

**CHEROKEE COUNTY RURAL  
WATER DISTRICT NO. 3**

**TAHLEQUAH, OKLAHOMA**

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

**Audited by**

**ROBERT ST. PIERRE, C.P.A., P.C.  
CERTIFIED PUBLIC ACCOUNTANT  
1113 NORTH SECOND ST.  
STILWELL, OK 74960**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Cherokee County Rural Water District No. 3  
Tahlequah, Oklahoma

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of Cherokee County Rural Water District No. 3, **as of and for the year ended 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.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles 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 of 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. 3, 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 principles 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 **February 12, 2021**, on our consideration of Cherokee County Rural Water District No. 3, 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. 3 internal control over financial reporting and compliance

*Robert St. Pierre*

Robert St. Pierre C.P.A., P.C.  
Certified Public Accountant  
February 12, 2021

**CHEROKEE COUNTY RURAL WATER DISTRICT NO. 3**  
**STATEMENTS OF NET POSITION**  
**DECEMBER 31, 2019 & 2020**

	<b>ASSETS</b>	<b>2020</b>	<b>2019</b>
<b>CURRENT ASSETS:</b>			
Petty Cash (Note 3)		\$ 1,040	\$ 1,040
Cash in Bank (Note 3)		1,041,539	876,201
Certificate of Deposit		147,226	-
Edward Jones Brokerage Account		180,343	215,173
Accounts Receivable (net of allowance) (Note 4)		98,311	91,538
Prepaid Insurance		21,152	20,927
Inventory		<u>76,598</u>	<u>74,597</u>
	<b>TOTAL CURRENT ASSETS</b>	<b>1,566,209</b>	<b>1,279,476</b>
<b>RESTRICTED ASSETS:</b>			
BancFirst Bond Debt Service		<u>47,126</u>	<u>45,842</u>
	<b>TOTAL RESTRICTED ASSETS</b>	<b>47,126</b>	<b>45,842</b>
<b>FIXED ASSETS:</b>			
Land (Note 13)		69,866	69,866
Vehicles (Note 13)		138,331	138,331
Buildings (Note 13)		171,254	171,254
Office Furniture and Equipment (Note 13)		435,641	332,022
Water System (Note 13)		7,521,735	7,443,428
Construction in Progress		10,257	-
Accumulated Depreciation (Note 13)		<u>(2,852,135)</u>	<u>(2,634,721)</u>
	<b>NET FIXED ASSETS</b>	<b>5,494,949</b>	<b>5,520,180</b>
	<b>TOTAL ASSETS</b>	<b><u>7,108,284</u></b>	<b><u>6,845,498</u></b>
<b>LIABILITIES AND FUND EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Accounts Payable		18,425	21,209
Payroll Taxes Payable		1,410	916
Accrued Compensated Absences		10,231	6,662
Current Portion of Long-Term Debt (Note 5)		<u>144,988</u>	<u>120,804</u>
	<b>TOTAL CURRENT LIABILITIES</b>	<b>175,054</b>	<b>149,591</b>
<b>LONG TERM LIABILITIES</b>			
Note Payables (Note 5)		<u>3,070,511</u>	<u>3,131,720</u>
	<b>TOTAL LONG TERM LIABILITIES</b>	<b>3,070,511</b>	<b>3,131,720</b>
	<b>TOTAL LIABILITIES</b>	<b><u>3,245,565</u></b>	<b><u>3,281,311</u></b>
<b>NET POSITION</b>			
Invested in Capital Assets Net of Related Debt		2,279,450	2,267,656
Restricted for debt service		47,126	45,842
Unrestricted		<u>1,536,143</u>	<u>1,250,689</u>
	<b>TOTAL NET POSITION</b>	<b>3,862,719</b>	<b>3,564,187</b>
	<b>TOTAL LIABILITIES AND NET POSITION</b>	<b><u>\$ 7,108,284</u></b>	<b><u>\$ 6,845,498</u></b>

