

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT  
DISTRICT NO. 16  
CHEROKEE COUNTY, OKLAHOMA  
AUDITED FINANCIAL STATEMENTS AND NOTES  
For the Year Ended December 31, 2023**

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

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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, 2023, 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 modified cash basis financial position of the business-type activities, of the Rural Water, Sewer, Gas and Solid Waste Management District No. 16, Cherokee County, Oklahoma, as of December 31, 2023, and the respective changes in modified cash basis financial position, and cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

### **Basis for Opinions**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the 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.

### **Emphasis of Matter—Basis of Accounting**

We draw attention to Note 1. B. of the financial statements, which describe the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the 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 the modified cash basis of accounting 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.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated **August 8, 2024**, 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 8, 2024**

**FINANCIAL  
SECTION**

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT DIST NO. 16**  
**STATEMENT OF NET POSITION - MODIFIED CASH BASIS**  
**As of December 31, 2023**

<b>ASSETS</b>		<b>2023</b>
<b>CURRENT ASSETS:</b>		
Cash in Bank (Note 1.G.)	\$	276,071
Returned Checks		887
<b>TOTAL CURRENT ASSETS</b>		<u>276,958</u>
<b>RESTRICTED ASSETS:</b>		
Armstrong Bank Debt Reserve (Note 1.G.)		<u>188,101</u>
<b>TOTAL RESTRICTED ASSETS</b>		<u>188,101</u>
<b>FIXED ASSETS (Note 8):</b>		
Land		20,304
Vehicles		301,257
Buildings		77,230
Office Furniture and Equipment		111,533
Water System		5,096,926
<i>Less: Accumulated Depreciation</i>		<u>(3,352,019)</u>
<b>NET FIXED ASSETS</b>		<u>2,255,231</u>
<b>TOTAL ASSETS</b>		<u><u>\$ 2,720,290</u></u>
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Unearned Revenues	\$	14,979
Accrued Compensated Absences (1.H.)		29,014
Current Portion of Long-Term Debt (Note 6)		<u>110,886</u>
<b>TOTAL CURRENT LIABILITIES</b>		<u>154,879</u>
<b>LONG-TERM LIABILITIES</b>		
Notes Payable (Note 6)		<u>2,622,441</u>
<b>TOTAL LONG-TERM LIABILITIES</b>		<u>2,622,441</u>
<b>TOTAL LIABILITIES</b>		<u>2,777,320</u>
<b>NET POSITION</b>		
Invested in Capital Assets Net of Related Debt		(478,096)
Restricted for Debt Service		188,101
Unrestricted		<u>232,965</u>
<b>TOTAL NET POSITION</b>		<u><u>\$ (57,030)</u></u>

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT DISTRICT NO. 16**  
**STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION -**  
**MODIFIED CASH BASIS**  
**For the Years Ended December 31, 2023**

	<b>2023</b>
<b>REVENUE:</b>	
Water Sales	\$ 1,037,035
Penalties, Fees, Service Charges & Misc	27,748
<b>TOTAL OPERATING REVENUE</b>	<u>1,064,783</u>
<b>EXPENSES</b>	
Auto Expense	35,357
Bank Service Charges	16
Computer & Internet	4,633
Contract Services	18,522
Office Supplies	2,743
Equipment Rental	74
Employee Benefits	42,258
Insurance	39,644
Lab Fees	40,098
Payroll Expense	313,558
Payroll Tax	20,325
Postage & Delivery	2,234
Printing	2,952
Professional Fees	69,178
Repairs & Maintenance	70,978
Software	12,608
Supplies	120,429
Telephone	8,609
Travel	3,547
Utilities	65,117
Misc Expense	13,349
Depreciation	230,333
<b>TOTAL OPERATING EXPENSE</b>	<u>1,116,562</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(51,779)</u>
<b>NON-OPERATING INCOME (EXPENSE)</b>	
Other Income	6,100
ORWA Grant	100,000
Membership Income	34,500
Interest Income	3,824
Interest Expense	(81,825)
<b>TOTAL NON-OPERATING INCOME (EXPENSE)</b>	<u>62,599</u>
<b>CHANGES IN NET POSITION</b>	10,820
<b>NET POSITION, BEGINNING OF YEAR (Restated)</b>	(67,850)
<b>NET POSITION, END OF YEAR</b>	<u>\$ (57,030)</u>



**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT DISTRICT NO 16**  
**STATEMENT OF CASH FLOWS, DIRECT METHOD - MODIFIED CASH BASIS**  
**For the Years Ended December 31, 2023**

