

**STEPHENS COUNTY RURAL WATER,  
SEWER AND SOLID WASTE  
MANAGEMENT DISTRICT NO. 3**

Financial Statements and  
Independent Auditor's Report

December 31, 2022

**STEPHENS COUNTY RURAL WATER, SEWER AND  
SOLID WASTE MANAGEMENT DISTRICT NO. 3  
December 31, 2022**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Stephens County Rural Water, Sewer and  
Solid Waste Management District No. 3

### Opinion

We have audited the accompanying financial statements of Stephens County Rural Water, Sewer and Solid Waste Management District No. 3 as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Stephens County Rural Water, Sewer and Solid Waste Management District No. 3's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Stephens County Rural Water, Sewer and Solid Waste Management District No. 3 as of December 31, 2022, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Stephens County Rural Water, Sewer and Solid Waste Management District No. 3, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 Stephens County Rural Water, Sewer and Solid Waste Management District No. 3's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our 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 generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the

aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Stephens County Rural Water, Sewer and Solid Waste Management District No. 3's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Stephens County Rural Water, Sewer and Solid Waste Management District No. 3's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

#### **Required Supplementary Information**

Management has omitted the management's 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. Our opinion on the basic financial statements is not affected by this missing information.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 8, 2023, on our consideration of the Stephens County Rural Water, Sewer and Solid Waste Management District No. 3's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant 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 the effectiveness of the Stephens County Rural Water, Sewer and Solid Waste Management District No. 3'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 Stephens County Rural Water, Sewer and Solid Waste Management District No. 3's internal control over financial reporting and compliance.



Duncan, Oklahoma  
August 8, 2023

**STEPHENS COUNTY RURAL WATER, SEWER AND  
SOLID WASTE MANAGEMENT DISTRICT NO. 3  
Statement of Net Position  
December 31, 2022**

<b>Assets</b>	<u>2022</u>	<u>12/31/2021 (Memo only)</u>
<b>Current assets</b>		
Cash and cash equivalents	\$ 144,530	\$ 52,389
Accounts receivable	31,199	18,302
Unbilled revenue	11,800	-
Prepaid insurance	<u>7,674</u>	<u>7,348</u>
Current assets	195,204	78,039
 <b>Certificate of Deposit</b>		
Pledged to secure note payable	61,000	-
Reserve for customer deposits	41,859	38,655
Unrestricted	<u>973</u>	<u>63,900</u>
	103,832	102,555
 <b>Property, plant and equipment, net</b>	423,605	466,255
 <b>Other assets</b>		
Refundable deposits	<u>1,000</u>	<u>1,000</u>
 Total assets	<u>\$ 723,641</u>	<u>\$ 647,849</u>
 <b>Liabilities and Net Position</b>		
 <b>Current Liabilities</b>		
Accounts payable	\$ 6,832	\$ 5,984
Accrued salaries	2,584	1,663
Accrued compensated absences	3,308	1,947
Accrued interest payable	444	-
Note payable	<u>61,000</u>	<u>-</u>
Current liabilities	74,168	9,594
 <b>Other liabilities</b>		
Customer deposits	<u>41,859</u>	<u>38,655</u>
	41,859	38,655
 <b>Net Position</b>		
Invested in capital assets	423,605	466,255
Restricted	-	-
Unrestricted	<u>184,009</u>	<u>133,344</u>
	607,614	599,599
 Total liabilities and net position	<u>\$ 723,641</u>	<u>\$ 647,848</u>

The accompanying notes are an integral part of the financial statements.

**STEPHENS COUNTY RURAL WATER, SEWER AND  
SOLID WASTE MANAGEMENT DISTRICT NO. 3**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Year ended December 31, 2022**

	<u>2022</u>	<u>12/31/2021 (Memo only)</u>
<b>Operating Revenues</b>		
Water and sewer revenue	\$ 465,272	\$ 288,731
<b>Operating Expenses</b>		
Water purchased	15,972	2,791
Water Testing	13,413	12,068
Supplies	35,288	28,732
Contract labor	1,056	144
Office expense	11,688	9,530
Dues, fees & license	5,232	4,367
Insurance & bonds	15,812	9,859
Professional fees	16,750	18,384
Truck expenses	8,808	6,676
Depreciation	56,662	56,147
Interest expense	444	260
Utilities & telephone	29,078	24,331
Repairs & maintenance	81,707	15,457
Salaries & wages	116,065	108,019
Employee benefits	22,052	22,037
Payroll taxes	9,840	8,591
Bad debts	3,020	1,078
Bank & credit card fees	3,439	2,568
Board member honorarium	6,500	6,800
Miscellaneous other	5,724	2,804
	<u>458,551</u>	<u>340,642</u>
Total expenses		
	458,551	340,642
Net Income (Loss) from Operations	6,721	(51,911)
<b>Other Revenues (Expenses)</b>		
Interest income	<u>1,294</u>	<u>1,300</u>
Net Income (Loss)	8,015	(50,611)
Capital Contributions, member investments	<u>-</u>	<u>-</u>
Change in Net position	8,015	(50,611)
<b>Net Position - Beginning of year</b>	<u>599,599</u>	<u>650,210</u>
<b>Net Position - End of year</b>	\$ <u><u>607,614</u></u>	\$ <u><u>599,599</u></u>

The accompanying notes are an integral part of the financial statements.