**CHEROKEE COUNTY RURAL WATER DISTRICT NO. 3**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2019 & 2020**

	<b>2020</b>	<b>2019</b>
<b>REVENUE:</b>		
Water Sales	1,164,156	1,130,180
Other Operating Revenues	29,727	15,733
<b>TOTAL OPERATING REVENUE</b>	<b>1,193,883</b>	<b>1,145,913</b>
<b>EXPENSES</b>		
Water Purchases	71,097	85,196
Treatment Plant & Supplies	39,997	47,096
Salaries and Related Expenses	360,498	362,685
Vehicle Expenses	9,769	18,603
Contract Services	20,002	20,933
Postage	8,724	8,194
Board Meeting Expense	2,017	2,210
Repairs & Maintenance	88,471	113,738
Admin & Trustee Fees	13,266	13,639
Telephone/Utilities	53,742	47,358
Office Expenses	9,509	8,210
Professional Fees	8,100	7,700
Equipment Leases	5,598	5,638
Insurance	42,276	25,114
Licenses / Subscriptions / Dues	15,223	16,042
Bank Services Charges	309	265
Travel	68	98
Miscellaneous	(251)	7,884
Depreciation	217,414	201,839
<b>TOTAL OPERATING INCOME</b>	<b>965,829</b>	<b>992,442</b>
<b>OPERATING INCOME (LOSS)</b>	<b>228,054</b>	<b>153,471</b>
<b>NON-OPERATING INCOME &amp; EXPENSE</b>		
Interest Income	27,826	16,730
Miscellaneous Income	5,676	(3)
Rent Revenue	3,475	5,385
Grant Revenue Cherokee Nation	85,000	22,338
Membership Income	45,000	27,500
Interest Expense	(96,499)	(101,590)
<b>TOTAL NON-OPERATING INCOME AND EXPENSE</b>	<b>70,478</b>	<b>(29,640)</b>
<b>NET INCOME FROM OPERATIONS</b>	<b>298,532</b>	<b>123,831</b>
<b>NET POSITION BEG OF THE YEAR</b>	<b>3,564,187</b>	<b>3,440,356</b>
<b>NET POSITION END OF YEAR</b>	<b>3,862,719</b>	<b>3,564,187</b>

**CHEROKEE COUNTY RURAL WATER DISTRICT NO. 3**  
**STATEMENTS OF CASH FLOWS**  
December 31, 2019 and 2020

	<b>2020</b>	<b>2019</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash Inflows:		
Payments Received from Customers	1,187,110	1,147,388
Other cash Received	3,569	(878)
Cash Outflows:	-	
Payments for Salaries & Wages	(360,498)	(335,150)
Payments to Suppliers for Goods and Services	(392,431)	(463,515)
	<u>437,750</u>	<u>347,845</u>
<b>Net Cash Provided (Used) by Operating Activities</b>		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Additions to Capital Assets	(192,183)	(30,254)
Capital Contributions-Grants	85,000	27,723
Borrowing of Long Term Debt	83,276	-
Principal Reduction of Long-Term Debt	(120,302)	(117,254)
Interest Payments on Notes	(96,499)	(101,590)
	<u>(240,708)</u>	<u>(221,375)</u>
<b>Net Cash Provided(Used) for Capital &amp; Related Financing Activities</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
(Purchase) of Investment Account	(112,396)	(7,249)
Membership Income	45,000	27,500
Miscellaneous Income	9,150	(1)
Interest Income	27,826	16,730
	<u>(30,420)</u>	<u>36,980</u>
<b>Net Cash Provided (Used) for Investing Activities</b>		
<b>NET CASH INFLOW (OUTFLOW) FROM ALL ACTIVITIES</b>	166,622	163,450
<b>CASH AND CASH EQUIVALENTS BEGINNING OF THE YEAR</b>	<u>923,083</u>	<u>759,633</u>
<b>CASH AND CASH EQUIVALENTS END OF THE YEAR</b>	<u>\$ 1,089,705</u>	<u>\$ 923,083</u>
<b>INTEREST EXPENSE</b>	<u>96,499.00</u>	<u>101,590.00</u>

**CHEROKEE COUNTY RURAL WATER DISTRICT NO. 3  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2019 and 2020**

	<b>2020</b>	<b>2019</b>
<b>Reconciliation of Operating Income (Loss to Net Cash) Provided by Operating Activities:</b>		
Operating Income	228,054	153,471
Depreciation and Amortization	217,414	201,839
<b>(Increase) Decrease in:</b>		
Accounts Receivable	(6,773)	1,471
Prepaid Insurance	(225)	(14,060)
Inventory	(1,999)	6,595
<b>(Increase) Decrease in:</b>		
Accounts Payable	(2,290)	(593)
Payroll Taxes Payable	3,569	(878)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>437,750</b>	<b>347,845</b>



**CHEROKEE COUNTY RURAL WATER DISTRICT NO. 3**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2019 and 2020**

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

Cherokee County Rural Water District No. 3, was Incorporated as a Rural Water District by the Board of County Commissioners on June 13, 1966 under the provisions of Title 82, O.S. 1981 Sections 1324.1-1324.26 inclusive, for the purpose of providing water to the members it serves. Membership in the water district consists of water users who have paid the required membership and connection fees. The district is exempt from federal and state taxes.

