

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 11

HULBERT, OKLAHOMA

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

Audited by

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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	5-6
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**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Cherokee County Rural Water District No. 11
Hulbert, OK

Report on the Financial Statements

We have audited the business type activities of Cherokee County Rural Water District No. 11, as of 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 the 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. 11, 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

Cherokee County Rural Water District No. 11 has not presented the management discussion and analysis or the RSI (budget Comparisons) 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 May 9, 2016, on our consideration of Cherokee County Rural Water District No. 11's, 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. 11's, internal control over financial reporting and compliance.



Robert St. Pierre, C.P.A., P.C.
May 9, 2016

FINANCIAL

SECTION

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 11
BALANCE SHEET
DECEMBER 31, 2014 AND 2015

	ASSETS	2015	2014
CURRENT ASSETS:			
Cash in Bank		184,121	217,913
Accounts Receivable (net of allowance) (Note B)		86,824	83,656
Inventory		<u>67,683</u>	<u>74,859</u>
	TOTAL CURRENT ASSETS	338,628	376,428
RESTRICTED ASSETS:			
Cash in Bank		<u>161,179</u>	<u>158,191</u>
	TOTAL RESTRICTED ASSETS	161,179	158,191
FIXED ASSETS:			
Land (Note C)		10,000	10,000
Office Building (Note C)		45,598	45,598
Autos, Equipment & Tools (Note C)		551,751	505,236
Office Furniture and Equipment (Note C)		56,078	50,297
Water System (Note C)		6,262,438	6,253,493
<i>Accumulated Depreciation (Note C)</i>		<u>(2,639,664)</u>	<u>(2,488,406)</u>
	NET FIXED ASSETS	<u>4,286,201</u>	<u>4,376,218</u>
OTHER ASSETS:			
ORWA Reserve Certificate		1,000	1,000
<i>Prepaid Insurance</i>		<u>19,919</u>	<u>19,093</u>
	TOTAL OTHER ASSETS	<u>20,919</u>	<u>20,093</u>
	TOTAL ASSETS	<u><u>4,806,927</u></u>	<u><u>4,930,930</u></u>
LIABILITIES AND FUND EQUITY			
CURRENT LIABILITIES			
Accounts Payable		23,035	29,510
Credit Cards		8,911	5,976
Accrued Interest		38,276	38,276
Accrued Employee Benefits (Note E)		587	927
Payroll Taxes Payable		(840)	(336)
Current Portion of Long-Term Debt (Note D)		<u>58,631</u>	<u>52,161</u>
	TOTAL CURRENT LIABILITIES	<u>128,600</u>	<u>126,514</u>
LONG TERM LIABILITIES			
Note Payables (Note D)		<u>1,620,963</u>	<u>1,680,581</u>
	TOTAL LIABILITIES	<u>1,749,563</u>	<u>1,807,095</u>
NET ASSETS			
Invested in Capital Assets Net of Related Debt		2,606,607	2,643,476
Restricted for Debt Service		161,179	158,190
Unrestricted		<u>289,578</u>	<u>322,169</u>
	TOTAL NET ASSETS	<u>3,057,364</u>	<u>3,123,835</u>
	TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 4,806,927</u></u>	<u><u>\$ 4,930,930</u></u>

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 11
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN NET ASSETS
For the Year December 31, 2014 and 2015

