

**CHEROKEE COUNTY  
RURAL WATER  
DISTRICT # 7**

**Welling, Oklahoma**

**Annual Financial Statements  
and  
Independent Audit's Report**

**December 31, 2022**

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**MICHAEL W. GREEN**  
**Certified Public Accountant**  
827 W. Locust Street  
STILWELL, OK. 74960  
(918) 696-6298

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Cherokee County RWD # 7  
Welling, Oklahoma

***Opinion***

I have audited the accompanying financial statements of the business-type activities and each major fund of Cherokee County Rural Water District (the District), as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and each major fund of the District, as of December 31, 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

***Basis for Opinion***

I conducted my 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. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of the District and to meet My other ethical responsibilities, in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

***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 District'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***

My 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 My opinion. 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 GAAS 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 judgement 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, I:

- 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 District'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 My judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

I am 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 I identified during the audit.

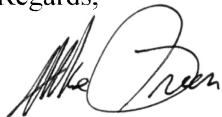
***Required Supplementary Information***

Management has omitted the management discussion and analysis that accounting principles generally accepted in the United States of America require 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, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. My 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*, I have also issued my report dated March 3, 2023, on my consideration of the District's internal control over financial reporting and on my 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 my 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 District'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 the District's internal control over financial reporting and compliance.

Regards,



Michael Green, CPA  
Stilwell, Oklahoma

March 3, 2023

**CHEROKEE COUNTY RURAL WATER DISTRICT #7**  
**Statement of Net Position**  
**December 31, 2022**

**ASSETS**

**CURRENT ASSETS:**

Cash - Operations	\$ 55,537
Cash - Restricted	90,923
Accounts Receivable	36,171
Allowance for Doubtful Accounts	(3,617)
Spare Parts Inventory	50,783
Prepaid Insurance	6,662
<b>TOTAL CURRENT ASSETS</b>	<b>236,459</b>

**NONCURRENT ASSETS:**

Land	3,600
Equipment	194,520
Building	157,681
Water Distribution System	4,652,439
Accumulated Depreciation	(1,427,877)
<b>TOTAL NONCURRENT ASSETS</b>	<b>3,580,363</b>
<b>TOTAL ASSETS</b>	<b>3,816,822</b>

**LIABILITIES**

**CURRENT LIABILITIES**

Accounts Payable & Accrued Liabilities	42,495
Current Portion of Long-Term Debt	31,205
<b>TOTAL CURRENT LIABILITIES</b>	<b>73,700</b>

**NONCURRENT LIABILITIES**

Notes Payable - Less Current Portion	1,071,807
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>1,071,807</b>
<b>TOTAL LIABILITIES</b>	<b>1,145,507</b>

**NET POSITION**

Net Investment in Capital Assets	2,477,351
Restricted for Debt Service	90,923
Unrestricted	103,041
<b>TOTAL NET POSITION</b>	<b>\$ 2,671,315</b>

The accompanying notes and auditors report are an integral part of these financial statements.

**CHEROKEE COUNTY RURAL WATER DISTRICT #7**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**For the Year Ended December 31, 2022**

**OPERATING REVENUE:**

**Charges for Services:**

Water Sales	\$ 499,290
Membership Fees	21,056
Late & Other Fees	11,773
<b>TOTAL OPERATING REVENUE</b>	<b>532,119</b>

**OPERATING EXPENSES:**

Water Purchased	165,192
Employee Expense	132,828
Permits & Licensing	1,035
Depreciation	116,387
Repairs & Maintenance	85,270
Insurance	17,729
Supplies	16,140
Legal & Professional	5,120
Postage	4,140
Telephone & Internet	3,230
Utilities	18,841
Vehicle Expense	18,404
Contract and Outside Services	9,031
Miscellaneous Expense	8,580
<b>TOTAL OPERATING EXPENSES</b>	<b>601,927</b>

**NET INCOME FROM OPERATIONS** **(69,808)**

**NONOPERATING REVENUE (EXPENSE):**

Interest Income	304
Grant Income	30,000
Other Income	527
Interest Expense	(18,810)
<b>TOTAL NONOPERATING REVENUE &amp; EXPENSE</b>	<b>12,021</b>

**NET INCOME** **(57,787)**

**NET POSITION, BEGINNING OF YEAR** **2,729,102**

**NET POSITION, END OF YEAR** **\$ 2,671,315**

The accompanying notes and auditors report are an integral part of these financial statements.

