

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

**AUDITED FINANCIAL STATEMENTS AND NOTES  
For the Years Ended December 31, 2022 and 2023**

**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**

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

**Certified Public Accountant**

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

## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Audit of the Financial Statements

#### **Opinion**

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, 2022 and 2023, 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, 2022 and 2023, 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 Opinion**

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 **May 3, 2024**, 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  
**May 3, 2024**

**FINANCIAL**  
**SECTION**

**RURAL WATER DISTRICT #3, CHEROKEE COUNTY, OKLAHOMA**  
**STATEMENT OF NET POSITION**  
As of December 31, 2022 and 2023

	<b>2023</b>	<b>2022</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Petty Cash (Note 2)	\$ 1,040	\$ 1,040
Cash in Bank (Note 2)	1,624,522	1,449,355
Certificate of Deposit	106,579	151,944
Edward Jones Brokerage Account	185,246	133,808
Accounts Receivable ( <i>Net of Allowance</i> ) (Note 3)	31,377	76,904
Prepaid Insurance	20,126	19,739
Inventory	140,283	104,318
<b>TOTAL CURRENT ASSETS</b>	<b>2,109,173</b>	<b>1,937,108</b>
<b>RESTRICTED ASSETS:</b>		
BancFirst Bond Debt Service (Note 8)	49,165	47,461
<b>TOTAL RESTRICTED ASSETS</b>	<b>49,165</b>	<b>47,461</b>
<b>FIXED ASSETS (Note 12):</b>		
Right to Use Asset	16,681	-
Land	81,866	69,866
Vehicles	232,008	228,708
Buildings	174,143	173,635
Office Furniture and Equipment	488,731	481,706
Water System	7,648,340	7,558,363
Construction in Progress	1,381,710	311,773
<i>Less: Accumulated Depreciation</i>	<i>(3,528,879)</i>	<i>(3,299,257)</i>
<b>NET FIXED ASSETS</b>	<b>6,494,600</b>	<b>5,524,794</b>
<b>TOTAL ASSETS</b>	<b>\$ 8,652,938</b>	<b>\$ 7,509,363</b>
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 22,083	\$ 120,604
Payroll Taxes Payable	5,268	3,527
Rent House Deposit	600	600
Accrued Compensated Absences	19,161	15,066
Current Portion of Long-Term Debt (Note 4)	161,649	154,319
<b>TOTAL CURRENT LIABILITIES</b>	<b>208,761</b>	<b>294,116</b>
<b>LONG-TERM LIABILITIES</b>		
Lease Payable (Note 11)	13,201	-
Note Payables (Note 4)	2,614,078	2,768,134
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>2,627,279</b>	<b>2,768,134</b>
<b>TOTAL LIABILITIES</b>	<b>2,836,040</b>	<b>3,062,250</b>
<b>NET POSITION</b>		
Invested in Capital Assets Net of Related Debt	3,718,873	2,602,341
Restricted for Debt Service	49,165	47,461
Unrestricted	2,048,860	1,797,311
<b>TOTAL NET POSITION</b>	<b>\$ 5,816,898</b>	<b>\$ 4,447,113</b>

**RURAL WATER DISTRICT #3, CHEROKEE COUNTY, OKLAHOMA**  
**STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION**  
**For the Years Ended December 31, 2022 and 2023**