	2015	2014
REVENUE:		
Water Sales (net of bad debt)	812,606	806,988
Penalties	17,957	20,753
Service Charges	<u>3,000</u>	<u>4,440</u>
TOTAL OPERATING REVENUE	<u>833,563</u>	<u>832,181</u>
EXPENDITURES:		
Salaries - Maintenance	326,013	288,211
Employee Benefits	51,509	35,930
Contract Labor	4,683	5,576
Legal and Audit Fees	2,900	2,450
Bad Debts	2,610	1,317
Bank Charges	5,532	5,864
Office Supplies & Postage	18,600	20,965
Insurance & Bonds	38,111	40,418
Payroll Taxes	26,737	24,903
Retirement Benefits	15,194	13,326
Auto Expense	24,827	20,893
Advertising	1,619	2,657
Dues & Subscriptions and Fees	1,400	1,415
Telephone	19,425	16,120
Water Purchased	44,163	39,483
Water Testing Fees	5,802	6,805
DEQ Regulatory Fees	7,105	7,050
Uniform Expense	4,364	4,267
Employee Training & Drug Testing	1,245	940
Field Supplies and Repairs	81,379	48,625
Chemicals	11,120	25,001
Utilities	54,598	54,679
Equipment Rental	500	2,833
Depreciation Expense	151,258	146,093
Miscellaneous Expense	<u>7,127</u>	<u>8,482</u>
TOTAL OPERATING EXPENDITURES	<u>907,821</u>	<u>824,303</u>
NET INCOME FROM OPERATIONS	<u>(74,258)</u>	<u>7,878</u>
OTHER INCOME (EXPENDITURES):		
Income - Interest	541	574
Income - Misc. Income/Expense (Net)	92	10,559
Income - Membership Connections	50,961	42,107
Income - Billing & Accounting	46,315	42,405
Gain on Sale of Fixed Assets	-	18,175
Expense - Interest	<u>(90,122)</u>	<u>(78,574)</u>
TOTAL OTHER INCOME AND EXPENSE	<u>7,787</u>	<u>35,246</u>
CHANGE IN NET ASSETS	(66,471)	43,124
PRIOR PERIOD ADJUSTMENT	-	(68,312)
NET ASSETS, BEGINNING OF THE YEAR	<u>3,123,835</u>	<u>3,149,023</u>
NET ASSETS, END OF THE YEAR	<u>\$ 3,057,364</u>	<u>\$ 3,123,835</u>

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 11
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014 and 2015

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Inflows:		
Payments Received from Customers	830,395	815,424
Cash Outflows:		
Payments to Suppliers for Goods, Services & Employees	<u>(754,597)</u>	<u>(682,943)</u>
Net Cash Provided (Used) by Operating Expenses	<u>75,798</u>	<u>132,481</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Principal Reduction of Long-Term Debt	(53,148)	(17,095)
Interest Payments on Notes & Bonds	<u>(90,122)</u>	<u>(78,574)</u>
Net Cash Provided(Used) for Capital & Related Financing Activities	<u>(143,270)</u>	<u>(95,669)</u>
CASH FLOWS FROM CAPITAL & FINANCING ACTIVITIES		
Purchase of Capital Assets	(61,241)	(305,162)
Borrowed on Long-Term Debt & Bonds	-	239,884
Other Misc. Income/Expense (Net)	<u>97,368</u>	<u>113,246</u>
Net Cash Provided(Used) for Capital & Related Financing Activities	<u>36,127</u>	<u>47,968</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received from Investments	<u>541</u>	<u>574</u>
Net Cash Provided (Used) for Investing Activities	<u>541</u>	<u>574</u>
NET CASH INFLOW (OUTFLOW) FROM ALL ACTIVITIES	(30,804)	85,354
CASH AND CASH EQUIVALENTS BEGINNING OF THE YEAR	<u>376,104</u>	<u>290,750</u>
CASH AND CASH EQUIVALENTS END OF THE YEAR	<u><u>\$ 345,300</u></u>	<u><u>\$ 376,104</u></u>

**CHEROKEE COUNTY RURAL WATER DISTRICT NO. 11
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2015**

	2015	2014
Reconciliation of Operating Income (Loss to Net Cash) Provided by Operating Activities:		
Operating Income (Loss)	23,110	7,878
Depreciation and Amortization	151,258	146,093
(Increase) Decrease in:		
Accounts Receivable	(3,168)	(16,755)
Prepaid Insurance	7,176	3,102
Inventories	(826)	(9,251)
(Increase) Decrease in:		
Payables	<u>(4,384)</u>	<u>1,414</u>
Net Cash Provided (Used) by Operating Activities	<u><u>173,166</u></u>	<u><u>132,481</u></u>

FINANCIAL

STATEMENT

NOTES

Cherokee County Rural Water District No. 11
Notes to Financial Statements
For the Year Ended December 31, 2015

The following notes to the financial statements are an integral part of the Cherokee County Rural Water District No. 11's financial statements.

