

**CHEROKEE COUNTY RURAL WATER DISTRICT NO. 8**

**TAHLEQUAH, OKLAHOMA**

**AUDITED FINANCIAL STATEMENTS AND NOTES**  
**For the year ended December 31, 2016 and 2017**

**Audited by**

**ROBERT ST. PIERRE CPA, 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	7-13
AUDITOR'S REPORT ON COMPLIANCE AND INTERNAL CONTROL	14
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	16

**INDEPENDENT**

**AUDITOR'S**

**REPORTS**

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

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## INDEPENDENT AUDITOR'S REPORT

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

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

We have audited the accompanying financial statements Cherokee County Rural Water District No. 8 as of December 31, 2016 and 2017, and the related notes to the financial statements, which collectively comprise the District's financial statements as listed in the table of contents.

### ***Managements Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cherokee County Rural Water District No. 8 as of December 31, 2016 and 2017, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principals generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

The Cherokee County Rural Water District No. 8 has not presented the management discussion and analysis that accounting principals 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 June 11th, 2018, on our consideration of Cherokee County Rural Water District No. 8, internal controls over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cherokee County Rural Water District No. 8 internal control over financial reporting and compliance



Robert St. Pierre C.P.A., P.C.  
Certified Public Accountant  
June 11th, 2018

**FINANCIAL**

**SECTION**

**CHEROKEE COUNTY RURAL WATER DISTRICT NO. 8**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31, 2016 and 2017**

<b>ASSETS</b>	<b>2017</b>	<b>2016</b>
<b>CURRENT ASSETS:</b>		
Cash in Bank (Note B)	\$ 100,364	\$ 132,428
Certificate of Deposit (Note B)	252,452	151,128
Accounts Receivable (net of allowance) Note C)	17,564	24,019
Prepaid Insurance	3,109	4,964
<b>TOTAL CURRENT ASSETS</b>	373,489	312,539
<b>RESTRICTED ASSETS:</b>		
Debt Service Fund (Note B)	36,193	36,494
Debt Service Reserve Fund (Note B)	70,893	70,731
<b>TOTAL RESTRICTED ASSETS</b>	107,086	107,225
<b>FIXED ASSETS:</b>		
Land (Note L)	2,000	2,000
Water System (Note L)	2,607,966	2,595,584
Vehicles (Note L)	39,600	39,600
Buildings and Equipment (Note L)	136,869	94,658
Accumulated Depreciation (Note L)	(887,479)	(813,026)
<b>NET FIXED ASSETS</b>	1,898,956	1,918,816
<b>TOTAL ASSETS</b>	2,379,531	2,338,580
<b>LIABILITIES AND FUND EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	8,873	10,569
Payroll Taxes Payable	1,086	4,063
Current Portion of Bonds Payable (Note D)	15,000	15,000
Accrued Interest Payable	47,291	42,532
<b>TOTAL CURRENT LIABILITIES</b>	72,250	72,164
<b>LONG TERM LIABILITIES</b>		
Bonds Payable (Note D)	795,000	810,000
Discount on Bonds Payable (Note D)	(18,508)	(20,210)
<b>TOTAL LONG TERM LIABILITIES</b>	776,492	789,790
<b>TOTAL LIABILITIES</b>	848,742	861,954
<b>NET ASSETS</b>		
Invested in Capital Assets Net of Related Debt	1,107,464	1,114,026
Restricted Net Assets	107,086	107,225
Unrestricted	316,239	255,375
<b>TOTAL NET ASSETS</b>	1,530,789	1,476,626
<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$ 2,379,531	\$ 2,338,580