The board consists of 5 members serving a term of 5 years, the terms are staggered to allow the election of one director each year. The officers are elected at the annual meeting each year.

**A. Reporting Entity**

Cherokee County Rural Water District No. 3 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 of less to be cash equivalents.

## Custodial Credit Risk

At December 31, 2020 the district held deposits of approximately \$1,416,235 in 8 accounts. The district used insured sweep accounts to manage the risk associated with having balances in excess of FDIC limits. The districts 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 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, 2019 and 2020 are as follows:

<b>Investments</b>	<b>Rate</b>	<b>Maturity Date</b>	<b>Face Value</b>	<b>2019 Value</b>	<b>2020 Value</b>
Cash	0.00%		-	3,578	1,835
Amern Express Centurion BK CD	1.85%	4/20/2020	40,000	39,963	-
American Express Centurian BK CD	2.25%	4/19/2021	40,000	40,122	40,268
Amern Express Centurion BK CD	2.40%	4/19/2022	40,000	40,250	41,189
Wells Fargo BK NA Sioux Falls	3.25%	6/6/2023	45,000	45,833	48,401
Wells Fargo BK NA Sioux Falls	2.75%	5/3/2024	45,000	45,427	48,651
Bank of Cherokee County	1.10%	9/1/2021	46,000	-	46,849
Armstrong Bank	2.00%	2/12/2025	100,000	-	100,377
			<u>356,000</u>	<u>215,173</u>	<u>327,570</u>

## **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:

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.

## **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 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.

### **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 direct write-off method for recognizing bad debts. Under the direct write-off method, accounts receivable 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: EVALUATION OF SUBSEQUENT EVENTS**

The Company has evaluated subsequent events through February 12, 2021 the date which the financial statements were available to be issued.

**NOTE 3: CASH AND EQUIVALENTS**

Unrestricted Cash consists of the following:	2020	2019
Petty Cash	1,040	1,040
Armstrong Capital Account	220,996	270,352
Armstrong Construction Account	181,913	168,211
Armstrong Operating	638,630	437,638
<b>TOTAL UNRESTRICTED CASH</b>	1,042,579	877,241
<b>Restricted Cash</b>	47,125	45,842
<b>TOTAL CASH</b>	1,089,704	923,083

**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 sixty days overdue.

	2020	2019
Current	\$ 84,114	\$ 82,216
30-60 Days	11,250	9,322
Over 60 Days	2,947	1,926
Over 90 Days	961	-
Allowance for Doubtful Accounts	(961)	(1,926)
<b>Total Accounts Receivables</b>	98,311	91,538

**NOTE 5: LONG TERM DEBT**

On July 21<sup>st</sup>, 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 September 15<sup>th</sup>, 2040.

On March 11<sup>th</sup>, 2016, the district signed a promissory note with Armstrong Bank for 913,000. This note was changed on October 3<sup>rd</sup>, 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<sup>th</sup>, 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, 2020:

Payable to	Date Note Matures	Collateral Pledged	Rate of Interest	Original Balance	Balance At 12/31/2020
Armstrong Bank	1/14/2035	Water Storage	2.89%	761,397	682,223
Armstrong Bank	2/13/2025	Certificate of Deposit	2.50%	98,924	83,276
OWRB	9/15/2040	Pledged Revenues	3.54%	3,110,000	2,450,000
				<u>3,970,321</u>	<u>3,215,499</u>

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

Years ending December 31 :	PRINCIPAL	INTEREST
Current Portion	144,988	108,211
2022	148,639	103,456
2023	154,336	98,564
2024	159,081	93,714
2025	147,050	88,427
2026-2030	793,550	365,514
2031-2035	884,855	221,207
2036-2040	783,000	79,231
	<u>3,215,499</u>	<u>1,158,324</u>
TOTAL		

**NOTE 6: COMMITMENTS AND CONTINGENCIES**

Cherokee County Rural Water District No. 3, 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. 3, 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 BancFirst Bank.