**STEPHENS COUNTY RURAL WATER, SEWER AND  
SOLID WASTE MANAGEMENT DISTRICT NO. 3  
Statement of Cash Flows  
Year ended December 31, 2022**

	2022	12/31/2021 (Memo only)
<b>Cash Flows from Operating Activities</b>		
Cash receipts from customers	\$ 440,574	\$ 289,107
Cash payments to employees for services	(113,782)	(107,081)
Cash payments to suppliers of goods or services	(222,918)	(131,830)
Cash payments for other operating expenses	(61,941)	(47,824)
Net cash provided (used) by operating activities	41,934	2,373
<b>Cash Flows from Capital and Related Financing Activities</b>		
Principal repayment on loans	0	(17,660)
Proceeds from bank loans	61,000	-
Interest paid on loans	0	(291)
Customer meter deposits increase	3,204	4,566
Purchase of property and equipment	(14,013)	(7,011)
Net cash provided (used) by financing activities	50,191	(20,396)
<b>Cash Flows from Investing Activities</b>		
CD's (Increased) Redeemed	(1,277)	(1,262)
Interest income	1,294	1,300
Net cash provided (used) by investing activities	17	38
<b>Net increase (decrease) in cash and cash equivalents</b>	92,142	(17,985)
<b>Cash and Cash Equivalents - Beginning of year</b>	52,389	70,374
<b>Cash and Cash Equivalents - End of year</b>	144,530	52,389
Reconciliation of operating income to net cash provided (used) by operating activities:		
Net income (loss) from operations	\$ 6,721	\$ (51,911)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	56,662	56,147
Interest expense	444	260
(Increase) decrease in accounts receivable	(24,698)	377
Increase (decrease) in accounts payable and accrued expenses	3,130	2,515
(Increase) decrease in other current assets	(326)	(5,015)
Net cash provided (used) by operating activities	\$ 41,934	\$ 2,373

**STEPHENS COUNTY RURAL WATER, SEWER AND  
SOLID WASTE MANAGEMENT DISTRICT NO. 3  
Notes to Financial Statements  
December 31, 2022**

**Note A: Organization and Significant Accounting Policies**

**Organization and Nature of Activities**

The Stephens County Rural Water, Sewer and Solid Waste Management District No. 3 (District) was organized under the laws of Oklahoma as a rural water district on September 19, 1966. The purpose of the District is to provide water and sewer services to owners and occupants within the geographic boundaries of the district it serves in Stephens County, Oklahoma.

**Basis of Presentation and Measurement Focus**

The financial statements of the District have been prepared on the accrual basis of accounting and, accordingly, include all significant receivables, payables and other liabilities.

All activities of the District are business-type activities, financed in whole or in part by fees charged to member users for water and sewer services. The business-type activity utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities (whether current or non current, financial, or non financial) associated with their activities are reported. Proprietary fund equity is classified as net position. Operating revenues are defined as those revenues derived in the ordinary course of providing water and sewer services to users. Nonoperating revenues consists of interest on deposits.

**Cash and Cash Equivalents**

Cash and cash equivalents consist of demand deposits and certificates of deposit in financial institutions with original maturities of less than ninety days, less and except amounts restricted for any purpose.

**Property, Plant and Equipment**

Property, plant and equipment are stated at historical cost basis less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Estimated useful lives generally range from five to forty years. The District capitalizes property and equipment for which the purchase cost is at least \$2,500.

**Income Tax Status**

The District is exempt from income taxes under Internal Revenue Code Section 115(a).

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosed contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.



**STEPHENS COUNTY RURAL WATER, SEWER AND  
SOLID WASTE MANAGEMENT DISTRICT NO. 3  
Notes to Financial Statements  
December 31, 2022**

**Allowance for Doubtful Accounts**

The District has established an allowance for doubtful accounts which represents approximately fourteen percent of the total accounts receivable from users at the financial statement date.

**Comparative Data**

The financial statements include certain prior period summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2021 from which the summarized information was derived.