**CHEROKEE COUNTY RURAL WATER DISTRICT NO. 8**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2016 and 2017**

	<b>2017</b>	<b>2016</b>
<b>REVENUE:</b>		
Water Sales	\$ 308,704	\$ 306,808
Other Operating Revenues	<u>7,498</u>	<u>9,657</u>
<b>TOTAL OPERATING REVENUE</b>	<u>316,202</u>	<u>316,465</u>
<b>EXPENDITURES:</b>		
Water Purchased	90,987	84,575
Labor-Manager and Meter Reader	47,679	49,507
Security	420	1,620
Professional Fees	3,700	3,045
Payroll Taxes	-	7,150
Travel	-	145
Automobile Expense	3,896	3,382
Bank Service Charges	2,345	1,332
Office Supplies	3,592	5,984
Postage & Delivery	2,498	3,092
Insurance	9,178	7,211
Licenses/Subscriptions/Dues	946	1,386
Repairs and Maintenance	5,844	7,952
Chemicals, Field Supplies & Testing	3,921	9,822
Utilities	11,972	12,175
Miscellaneous	1,067	541
Amortization	1,702	1,702
Depreciation	<u>74,453</u>	<u>69,858</u>
<b>TOTAL OPERATING EXPENDITURES</b>	<u>264,200</u>	<u>270,479</u>
<b>NET INCOME FROM OPERATIONS</b>	<u>52,002</u>	<u>45,986</u>
<b>OTHER INCOME (EXPENDITURES):</b>		
Interest Income	1,358	1,255
Cherokee Nation Grant	50,000	-
Membership Income	7,200	4,500
Interest Expense	<u>(57,397)</u>	<u>(53,110)</u>
<b>TOTAL OTHER INCOME AND EXPENSE</b>	<u>1,161</u>	<u>(47,355)</u>
<b>CHANGE IN NET ASSETS</b>	53,163	(1,369)
<b>NET ASSETS, BEGINNING OF THE YEAR</b>	<u>1,477,626</u>	<u>1,477,995</u>
<b>NET ASSETS, END OF THE YEAR</b>	<u>\$ 1,530,789</u>	<u>\$ 1,476,626</u>



**CHEROKEE COUNTY RURAL WATER DISTRICT NO. 8**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016 and 2017**

	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash Inflows:		
Payments Received from Customers	322,657	318,454
Cash Outflows:		
Payments to Employees and Related Taxes	(47,319)	(55,393)
Payments to Suppliers for Goods and Services	<u>(133,113)</u>	<u>(142,187)</u>
<b>Net Cash Provided (Used) by Operating Expenses</b>	<u>142,225</u>	<u>120,874</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease (Increase) in Restricted Cash	-	-
Cherokee Nation Grant	50,000	-
Additions to Capital Assets	(59,265)	2,433
Membership Income	7,200	4,500
Purchase of Investments	(101,324)	(151,128)
Interest Income	1,358	1,255
<b>Net Cash Provided (Used) for Investing Activities</b>	<u>(102,031)</u>	<u>(142,940)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal Reduction of Long-Term Debt	(15,000)	(15,000)
Interest Payments on Notes	<u>(57,397)</u>	<u>(53,110)</u>
<b>Net Cash Provided(Used) for Capital &amp; Related Financing Activities</b>	<u>(72,397)</u>	<u>(68,110)</u>
<b>NET CASH INFLOW (OUTFLOW) FROM ALL ACTIVITIES</b>	(32,203)	(90,176)
<b>CASH AND CASH EQUIVALENTS BEGINNING OF THE YEAR</b>	<u>239,653</u>	<u>329,829</u>
<b>CASH AND CASH EQUIVALENTS END OF THE YEAR</b>	<u>\$ 207,450</u>	<u>\$ 239,653</u>
<b>Interest Expense</b>	<u>57,397</u>	<u>53,110</u>
	<u>57,397</u>	<u>53,110</u>

