

**RURAL WATER, SEWER, GAS AND SOLID WASTE
MANAGEMENT DISTRICT NO. 16
CHEROKEE COUNTY, OKLAHOMA**

**AUDITED FINANCIAL STATEMENTS AND NOTES
For the Years Ended December 31, 2021 and 2022**

Audited by:

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

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For the Years Ended December 31, 2021 and 2022

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INDEPENDENT

AUDITOR'S

REPORT

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

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Rural Water, Sewer, Gas and Solid Waste Management District No. 16
Cherokee County, Oklahoma

Opinions

We have audited the accompanying financial statements of the business-type activities, of the Rural Water, Sewer, Gas and Solid Waste Management District No. 16, Cherokee County, Oklahoma as of and for the years ended December 31, 2021 and 2022, and the related notes to the financial statements, which collectively comprise the Rural Water, Sewer, Gas and Solid Waste Management 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, Sewer, Gas and Solid Waste Management District No. 16, as of December 31, 2021 and 2022, 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, Sewer, Gas and Solid Waste Management 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, Sewer, Gas and Solid Waste Management 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, Sewer, Gas and Solid Waste Management 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, Sewer, Gas and Solid Waste Management 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.

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 **August 21, 2023**, on our consideration of the Rural Water, Sewer, Gas and Solid Waste Management 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, Sewer, Gas and Solid Waste Management 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, Sewer, Gas and Solid Waste Management 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 21, 2023

**FINANCIAL
SECTION**

RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT DIST NO. 16
STATEMENT OF NET POSITION
As of December 31, 2021 and 2022

	2022	2021
ASSETS		
CURRENT ASSETS:		
Cash in Bank (Note 2)	\$ 217,486	\$ 160,474
Accounts Receivable (<i>Net of Allowance</i>) (Note 3)	78,597	72,074
TOTAL CURRENT ASSETS	<u>296,083</u>	<u>232,548</u>
RESTRICTED ASSETS:		
Armstrong Bank Debt Reserve (Note 8)	192,504	192,846
TOTAL RESTRICTED ASSETS	<u>192,504</u>	<u>192,846</u>
FIXED ASSETS (Note 11):		
Land	20,304	20,304
Water Lease	-	80,730
Vehicles	290,545	152,269
Buildings	73,213	73,213
Office Furniture and Equipment	111,533	97,067
Water System	4,719,680	4,742,813
<i>Less: Accumulated Depreciation</i>	<u>(3,145,321)</u>	<u>(2,967,630)</u>
NET FIXED ASSETS	<u>2,069,954</u>	<u>2,198,766</u>
TOTAL ASSETS	<u><u>\$ 2,558,541</u></u>	<u><u>\$ 2,624,160</u></u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts Payable	\$ 30,638	\$ 2,864
Accrued Payroll Liabilities	13,978	40,261
Accrued Compensated Absences	22,867	4,507
Current Portion of Long-Term Debt (Note 4)	99,968	70,209
TOTAL CURRENT LIABILITIES	<u>167,451</u>	<u>117,841</u>
LONG-TERM LIABILITIES		
Note Payables (Note 4)	2,447,825	2,451,659
TOTAL LONG-TERM LIABILITIES	<u>2,447,825</u>	<u>2,451,659</u>
TOTAL LIABILITIES	<u>2,615,276</u>	<u>2,569,500</u>
NET POSITION		
Invested in Capital Assets Net of Related Debt	(477,839)	(323,099)
Restricted for Debt Service	192,504	192,504
Unrestricted	<u>228,600</u>	<u>120,205</u>
TOTAL NET POSITION	<u><u>\$ (56,735)</u></u>	<u><u>\$ (10,390)</u></u>

RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT DISTRICT NO. 16
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended December 31, 2021 and 2022