## **11. SIMPLE IRA**

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 \$6,873 and \$7,508 for 2020 and 2019, respectively.

## **12. 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.

### 13. LEASES

At December 31, 2020 the district had two leases for office equipment as follows:

Lessor	Date of Lease	Leased Items	Payment Amount	Lease Term	Date of Maturity
RLS Business Services	6/19/2018	FPI2320 Folder Inserter	276.00	63 Mo	8/19/2023
KS State Bank	6/1/2018	Postal Machine	29.00	63 Mo	8/1/2023

### NOTE 14: CAPITAL ASSETS

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

2020	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, not being Depreciated:				
Land	69,866	-	-	69,866
<b>TOTAL Capital Assets, not being Depreciated</b>	<b>69,866</b>	<b>-</b>	<b>-</b>	<b>69,866</b>
Capital Assets, being Depreciated				
Buildings	171,255	-	-	171,255
Water Distribution System	7,367,239	78,309	-	7,445,548
Machinery and Equipment	397,447	103,618	-	501,065
Office Equipment	10,761	-	-	10,761
Vehicles	138,332	-	-	138,332
<b>TOTAL Capital Assets, being Depreciated</b>	<b>8,085,034</b>	<b>181,927</b>	<b>-</b>	<b>8,266,961</b>
Less Accumulated Depreciation for:				
Accumulated Depreciation	(2,634,720)	(217,414)	-	(2,852,134)
<b>TOTAL Accumulated Depreciation</b>	<b>(2,634,720)</b>	<b>(217,414)</b>	<b>-</b>	<b>(2,852,134)</b>
<b>TOTAL Capital Assets, Being Depreciated, Net</b>	<b>5,450,314</b>	<b>(35,487)</b>	<b>-</b>	<b>5,414,827</b>
<b>Capital Assets, Net</b>	<b>5,520,180</b>	<b>(35,487)</b>	<b>-</b>	<b>5,484,693</b>
2019	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, not being Depreciated:				
Land	69,866	-	-	69,866
<b>TOTAL Capital Assets, not being Depreciated</b>	<b>69,866</b>	<b>-</b>	<b>-</b>	<b>69,866</b>
Capital Assets, being Depreciated				
Buildings	171,255	-	-	171,255
Water Distribution System	7,343,208	24,031	-	7,367,239
Machinery and Equipment	391,224	6,223	-	397,447
Office Equipment	10,761	-	-	10,761
Vehicles	138,332	-	-	138,332
<b>TOTAL Capital Assets, being Depreciated</b>	<b>8,054,780</b>	<b>30,254</b>	<b>-</b>	<b>8,085,034</b>
Less Accumulated Depreciation for:				
Accumulated Depreciation	(2,432,881)	(201,839)	-	(2,634,720)
<b>TOTAL Accumulated Depreciation</b>	<b>(2,432,881)</b>	<b>(201,839)</b>	<b>-</b>	<b>(2,634,720)</b>
<b>TOTAL Capital Assets, Being Depreciated, Net</b>	<b>5,621,899</b>	<b>(171,585)</b>	<b>-</b>	<b>5,450,314</b>
<b>Capital Assets, Net</b>	<b>5,691,765</b>	<b>(171,585)</b>	<b>-</b>	<b>5,520,180</b>



**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
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. 3  
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. 3 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. 3’s basic financial statements and have issued our report thereon dated February 12, 2021.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Cherokee County Rural Water District No 3’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 3’s internal control. Accordingly, we do not express an opinion on the effectiveness of Cherokee County Rural Water District No 3’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 questioned cost 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. 3'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. 3's Response to Findings**

Cherokee County Rural Water District No. 3'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. 3'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  
February 12, 2021

## SCHEDULE OF FINDINGS AND RESPONSES COSTS

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 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 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 strive to implement procedures and compensating duties to help mitigate the risks associated with the lack of segregation of duties.

**INDEPENDENT  
AUDITOR'S  
REPORTS**

**FINANCIAL**

**SECTION**

**FINANCIAL**

**STATEMENT**

**NOTES**

**SUPPLEMENTARY**

**INFORMATION**