I. Summary of Significant Accounting Policies

Cherokee County Rural Water District No. 11 was incorporated under the Rural Water District Act of Oklahoma, for the purpose of acquiring 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. The District is exempt from federal and state income tax.

The membership consists of approximately 1,582 accounts; each entitles to one vote. The board of Directors consists of 5 members serving 3-year terms. The vacant Board seats are elected at the annual meeting, and following, the Board of Directors meet and elect a chairman, Vice-chairman, and Secretary-Treasurer.

The accounting policies of the District conform to generally accepted accounting principles applicable to governmental units. The District complies with generally accepted accounting principles and applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. In addition, the District applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The District has elected not to follow FASB pronouncements issued since that date.

The District adopted the provisions of GASB Statement No 34, "Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments," in fiscal year 2004. Statement 34 established standards for external financial reporting for all state and local governmental entities which includes a management's discussion and analysis section, a statement of net assets, a statement of activities and changes in net assets and a statement of cash flows. It requires the classification of net assets into three components—invested in capital assets, net of related debt; restricted; and unrestricted.

The adoption of Statement No. 34 had no effect on the basic financial statements except for the classification of net assets, the reflection of capital contributions as a change in net assets and the inclusion of a Management's Discussion and Analysis (MD&A) section providing an analysis of the District's overall financial position and results of operations. The District has elected to not present the Management's Discussion and Analysis.

A. Financial Reporting Entity

The District complies with GASB Statement No 14. "The Financial Reporting Entity". This statement establishes standards for defining and reporting on the financial reporting entity. It defines component units as legally separate organizations for which the elected officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The District considered all potential component units in determining what organizations should be included in the financial statements. Based on these criteria, there are no component units to include in the District's financial statements.

B. Basis of Presentation

The District's fund is an enterprise fund. Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with Generally Accepted Accounting Principles (GAAP) promulgated in the United States of America. The accounting and financial reporting treatment is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation are included on the statement of net assets. Depreciation expense is provided for capital assets based upon estimated useful lives.

Financial activity is accounted for on the flow of economic resources measurement focus using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. In compliance with the Governmental Accounting Standards Board (GASB) Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for invested in capital assets, net of related debt, restricted; and unrestricted.

D. Assets, Liabilities, and Net Assets

1. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the District considers all cash on hand, demand deposits, and highly liquid investments, with a maturity of six months or less when purchased, to be cash and cash equivalents.

2. Investments

At December 31, 2014 and 2015, the District held deposits of approximately \$345,300 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit, are entirely covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name.

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

The investments held at December 31, 2014 and 2015, are as follows:

Type	Weighted Average Maturity (Months)	Credit Rating	Market Value	Cost
Cert. of Deposit	6.00	N/A	50,000	50,000
Total Investments			50,000	50,000

Concentration of Investment Credit Risk

The District places no limit on the amount it may invest in any one issuer. The District has the following credit risk: 100% in Certificates of Deposit (\$50,000).

3. Fair Value of Financial Instruments

The District's financial statements include cash and investments. The District's estimates of fair value of all financial instruments do not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

4. Inventory

The District's inventory consists of water line parts and supplies as well as chemicals used to treat the water. The District maintains inventory on the first-in, first-out basis.

5. Accounts Receivable

Accounts receivable consists primarily of charges for water sales. Management has not established a provision for uncollectible accounts. Such amounts are written off the month in which management determines they are uncollectible.

6. Restricted Assets

The terms of the loan agreement with the Rural Development require that the District maintain funds for the use of servicing debt in the amount of 125% of the total annual payment. The deposits with the Bank of Oklahoma (BOK) trust accounts are sufficient to fulfill this requirement.

7. Capital Assets

The water storage and delivery system and furniture and equipment are recorded at cost. Donated capital assets are reported at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

All reported assets are depreciated on the straight-line basis over their estimated useful lives ranging from five to fifty years.

All assets with a value of more than \$500 or more that benefit more than one period will be depreciated.

