

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

**TAHLEQUAH, OKLAHOMA**

**AUDITED FINANCIAL STATEMENTS AND NOTES**  
**For the year ended December 31, 2014 and 2015**

**Audited by**

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

## TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
BALANCE SHEET	3
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET ASSETS	4
STATEMENT OF CASH FLOWS	5
NOTES TO FINANCIAL STATEMENTS	7-14
AUDITOR'S REPORT ON COMPLIANCE AND INTERNAL CONTROL	15
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	17

**INDEPENDENT  
AUDITOR'S  
REPORTS**

## 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, 2014 and 2015, 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 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, 2014 and 2015, 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 Cherokee County Rural Water District No. 3, has not presented the management discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

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

In accordance with *Government Auditing Standards*, we have issued a report dated March 8, 2016, 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 C.P.A., P.C.  
Certified Public Accountant  
March 8, 2016

**FINANCIAL**

**SECTION**

**CHEROKEE COUNTY RURAL WATER DISTRICT NO. 3**  
**BALANCE SHEET**  
**DECEMBER 31, 2014 & 2015**

	<b>ASSETS</b>	<b>2015</b>	<b>2014</b>
<b>CURRENT ASSETS:</b>			
Petty Cash (Note B)		\$ 1,040	\$ 1,522
Cash in Bank (Note B)		700,384	590,993
Certificates of Deposit (Note B)		-	-
Edward Jones Brokerage Account		198,841	198,000
Accounts Receivable (net of allowance) (Note C)		81,482	82,975
Accounts Receivable Contracts		-	9,900
Prepaid Insurance		6,259	11,977
Inventory		<u>76,589</u>	<u>66,424</u>
	<b>TOTAL CURRENT ASSETS</b>	<b>1,064,595</b>	<b>961,791</b>
<b>RESTRICTED ASSETS:</b>			
BancFirst Bond Debt Service		<u>44,681</u>	<u>44,660</u>
	<b>TOTAL RESTRICTED ASSETS</b>	<b>44,681</b>	<b>44,660</b>
<b>FIXED ASSETS:</b>			
Land		69,866	69,866
Vehicles		138,331	138,331
Buildings		159,068	156,627
Office Furniture and Equipment		274,432	267,420
Water System		6,046,245	6,022,645
Construction in Progress		92,579	-
Accumulated Depreciation		<u>(1,814,080)</u>	<u>(1,613,671)</u>
	<b>NET FIXED ASSETS</b>	<u>4,966,441</u>	<u>5,041,218</u>
	<b>TOTAL ASSETS</b>	<u><u>6,075,717</u></u>	<u><u>6,047,669</u></u>
<b>LIABILITIES AND FUND EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Accounts Payable		18,098	49,114
Payroll Taxes Payable		-	256
Accrued Compensated Absences		10,450	4,262
Current Portion of Long-Term Debt (Note E)		<u>64,001</u>	<u>63,431</u>
	<b>TOTAL CURRENT LIABILITIES</b>	<u>92,549</u>	<u>117,063</u>
<b>LONG TERM LIABILITIES</b>			
Note Payables (Note E)		2,987,254	3,085,908
Advanced Refunding of Bonds Payable (Note M)		<u>(388,157)</u>	<u>(517,543)</u>
	<b>TOTAL LONG TERM LIABILITIES</b>	<u>2,599,097</u>	<u>2,568,365</u>
<b>NET ASSETS</b>			
Invested in Capital Assets Net of Related Debt		1,527,029	1,374,336
Restricted for debt service		44,681	44,660
Unrestricted		<u>1,812,361</u>	<u>1,943,245</u>
	<b>TOTAL NET ASSETS</b>	<u>3,384,071</u>	<u>3,362,241</u>
	<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 6,075,717</u></u>	<u><u>\$ 6,047,669</u></u>

**CHEROKEE COUNTY RURAL WATER DISTRICT NO. 3**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED DECEMBER 31, 2014 & 2015**