	<u>2023</u>	<u>2022</u>
<b>REVENUE:</b>		
Water Sales	\$ 1,364,148	\$ 1,239,928
Other Operating Revenues	32,941	37,263
<b>TOTAL OPERATING REVENUE</b>	<u>1,397,089</u>	<u>1,277,191</u>
<b>EXPENSES</b>		
Water Purchases	236,756	129,711
Treatment Plant & Supplies	50,056	50,363
Salaries and Related Expenses	475,872	413,334
Vehicle Expenses	19,435	21,691
Contract Services	6,681	7,877
Postage	10,752	9,665
Board Meeting Expense	3,929	1,949
Bad Debt	587	2,377
Repairs & Maintenance	87,975	134,738
Admin. & Trustee Fees	11,921	12,372
Telephone/Utilities	53,346	46,158
Office Expenses	7,248	10,581
Professional Fees	13,752	8,400
Equipment Leases	5,096	5,598
Insurance	40,527	40,679
Licenses / Subscriptions / Dues	17,459	21,195
Bank Services Charges	309	169
Travel & Training	1,045	1,047
Miscellaneous	3,432	5,570
Depreciation	229,622	226,831
<b>TOTAL OPERATING EXPENSE</b>	<u>1,275,800</u>	<u>1,150,305</u>
<b>OPERATING INCOME (LOSS)</b>	<u>121,289</u>	<u>126,886</u>
<b>NON-OPERATING INCOME (EXPENSE)</b>		
Interest and Investment Income	37,440	4,560
Miscellaneous Income	9,078	6,136
Rent Revenue	4,825	5,426
Grant Revenue Cherokee Nation	1,277,425	343,365
Line Relocation Engineering Fees	(50,493)	(187,508)
Membership Income	59,000	62,500
Interest Expense	(88,779)	(88,115)
<b>TOTAL NON-OPERATING INCOME (EXPENSE)</b>	<u>1,248,496</u>	<u>146,364</u>
<b>CHANGES IN NET POSITION</b>	1,369,785	273,250
<b>NET POSITION, BEGINNING OF YEAR</b>	4,447,113	4,173,863
<b>NET POSITION, END OF YEAR</b>	<u>\$ 5,816,898</u>	<u>\$ 4,447,113</u>



**RURAL WATER DISTRICT #3, CHEROKEE COUNTY, OKLAHOMA**  
**STATEMENT OF CASH FLOWS**  
**For the Years Ended December 31, 2022 and 2023**

	<u>2023</u>	<u>2022</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash Inflows:		
Payments Received from Customers	\$ 1,369,712	\$ 1,340,717
Other Cash Received	76,998	39,971
Cash Outflows:		
Payments for Salaries & Wages	(475,872)	(413,334)
Payments to Suppliers for Goods and Services	<u>(703,438)</u>	<u>(431,880)</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>267,400</u>	<u>535,474</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Additions to Capital Assets-Depreciable	(87,420)	(130,612)
Additions to Capital Assets-Construction in Progress	(1,095,327)	(301,517)
Capital Contributions-Grants	1,226,932	155,857
Borrowing of Long Term Debt	-	-
Principal Reduction of Long-Term Debt	(150,206)	(148,371)
Interest Payments on Notes	<u>(88,779)</u>	<u>(88,115)</u>
<b>Net Cash Provided (Used) for Capital &amp; Related Financing Activities</b>	<u>(194,800)</u>	<u>(512,758)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Increase (Decrease) in Investment Account	(6,072)	365
Membership Income	59,000	62,500
Miscellaneous Income	13,903	11,562
Interest Income	<u>37,440</u>	<u>4,560</u>
<b>Net Cash Provided (Used) for Investing Activities</b>	<u>104,271</u>	<u>78,987</u>
<b>NET CASH INFLOW (OUTFLOW) FROM ALL ACTIVITIES</b>	176,871	101,703
<b>CASH AND CASH EQUIVALENTS BEGINNING OF THE YEAR</b>	<u>1,497,856</u>	<u>1,396,153</u>
<b>CASH AND CASH EQUIVALENTS END OF THE YEAR</b>	<u>\$ 1,674,727</u>	<u>\$ 1,497,856</u>
<b>INTEREST EXPENSE</b>	<u>\$ 88,779</u>	<u>\$ 88,115</u>
<b>CASH AND CASH EQUIVALENTS CONSISTS OF:</b>	<u>2023</u>	<u>2022</u>
Petty Cash	\$ 1,040	\$ 1,040
Cash in Bank	1,624,522	1,449,355
Restricted Cash	<u>49,165</u>	<u>47,461</u>
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<u>\$ 1,674,727</u>	<u>\$ 1,497,856</u>

**RURAL WATER DISTRICT #3, CHEROKEE COUNTY, OKLAHOMA**  
**STATEMENT OF CASH FLOWS**  
**For the Years Ended December 31, 2022 and 2023**