	<u>2022</u>	<u>2021</u>
REVENUE:		
Water Sales	\$ 939,145	\$ 795,036
Penalties, Fees, Service Charges & Misc	27,874	6,270
TOTAL OPERATING REVENUE	<u>967,019</u>	<u>801,306</u>
EXPENSES		
Auto Expense	37,871	23,667
Bank Service Charges	308	134
Computer & Internet	4,919	7,080
Contract Services	24,495	65,846
Dues & Subscriptions	1,107	7,281
Equipment Rental	-	2,702
Employee Benefits	58,749	13,197
Insurance	31,140	26,200
Lab Fees	53,219	24,878
Payroll Expense	244,184	220,869
Payroll Tax	17,600	18,007
Postage & Delivery	1,703	172
Professional Fees	64,624	29,730
Repairs & Maintenance	76,512	45,422
Software	16,080	1,305
Supplies	47,878	18,379
Telephone	6,855	5,881
Utilities	59,242	51,816
Misc Expense	23,024	2,550
Bad Debt	10,214	7,222
Depreciation	214,880	208,743
TOTAL OPERATING EXPENSE	<u>994,604</u>	<u>781,081</u>
OPERATING INCOME (LOSS)	<u>(27,585)</u>	<u>20,225</u>
NON-OPERATING INCOME (EXPENSE)		
Miscellaneous Income	28,044	42,567
ARPA Funds Cherokee County Commissioners	37,500	-
Membership Income	33,500	19,300
Interest Expense	(117,804)	(92,482)
TOTAL NON-OPERATING INCOME (EXPENSE)	<u>(18,760)</u>	<u>(30,615)</u>
CHANGES IN NET POSITION	(46,345)	(10,390)
NET POSITION, BEGINNING OF YEAR	(10,390)	-
NET POSITION, END OF YEAR	<u><u>\$ (56,735)</u></u>	<u><u>\$ (10,390)</u></u>

RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT DISTRICT NO 16
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2021 and 2022

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Inflows:		
Payments Received from Customers	\$ 1,059,539	\$ 786,629
Other Non Operating Income	-	42,567
Cash Outflows:	-	-
Payments for Salaries & Wages	(318,533)	(194,108)
Payments to Suppliers for Goods and Services	<u>(559,143)</u>	<u>(423,080)</u>
Net Cash Provided (Used) by Operating Activities	<u>181,863</u>	<u>212,008</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Capital Assets-Depreciable	(129,609)	(79,810)
Membership Income	<u>-</u>	<u>19,300</u>
Net Cash Provided (Used) for Investing Activities	<u>(129,609)</u>	<u>(60,510)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash & Equivalents from Acquisition	105,143	323,714
Principal Reduction of Long-Term Debt	<u>(100,727)</u>	<u>(121,892)</u>
Net Cash Provided (Used) for Capital & Related Financing Activities	<u>4,416</u>	<u>201,822</u>
NET CASH INFLOW (OUTFLOW) FROM ALL ACTIVITIES	56,670	353,320
CASH AND CASH EQUIVALENTS BEGINNING OF THE YEAR	<u>353,320</u>	<u>-</u>
CASH AND CASH EQUIVALENTS END OF THE YEAR	<u><u>\$ 409,990</u></u>	<u><u>\$ 353,320</u></u>
INTEREST EXPENSE	<u><u>\$ 117,804</u></u>	<u><u>\$ 92,482</u></u>
CASH AND CASH EQUIVALENTS CONSISTS OF:	<u>2022</u>	<u>2021</u>
Cash in Bank Construction Account	8,722	343
Cash in Bank Operating Account	208,764	160,473
Restricted Cash	<u>192,504</u>	<u>192,504</u>
TOTAL CASH AND CASH EQUIVALENTS	<u><u>\$ 409,990</u></u>	<u><u>\$ 353,320</u></u>

RURAL WATER, SEWER, GAS AND SOLID WASTER MANAGEMENT DISTRICT NO 16
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2021 and 2022

	<u>2022</u>	<u>2021</u>
Reconciliation of Operating Income (Loss to Net Cash)		
Provided by Operating Activities:		
Operating Income	\$ (46,345)	\$ (72,257)
Depreciation and Amortization	214,880	208,743
(Increase) Decrease in:		
Accounts Receivable	(6,523)	(14,677)
Increase (Decrease) in:		
Accounts Payable	(360)	2,864
Payroll Related Payables	1,851	40,261
Accrued Compensated Absences	<u>18,360</u>	<u>4,507</u>
 Net Cash Provided (Used) by Operating Activities	 <u><u>\$ 181,863</u></u>	 <u><u>\$ 169,441</u></u>

FINANCIAL

STATEMENT

NOTES

RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT DISTRICT NO. 16
CHEROKEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended December 31, 2021 and 2022

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, 2022.

