u>		<u>RESTRICTED</u>	<u>UNRESTRICTED</u>
	<u>12/31/2021</u>			
Armstrong Bank				
Operating Account	\$ 160,474	\$ -	\$ -	\$ 160,474
Construction Account	342	342	-	-
Debt Reserve Account	192,504	192,504	-	-
Total Cash Deposits	\$ 353,320	\$ 192,846	\$ -	\$ 160,474

G. STATEMENT OF CASH FLOWS

For purposes of the Statement of Cash Flows, the District considers demand accounts, subject to withdrawal by check, and cash on hand, as cash or cash equivalents. Any restricted cash is combined with cash and cash equivalents for purposes of the consolidated statement of cash flows.

H. COMPENSATED ABSENCES

Employees begin accruing vacation leave when hired. However, no employee is entitled to use vacation leave until completion of his/her first six months of employment. During the first year of employment employees earn (5) days of vacation leave. During years (2) through (10) employees earn (10 ½) days of vacation leave per year. During years (11) through (25) employees earn (15) days of vacation leave per year. After year (25) employees earn (20) days of vacation leave per year.

Vacation leave is earned and accrued monthly. No vacation may be scheduled for more than the time accrued. One-half unused of annual vacation leave may be carried over each year with total accumulated carryover not to exceed 30 days. The accrued value of vacation leave as of December 31, 2021, was \$4,507.

Each full-time employee begins accruing sick leave when hired. Sick leave is accrued as follows; 1st year (6) days, 2nd year (7 ½) days, 3rd year (9) days, 4th year and beyond (10 ½) days. Sick leave is accrued monthly and may be accumulated up to sixty-five days. Upon normal retirement or death, payment for accumulated sick leave up to (24) days is paid. Upon termination of employment other than retirement or death employees are not paid any accumulated sick leave.

I. ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2021 represent charges for services provided to customers.

Aged accounts receivables were as follows:

Current	\$	47,310
30 Days		11,977
60 Days		8,195
90 Days and Over		11,689
Allowance for Doubtful Accounts		(7,222)
Total Accounts Receivable	\$	<u>71,949</u>

It is the District's policy to analyze allowance for doubtful accounts and accrue allowances. For fiscal year 2021, the allowance for doubtful accounts was estimated to be \$7,222.

J. INVESTMENTS

The District holds no investments as of December 31, 2021.

K. USE OF 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 (such as estimated useful lives in determining depreciation expense.) Accordingly, actual results could differ from those estimates.

L. EQUITY CLASSIFICATION

Net position is displayed in three components:

- a) *Invested in capital assets, net of related debt* – 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 attributable to the acquisition, construction, or improvements of those assets.
- b) *Restricted fund balance*:
Consists of net assets with constraints placed on the use either by an external group such as creditors, grantors, contributors, or laws and regulation of other governments, or by law through constitutional provisions or enabling legislation.
- c) *Unrestricted fund balance*:
All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

M. BUDGETARY DATA

In accordance with the by-laws of the District, the Board of Directors prepare a budget, under the accrual basis of accounting.

NOTE 2: RETIREMENT PLAN

The District did not participate in a retirement plan as of December 31, 2021.

NOTE 3: LITIGATION

The District is a party to various legal proceedings that normally occur in the course of operations. The financial statements do not include accruals or provisions for loss contingencies that may result from these proceedings. While the outcome of the above noted proceedings cannot be predicted, due to the insurance coverage maintained by the District, the District feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the District.

NOTE 4: LONG-TERM LEASES (OPERATING & CAPITAL)

On January 19, 2021, the District executed two agreements with Lake Region Electric Development Cooperation, Inc. (LRED). The agreements are intended to be temporary until financing with the USDA is complete (Note 1) and will remain in place until financing is complete.

An agreement to lease the Water Processing and Distribution Infrastructure as well as other Equipment from LRED is in place to facilitate the District’s operations. As compensation for the leased assets, the District has agreed to pay out of pocket cost for LRED such as debt service (LRED’s USDA Loans), property taxes (if applicable), facilities maintenance and repairs, etc.

An agreement to manage the assets leased from LRED is in place to facilitate the District’s operations. The agreement assures one hundred percent (100%) of the gross income generated by the District belongs to the District.

As of December 31, 2019, the District has implemented Statement No. 69 of the Governmental Accounting Standards Board (GASB), Government Combinations and Disposals of government Operations. GASB 69 provides guidance for accounting and financial reporting of government combinations (referred to as

mergers, acquisitions, and transfers of operations), the District has implemented GASB 69 as a Government Acquisition.