**CHEROKEE COUNTY RURAL WATER DISTRICT #7**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2022**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from Customers	\$ 534,559
Payments to Suppliers	(355,570)
Payments to Employees	<u>(132,828)</u>
<b>Net Cash Provided (used) by Operating Activities</b>	<u>46,161</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Other Income	527
Grant Income	<u>30,000</u>
<b>Net cash provided (used) by noncapital financing activities</b>	<u>30,527</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Acquisition and Construction of Assets	(25,648)
Net Reduction of Capital Debt	(16,012)
Interest Paid on Capital Debt	(18,810)
<b>Net Cash Provided (used) by Capital and Related Financing Activities</b>	<u>(60,470)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest Income	<u>304</u>
<b>Net Cash Provided (used) by Investing Activities</b>	<u>304</u>

**NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** 16,522

**CASH & CASH EQUIVALENTS - BEGINNING OF THE YEAR** 129,938

**CASH & CASH EQUIVALENTS - END OF THE YEAR** \$ 146,460

The accompanying notes and auditors report are an integral part of these financial statements.

**CHEROKEE COUNTY RURAL WATER DISTRICT #7**  
**Statement of Cash Flows -Cont.**  
**For the Year Ended December 31, 2022**

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH  
PROVIDED (USED) BY OPERATING ACTIVITIES**

Operating Income	\$ (69,808)
<b>Adjustments to Reconcile Operating Income to Net Cash Provided (used) by Operating Activities:</b>	
Depreciation Expense	116,387
<b>Change in Assets and Liabilities:</b>	
Accounts Receivable	2,440
Inventory	(9,331)
Accounts Payable & Accrued Liabilities	6,473
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b><u>\$ 46,161</u></b>

The accompanying notes and auditors report are an integral part of these financial statements.



**CHEROKEE COUNTY RURAL WATER DISTRICT # 7**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2022**

Note 1: Summary of Significant Accounting Policies

**1.A Financial Reporting Entity**

The Cherokee County Rural Water District #7 (the District) was organized under the Rural Water District Act of Oklahoma pursuant to Title 18 or 82 of the Oklahoma Statutes for the purpose of acquiring water and water rights, and to build and acquire pipelines and other facilities and to operate the same for the purpose of furnishing water to serve the need of owners and occupants of land located within the district.

**1.B Basis of Presentation**

Proprietary Funds and more specifically an Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

**1.C. Basis of Accounting**

The District complies with accounting principles generally accepted in the United States of America, (GAAP), as applicable to governmental units. The Governmental Accounting Standards Board, (GASB), is responsible for establishing GAAP for state and local governments through its pronouncements, (statements and interpretations.) The accounting and reporting framework and the more significant accounting policies established in GAAP and used by the Authority are discussed in subsequent subsections of these notes.

All funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred, or economic asset used.

**1.D Assets, Liabilities, and Fund Equity**

Cash and Cash Equivalents

For the purpose of financial reporting, “cash and cash equivalents” include all cash on hand, demand deposits and highly liquid investments with an original maturity of three months or less when purchased.

Accounts Receivable

Accounts receivable consists of utility billing receivables. An allowance for doubtful accounts has been established in the amount of \$3,617. This estimate has been evaluated by management based on experience and is determined to be sufficient.

## Inventories

Proprietary fund inventory items typically consist of materials and supplies used to conduct day to day operations. Materials and supplies inventories for the District are valued at lower of cost of market using the first-in, first-out method (FIFO).

## Income Taxes

The Water District is exempt from paying income taxes under Internal Revenue Code Section 115.

## Capital Assets

Property, plant and equipment are stated at their historical cost. Depreciation is recorded using the straight-line method over the useful life of the asset.

The range of estimated useful life of property by type of asset is as follows:

Vehicles	5
Furniture and Equipment	5
Buildings	20
Water System Improvements	40

## EQUITY CLASSIFICATION

### Net Position

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 borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position is displayed in three components:

a. *Net Investment in capital assets* – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

b. *Restricted net position* – consists of net assets with constraints placed on the use either by an external group such as creditors, grantors, contributors, or laws and regulation of other governments, or by law through constitutional provisions or enabling legislation.

c. *Unrestricted net position* – all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available.

