

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 8

TAHLEQUAH, OKLAHOMA

**AUDITED FINANCIAL STATEMENTS AND NOTES
For the year ended December 31, 2013 and 2014**

Audited by

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

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INDEPENDENT

AUDITOR'S

REPORTS

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, 2013 and 2014, 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, 2013 and 2014, 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 August 10, 2015, 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
August 10, 2015

FINANCIAL

SECTION

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 8
BALANCE SHEET
DECEMBER 31, 2013 and 2014

ASSETS	2014	2013
CURRENT ASSETS:		
Cash in Bank (Note B)	\$ 143,058	\$ 78,279
Accounts Receivable (net of allowance) Note C)	25,344	24,520
Prepaid Insurance	<u>3,885</u>	<u>5,055</u>
TOTAL CURRENT ASSETS	<u>172,287</u>	<u>107,854</u>
RESTRICTED ASSETS:		
Debt Service Fund (Note B)	41,977	41,731
Debt Service Reserve Fund (Note B)	70,761	70,754
Construction Fund		
Debt Issuance Cost (Net of Amortization)	<u>-</u>	<u>41,726</u>
TOTAL RESTRICTED ASSETS	<u>112,738</u>	<u>154,211</u>
FIXED ASSETS:		
Land	2,000	2,000
Water System	2,595,584	2,595,584
Vehicles	39,600	39,600
Buildings and Equipment	91,073	91,073
Accumulated Depreciation	<u>(673,016)</u>	<u>(604,011)</u>
NET FIXED ASSETS	<u>2,055,241</u>	<u>2,124,246</u>
TOTAL ASSETS	<u>2,340,266</u>	<u>2,386,311</u>
LIABILITIES AND FUND EQUITY		
CURRENT LIABILITIES		
Accounts Payable	10,131	14,933
Payroll Taxes Payable	1,405	1,030
Current Portion of Bonds Payable (Note D)	15,000	15,000
Accrued Interest Payable	<u>49,456</u>	<u>49,456</u>
TOTAL CURRENT LIABILITIES	<u>75,992</u>	<u>80,419</u>
LONG TERM LIABILITIES		
Bonds Payable (Note D)	840,000	855,000
Discount on Bonds Payable (Note D)	<u>(23,614)</u>	<u>(23,613)</u>
TOTAL LONG TERM LIABILITIES	<u>816,386</u>	<u>831,387</u>
TOTAL LIABILITIES	<u>892,378</u>	<u>911,806</u>
NET ASSETS		
Invested in Capital Assets Net of Related Debt	1,223,855	1,277,859
Restricted Net Assets	112,738	154,211
Unrestricted	<u>111,295</u>	<u>42,435</u>
TOTAL NET ASSETS	<u>1,447,888</u>	<u>1,474,505</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,340,266</u>	<u>\$ 2,386,311</u>

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 8
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2013 and 2014

	2014	2013
REVENUE:		
Water Sales	\$ 320,226	\$ 306,730
Other Operating Revenues	<u>(5,659)</u>	<u>14,520</u>
TOTAL OPERATING REVENUE	<u>314,567</u>	<u>321,250</u>
EXPENDITURES:		
Water Purchased	78,786	86,424
Labor-Manager and Meter Reader	43,885	31,748
Accounting & Billing Fees	557	16,325
Professional Fees	7,225	-
Bad Debt	(509)	7,812
Payroll Taxes	4,363	2,801
Travel	1,962	-
Automobile Expense	5,390	5,399
Bank Service Charges	516	1,516
Office Supplies	2,642	2,924
Postage & Delivery	2,604	2,666
Insurance	8,043	10,043
Licenses/Subscriptions/Dues	768	725
Repairs and Maintenance	3,492	4,368
Chemicals, Field Supplies & Testing	9,455	15,448
Utilities	9,435	9,155
Miscellaneous	491	-
Amortization	1,702	1,702
Depreciation	<u>69,005</u>	<u>72,180</u>
TOTAL OPERATING EXPENDITURES	<u>249,812</u>	<u>271,236</u>
NET INCOME FROM OPERATIONS	<u>64,755</u>	<u>50,014</u>
OTHER INCOME (EXPENDITURES):		
Interest Income	111	66
Gain of (Loss) on Sale of Assets	-	7,961
Other (Grant) Income	-	2,616
Membership Income	4,500	5,325
Interest Expense	<u>(54,346)</u>	<u>(55,561)</u>
TOTAL OTHER INCOME AND EXPENSE	<u>(49,735)</u>	<u>(39,593)</u>
NET INCOME	15,020	10,421
PRIOR PERIOD ADJUSTMENT	(41,637)	(16,571)
NET ASSETS, BEGINNING OF THE YEAR	<u>1,474,505</u>	<u>1,480,655</u>
NET ASSETS, END OF THE YEAR	<u>\$ 1,447,888</u>	<u>\$ 1,474,505</u>