	2015	2014
<b>REVENUE:</b>		
Water Sales	\$ 1,078,165	\$ 1,087,302
Other Operating Revenues	<u>2,762</u>	<u>1,595</u>
<b>TOTAL OPERATING REVENUE</b>	<u>1,080,927</u>	<u>1,088,897</u>
<b>EXPENDITURES:</b>		
Water Purchases	103,838	135,583
Treatment Plant & Supplies	28,578	48,982
Salaries and related expenses	290,800	298,082
Vehicle Expenses	13,132	20,382
Contract Services	6,837	20,822
Postage	9,420	11,964
Board Meeting Expense	3,127	3,167
Repairs and Maintenance	92,165	142,580
Admin & Trustee Fees	15,491	15,741
Telephone/Utilities	50,480	32,280
Office Expense	20,111	12,551
Professional Fees	5,950	22,516
Insurance	40,026	22,559
Licenses/Subscriptions/Dues	3,796	15,074
Bank Service Charges	215	418
Travel	43	-
Miscellaneous	17,580	1,751
Depreciation	<u>201,687</u>	<u>197,971</u>
<b>TOTAL OPERATING EXPENDITURES</b>	<u>903,276</u>	<u>1,002,423</u>
<b>NET INCOME FROM OPERATIONS</b>	<u>177,651</u>	<u>86,474</u>
<b>OTHER INCOME (EXPENDITURES):</b>		
Interest Income	2,111	3,068
Miscellaneous Income	24,951	8,738
Membership Income	51,250	35,000
Miscellaneous Expense	(618)	10,950
Grant Revenue	(9,900)	9,784
Amortization of Advance Refunding	(129,385)	(129,385)
Interest Expense	<u>(94,230)</u>	<u>(97,003)</u>
<b>TOTAL OTHER INCOME AND EXPENSE</b>	<u>(155,821)</u>	<u>(158,848)</u>
<b>NET INCOME</b>	21,830	(72,374)
<b>NET ASSETS, BEGINNING OF THE YEAR</b>	<u>3,362,241</u>	<u>3,434,615</u>
<b>NET ASSETS, END OF THE YEAR</b>	<u>\$ 3,384,071</u>	<u>\$ 3,362,241</u>

**CHEROKEE COUNTY RURAL WATER DISTRICT NO. 3**  
**STATEMENT OF CASH FLOWS**  
December 31, 2014 and 2015

	<b>2015</b>	<b>2014</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash Inflows:		
Payments Received from Customers	1,041,070	1,083,982
Other cash Received	-	1,595
Cash Outflows:		
Payments for Salaries & Wages	(290,800)	(253,056)
Payments to Suppliers for Goods and Services	(446,508)	(638,280)
	<u>303,762</u>	<u>194,241</u>
<b>Net Cash Provided (Used) by Operating Expenses</b>		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Additions to Capital Assets	(125,631)	(58,442)
Capital Contributions-Grants	66,301	-
Contracts Receivables	-	-
Capital Grants Expended	-	-
(Purchase) of Investment Account	(841)	(198,000)
Principal Reduction of Long-Term Debt	(93,196)	34,993
Interest Payments on Notes	(94,230)	(97,003)
	<u>(247,597)</u>	<u>(318,452)</u>
<b>Net Cash Provided(Used) for Capital &amp; Related Financing Activities</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Membership Income	51,250	35,000
Miscellaneous Income	(618)	27,564
Interest Income	2,112	3,068
	<u>52,744</u>	<u>65,632</u>
<b>Net Cash Provided (Used) for Investing Activities</b>		
<b>NET CASH INFLOW (OUTFLOW) FROM ALL ACTIVITIES</b>	108,909	(58,579)
<b>CASH AND CASH EQUIVALENTS BEGINNING OF THE YEAR</b>	<u>592,515</u>	<u>651,094</u>
<b>CASH AND CASH EQUIVALENTS END OF THE YEAR</b>	<u>\$ 701,424</u>	<u>\$ 592,515</u>

**CHEROKEE COUNTY RURAL WATER DISTRICT NO. 3  
STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2014 and 2015**

	<b>2015</b>	<b>2014</b>
<b>Reconciliation of Operating Income (Loss to Net Cash) Provided by Operating Activities:</b>		
Operating Income	177,651	86,474
Depreciation and Amortization	201,687	197,971
Advanced Refunding of Debt	(88,710)	(129,385)
<b>(Increase) Decrease in:</b>		
Accounts Receivable	11,393	(3,320)
Prepaid Insurance	5,718	-
Inventory	(10,165)	(2,525)
<b>(Increase) Decrease in:</b>		
Accounts Payable	6,188	45,026
Payroll Taxes Payable	-	-
	<u>303,762</u>	<u>194,241</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>303,762</b>	<b>194,241</b>

**FINANCIAL**

**STATEMENT**

**NOTES**

**CHEROKEE COUNTY RURAL WATER DISTRICT NO. 3  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

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

Cherokee County Rural Water District No. 3, was created as a not-for-profit corporation under the laws of the State of Oklahoma for the purpose of obtaining and distributing potable water to rural residences within the district boundaries.