8. Equity Classifications

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

- a. 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 mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets—Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of their governments; or (2) law through constitutional provisions or enabling legislation, or (3) elected restrictions by management concerning cash to be used for capital improvements.
- c. Unrestricted net assets—All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

9. Use of Estimates

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

II. Detailed Notes Concerning the Funds

A. Deposits and Investments

State statutes govern the District's investment policy. Permissible investments include direct obligations of the United States Government and Agencies; certificates of deposit of savings and loan associations, and bank and trust companies; and savings accounts or savings certificates of savings and loan associations and trust companies. Collateral is required for demand deposits and certificates of deposit for all amounts not covered by federal deposit insurance. Investments are stated at cost. The District has complied with this requirement.

B. Accounts Receivable

Following is an aged schedule of accounts receivable as of December 31, 2014 and 2015;

	<u>Current</u>	<u>31-60 Days</u>	<u>60-90 Days</u>	<u>Over 90 Days</u>	<u>Prepayments</u>	<u>Total</u>
2015	79,142	11,188	3,331	3,434	(10,271)	86,824
2014	73,788	13,288	3,511	1,125	(8,056)	83,656

C. Changes in Capital Assets

Capital asset activity for the year was as follows:

2015	Beginning of Year	Additions	Deletions	End of Year
Capital Assets				
Land	10,000	-	-	10,000
Distribution System	6,253,493	8,945	-	6,262,438
Buildings	45,598	-	-	45,598
Office Furniture & Equipment	50,297	52,296	-	102,593
Equipment & Autos	505,236	-	-	505,236
Total Capital Assets	6,864,624	61,241	-	6,925,865
Less: Accumulated Depreciation	(2,488,406)	(151,258)	-	(2,639,664)
Net Book Value	4,376,218	(90,017)	-	4,286,201

2014	Beginning of Year	Additions	Deletions	End of Year
Capital Assets				
Land	-	10,000	-	10,000
Distribution System	5,977,494	275,999	-	6,253,493
Buildings	40,636	4,962	-	45,598
Office Equipment & Equipment	50,297	-	-	50,297
Trucks	536,914	14,200	45,878	505,236
Total Capital Assets	6,605,341	305,161	45,878	6,864,624
Less: Accumulated Depreciation	(2,388,191)	(146,093)	(45,878)	(2,488,406)
Net Book Value	4,217,150	159,068	-	4,376,218

D. Long -Term Debt

Cherokee County Rural Water District No. 11 executed a note payable to Rural Development on June 15, 1994 in the principal amount of \$560,000 and a maturity date of 06/15/2034. The Note is secured by a pledge of revenues and other resources of the District and by all property now owned by the District and any replacements. The note has a forty-year term and bears interest at 5% with monthly installments of \$2,708. A debt service reserve account as part of the loan agreement must maintain a minimum balance of 125% of the maximum annual amount required for debt service.

The district entered into a lease purchase contract with Government Capital Corporation on March 19, 2014. The lease total is 239,884 with payments of 30,298.58 per year with an option to purchase after three years. The imputed interest rate is 4.493% payable over 10 years.

The District issued Capital Improvement Bonds in the amount of \$1,200,000 with a thirty (30) year term bearing interest at 5.0% for years 2008-2021, 5.5% for years 2022-2030 and 5.75% for years 2031-2038. The Bonds are secured by a pledge of revenues and other resources of the District and by all property now owned by the district and any replacements. The Bonds are issued pursuant to a resolution of the District adopted on June 9, 2008, (the "Authorizing Resolution"). The Bonds are issued under and are subject to the terms of that certain Bond Indenture dated as of July 1, 2008, by and between the District and RCB Bank, Claremore, Oklahoma, as trustee. The Bonds are issued as fully registered bonds, and registered in the name of Cede & Co., as nominee of the Depository Trust Company (DTC) New York, New York, without coupons, in denominations of \$5,000 or any integral multiple thereof. The Bonds, when originally issued, will be dated July 1, 2008 and will bear interest from such date, payable on January 1, and July 1 of each year commencing January 1, 2010. The Bonds are special obligations of the District, payable from and secured by a mortgage upon the facilities and lien on the gross revenues of the District's water facilities. However, this mortgage and lien is subordinate to the District's Promissory Note to the United States of America acting through Rural Development, United States Department of Agriculture, dated June 15, 1994. The District has covenanted In the Indenture to fix and maintain rates for water services which shall provide gross revenues in an amount adequate to maintain the facilities in good repair and condition and (i) pay all operation and maintenance expenses related to the Facilities, (ii) pay all amounts required to be paid by the District under the terms of the indenture to Rural Development and the Series 1994, (iii) generate on an annual basis an amount equal to 125% of the annual debt service on the Bonds and the Series 1994 Note for that year after payment of the amounts required in (i) and (ii) and (iv) provide any other amounts which may be require under the terms of the Indenture.

