

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 8

TAHLEQUAH, OKLAHOMA

AUDITED FINANCIAL STATEMENTS AND NOTES
For the year ended December 31, 2019 and 2020

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

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Cherokee County Rural Water District No. 8
Tahlequah, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements Cherokee County Rural Water District No. 8 as of December 31, 2019 and 2020, and the related notes to the financial statements, which collectively comprise the District's financial statements as listed in the table of contents.

Managements Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluation the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cherokee County Rural Water District No. 8 as of December 31, 2019 and 2020, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principals generally accepted in the United States of America.

Other Matters

Required Supplementary Information

The District has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have issued a report dated March 4, 2021, on our consideration of Cherokee County Rural Water District No. 8, internal controls over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is 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 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 Cherokee County Rural Water District No. 8 internal control over financial reporting and compliance

Robert St. Pierre

Robert St. Pierre C.P.A., P.C.
Certified Public Accountant
March 4, 2021

FINANCIAL

SECTION

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 8
STATEMENTS OF NET POSITION
DECEMBER 31, 2019 and 2020

ASSETS	2020	2019
CURRENT ASSETS:		
Cash in Bank (Note 3)	\$ 144,195	\$ 121,660
Certificate of Deposit (Note 3)	250,000	250,000
Accounts Receivable (net of allowance Note 4)	14,629	18,566
Prepaid Insurance	7,957	5,028
TOTAL CURRENT ASSETS	416,781	395,254
FIXED ASSETS:		
Land (Note 12)	28,117	28,117
Water System (Note 12)	2,799,459	2,772,587
Vehicles (Note 12)	12,500	12,500
Equipment (Note 12)	77,758	75,070
Buildings (Note 12)	108,865	107,368
<i>Accumulated Depreciation (Note 12)</i>	<i>(1,067,618)</i>	<i>(976,993)</i>
NET FIXED ASSETS	1,959,081	2,018,649
TOTAL ASSETS	2,375,862	2,413,903
LIABILITIES AND FUND EQUITY		
CURRENT LIABILITIES		
Accounts Payable	10,556	6,106
Payroll Taxes Payable	955	1,980
Current Portion of Long Term Debt (Note 5)	42,000	20,000
Accrued Interest Payable		
TOTAL CURRENT LIABILITIES	53,511	28,086
LONG TERM LIABILITIES		
Long Term Debt (Note 5)	667,000	730,000
TOTAL LONG TERM LIABILITIES	667,000	730,000
TOTAL LIABILITIES	720,511	758,086
NET POSITION		
Invested in Capital Assets Net of Related Debt	1,250,081	1,268,649
Restricted Net Assets		
Unrestricted	405,270	387,168
TOTAL NET POSITION	1,655,351	1,655,817
TOTAL LIABILITIES AND NET POSITION	\$ 2,375,862	\$ 2,413,903

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 8
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2019 and 2020

	2020	2019
REVENUE:		
Water Revenue	\$ 294,309	\$ 280,807
TOTAL OPERATING REVENUE	294,309	280,807
EXPENDITURES:		
Water Purchased	100,568	86,038
Labor-Manager and Meter Reader	42,561	55,592
Security	640	668
Professional Fees	8,064	60,537
Payroll Taxes	3,597	5,426
Meals	268	437
Automobile Expense	8,859	5,211
Bank Service Charges	2,583	2,045
Office Supplies	4,905	2,718
Postage & Delivery	2,754	3,074
Insurance	6,372	4,974
Licenses/Subscriptions/Dues	439	563
Repairs and Maintenance	4,800	7,833
Chemicals, Field Supplies & Testing	3,250	8,949
Utilities	6,024	12,980
Miscellaneous	10,388	3,920
Depreciation	90,625	77,474
TOTAL OPERATING EXPENDITURES	296,697	338,439
NET INCOME FROM OPERATIONS	(2,388)	(57,632)
OTHER INCOME (EXPENDITURES):		
Interest Income	7,346	10,244
Other Income	566	13,296
Cherokee Nation Grant	-	133,000
Membership Income	11,700	16,200
Gain on ODOT Condemnation	-	93,870
ODOT Line Relocation Expenses	-	(26,828)
ODOT Line Relocation Reimbursement	-	26,828
Interest Expense	(17,690)	(51,798)
TOTAL OTHER INCOME AND EXPENSE	1,922	214,812
CHANGE IN NET POSITION	(466)	157,180
NET POSITION, BEGINNING OF THE YEAR	1,655,817	1,498,637
NET POSITION, END OF THE YEAR	\$ 1,655,351	\$ 1,655,817

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 8
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019 and 2020