**1. Basis of Accounting**

The financial statements of the Cherokee County Rural Water District No. 3, have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

**2. Basis of Presentation**

The District is accounted for within the framework of enterprise fund accounting. Enterprise funds are used to account for operations that are operated in a manner similar to private business enterprises wherein the intent of the District's Board of Directors is to recover the cost of providing goods and services through user charges.

**3. Cash and Equivalents**

For the purpose of the statement of cash flows, the organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. Restricted cash consists of cash held for customer deposits and cash reserved for debt service.

**4. Income Taxes**

Cherokee County Rural Water District No. 3, is exempt from Federal Income Taxes.

**5. Property and Equipment**

The District values its property and equipment at historical cost or estimated fair value at the date of receipt. Depreciation is computed using the straight-line method over the estimated useful life of the individual assets. The district policy is to capitalize fixed assets when cost exceeds \$500.00.

## **6. Budgetary Data**

The District is required by Article 8 of its Bylaws to prepare an annual budget.

## **7. Capital Assets**

Capital assets are comprised of the water storage and distribution system which are depreciated using the straight-line method over 40 years. Expenditures over \$500.00 for additions and betterments to property and equipment are capitalized.

## **8. Accounts Receivable**

The balance of accounts receivable shown on the statement of net assets represents the net amount owed to the water district by its members at the end of the fiscal year.

## **9. Allowance for Doubtful Accounts**

The District used the reserve method for recognizing bad debts.

## **10. Long-Term Debt**

Long-term debt is reported at face value, net of applicable discounts and deferred loss on refunding. Costs related to the issuance of debt are deferred and amortized over the lives of various debt issues.

## **11. Equity Classification**

Equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt- 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.
2. Restricted net assets - Consists of net assets with constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

## **12. Revenues, Expenditures and Expenses**

Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

## **13. Compensated Absences**

The organization did start accruing for a liability for compensated absences in 2014. In prior years the District did not consider the amount of compensated absences to be material to the financial statements and did not record an accrual for compensated absences.

## **14. Evaluation of Subsequent Events.**

The Company has evaluated subsequent events through March 8, 2016 the date which the financial statements were available to be issued.

### **NOTE B: CASH AND EQUIVALENTS**

Unrestricted Cash consists of the following:	<b>2015</b>	<b>2014</b>
Petty Cash	1,040	1,522
Armstrong Capital Account	140,846	134,732
Armstrong Construction Account	274,106	223,938
Armstrong Operating	<u>285,432</u>	<u>232,323</u>
<b>TOTAL UNRESTRICTED CASH</b>	<b><u>701,424</u></b>	<b><u>592,515</u></b>

**NOTE C: 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.

	2015	2014
Current	\$ 78,164	\$ 77,187
30-60 Days	8,620	9,179
Over 60 Days	938	2,850
Allowance for Doubtful Accounts	<u>(6,240)</u>	<u>(6,241)</u>
Total Accounts Receivables	<u>81,482</u>	<u>82,975</u>

**NOTE D: INVENTORY**

During the fiscal year ending December 31, 2005, Cherokee County Rural Water District No. 3, began counting inventory of materials and supplies. The inventory balance as of December 31, 2014 and 2015 is included in the financial statements.

**NOTE E: LONG TERM DEBT**

The District had the following Long Term Debt and Bonds payable at December 31, 2015:

Payable to	Date Note Matures	Collateral Pledged	Rate of Interest	Balance At 12/31/2015	Current Portion Due in One Year	Interest Due in One Year
Armstrong Bank		Truck	2.99%	3,999	3,999	30
Armstrong Bank	8/18/2013	Water Storage	3.95%	212,256	15,002	8,644
OWRB	9/15/1940	Pledged Revenues	3.54%	2,838,000	45,000	155,349
				<u>3,054,255</u>	<u>64,001</u>	<u>164,023</u>

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

Years ending December 31 :

	PRINCIPAL	INTEREST
2016	64,001	164,023
2017	60,614	159,524
2018	66,251	154,344
2019	66,915	154,244
2020	72,605	150,322
2021-2025	429,409	676,058
2026-2030	491,460	528,778
2031-2035	635,000	344,078
2036-2040	805,000	96,355
2041-2043	360,000	33,120
TOTAL	<u>3,051,255</u>	<u>2,460,846</u>

**NOTE F: MANAGEMENTS 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 and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE G: 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 H: 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 I: FINANCE- RELATED LEGAL AND CONTRACTUAL PROVISIONS**

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

**NOTE J: DEFICIT FUND BALANCE OR RETAINED EARNINGS**

As indicated in the financial statements, there are no fund balance or retained earnings deficits for the District for this fiscal year.