	<u><b>2023</b></u>	<u><b>2022</b></u>
<b>Reconciliation of Operating Income (Loss to Net Cash)</b>		
<b>Provided by Operating Activities:</b>		
Operating Income	\$ 121,288	\$ 126,886
Depreciation and Amortization	229,622	226,831
<b>(Increase) Decrease in:</b>		
Accounts Receivable	45,527	100,789
Prepaid Insurance	(387)	491
Inventory	(35,966)	(16,385)
<b>Increase (Decrease) in:</b>		
Accounts Payable	(96,779)	94,154
Accrued Compensated Absences	<u>4,095</u>	<u>2,708</u>
 <b>Net Cash Provided (Used) by Operating Activities</b>	 <u><u>\$ 267,400</u></u>	 <u><u>\$ 535,474</u></u>

**FINANCIAL**

**STATEMENT**

**NOTES**

**RURAL WATER DISTRICT #3, CHEROKEE COUNTY, OKLAHOMA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended December 31, 2022 and 2023**

**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 five (5) members serving a term of five (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 and 2023 the District held deposits of approximately \$1,782,568 and \$1,965,511 in eight (8) accounts, respectively.

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, 2022 and 2023 are as follows:

<b>Investments</b>	<b>Rate</b>	<b>Maturity Date</b>	<b>Face Value</b>	<b>2022 Value</b>	<b>2023 Value</b>
Cash	N/A	N/A	\$ -	\$ 2,470	\$ 604
Wells Fargo BK NA Sioux Falls	2.75%	5/3/2024	45,000	43,903	44,623
Key Bank Natl. Assn. Ohio	5.00%	5/1/2024	47,000	-	46,945
US Bank Natl. Assn. Instl. Ctf Dep.	5.25%	6/6/2024	45,000	-	45,001
Charles Schwab Bank SSB Westlake	5.40%	9/18/2024	48,000	-	48,073
Armstrong Bank	2.00%	2/12/2025	100,000	104,470	106,579
<b>Total Investments</b>			<b>\$ 285,000</b>	<b>\$ 150,843</b>	<b>\$ 291,825</b>

### **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 the 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:	<b>2023</b>	<b>2022</b>
Petty Cash	\$ 1,040	\$ 1,040
Armstrong Capital Account	440,043	368,722
Armstrong Construction Account	220,168	206,144
Armstrong Operating	964,311	874,489
<b>TOTAL UNRESTRICTED CASH</b>	<b>1,625,562</b>	<b>1,450,395</b>
BancFirst Bond Debt - Restricted Cash	49,165	47,461
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<b>\$ 1,674,727</b>	<b>\$ 1,497,856</b>

#### 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.

	<b>2023</b>	<b>2022</b>
Current	\$ 18,230	\$ 66,307
30-60 Days	13,148	10,597
Over 60 Days	5,854	6,236
Over 90 Days	-	-
<i>Less: Allowance for Doubtful Accounts</i>	<u>(5,855)</u>	<u>(6,236)</u>
<b>Total Accounts Receivables</b>	<b>31,377</b>	<b>76,904</b>

#### 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 3, 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, 2023:

Payable to:	Date Note Matures	Collateral Pledged	Rate of Interest	Original Balance	Balance At 12/31/2023
Armstrong Bank	1/14/2035	Water Storage	2.89%	\$ 761,397	\$ 564,794
Armstrong Bank	2/13/2025	Certificate of Deposit	2.50%	98,924	24,205
OWRB	9/15/2040	Pledged Revenues	3.54%	3,110,000	2,184,000
				<u>\$ 3,970,321</u>	<u>\$ 2,772,999</u>

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

Years ending December 31 :

	PRINCIPAL	INTEREST
Current Portion	\$ 158,921	\$ 93,874
2025	146,958	88,590
2026	147,772	83,688
2027	153,112	78,650
2028	158,492	73,604
2029-2033	876,613	282,452
2034-2038	802,131	134,486
2039-2043	329,000	14,815
<b>TOTAL</b>	<u>\$ 2,772,999</u>	<u>\$ 850,159</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 \$49,165 for 2022 and 2023, 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 \$12,589 for 2022 and 2023, 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**

Effective June 22, 2023, the District entered into a 63-month lease agreement with Genesis of Oklahoma for a Copystar CS 358ci color copier to be paid \$187.52 monthly. At the execution date, the value of the copier was \$9,621 with an 8% imputed interest rate and is reported as a right of use asset depreciated for 5.25-years on a straight-line basis with a corresponding lease payable on the District's financial statements.