**CHEROKEE COUNTY RURAL WATER DISTRICT NO. 8**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016 and 2017**

	2017	2016
<b>Reconciliation of Operating Income (Loss to Net Cash)</b>		
<b>Provided by Operating Activities:</b>		
Operating Income	53,163	45,986
Amortization	1,701	-
Depreciation	74,453	69,858
<b>(Increase) Decrease in:</b>		
Accounts Receivable	6,455	1,989
Prepaid Insurance	1,853	(792)
<b>(Increase) Decrease in:</b>		
Accounts Payable	4,759	3,833
Payroll Taxes Payable	(159)	-
	142,225	120,874
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>142,225</b>	<b>120,874</b>

**FINANCIAL**

**STATEMENT**

**NOTES**

**CHEROKEE COUNTY RURAL WATER DISTRICT NO. 8**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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

Cherokee County Rural Water District No. 8 was created under the provisions of the laws of the State of Oklahoma. The purpose of the water district is to provide for the use and benefit of its members a water treatment and distribution system, operations and maintenance.

**1. Basis of Accounting**

The financial statements of the Cherokee County Rural Water District No. 8 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. 8 is exempt from Federal Income Taxes.

**5. Inventory**

Cherokee County Rural Water District No. 8 does not maintain inventory of materials and supplies. Material and supplies are expensed directly to supplies when paid.

## **6. Budgetary Data**

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

## **7. Capital Assets**

The property and equipment is recorded at cost when purchased and at fair market value when donated to the District. Depreciation is computed using the straight-line method for the useful life of each asset. Expenditures over \$250.00 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, net of an allowance for bad debts.

## **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 does not accrue a liability for compensated absences. This is not in accordance with generally accepted accounting principles. However, because of the limited number of people employed by the organization, any liability for compensated absences at December 31, 2016 and 2017 would not be material to the financial statements taken as a whole.

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

The Company has evaluated subsequent events through June 11th, 2018 the date which the financial statements were available to be issued.

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

Cash consists of the following:	<b>2017</b>	<b>2016</b>
<b>UNRESTRICTED</b>		
Cash Checking	100,361	121,083
Capital Acquisition Fund	3	11,345
<b>TOTAL UNRESTRICTED</b>	<u>100,364</u>	<u>132,428</u>
<b>RESTRICTED</b>		
Debt Service Fund	70,893	70,731
Debt Service Fund	36,193	36,494
<b>TOTAL RESTRICTED</b>	<u>107,086</u>	<u>107,225</u>
<b>TOTAL CASH</b>	<u>207,450</u>	<u>239,653</u>
<b>Certificates of Deposit</b>	<u>252,452</u>	<u>151,128</u>

**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.

	2017	2016
Current	15,629	20,050
1-30 Days	2,034	2,298
30-60 Days	48	485
Over 60 Days	351	1,684
Allowance for Doubtful Accounts	<u>(498)</u>	<u>(498)</u>
Total Accounts Receivables	<u><u>17,564</u></u>	<u><u>24,019</u></u>

**NOTE D: LONG TERM LIABILITIES**

The District had the following Bonds payable at December 31, 2017:

Payable to	Original Balance	Date Note Matures	Collateral Pledged	Rate of Interest
Revenue Bonds	915,000	2/1/2039	Pledged Revenues	5.25%

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

Years ending December 31, :

	PRINCIPAL	INTEREST
Current Portion	<u>15,000</u>	<u>51,590</u>
2019	15,000	50,802
2020	20,000	50,015
2021	20,000	48,685
2022-2026	115,000	222,478
2027-2031	165,000	177,713
2032-2036	220,000	118,755
2036-2039	<u>240,000</u>	<u>19,845</u>
	<u>795,000</u>	<u>688,293</u>
TOTAL	<u><u>810,000</u></u>	<u><u>739,883</u></u>

The above bonds are secured by the "Pledged Revenues" (as defined in the bond Indenture) and amounts held by the bond trustee bank. The bonds begin to mature in February 2010 and continue until February 2039. The bonds are Revenue Bonds Series 2009. The bonds were sold at a discount and are being amortized over the life of the bonds, the annual amount of amortization is 1,702.