**NOTE K: RESTRICTED ASSETS**

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

**NOTE L: REVENUE BONDS PAYABLE**

On January 1, 2009, the District issued \$2,570,000 Revenue Bonds Series 2009, to provide funds to refund certain outstanding indebtedness of the District and to provide improvements to the water system as approved by the District. The District sold the Revenue Bonds at a purchase price of 97.5% of the principal, plus accrued interest from the date thereof to the date of delivery, said Bonds to bear interest at the average annual rate not to exceed 6.75%.

The Series 2009 Revenue Bonds are secured by the "Pledged Revenues" (as defined in the Bond Indenture) and amounts held by the bond trustee bank. Under the terms of the Bond Indenture Agreement, the District is required to maintain certain deposits with a trustee bank. Such deposits are included as restricted assets in the Statement of Net Assets.

**NOTE M: ADVANCE REFUNDING OF REVENUE BONDS**

During 2012 the district did an advance refunding on the Revenue Bonds issued in 2009. The effect of the advance refunding is to remove all bond related accounts from the books of the district and to record a charge for Unamortized Charge on Advance Refunding in the amount of 970,390.94. The Unamortized amount will be amortized of 7.5 years, the time remaining until the bonds will be paid off. The amount amortized in 2014 and 2015 was 129,385, which shows up as an expense in the other income and expense lines of the Statement of Revenues, Expenditures and Changes in Net Assets leaving a balance of 388,157 as of December 31, 2015 in the advanced refunding of Bonds Payable.

## NOTE N: CAPITAL ASSETS

Capital asset balances and activity for the year ended December 31, 2014 and 2015, were as follows:

<u>2015</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets, not being Depreciated:				
Land	69,866	-	-	69,866
<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	156,627	-	-	156,627
Water Distribution System	6,022,645	-	-	6,022,645
Machinery and Equipment	258,133	-	-	258,133
Office Equipment	9,287	-	-	9,287
Vehicles	138,331	-	-	138,331
<b>TOTAL Capital Assets, being Depreciated</b>	<b>6,585,023</b>	<b>-</b>	<b>-</b>	<b>6,585,023</b>
Less Accumulated Depreciation for:				
Accumulated Depreciation	(1,613,671)	-	-	(1,613,671)
<b>TOTAL Accumulated Depreciation</b>	<b>(1,613,671)</b>	<b>-</b>	<b>-</b>	<b>(1,613,671)</b>
<b>TOTAL Capital Assets, Being Depreciated, Net</b>	<b>4,971,352</b>	<b>-</b>	<b>-</b>	<b>4,971,352</b>
<b>Capital Assets, Net</b>	<b>5,041,218</b>	<b>-</b>	<b>-</b>	<b>5,041,218</b>
<u>2014</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets, not being Depreciated:				
Land	69,866	-	-	69,866
<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	130,062	26,565	-	156,627
Water Distribution System	6,022,645	-	-	6,022,645
Machinery and Equipment	240,367	17,766	-	258,133
Office Equipment	9,176	111	-	9,287
Vehicles	124,331	14,000	-	138,331
<b>TOTAL Capital Assets, being Depreciated</b>	<b>6,526,581</b>	<b>58,442</b>	<b>-</b>	<b>6,585,023</b>
Less Accumulated Depreciation for:				
Accumulated Depreciation	(1,417,700)	(195,971)	-	(1,613,671)
<b>TOTAL Accumulated Depreciation</b>	<b>(1,417,700)</b>	<b>(195,971)</b>	<b>-</b>	<b>(1,613,671)</b>
<b>TOTAL Capital Assets, Being Depreciated, Net</b>	<b>5,108,881</b>	<b>(137,529)</b>	<b>-</b>	<b>4,971,352</b>
<b>Capital Assets, Net</b>	<b>5,178,747</b>	<b>(137,529)</b>	<b>-</b>	<b>5,041,218</b>

**SUPPLEMENTARY**

**INFORMATION**

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

*Certified Public Accountant*

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

## **INDEPENDENT AUDITOR'S REPORT 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, 2014 and 2015, 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 March 8, 2016.

### **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 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. 2015-1

### **Compliance and Other Matters**

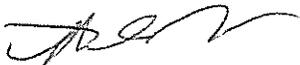
As part of obtaining reasonable assurance about whether Cherokee County Rural Water District No. 3's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could 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 C.P.A., P.C.  
Certified Public Accountant  
March 8, 2016

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

2015-1

**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 2014.

**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.