**Subsequent Events**

Management has evaluated subsequent events through August 8, 2023, the date the financial statements were available to be issued.

**Note B: Deposits in Financial Institutions**

Deposits in financial institutions are presented in the statement of net position as follows:

Cash and Cash Equivalents	\$ 144,244
Certificate of Deposit	103,832
 Total Deposits	 <u>\$ 248,076</u>

The certificate of deposit bears interest at 1.24 percent per annum, and matures July 15, 2025. The District's policy is to maintain all deposits in accounts that do not exceed the limits of FDIC insurance coverage. All account types are authorized under Oklahoma statutes. Fair value approximates the carrying amount due to the nature and maturity of the deposits.

At December 31, 2022, the carrying amount of the District's cash and certificates of deposit in financial institutions was \$248,076 and the bank balances were \$251,017. The District's policy is to require collateralization of deposits in excess of FDIC insurance coverage. The deposits held at financial institutions can be categorized according to three levels of risk, as follows:

- Category 1      Deposits which are insured or collateralized with securities held by the District or by its agent in the District's name.
- Category 2      Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.
- Category 3      Deposits which are not insured or collateralized.

All deposits at December 31, 2022 were covered by FDIC insurance and are therefore classified as Category 1.

**STEPHENS COUNTY RURAL WATER, SEWER AND  
SOLID WASTE MANAGEMENT DISTRICT NO. 3  
Notes to Financial Statements  
December 31, 2022**

**Note C:       Accounts Receivable**

Accounts receivable, stated at \$31,199 consists of amounts receivable for water and sewer charges in the amount of \$36,278 less \$5,079 allowance for doubtful accounts. In addition to the accounts receivable, management has estimated \$11,800 in Unbilled Revenue for services delivered and not yet billed in December. This estimate is based on the subsequent month's actual billed revenue allocated based on number of days.

**Note D:       Restricted Deposits**

The reserve for customer deposits in the amount of \$41,859 represents deposits set aside to satisfy the liability for meter deposits collected from customers.

Certificate of deposit is pledged to secure bank loan for the note payable balance of \$61,000.

**Note E:       Subsequent Events**

During May 2023, the District received \$61,000 ASCOG grant proceeds which were used to retire the bank note payable.

In July, 2023 the District was the successful bidder at auction for the purchase of two tracts of land containing approximately sixteen acres total within the District; the total purchase for \$82,000 is pending approval by Stephens County District Court on behalf of the seller.

On July 19, 2023, the District received notice of award of Federal ARPA grant funds administered by the Oklahoma Water Resources Board in the amount of \$682,039. District is in the process of gathering and submitting required items to proceed with the ARPA Grant project for infrastructure improvements and modifications.

**Note F:       Revenue and Revenue Recognition**

The District recognizes revenue from sales of water and sewer services every month when the performance obligation of transferring product and providing services are met. Sales and service volume is measured by meter readings collected on or around the 25<sup>th</sup> of every month. Charges are billed to users based on the approved standard rates chart and invoices are mailed on or near the end of each calendar month. Charges for water and sewer are due by the fifteenth of the following month. If not paid by the end of following month, services are disconnected and additional fees are required to reconnect.

**STEPHENS COUNTY RURAL WATER, SEWER AND  
SOLID WASTE MANAGEMENT DISTRICT NO. 3  
Notes to Financial Statements  
December 31, 2021**

**Note G: Property, Plant and Equipment**

Property, plant and equipment consists of the following at December 31, 2021 and 2022, respectively:

	<u>12/31/2021</u>	<u>Additions</u>	<u>Dispositions</u>	<u>12/31/2022</u>
Water and sewer distribution systems	\$ 1,753,051	\$	\$	\$ 1,753,051
Wells and pumps	53,010	8,012		61,022
Equipment and vehicle	95,805			95,805
Buildings	121,269	6,000	(2,600)	124,669
Land	145,624			145,624
	<u>2,168,759</u>	<u>14,012</u>	<u>(2,600)</u>	<u>2,180,171</u>
Less: Accumulated Depreciation	<u>(1,702,504)</u>	<u>(56,662)</u>	<u>2,600</u>	<u>(1,756,566)</u>
Total property, plant and equipment	<u>\$ 466,255</u>	<u>\$ (42,650)</u>	<u>\$ -</u>	<u>\$ 423,605</u>

**Note H: Notes Payable**

The District executed a new bank note for \$61,000, originated September 2022, to finance a needed water bore. The promissory note, secured by bank certificate of deposit, provided for one annual payment of \$61,000 plus interest at 3.24%, due on September 22, 2023.