**NOTE E: MANAGERMENTS USE OF ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principals requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE F: COMMITMENTS AND CONTINGENCIES**

Cherokee County Rural Water District No. 8 currently participates in various grant programs. These grants are subject to audit by the grantor agency or their representatives. Such audits could lead to requests for reimbursement to the grantor agency for services disallowed under the terms of the contract. Presently Cherokee County Rural Water District No. 8 is not aware of any pending requests, and in the opinion of management, any such amounts would not be considered material.

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

Under the provisions of the OWRB Loan Agreement, the District is required to establish, fund and maintain a debt service fund account and a debt reserve account with the trustee bank. The District has complied with these provisions.

**NOTE I: 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 J: RESTRICTED ASSETS**

Under the provisions of the Revenue Bonds, the District is required to establish, fund and maintain a debt service fund account and a debt reserve account with the trustee bank. As of December 31, 2017, the balance of the debt service fund was \$36,193 and the balance of the debt reserve fund was \$70,893. The Debt Service Fund (Sinking Fund) is funded with semi-annual deposits on or before each January 25 and July 25, beginning July 25, 2009, the amount then required to punctually pay the principal and interest on the Bonds.

**NOTE K: REVENUE BONDS PAYABLE**

On February 1, 2009, the District issued \$915,000 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% 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 6.65%.

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 L CHANGES IN CAPITAL ASSETS

Capital asset activity for business type activities for the year ended December 31, 2017 was as follows:

	Balance January 1, 2017	Additions	Reductions	Balance December 31, 2017
Capital Assets being Depreciated				
Land	2,000	-	-	2,000
Buildings and Building Improvements	9,829	-	-	9,829
Infrastructure	2,595,582	12,383	-	2,607,965
Equipment	124,429	42,212	-	166,641
Total Capital Assets being Depreciated	<u>2,731,840</u>	<u>54,595</u>	<u>-</u>	<u>2,786,435</u>
Less Accumulated Depreciation	<u>813,026</u>	<u>74,453</u>	<u>-</u>	<u>887,479</u>
Governmental Activities, Capital Assets, Net	<u>1,918,814</u>	<u>(19,858)</u>	<u>-</u>	<u>1,898,956</u>

Capital asset activity for business type activities for the year ended December 31, 2016 was as follows:

	Balance January 1, 2016	Additions	Reductions	Balance December 31, 2016
Capital Assets being Depreciated				
Land	2,000	-	-	2,000
Buildings and Building Improvements	9,829	-	-	9,829
Infrastructure	2,595,582	-	-	2,595,582
Equipment	124,429	-	-	124,429
Total Capital Assets being Depreciated	<u>2,731,840</u>	<u>-</u>	<u>-</u>	<u>2,731,840</u>
Less Accumulated Depreciation	<u>743,168</u>	<u>69,858</u>	<u>-</u>	<u>813,026</u>
Governmental Activities, Capital Assets, Net	<u>1,988,672</u>	<u>(69,858)</u>	<u>-</u>	<u>1,918,814</u>

**SUPPLEMENTARY**

**INFORMATION**

**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. 8  
Tahlequah, Oklahoma

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Cherokee County Rural Water District No. 8 as of and for the year ended December 31, 2016 and 2017, and the related notes to the financial statements, which collectively comprise Cherokee County Rural Water District No. 8's basic financial statements and have issued our report thereon dated June 11th, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Cherokee County Rural Water District No 8's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Cherokee County Rural Water District No 8's internal control. Accordingly, we do not express an opinion on the effectiveness of Cherokee County Rural Water District No 8's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned cost that we consider to be significant deficiencies. 2017-1

### **Compliance and Other Matters**

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

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

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

### **Purpose of this Report**

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



Robert St. Pierre C.P.A., P.C.  
Certified Public Accountant  
June 11th, 2018

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

2017-1

**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 2016.

**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.