Annual debt service on these notes over the life of the loans is as follows:

Current Portion	58,631	88,582
2017	60,282	85,739
2018	61,956	82,817
2019	63,708	79,815
2020	70,543	76,726
2021-2025	363,156	329,218
2026-2030	331,202	240,628
2031-2035	370,987	142,971
2036-2038	299,129	39,387
Total	<u>1,679,594</u>	<u>1,165,882</u>

E. Changes in General Long-Term Debt

Long-term debt consists of notes payable. The following is a summary of the changes in general long-term debt, including the current part, of the District for the fiscal year.

	Balance Beg. Of Year	Borrowing	Reduction	Balance End of Year
2015				
Notes Payable	1,732,742	-	53,148	1,679,594
Total	<u>1,732,742</u>	<u>-</u>	<u>53,148</u>	<u>1,679,594</u>
2014				
Notes Payable	1,509,953	239,884	17,095	1,732,742
Total	<u>1,509,953</u>	<u>239,884</u>	<u>17,095</u>	<u>1,732,742</u>

III. Other Information

A. Risk Management

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District purchases commercial insurance to cover these risks, including general and auto liability, property damage, and public officials liability. There were no significant reductions in insurance coverage from the prior year. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

C. Prior Period Adjustments

Prior period adjustments are used to correct errors in previously issued financial statements that are considered to be material in nature and amount. For the year ended December 31, 2014 and 2015 there were two items that required a prior period adjustment. The following is a summary of the errors that were corrected:

New GASB pronouncement No. 65 requires debt issuance costs to be expensed in the period incurred rather than deferred and amortized with retroactive application. This amounted of this prior period adjustment related to GASB 65 was (\$68,312).

Land purchased in prior years was never recorded on the books, during the current year \$10,000, the cost of the land was added to the fixed assets of the district and the net assets were increased by this amount.

D. Arbitrage Agreement

The District should monitor their obligation, if any, related to the arbitrage agreement signed when they obtained their loan from the USDA Rural Development. The arbitrage calculations are normally due every five years.

E. Compensated Absences

The organization accrues a liability for compensated absences once the leave time is both earned and payable to the employees.

F. Evaluation of Subsequent Events

The Company has evaluated subsequent events through May 9, 2016 the date which the financial statements were available to be issued.

G. Commitments and Contingencies

Cherokee County Rural Water District No. 11 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. 11 is not aware of any pending requests, and in the opinion of management, any such amounts would not be considered material.

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.

I. Finance – Related Legal and Contractual Provisions

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

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.

K. Employee Retirement Plan

The District offers a voluntary retirement plan for employees in the amount of five percent of gross wages. The plan is maintained by Edward D. Jones Co. The total amount paid into the retirement fund in year 2014 and 2015 was 13,326 and 15,194 respectively.

SUPPLEMENTARY

INFORMATION

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

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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. 11
Hulbert, OK

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. 11 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. 11's basic financial statements and have issued our report thereon dated May 9, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Cherokee County Rural Water District No. 11'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. 11's internal control. Accordingly, we do not express an opinion on the effectiveness of Cherokee County Rural Water District No. 11'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. 11'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. 11's Response to Findings

Cherokee County Rural Water District No. 11'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. 11'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.
May 9, 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.