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Inflows:		
Payments Received from Customers	\$ 298,246	\$ 295,707
Other Receipts	566	
Cash Outflows:		
Payments to Employees and Related Taxes	(46,158)	(52,874)
Payments to Suppliers for Goods and Services	<u>(162,843)</u>	<u>(228,936)</u>
Net Cash Provided (Used) by Operating Expenses	<u>89,811</u>	<u>13,897</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Grants Received	-	133,000
Proceeds from Condemnation of Land	-	137,500
Additions to Capital Assets	(27,631)	(300,327)
Membership Income	11,700	16,200
Purchase of Investments	-	-
Interest Income	7,345	10,244
Net Cash Provided (Used) for Investing Activities	<u>(8,586)</u>	<u>(3,383)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Reduction of Long-Term Debt	(41,000)	(806,018)
Borrowing of Long Term Debt	-	750,000
Interest Payments on Notes	<u>(17,690)</u>	<u>(51,798)</u>
Net Cash Provided(Used) for Capital & Related Financing Activities	<u>(58,690)</u>	<u>(107,816)</u>
NET CASH INFLOW (OUTFLOW) FROM ALL ACTIVITIES	22,535	(97,302)
CASH AND CASH EQUIVALENTS BEGINNING OF THE YEAR	<u>121,660</u>	<u>218,962</u>
CASH AND CASH EQUIVALENTS END OF THE YEAR	<u>\$ 144,195</u>	<u>\$ 121,660</u>
Interest Expense	<u>17,690</u>	<u>51,798</u>
	<u>\$ 17,690</u>	<u>\$ 51,798</u>

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 8
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019 and 2020

	2020	2019
Reconciliation of Operating Income (Loss to Net Cash)		
Provided by Operating Activities:		
Operating Income	\$ (2,388)	\$ (44,336)
Depreciation	90,625	79,176
(Increase) Decrease in:		
Accounts Receivable	3,937	1,612
Prepaid Insurance	(2,929)	(1,388)
(Increase) Decrease in:		
Accounts Payable	1,591	(21,167)
Payroll Taxes Payable	(1,025)	-
	<u>\$ 89,811</u>	<u>\$ 13,897</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 89,811</u>	<u>\$ 13,897</u>

FINANCIAL

STATEMENT

NOTES

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 8
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cherokee County Rural Water District No. 8 , was Incorporated as a Rural Water District by the Board of County Commissioners 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 one, two, and three years. The officers are elected at the annual meeting each year.

A. Reporting Entity

Cherokee County Rural Water District No. 8 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 on 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

At December 31, 2020, the district held deposits of approximately \$394,195 in 3 accounts. All deposits were covered by FDIC insurance on December 31, 2019 and 2020. The districts cash deposits consisted of interest-bearing certificate of deposit, checking accounts and a restricted account.

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 limitation, 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, 2020 are as follows:

	Rate	Maturity Date	Face Value	Current Value
Firststar Bank	1.20%	8/7/2021	250,000	250,000
			\$ 250,000	\$ 250,000

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 more than market. Inventory is typically ordered when needed, at year end there was no inventory on hand.

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 \$250 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:

Water System	10-50	Years
Buildings	10-25	Years
Equipment	7-10	Years
Office Equipment	5-10	Years
Vehicles	5	Years

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. Management has chosen to not report these amounts in the financial statements, this does not result in a material difference on the financial statements.

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

a. 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 the customer and once annually by District personnel. The water sales from subscriber water consumption billed but unpaid at the District's year-end are recognized as revenue in the current year and reported in the statement of net position as accounts receivable. Operating expense consist of those costs necessary to operate and maintain the water distribution system and for general administration of the District.

b. 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.

c. Bad Debts

The District uses the allowance method for recognizing bad debts. Under the allowance method, management has established an allowance account equal to the over 90 days old receivables. When an account is deemed uncollectible it is charged against allowance account which is an offset to accounts receivable.

NOTE 2: EVALUATION OF SUBSEQUENT EVENTS

The Company has evaluated subsequent events through March 4, 2021 the date which the financial statements were available to be issued.

NOTE 3: CASH AND EQUIVALENTS

Cash consists of the following:	2020	2019
UNRESTRICTED		
Cash Checking	\$ 18,946	\$ 15,353
Capital Acquisition Fund	125,249	101,308
TOTAL UNRESTRICTED	<u>144,195</u>	<u>116,661</u>
RESTRICTED		
Debt Service Fund	-	4,999
Debt Service Fund	-	-
TOTAL RESTRICTED	<u>-</u>	<u>4,999</u>
TOTAL CASH	<u>\$ 144,195</u>	<u>\$ 121,660</u>
Certificates of Deposit	<u>\$ 250,000</u>	<u>\$ 250,000</u>

NOTE 4: ACCOUNTS RECEIVABLE

Accounts Receivable consists of trade receivables. An aging of accounts receivable is presented below. An allowance for doubtful accounts has been established at this time for the accounts that are over ninety days overdue.

