

**RURAL WATER DISTRICT #3,
CHEROKEE COUNTY, OKLAHOMA
TAHLEQUAH, 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, OK 74960

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**INDEPENDENT
AUDITOR'S
REPORTS**

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Rural Water District #3, Cherokee County, Oklahoma
Tahlequah, Oklahoma

Opinions

We have audited the accompanying financial statements of the business-type activities, of the Rural Water District #3, 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 District #3, Cherokee County, Oklahoma'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 #3, Cherokee County, Oklahoma, 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 District #3, Cherokee County, Oklahoma 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 #3, Cherokee County, Oklahoma'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 #3, Cherokee County, Oklahoma'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 #3, Cherokee County, Oklahoma'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 and budgetary comparison information 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 **April 6, 2023**, on our consideration of the Rural Water District #3, Cherokee County, Oklahoma'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 #3, Cherokee County, Oklahoma'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 #3, Cherokee County, Oklahoma's internal control over financial reporting and compliance.

Robert St. Pierre

Robert St. Pierre C.P.A., P.C.
Stilwell, Oklahoma
April 6, 2023

FINANCIAL

SECTION

RURAL WATER DISTRICT #3, CHEROKEE COUNTY, OKLAHOMA
STATEMENT OF NET POSITION
For the Years Ended December 31, 2021 and 2022

	2022	2021
ASSETS		
CURRENT ASSETS:		
Petty Cash (Note 2)	\$ 1,040	\$ 1,040
Cash in Bank (Note 2)	1,449,355	1,348,249
Certificate of Deposit	151,944	149,688
Edward Jones Brokerage Account	133,808	136,429
Accounts Receivable (<i>Net of Allowance</i>) (Note 3)	76,904	177,693
Prepaid Insurance	19,739	20,229
Inventory	104,318	87,934
TOTAL CURRENT ASSETS	1,937,108	1,921,262
RESTRICTED ASSETS:		
BancFirst Bond Debt Service (Note 8)	47,461	46,864
TOTAL RESTRICTED ASSETS	47,461	46,864
FIXED ASSETS (Note 11):		
Land	69,866	69,866
Vehicles	228,708	138,331
Buildings	173,635	173,635
Office Furniture and Equipment	481,706	441,470
Water System	7,558,363	7,558,363
Construction in Progress	311,773	10,257
<i>Less: Accumulated Depreciation</i>	(3,299,257)	(3,072,426)
NET FIXED ASSETS	5,524,794	5,319,496
TOTAL ASSETS	\$ 7,509,363	\$ 7,287,622
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts Payable	\$ 120,604	\$ 28,355
Payroll Taxes Payable	3,527	1,622
Rent House Deposit	600	600
Accrued Compensated Absences	15,066	12,358
Current Portion of Long-Term Debt (Note 4)	154,319	148,639
TOTAL CURRENT LIABILITIES	294,116	191,574
LONG-TERM LIABILITIES		
Note Payables (Note 4)	2,768,134	2,922,185
TOTAL LONG-TERM LIABILITIES	2,768,134	2,922,185
TOTAL LIABILITIES	3,062,250	3,113,759
NET POSITION		
Invested in Capital Assets Net of Related Debt	2,602,341	2,248,672
Restricted for Debt Service	47,461	46,864
Unrestricted	1,797,311	1,878,327
TOTAL NET POSITION	4,447,113	4,173,863
TOTAL LIABILITIES AND NET POSITION	\$ 7,509,363	\$ 7,287,622

RURAL WATER DISTRICT #3, CHEROKEE COUNTY, OKLAHOMA
STATEMENT OF ACTIVITIES
For the Years Ended December 31, 2021 and 2022