Payable To:	Date Note Matures	Collateral Pledged	Rate Of Interest
USDA 91-01	7/24/2040	Revenue	4.125%
USDA 91-02	7/24/2040	Revenue	2.750%
USDA 91-03	7/24/2040	Revenue	1.500%

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

Years ending December 31:	Principal	Interest
Current Portion	\$ 70,209	\$ 90,195
2023	72,659	87,745
2024	75,205	85,199
2025	77,848	82,556
2026	80,591	79,813
2027	83,442	76,962
Thereafter	2,061,911	762,062
TOTALS	\$ 2,521,865	\$ 1,264,532

NOTE 5: RETIREMENT PLAN

The District did not participate in a retirement plan as of December 31, 2021.

NOTE 6: LITIGATION

The District is a party to various legal proceedings that normally occur in the course of operations. The financial statements do not include accruals or provisions for loss contingencies that may result from these proceedings. While the outcome of the above noted proceedings cannot be predicted, due to the insurance coverage maintained by the District, the District feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the District.

NOTE 7: UNCERTAINTIES

In March 2020, the State of Oklahoma and the CDC issued guidelines due to the Covid-19 Pandemic. This resulted in a massive disruption in daily business and the overall economy as nonessential businesses were advised to close and hundreds of employees were laid off their jobs. The impact of the shutdown to the economy is immeasurable at this time. However, as of the date of issuance of this report there have been no difficulties in continuing the operations of services for the District.

This information is provided for informational purposes only and does not affect the opinion of the audit report as of December 31, 2021.

NOTE 8: SUBSEQUENT EVENTS

Subsequent events have been evaluated through August 31, 2022, which is the date the financial statements were available to be issued.

SUPPLEMENTARY

INFORMATION

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

Certified Public Accountant

1113 North Second St.
Stilwell, Oklahoma 74960
Phone: (918) 696-4983
Fax: (918) 696-4867

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
Rural Water District No. 16
Cherokee County, 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 Rural Water District No. 16, Cherokee County, Oklahoma as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise Rural Water District No. 16's basic financial statements and have issued our report thereon dated **August 31, 2022**.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Rural Water District No. 16'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 Rural Water District No. 16's internal control. Accordingly, we do not express an opinion on the effectiveness of Rural Water District No. 16'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. 2021-1, 2021-2, 2021-3

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water District No. 16'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*.

Rural Water District No. 16's Response to Findings

Rural Water District No. 16's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Rural Water District No. 16'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
August 31, 2022

SCHEDULE OF FINDINGS AND RESPONSES

2021-1

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 that is responsible for recording invoices and issuing all disbursement checks also reconciles the monthly bank statements.

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 Board of Directors is involved in the payment of monthly invoices (approval of all invoices and signing all checks). The Board has engaged an outside accounting firm to record and reconcile all transactions.

2021-2

Uninsured Funds

Criteria: To protect District funds from potential loss, all cash funds should be fully collateralized, whether by the Federal Deposit Insurance Corporation (FDIC) or bank pledges. The United States generally accepted accounting principles (GAAP) requires the tribe to disclose all amounts in the bank balance that are uninsured and uncollateralized at the end of the period.

Condition: At year end, there was \$103,320 that was uninsured and uncollateralized.

Effect or Potential Effect: Cash deposits exceeding the FDICs coverage of \$250,000 are at risk of being lost if the bank becomes insolvent. No loss of monies resulted from these uninsured and uncollateralized deposits.

Recommendation: To help District tribal monies from potential loss and to comply with statutes, we recommend that the District ensure that all deposits not covered by the FDIC are collateralized. The board should specifically inquire of the bank if the accounts are listed as public entity with insurance above the \$250,000 limit of FDIC.

Responsible Official's Response: The Board has contacted Armstrong Bank to request the required collateralization be applied to all accounts.

2021-3

Payroll Tax Payments Not Made Timely

Criteria: As required by the IRS, the District must deposit federal income tax withheld as well as both the employer and employee social security and Medicare taxes on monthly or semi-weekly basis. In addition, every employer required to deduct and withhold Oklahoma income tax from an employee's wages must remit the tax withheld each calendar quarter on or before the 20th day of the month following the close of the quarter. The payroll tax payments to the Oklahoma Employment Security Commission payment are required to be deposited on a quarterly basis, as well.

Condition: At year end, there was \$40,261.18 in payroll tax liabilities due to the IRS, Oklahoma Tax Commission, and Oklahoma Employment Security Commission.

Cause: During the current fiscal year, the District was relying on a third-party Organization hired to perform monthly bookkeeping and payroll services. However, while reviewing payroll expenses, it was noted that the payroll tax payments for the 3rd and 4th quarters of 2021 were not paid until the subsequent fiscal year.

Effect or Potential Effect: Payroll tax payments not remitted on a timely basis are subject to penalties and interest from the applicable tax entities.

Recommendation: We recommend that the District comply with all payroll tax payment requirements to avoid additional expenses due to penalties and interest from late payments.

Responsible Official's Response: The Board has replaced the firm that allowed payroll taxes to become late. The Board is taking an active role in reviewing payments.