### 1.E. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America which 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 (such as estimated useful lives in determining depreciation expense.) Accordingly, actual results could differ from those estimates.

#### Note 2: Cash and Investments

At December 31, 2022, the District held deposits of approximately \$146,460 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposits, (if any), were covered by the Federal Deposit Insurance Corporation, (FDIC).

#### Note 3: Accounts Receivable-Trade

CURRENT	\$	32,080
30 - 60 DAYS		48
60 - 90 DAYS		46
OVER 90 DAYS		3,997
	\$	<u>36,171</u>

#### Note 4: Inventory

At December 31, 2022, the value of the District's inventory at was \$ 50,783.

#### Note 5: Capital Assets

The following table shows the additions and deletions to each category of fixed assets:

	Balance December 31, 2021	Additions	Deletions	Balance December 31, 2022
<i>Business-type activities:</i>				
Capital assets not being depreciated:				
Land	\$ 3,600	\$ -	\$ -	\$ 3,600
Construction in Process	-	-	-	-
Total Non Depreciated Assets	<u>3,600</u>	<u>-</u>	<u>-</u>	<u>3,600</u>
Other capital assets:				
Equipment	173,589	20,930	-	194,519
Buildings	153,941	3,740	-	157,681
Water System & Improvements	4,651,462	978	-	4,652,440
Total other capital assets at historical cost	<u>4,978,992</u>	<u>25,648</u>	<u>-</u>	<u>5,004,640</u>
Less accumulated depreciation:	(1,311,490)	(116,387)	-	(1,427,877)
Total Business-type activities capital assets, net	<u>\$ 3,671,102</u>	<u>\$ (90,739)</u>	<u>\$ -</u>	<u>\$ 3,580,363</u>

## Note 6: General Long-Term Debt

On July 11, 2022, the District entered into a loan with Caterpillar Financial Services to purchase a Cat 302 Mini Excavator for \$20,930. The loan terms are four years with monthly payments of \$513 and an interest rate of 6.95%. At December 31, 2022, the balance of the loan was \$18,216.

During fiscal 2020, the District negotiated a new loan agreement with Bank of Cherokee County to combine the loan on the Big Tex Dump Trailer, and a loan for a 2013 Ford F-250. The District also paid off a 90 Day loan at Bank of Cherokee County and the BancFirst – Prague loan. As a result the combined loan for the trailer and the 2013 Ford F-250 outstanding balance at December 31, 2022 was \$9,643.

On May 15, 2018 the District entered into a loan agreement with Bank of Cherokee County for the purchase of a F-250 Ford truck. The loan has an interest rate of 6.0 % and a fixed monthly payment amount of \$540. At December 31, 2022 the balance of the loan was \$0.00.

On April 1, 2019, the District finalized a loan agreement with the USDA after completing construction of 2 pump stations and an office remodel. The loan in the amount of \$1,153,000 has a term of 40 years and bears a 1.625% interest rate with fixed monthly payments of \$3,275. At December 31, 2022 the balance of the loan was \$1,075,153.

### DEBT SERVICE REQUIREMENTS TO MATURITY

Type of Debt	Balance 12/31/2021	Additions	Reductions	Balance 12/31/2022	Amount Due Within One Year
Business Type Activities:					
USDA - LTD 2019	\$ 1,096,791	\$ -	\$ (21,638)	\$ 1,075,153	\$ 21,989
Bank of Cherokee CO - 2013 Truck & Trailer	15,075	-	(5,432)	9,643	4,259
Bank of Cherokee CO - 2018 Truck	7,158	-	(7,158)	-	-
Caterpillar - Cat 302 Mini X	-	20,930	(2,714)	18,216	4,957
Total Business Type Activities:	<u>\$ 1,119,024</u>	<u>\$ 20,930</u>	<u>\$ (36,942)</u>	<u>\$ 1,103,012</u>	<u>\$ 31,205</u>

The annual debt service requirements for long term debt principal and interest are as follows:

Year Ended June 30	Principal	Interest	Total
2023	31,205	19,002	50,207
2024	32,116	18,091	50,207
2025	32,671	17,139	49,811
2026	26,595	16,295	42,890
2027	23,464	15,836	39,300
2028-2032	123,211	73,289	196,500
2033-2037	133,633	62,867	196,500
2038-2042	144,936	51,564	196,500
2043-2047	157,195	39,305	196,500
2048-2052	170,491	26,009	196,500
2053-2058	184,911	11,589	196,500
2059-2063	42,583	500	43,084
Totals	<u>\$ 1,103,012</u>	<u>\$ 351,487</u>	<u>\$ 1,454,499</u>

Note 7: Equipment Lease

The District had no Capital Leases at December 31, 2022.