Debt service requirements to maturity on the bank loan are as follows:

<u>Due Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
December 31, 2023	61,000	1,976	62,976

Following is a summary of debt activity during the term from January 1, 2022 to December 31, 2022:

	<u>Beginning Balance</u>	<u>New Borrowing</u>	<u>Repayment</u>	<u>Ending Balance</u>
Bank loan	<u>0</u>	<u>61,000</u>	<u>0</u>	<u>61,000</u>

**STEPHENS COUNTY RURAL WATER, SEWER AND  
SOLID WASTE MANAGEMENT DISTRICT NO. 3  
Notes to Financial Statements  
December 31, 2022**

**Note I: Risk Management**

The District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

The following coverage was in effect pursuant to ORWA Assurance Group Protection Plan, Agreement number 10288 for the policy period ending June 1, 2023:

General liability, aggregate	\$1,000,000
Buildings and personal property	1,337,530
Automobile, comprehensive and collision	64,980
Automobile liability, aggregate	1,000,000
Employment practices liability, aggregate	1,000,000
Errors or omissions liability	1,000,000
Employee dishonesty, blanket	10,000

Workers compensation insurance is also provided pursuant to an annual contract with ORWA.

**Note J: Retirement Plan**

During the year ended September 30, 2003, the District implemented a SEP-IRA plan (a defined contribution plan) for its eligible employees. The District may elect to contribute between five and fifteen percent of employee compensation to the plan annually; contributions during the current year were made at five percent. Contributions vest immediately and are not subject to forfeiture. Employees are eligible for participation upon reaching age 21 and having performed services for the District for at least six months of the most recent five-year period. The District contributed a total of \$5,692 to employee SEP accounts during the year ended December 31, 2022.



**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  
Stephens County Rural Water, Sewer  
and Solid Waste Management District No. 3

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 Stephens County Rural Water, Sewer and Solid Waste Management District No. 3, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise Stephens County Rural Water, Sewer and Solid Waste Management District No. 3's basic financial statements, and have issued our report thereon dated August 8, 2023.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Stephens County Rural Water, Sewer and Solid Waste Management 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Stephens County Rural Water, Sewer and Solid Waste Management District No. 3's internal control. Accordingly, we do not express an opinion on the effectiveness of the Stephens County Rural Water, Sewer and Solid Waste Management 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 and not be identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 19-001 and 22-001 that we consider to be material weaknesses.

## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Stephens County Rural Water, Sewer and Solid Waste Management District No. 3's financial statements are free from material misstatements, 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 statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Stephens County Rural Water, Sewer and Solid Waste Management District No. 3 Response to Findings**

Stephens County Rural Water, Sewer and Solid Waste Management District No. 3's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Stephens County Rural Water, Sewer and Solid Waste Management 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 the response.

### **Purpose of This Report**

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

*Jayna Johnson PC*

Duncan, Oklahoma  
August 8, 2023

**STEPHEN'S COUNTY RURAL WATER, SEWER AND  
SOLID WASTE MANAGEMENT DISTRICT NO. 3  
Schedule of Findings and Responses  
Year ended December 31, 2022**

**19-001 Segregation of Duties**

Criteria: A good system of internal control requires a proper segregation of duties to prevent one individual from being in a position to execute, authorize and record the same transaction.

Condition: The same individual is responsible for generating customer billings, receiving payments, making and recording deposits, reconciling bank accounts, maintaining billing registers and preparing financial statements.

Cause and Effect: The limited staffing of the District makes it difficult to segregate duties appropriately. Without sufficient segregation of duties, the risk significantly increases that a breach of internal controls could occur and not be detected in the normal course of operations.

Recommendation: The District should evaluate the risks associated with the lack of segregation of duties and consider implementing controls that would help mitigate those risks. Some compensating controls are in place that require Board signature on checks. The Board should continue to be actively involved in the operations of the organization.

Management's Response: Due to the District size and limited number of personnel, it is not feasible to segregate duties for optimal internal control; the cost of correcting the weakness would be prohibitive. The Board will continue to be actively involved in District operations.

**22-001 Financial Reporting**

Criteria: Management is responsible for the preparation and fair presentation of the financial statements, including responsibility for internal controls relevant to the preparation of financial statements that are free from material misstatement.

Condition: Internal controls over financial reporting did not prevent or detect misstatements in the accounting records or financial statement amounts when preparing financial statements.

Cause and Effect: Errors in the financial statements were not detected through ongoing financial reporting procedures and as a result, multiple audit adjustments were required.

Recommendation: We recommend the District engage qualified professional assistance at regularly scheduled times throughout the year to support and assist management in fulfilling its financial reporting responsibilities.

Management's Response: We agree that obtaining assistance from a qualified person or firm on a quarterly basis would benefit the District by providing support for accounting and financial reporting practices.