	<b>2023</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash Inflows:	
Payments Received from Customers	\$ 1,157,472
Other Non Operating Income	29,014
Cash Outflows:	
Payments for Salaries & Wages	(376,141)
Payments to Suppliers for Goods and Services	<u>(577,571)</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>232,774</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Cash & Equivalents from Acquisition	-
Borrowing of Long Term Debt	284,847
Interest Paid on Capital Debt	(81,825)
Principal Reduction of Long-Term Debt	<u>(99,313)</u>
<b>Net Cash Provided (Used) for Capital &amp; Related Financing Activities</b>	<u>103,709</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of Capital Assets	(426,725)
Investment Income	3,824
Capital Grant	100,000
Membership Income	<u>40,600</u>
<b>Net Cash Provided (Used) for Investing Activities</b>	<u>(282,301)</u>
<b>NET CASH INFLOW (OUTFLOW) FROM ALL ACTIVITIES</b>	54,182
<b>CASH AND CASH EQUIVALENTS BEGINNING OF THE YEAR</b>	<u>409,990</u>
<b>CASH AND CASH EQUIVALENTS END OF THE YEAR</b>	<u><u>\$ 464,172</u></u>
<b>CASH AND CASH EQUIVALENTS CONSISTS OF:</b>	<b>2023</b>
Cash in Bank Construction Account	7,219
Cash in Bank Operating Account	221,981
Capital Reserve	45,331
RIG Grant Account	1,540
Restricted Cash	<u>188,101</u>
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<u><u>\$ 464,172</u></u>

**RURAL WATER, SEWER, GAS AND SOLID WASTER MANAGEMENT DISTRICT NO 16**  
**STATEMENT OF CASH FLOWS, DIRECT METHOD - MODIFIED CASH BASIS**  
**For the Years Ended December 31, 2023**

<b>Reconciliation of Operating Income (Loss to Net Cash)</b>	<b><u>2023</u></b>
<b>Provided by Operating Activities:</b>	
Net Income from Operations	\$ (51,779)
<b>Adjustments to Reconcile Operating Income to Net Cash</b>	
<b>Used) by Operating Activities:</b>	
Depreciation and Amortization	230,333
<b>(Increase) Decrease in:</b>	
Accounts Receivable	77,710
<b>Increase (Decrease) in:</b>	
Accounts Payable	(67,483)
Deferred Revenue	14,979
Accrued Compensated Absences	<u>29,014</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<b><u><u>\$ 232,774</u></u></b>

**FINANCIAL**

**STATEMENT**

**NOTES**

**RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT DISTRICT NO. 16**  
**CHEROKEE COUNTY, OKLAHOMA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2023**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Rural Water, Sewer, Gas and Solid Waste Management District No. 16 (the "District") was Incorporated 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.

**1. A. REPORTING ENTITY**

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 consists 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.

**1. B. BASIS OF ACCOUNTING**

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

**1. 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.

**1. D. INVENTORY**

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

**1. E. 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.

**1. F. 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

## 1. G. 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 \$464,172. 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, 2023, are as follows:

Account Name	Total		Restricted	Unrestricted
	12/31/2023			
Construction Account	\$ 7,219	\$ -	\$ 7,219	
Debt Reserve Account	-	188,101	188,101	
Operating Account	\$ 221,981	\$ -	221,981	
RIG Grant Account	1,540	-	1,540	
Capital Reserve	45,331	-	45,331	
<b>Total Cash Deposits</b>	<b>\$ 276,071</b>	<b>\$ 188,101</b>	<b>\$ 464,172</b>	

## 1. 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. 1/2 of unused 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, 2023, was \$29,014.

Each full-time employee begins accruing sick leave when hired. Sick leave is accrued as follows; 1<sup>st</sup> year (6) days, 2<sup>nd</sup> year (7 ½) days, 3<sup>rd</sup> year (9) days, 4<sup>th</sup> year and beyond (10 ½) days. Sick leave is accrued monthly and may accumulate 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.

## 1. I. INVESTMENTS

The District holds no investments as of December 31, 2023, respectively.

## 1. J. EQUITY CLASSIFICATION

Net position is displayed in three components:

- 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.
- 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.

## **NOTE 2: 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 3: 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 years old 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 4: 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 5: RISK MANAGEMENT**

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

## **NOTE 6: LONG-TERM DEBT**

On January 1, 2023, the District executed three agreements with United State Department of Agriculture Rural Development. The agreements are related to the assumption of long-term debt formerly held by Lake Region Electric Cooperative.