	<u>2022</u>	<u>2021</u>
REVENUE:		
Water Sales	\$ 1,239,928	\$ 1,197,550
Other Operating Revenues	37,263	32,721
TOTAL OPERATING REVENUE	<u>1,277,191</u>	<u>1,230,271</u>
EXPENSES		
Water Purchases	129,711	99,197
Treatment Plant & Supplies	50,363	46,617
Salaries and Related Expenses	413,334	392,436
Vehicle Expenses	21,691	16,223
Contract Services	7,877	11,617
Postage	9,665	9,539
Board Meeting Expense	1,949	2,143
Bad Debt	2,377	-
Repairs & Maintenance	134,738	133,503
Admin. & Trustee Fees	12,372	12,310
Telephone/Utilities	46,158	67,934
Office Expenses	10,581	10,640
Professional Fees	8,400	8,625
Equipment Leases	5,598	5,958
Insurance	40,679	32,121
Licenses / Subscriptions / Dues	21,195	14,119
Bank Services Charges	169	98
Travel	1,047	17
Miscellaneous	5,570	2,606
Depreciation	226,831	219,745
TOTAL OPERATING EXPENSE	<u>1,150,305</u>	<u>1,085,448</u>
OPERATING INCOME (LOSS)	<u>126,886</u>	<u>144,823</u>
NON-OPERATING INCOME (EXPENSE)		
Interest and Investment Income	4,560	10,676
Miscellaneous Income	6,136	112,431
Rent Revenue	5,426	950
Grant Revenue Cherokee Nation	343,365	82,350
Line Relocation Engineering Fees	-	83,690
Line Relocation Reimbursements	(187,508)	(83,690)
Membership Income	62,500	52,500
Interest Expense	(88,115)	(92,586)
TOTAL NON-OPERATING INCOME (EXPENSE)	<u>146,364</u>	<u>166,321</u>
NET INCOME FROM OPERATIONS	273,250	311,144
NET POSITION, BEGINNING OF YEAR	4,173,863	3,862,719
NET POSITION, END OF YEAR	<u>\$ 4,447,113</u>	<u>\$ 4,173,863</u>

RURAL WATER DISTRICT #3, CHEROKEE COUNTY, OKLAHOMA
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2021 and 2022

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Inflows:		
Payments Received from Customers	\$ 1,340,717	\$ 1,118,168
Other Cash Received	39,971	34,848
Cash Outflows:		
Payments for Salaries & Wages	(413,334)	(392,436)
Payments to Suppliers for Goods and Services	(431,880)	(472,938)
Net Cash Provided (Used) by Operating Activities	535,474	287,642
CASH FLOWS FROM FINANCING ACTIVITIES		
Additions to Capital Assets-Depreciable	(130,612)	(44,839)
Additions to Capital Assets-Construction in Progress	(301,517)	-
Capital Contributions-Grants	155,857	82,350
Borrowing of Long Term Debt	-	-
Principal Reduction of Long-Term Debt	(148,371)	(144,675)
Interest Payments on Notes	(88,115)	(92,586)
Net Cash Provided (Used) for Capital & Related Financing Activities	(512,758)	(199,750)
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase (Decrease) in Investment Account	365	41,999
Membership Income	62,500	52,500
Miscellaneous Income	11,562	113,381
Interest Income	4,560	10,676
Net Cash Provided (Used) for Investing Activities	78,987	218,556
NET CASH INFLOW (OUTFLOW) FROM ALL ACTIVITIES	101,703	306,448
CASH AND CASH EQUIVALENTS BEGINNING OF THE YEAR	1,396,153	1,089,705
CASH AND CASH EQUIVALENTS END OF THE YEAR	\$ 1,497,856	\$ 1,396,153
INTEREST EXPENSE	\$ 88,115	\$ 92,586
CASH AND CASH EQUIVALENTS CONSISTS OF:	2022	2021
Petty Cash	\$ 1,040	\$ 1,040
Cash in Bank	1,449,355	1,348,249
Restricted Cash	47,461	46,864
TOTAL CASH AND CASH EQUIVALENTS	\$ 1,497,856	\$ 1,396,153

RURAL WATER DISTRICT #3, CHEROKEE COUNTY, OKLAHOMA
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2021 and 2022

Reconciliation of Operating Income (Loss to Net Cash)	<u>2022</u>	<u>2021</u>
Provided by Operating Activities:		
Operating Income	\$ 126,886	\$ 144,823
Depreciation and Amortization	226,831	219,745
(Increase) Decrease in:		
Accounts Receivable	100,789	(79,382)
Prepaid Insurance	491	923
Inventory	(16,385)	(11,336)
Increase (Decrease) in:		
Accounts Payable	94,154	10,742
Accrued Compensated Absences	<u>2,708</u>	<u>2,127</u>
 Net Cash Provided (Used) by Operating Activities	 <u><u>\$ 535,474</u></u>	 <u><u>\$ 287,642</u></u>