	2020	2019
Current	\$ 14,408	\$ 18,157
1-30 Days	221	368
30-60 Days	-	41
Over 60 Days	-	928
Allowance for Doubtful Accounts	-	(928)
Total Accounts Receivables	<u>\$ 14,629</u>	<u>\$ 18,566</u>

NOTE 5: LONG TERM DEBT

On December 30, 2019 the District signed a promissory note with RCB Bank for \$750,000, this note was to complete an advance refunding of a 2009 bond issue. The notes bears interest at the rate of 2.79% and has a maturity of January 1, 2035.

The District had the following Long-Term Debt at December 31, 2019:

Payable to	Date Note Matures	Collateral Pledged	Rate of Interest	Original Balance	Balance At 12/31/2020
RCB Bank	1/1/2035	Revenues/Assets	2.79%	\$ 750,000	\$ 709,000
				<u>750,000</u>	<u>709,000</u>

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

Years ending December 31 :

	PRINCIPAL	INTEREST
Current Portion	\$ 42,000	\$ 19,488
2022	43,000	18,316
2023	44,000	17,103
2024	46,000	15,861
2025	47,000	14,578
2026	48,000	13,253
2027-2031	263,000	45,156
2032-2036	176,000	8,691
TOTAL	\$ 709,000	\$ 152,446

NOTE 6: COMMITMENTS AND CONTINGENCIES

Cherokee County Rural Water District No. 8, 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 Cherokee County Rural Water District No. 8, is not aware of any pending requests, and in the opinion of management, any such amounts would not be considered material.

NOTE 7: 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 8: FINANCE- RELATED LEGAL AND CONTRACTUAL PROVISIONS

The terms of the loan agreements require Reserve Accounts as shown in Note 1. All the requirements have been met.

NOTE 9: DEFICIT NET POSITION

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

NOTE 10: RESTRICTED ASSETS

The Cash in Trust Fund account is an account that is an offset to the Revenue Bonds Payable as shown in Note 1. This fund is the Debt Service Fund held by UMB Bank.

NOTE 11: 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 12: CAPITAL ASSETS

Capital asset balances and activity for the year ended December 31, 2019 and 2020, were as follows:

	Balance			Balance		
	January 1, 2020	Additions	Reductions	December 31, 2020		
Assets being Depreciated						
Land	\$ 28,117	-	-	\$ 28,117		
Buildings and Building Improvements	107,368	1,497	-	108,865		
Vehicles	12,500	-	-	12,500		
Infrastructure	2,772,587	26,872	-	2,799,459		
Equipment	75,070	2,688	-	77,758		
Total Capital Assets being Depreciated	2,995,642	31,057	-	3,026,699		
Accumulated Depreciation	976,993	90,625	-	1,067,618		
Capital Activities, Capital Assets, Net	\$ 2,018,649	(59,568)	-	\$ 1,959,081		

Capital asset activity for business type activities for the year ended December 31, 2019 was as follows:

	Balance			Balance		
	January 1, 2019	Additions	Reductions	December 31, 2019		
Assets being Depreciated						
Land	\$ 2,000	28,117	2,000	\$ 28,117		
Buildings and Building Improvements	9,829	110,729	13,190	107,368		
Vehicles	52,100	-	39,600	12,500		
Infrastructure	2,612,538	160,049	-	2,772,587		
Equipment	179,141	3,361	107,432	75,070		
Total Capital Assets being Depreciated	2,855,608	302,256	162,222	2,995,642		
Accumulated Depreciation	962,657	77,475	63,139	976,993		
Capital Activities, Capital Assets, Net	\$ 1,892,951	224,781	99,083	\$ 2,018,649		

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
Cherokee County Rural Water District No. 8
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 Cherokee County Rural Water District No. 8 as of and for the year ended December 31, 2019 and 2020, and the related notes to the financial statements, which collectively comprise Cherokee County Rural Water District No. 8's basic financial statements and have issued our report thereon dated March 4, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Cherokee County Rural Water District No 8'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 Cherokee County Rural Water District No 8's internal control. Accordingly, we do not express an opinion on the effectiveness of Cherokee County Rural Water District No 8's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. 2020-1

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cherokee County Rural Water District No. 8's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Cherokee County Rural Water District No. 8's Response to Findings

Cherokee County Rural Water District No. 8's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Cherokee County Rural Water District No. 8's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Robert St. Pierre

Robert St. Pierre C.P.A., P.C.
Certified Public Accountant
March 4, 2021

SCHEDULE OF FINDINGS AND RESPONSES

2020-1

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. In addition, while this oversight is provided by a local CPA, it is limited to the bank reconciliation and monthly overview of the financial statements. This condition was also reported in 2019.

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 organization concurs with the recommendation and will continue to use the services of a local CPA to review the financial statements and prepare the bank reconciliation. Board members are also active in their roles and aware of the limited internal controls and provide oversight and consult with the CPA on any matters that may give rise to any concerns.