### **The USDA loans are as follows:**

- USDA 91-01 – Principal balance of \$1,778,260 bearing interest at the rate of 4.125% payable in monthly installments of \$10,396, maturing on July 24, 2045.
- UDDA 91-02 - Principal balance of \$329,639 bearing interest at the rate of 2.75% payable in monthly installments of \$1,358, maturing on July 24, 2052.
- UDDA 91-03 Principal balance of \$541,841 bearing interest at the rate of 1.50% payable in monthly

installments of \$1,613, maturing on July 24, 2059.

**The District also has long term debt with two local banks for equipment as follows:**

- Welch Bank Toyota Truck - Principal balance of \$48,347 bearing interest at the rate of 4.899% payable in monthly installments of \$910.20, maturing on November 30, 2027.
- Welch Bank Kubota Excavator - Principal balance of \$56,796 bearing interest at the rate of 3.899% payable in monthly installments of \$1,674, maturing on June 16, 2025.
- Armstrong Bank Toyota Truck - Principal balance of \$34,349 bearing interest at the rate of 4.869% payable in monthly installments of \$1,029, maturing on September 5, 2026.

<b>Payable To:</b>	<b>Date Note Matures</b>	<b>Collateral Pledged</b>	<b>Interest Rate</b>	<b>Original Balance</b>	<b>12/31/23 Balance</b>
USDA 91-01	7/24/2045	Revenue	4.13%	\$ 1,837,473	\$ 1,778,260
USDA 91-02	7/24/2052	Revenue	2.75%	329,639	322,163
USDA 91-03	7/24/2059	Revenue	1.50%	541,840	532,405
Welch Bank	11/30/2027	Truck	4.90%	48,347	39,598
Welch Bank	6/16/2025	Excavator	3.90%	56,796	29,224
Armstrong Bank	9/5/2026	Truck	4.87%	34,349	31,677
				<u>\$ 2,848,444</u>	<u>\$ 2,733,327</u>

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

	<b>Principal</b>	<b>Interest</b>
<b>Current Portion</b>	<b>\$ 110,886</b>	<b>\$ 92,875</b>
2025	105,114	88,601
2026	95,790	84,751
2027	90,053	81,269
2028	82,320	78,084
2029	85,331	75,070
2030-2035	476,198	325,822
2036-2040	571,513	230,502
2041-2045	687,297	114,709
2046-2050	217,350	27,395
2051-2054	127,430	11,153
2055-2059	84,045	2,914
<b>Total Long Term Debt</b>	<b>\$ 2,733,327</b>	<b>\$ 1,213,145</b>

**NOTE 7: DEFICIT NET POSITION**

As indicated in the financial statements, there is a \$57,030 deficit in net position as of December 31, 2023 largely due to the significant amount of debt incurred for the purchase of the water system and related equipment.

**NOTE 8: FIXED ASSETS**

A summary of the fixed asset accounts for the year ended December 31, 2023, is as follows:

	12/31/2022	Additions	Disposals	12/31/2023
<b>Capital Assets Not Being Depreciated</b>				
Land	\$ 20,304	\$ -	\$ -	\$ 20,304
<b>Other Capital Assets</b>				
Buildings	73,213	4,017	-	77,230
Water System	4,719,680	377,246	-	5,096,926
Furniture and Equipment	111,533	34,349	23,639	122,243
Vehicles	209,815	-	-	209,815
Water Lease	80,730	-	-	80,730
<b>Total Other Capital Assets</b>	<b>5,194,971</b>	<b>415,612</b>	<b>23,639</b>	<b>5,586,944</b>
<b>Less: Accumulated Depreciation</b>				
Buildings	34,656	1,889	-	36,545
Water System	2,853,388	192,105	-	3,045,493
Furniture and Equipment	83,173	36,339	23,637	95,875
Vehicles	140,952	-	-	140,952
Water Lease	33,152	-	-	33,152
<b>Total Accumulated Depreciation</b>	<b>3,145,321</b>	<b>230,333</b>	<b>23,637</b>	<b>3,352,017</b>
<b>Capital Assets Net</b>	<b>\$ 2,069,954</b>	<b>\$ 185,279</b>	<b>\$ 2</b>	<b>\$ 2,255,231</b>

**NOTE 9: SUBSEQUENT EVENTS**

Subsequent events have been evaluated through **August 8, 2024**, 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, 2023, 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 8, 2024**.

### **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 item 2023-1, that we consider to be a significant deficiency.

### **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 8, 2024

## SCHEDULE OF FINDINGS AND RESPONSES

### For the Year Ended December 31, 2023

#### **2023-1: 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 recording invoices also issues all disbursement checks. This condition was also reported in 2022.

**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 a third-party CPA firm to record and reconcile all transactions.