Effective October 1, 2023, the District entered into a 63-month lease agreement with Quadient Leasing USA for a DS-64i folder/insertor to be paid \$415.02 quarterly. At the execution date, the value of the copier was \$7,060 with an 8% imputed interest rate and is reported as a right of use asset depreciated for 5.25-years on a straight-line basis with a corresponding lease payable on the District's financial statements.

The schedule of future-maturities for the lease payable is as follows:

<b>Payable To:</b>	<b>Lease Maturity Date</b>	<b>Rate Of Interest</b>	<b>Balance as of December 31, 2023</b>
Genesis of Oklahoma	9/22/28	8.00%	\$ 8,869
Quadient Leasing	12/31/28	8.00%	7,060
			<u>\$ 15,929</u>

The total lease payable schedule is as follows:

Years ending December 31:		<b>Principal</b>	<b>Interest</b>
Current Portion		\$ 2,728	\$ 1,184
2025		2,953	957
2026		3,197	713
2027		3,462	449
2028		3,589	174
<b>TOTALS</b>		<u>\$ 15,929</u>	<u>\$ 3,477</u>

**NOTE 12: CAPITAL ASSETS**

Capital asset balances and activity for the year ended December 31, 2022 and 2023, respectively, were as follows:

<u>2023</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets, not being Depreciated:				
Land	\$ 69,866	12,000	-	\$ 81,866
Construction in Progress	311,773	1,069,937	-	1,381,710
<b>TOTAL Capital Assets, not being Depreciated</b>	<b>381,639</b>	<b>1,081,937</b>	<b>-</b>	<b>1,463,576</b>
Capital Assets, being Depreciated				
Buildings	173,635	508	-	174,143
Water Distribution System	7,482,177	89,977	-	7,572,154
Machinery and Equipment	76,186	-	-	76,186
Office Equipment	481,706	7,025	-	488,731
Vehicles	228,708	3,300	-	232,008
<b>TOTAL Capital Assets, being Depreciated</b>	<b>8,442,412</b>	<b>100,810</b>	<b>-</b>	<b>8,543,222</b>
LESS: Accumulated Depreciation	(3,299,257)	(228,491)	-	(3,527,748)
<b>TOTAL Accumulated Depreciation</b>	<b>(3,299,257)</b>	<b>(228,491)</b>	<b>-</b>	<b>(3,527,748)</b>
<b>TOTAL Capital Assets, Being Depreciated, Net</b>	<b>5,143,155</b>	<b>(127,681)</b>	<b>-</b>	<b>5,015,474</b>
<b>Capital Assets, Net</b>	<b>\$ 5,524,794</b>	<b>954,256</b>	<b>-</b>	<b>\$ 6,479,050</b>
<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
<b>TOTAL Capital Assets, not being Depreciated</b>	<b>80,123</b>	<b>301,516</b>	<b>-</b>	<b>381,639</b>
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
<b>TOTAL Capital Assets, being Depreciated</b>	<b>8,311,800</b>	<b>130,612</b>	<b>-</b>	<b>8,442,412</b>
LESS: Accumulated Depreciation	(3,072,426)	(226,831)	-	(3,299,257)
<b>TOTAL Accumulated Depreciation</b>	<b>(3,072,426)</b>	<b>(226,831)</b>	<b>-</b>	<b>(3,299,257)</b>
<b>TOTAL Capital Assets, Being Depreciated, Net</b>	<b>5,239,374</b>	<b>(96,219)</b>	<b>-</b>	<b>5,143,155</b>
<b>Capital Assets, Net</b>	<b>\$ 5,319,497</b>	<b>205,297</b>	<b>-</b>	<b>\$ 5,524,794</b>

**NOTE 13: EVALUATION OF SUBSEQUENT EVENTS**

The District has evaluated subsequent events through **May 3, 2024**, the date on 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, 2022 and 2023, 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 **May 3, 2024**.

### **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 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 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  
May 3, 2024

**RURAL WATER DISTRICT #3, CHEROKEE COUNTY, OKLAHOMA**  
**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 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 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 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.