FINANCIAL

STATEMENT

NOTES

RURAL WATER DISTRICT #3, CHEROKEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended December 31, 2021 and 2022

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rural Water District #3, Cherokee County, Oklahoma (the "District"), 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

Rural Water District #3, Cherokee County, Oklahoma 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 in 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

On December 31, 2022 the District held deposits of approximately \$1,782,568 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 limitations, 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, 2021 and 2022 are as follows:

Investments	Rate	Maturity Date	Face Value	2021 Value	2022 Value
Cash	N/A	N/A	\$ -	\$ 2,286	\$ 2,470
American Express Centurian BK CD	2.40%	4/19/2022	40,000	40,260	-
Goldman Sachs BK USA	1.50%	4/27/2023	43,000	-	42,625
Wells Fargo BK NA Sioux Falls	3.25%	6/6/2023	45,000	46,778	44,810
Wells Fargo BK NA Sioux Falls	2.75%	5/3/2024	45,000	47,105	43,903
Bank of Cherokee County	1.10%	9/1/2021	46,000	47,285	47,474
Armstrong Bank	2.00%	2/12/2025	100,000	102,403	104,470
Total Investments			\$ 319,000	\$ 286,117	\$ 285,752

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:

	<u>Years</u>
Water System	10-50
Buildings	10-25
Equipment	7-10
Office Equipment	5-10

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 expenses 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 directwrite-off method for recognizing bad debts. Under the direct write-off method, accounts receivables 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: CASH AND CASH EQUIVALENTS

Unrestricted cash consists of the following:	<u>2022</u>	<u>2021</u>
Petty Cash	\$ 1,040	\$ 1,040
Armstrong Capital Account	368,722	315,820
Armstrong Construction Account	206,144	192,406
Armstrong Operating	<u>874,489</u>	<u>840,023</u>
TOTAL UNRESTRICTED CASH	<u>1,450,395</u>	<u>1,349,289</u>
BancFirst Bond Debt - Restricted Cash	<u>47,461</u>	<u>46,864</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 1,497,856</u>	<u>\$ 1,396,153</u>

NOTE 3: ACCOUNTS RECEIVABLE

Accounts receivable consist of trade receivables. An ageing of accounts receivable is presented below. An allowance for doubtful accounts has been established at this time for the accounts that are over sixty (60) days overdue.

	<u>2022</u>	<u>2021</u>
Current	\$ 66,307	\$ 82,012
30-60 Days	10,597	10,397
Over 60 Days	6,236	1,593
Over 90 Days	-	3,483
<i>Less: Allowance for Doubtful Accounts</i>	<u>(6,236)</u>	<u>(3,483)</u>
Total Accounts Receivables	76,904	94,002
Line Relocation Receivables	<u>-</u>	<u>83,690</u>
Total Receivables	<u>\$ 76,904</u>	<u>\$ 177,692</u>

NOTE 4: LONG-TERM DEBT

On July 21, 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 on September 15, 2040.

On March 11, 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 14, 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, 2022:

Payable to:	Date Note Matures	Collateral Pledged	Rate of Interest	Original Balance	Balance At 12/31/2022
Armstrong Bank	1/14/2035	Water Storage	2.89%	\$ 761,397	\$ 602,053
Armstrong Bank	2/13/2025	Certificate of Deposit	2.50%	98,924	44,400
OWRB	9/15/2040	Pledged Revenues	3.54%	3,110,000	2,276,000
				<u>\$ 3,970,321</u>	<u>\$ 2,922,453</u>

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

Years ending December 31 :

	PRINCIPAL	INTEREST
Current Portion	\$ 154,319	\$ 98,581
2024	159,064	93,731
2025	147,093	88,444
2026	147,923	83,537
2027	153,267	78,495
2028-2032	848,930	310,704
2033-2037	825,859	162,541
2038-2042	485,998	30,647
TOTAL	<u>\$ 2,922,453</u>	<u>\$ 946,680</u>

NOTE 5: COMMITMENTS AND CONTINGENCIES

Rural Water District #3, Cherokee County, Oklahoma, 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, Rural Water District #3, Cherokee County, Oklahoma, is not aware of any pending requests, and in the opinion of management, any such amounts would not be considered material.