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, 2022, is as follows:

	12/31/2021	Additions	Disposals	12/31/2022
Capital Assets Not Being Depreciated				
Land	\$ 20,304	\$ -	\$ -	\$ 20,304
Other Capital Assets				
Buildings	73,213	-	-	73,213
Water System	4,695,715	23,965	-	4,719,680
Furniture and Equipment	111,533	-	-	111,533
Vehicles	184,901	105,644	-	290,545
Water Lease	80,730	-	80,730	-
Total Other Capital Assets	5,146,092	129,609	80,730	5,194,971
Less: Accumulated Depreciation				
Buildings	32,826	1,830	-	34,656
Water System	2,667,250	186,138	-	2,853,388
Furniture and Equipment	83,173	11,970	-	95,143
Vehicles	151,229	10,905	-	162,134
Water Lease	33,152	-	(33,152)	-
Total Accumulated Depreciation	2,967,630	210,843	(33,152)	3,145,321
Capital Assets Net	\$ 2,198,766	\$ (81,234)	\$ 113,882	\$ 2,069,954

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 \$ 409,990. The District's deposits were covered by FDIC insurance up to \$250,000, and additional collateral of 215,000 through FHL Bank therefore all deposits were collateralized.

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, 2022, are as follows:

Account Name	Total 12/31/2022	Restricted	Unrestricted
Operating Account	\$ 208,764	\$ -	\$ 208,764
Construction Account	8,722	-	8,722
Debt Reserve Account	192,504	192,504	-
Total Cash Deposits	\$ 409,990	\$ 192,504	\$ 217,486

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, 2022, 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, 2022 represent charges for services provided to customers.

Aged accounts receivables were as follows:

	2022	2021
Current	\$ 70,296	\$ 47,385
30 Days	8,301	11,977
60 Days	3,737	8,195
90 Days and Over	2,123	11,689
Allowance for Doubtful Accounts	(5,860)	(7,222)
Total Accounts Receivable	\$ 78,597	\$ 72,024

It is the District's policy to analyze allowance for doubtful accounts and accrued allowances. For fiscal years 2021 and 2022, the allowance for doubtful accounts was estimated to be \$7,222 and \$5,860, respectively.

J. INVESTMENTS

The District holds no investments as of December 31, 2021 and 2022, respectively.

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 had a 401K plan for all eligible employees, the matching provision is optional each year but is currently at 3%. Employees must be 21 to enter the plan with one year of service. They also must work at least 1,000 hours per year. Entry into the plan can be done semi-annually. Vesting is on a graded schedule until year 6 when employees become 100% vested.

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 and 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 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	Interest Rate
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:

	Principal	Interest
Current Portion	\$ 99,968	\$ 91,453
2024	103,688	87,732
2025	97,424	83,949
2026	90,722	80,605
2027	94,076	77,246
2028	86,404	74,000
2029-2034	480,613	321,407
2035-2039	450,811	190,805
2040-2044	1,044,087	175,850
Total Long Term Debt	\$ 2,547,793	\$ 1,183,047

NOTE 5: 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 6: SUBSEQUENT EVENTS

Subsequent events have been evaluated through **August 21, 2023**, 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

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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
Rural Water, Sewer, Gas and Solid Waste Management 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, Sewer, Gas and Solid Waste Management District No. 16, Cherokee County, Oklahoma as of and for the years ended December 31, 2021 and 2022, and the related notes to the financial statements, which collectively comprise Rural Water, Sewer, Gas and Solid Waste Management District No. 16's basic financial statements and have issued our report thereon dated **August 21, 2023**.

Report on Internal Control Over Financial Reporting

In planning and performing our audit, we considered Rural Water, Sewer, Gas and Solid Waste Management 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, Sewer, Gas and Solid Waste Management District No. 16's internal control. Accordingly, we do not express an opinion on the effectiveness of Rural Water, Sewer, Gas and Solid Waste Management 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. We identified certain deficiencies in internal control, described in the accompanying schedule of findings as items 2022-1 that we consider to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water, Sewer, Gas and Solid Waste Management 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 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*.

Rural Water, Sewer, Gas and Solid Waste Management District No. 16's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Rural Water, Sewer, Gas and Solid Waste Management District No. 16's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The Rural Water, Sewer, Gas and Solid Waste Management District No. 16'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 C.P.A., P.C.
Stilwell, Oklahoma
August 21, 2023

SCHEDULE OF FINDINGS AND RESPONSES

2022-1: 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 also issues all disbursement checks. This condition was also reported in 2021.

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 also engaged an outside accounting firm to record and reconcile all transactions.