Note 8: Restricted Cash

Terms of the loan with USDA required the creation of Two Reserve Accounts; Debt Service Reserve and Short-Lived Asset Reserve.

The Debt Service Reserve account is required to accumulate a balance of \$39,300; terms of the loan allow this reserve to accumulate monthly with a deposit of \$327.50 for Ten years. Prior written concurrence from the USDA is required before funds may be withdrawn from this account. The Debt Service Reserve at December 31, 2022 was \$14,419.

The Short-Lived Asset Reserve account is required to be funded with at least \$10,667 annually for the life of the loan. The purpose of this account is to fund repairs and/or replacement of major system assets. The Short-Lived Asset Reserve at December 31, 2022 was \$38,463.

Note 9: Litigation

The District is party to a civil action filed on behalf of a land owner. The District tendered defense to the Oklahoma Rural Water Association who is providing defense. The District is cooperating in the defense. The District has defense to this matter.

#### Note 10: Contingencies

##### Federally Assisted Programs

In the normal course of operations, the District participates in various federal or state/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

#### Note 11: Uncertainties

During March 2020, the World Health Organization declared a pandemic with the outbreak of the COVID-19 and declared a “Public Health Emergency of International Concern”. The U.S. government and local governmental authorities implemented procedures to attempt to contain the virus and lessen its impact. The spread of this virus has caused business interruptions that are expected to continue for the foreseeable future. The extent of the impact of COVID-19 on the District’s operational and financial performance has not yet been determined. As such, these financial statements do not include any adjustments that might result from the outcome of this uncertainty.

#### Note 12: Economic Dependency – Water Contracts

The District has water purchase contracts with the City of Tahlequah and Adair County Rural Dist. # 2 of Stilwell. At December 31, 2022, approximately 95% of the water was purchased from the City of Tahlequah and approximately 5% was purchased from Adair County Rural Dist. # 2 of Stilwell.

#### Note 13: Pension Plans

The Water District does not provide retirement benefits to its employees other than the payroll payments to the social security retirement system.

#### Note 14: Compensated Absences

The Water district has no material compensated absence amounts.

#### Note 15: Subsequent Events

Subsequent events have been evaluated through March 3, 2023, which is the date the financial statements were available to be issued.

**MICHAEL W. GREEN**  
**Certified Public Accountant**

827 W. Locust Street  
STILWELL, OK. 74960  
(918) 696-6298

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 RWD # 7  
Welling, Oklahoma

I 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 and each major fund of Cherokee County Rural Water District # 7, (the District), as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued my report thereon dated March 3, 2023.

**Report on Internal Control over Financial Reporting**

In planning and performing my audit of the financial statements, I considered the District'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 my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I do not express an opinion on the effectiveness of the District'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.

My 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 have not been identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. I did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item (2022-01), that I consider to be significant deficiency.

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **The District's Response to Findings**

The District's response to the findings identified in my audit is described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Regards,

A handwritten signature in black ink, appearing to read "Mike Green", written in a cursive style.

Michael Green, CPA  
Stilwell, Oklahoma  
March 3, 2023



## **Cherokee County Rural Water District # 7**

Schedule of Findings and Responses

Year Ended December 31, 2022

### **2022-01 – Internal Controls over Financial Reporting**

**Criteria:** The segregation of duties and responsibilities between different individuals for custody of assets, record keeping 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 a limited number of individuals has responsibility for all functions of the financial statement reporting. These individuals have oversight responsibilities for billing and adjustments; posting of payments payment to subsidiary accounts receivable ledgers and reconciles the monthly bank statements. In addition, only limited oversight is provided over this individual in the conduct of their daily functions. This condition was also reported in 2021.

**Cause:** The District'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.