NOTE 6: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

NOTE 7: DEFICIT NET POSITION

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

NOTE 8: RESTRICTED ASSETS

The Cash in Trust Fund account is an account that is an offset to the Revenue Bonds Payable as shown in Note 2. This fund is the Debt Service Fund held by BancFirst. The balance of this account is \$47,461 and \$46,864 for 2022 and 2021, respectively.

NOTE 9: RETIREMENT PLAN

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 \$8,347 and \$7,257 for 2022 and 2021, respectively.

NOTE 10: 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 11: LEASES

The District is party to the following lease agreements for the year ended December 31, 2022:

- Lease agreement beginning June 19, 2018 and maturing on August 18, 2023 with RLS Business Services for a FPI2320 Folder Inserter. Terms of the lease require 63 monthly payments of \$276. Payments for the next five (5) years related to this lease are as follows:

<u>Fiscal Year</u>	<u>RLS Business Services</u>
2023	\$ 2,208
2024	-
2025	-
2026	-
2027	-
Total	<u>\$ 2,208</u>

- Lease agreement beginning June 1, 2018 and maturing on August 1, 2023 with KS State Bank for a postage machine. Terms of the lease require 63 monthly payments of \$29. Payments for the next five (5) years related to this lease are as follows:

<u>Fiscal Year</u>	<u>KS State Bank</u>
2023	\$ 232
2024	19
2025	-
2026	-
2027	-
Total	<u>\$ 251</u>

NOTE 12: CAPITAL ASSETS

Capital asset balances and activity for the year ended December 31, 2022 and 2021, respectively, were as follows:

<u>2022</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets, not being Depreciated:				
Land	\$ 69,866	-	-	\$ 69,866
Construction in Progress	10,257	301,516	-	311,773
TOTAL Capital Assets, not being Depreciated	80,123	301,516	-	381,639
Capital Assets, being Depreciated				
Buildings	173,635	-	-	173,635
Water Distribution System	7,482,177	-	-	7,482,177
Machinery and Equipment	76,186	-	-	76,186
Office Equipment	441,470	40,236	-	481,706
Vehicles	138,332	90,376	-	228,708
TOTAL Capital Assets, being Depreciated	8,311,800	130,612	-	8,442,412
LESS: Accumulated Depreciation	(3,072,426)	(226,831)	-	(3,299,257)
TOTAL Accumulated Depreciation	(3,072,426)	(226,831)	-	(3,299,257)
TOTAL Capital Assets, Being Depreciated, Net	5,239,374	(96,219)	-	5,143,155
Capital Assets, Net	\$ 5,319,497	205,297	-	\$ 5,524,794
<u>2021</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets, not being Depreciated:				
Land	\$ 69,866	-	-	\$ 69,866
Construction in Progress	10,257	-	-	10,257
TOTAL Capital Assets, not being Depreciated	80,123	-	-	80,123
Capital Assets, being Depreciated				
Buildings	173,635	-	-	173,635
Water Distribution System	7,445,548	36,629	-	7,482,177
Machinery and Equipment	67,976	8,210	-	76,186
Office Equipment	441,470	-	-	441,470
Vehicles	138,332	-	-	138,332
TOTAL Capital Assets, being Depreciated	8,266,961	44,839	-	8,311,800
Accumulated Depreciation	(2,852,681)	(219,745)	-	(3,072,426)
LESS: Accumulated Depreciation	(2,852,681)	(219,745)	-	(3,072,426)
TOTAL Capital Assets, Being Depreciated, Net	\$ 5,494,403	(174,906)	-	\$ 5,319,497

NOTE 13: EVALUATION OF SUBSEQUENT EVENTS

The District has evaluated subsequent events through **April 6, 2023**, the date which the financial statements were available to be issued.

SUPPLEMENTARY

INFORMATION

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 #3, Cherokee County, Oklahoma
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 Rural Water District #3, 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 District #3, Cherokee County, Oklahoma's basic financial statements and have issued our report thereon dated **April 6, 2023**.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Rural Water District #3, Cherokee County, Oklahoma'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 Rural Water District #3, Cherokee County, Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of Rural Water District #3, Cherokee County, Oklahoma'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 District #3, Cherokee County, Oklahoma'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 District #3, Cherokee County, Oklahoma’s Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Rural Water District #3, Cherokee County, Oklahoma’s response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The Rural Water District #3, Cherokee County, Oklahoma’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
April 6, 2023

SCHEDULE OF FINDINGS AND RESPONSES

2022-1: Lack of 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 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 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 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.