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 8
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013 and 2014

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Inflows:		
Payments Received from Customers	313,743	331,672
Cash Outflows:		
Payments to Employees and Related Taxes	(48,248)	(34,549)
Payments to Suppliers for Goods and Services	<u>(135,816)</u>	<u>(163,655)</u>
Net Cash Provided (Used) by Operating Expenses	<u>129,679</u>	<u>133,468</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds From Sales of Assets	-	10,020
Additions to Capital Assets	-	(10,389)
Membership Income	4,500	-
Other Income	-	(14,801)
Interest Income	111	-
Net Cash Provided (Used) for Investing Activities	<u>4,611</u>	<u>(15,170)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Reduction of Long-Term Debt	(15,000)	(15,001)
Interest Payments on Notes	<u>(54,346)</u>	<u>(55,561)</u>
Net Cash Provided(Used) for Capital & Related Financing Activities	<u>(69,346)</u>	<u>(70,562)</u>
NET CASH INFLOW (OUTFLOW) FROM ALL ACTIVITIES	64,944	47,736
CASH AND CASH EQUIVALENTS BEGINNING OF THE YEAR	<u>190,764</u>	<u>143,028</u>
CASH AND CASH EQUIVALENTS END OF THE YEAR	<u><u>\$ 255,708</u></u>	<u><u>\$ 190,764</u></u>
Interest Expense	<u>54,346</u>	<u>55,917</u>
	<u>54,346</u>	<u>55,917</u>

**CHEROKEE COUNTY RURAL WATER DISTRICT NO. 8
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013 and 2014**

	2014	2013
Reconciliation of Operating Income (Loss to Net Cash) Provided by Operating Activities:		
Operating Income	64,755	57,955
Amortization	-	2,588
Depreciation	69,005	69,592
(Increase) Decrease in:		
Accounts Receivable	(824)	2,481
Prepaid Insurance	1,170	9
(Increase) Decrease in:		
Accounts Payable	(4,427)	843
Payroll Taxes Payable	-	-
	129,679	133,468
Net Cash Provided (Used) by Operating Activities	129,679	133,468

FINANCIAL

STATEMENT

NOTES

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 8
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

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, 2013 and 2014 would not be material to the financial statements taken as a whole.

14. Evaluation of Subsequent Events

The Company has evaluated subsequent events through August 10, 2015 the date which the financial statements were available to be issued.

NOTE B: CASH AND EQUIVALENTS

Cash consists of the following:	2014	2013
UNRESTRICTED		
Cash Checking	131,736	66,968
Capital Acquisition Fund	11,322	11,311
TOTAL UNRESTRICTED	<u>143,058</u>	<u>78,279</u>
RESTRICTED		
Debt Service Fund	70,761	70,754
Debt Service Fund	<u>41,977</u>	<u>41,731</u>
TOTAL UNRESTRICTED	<u>112,738</u>	<u>112,485</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.

	2014	2013
Current	21,326	12,718
1-30 Days	1,741	9,881
30-60 Days	611	1,921
Over 60 Days	7,294	5,629
Allowance for Doubtful Accounts	<u>(5,629)</u>	<u>(5,629)</u>
Total Accounts Receivables	<u><u>25,343</u></u>	<u><u>24,520</u></u>

NOTE D: LONG TERM DEBT

The District had the following Bonds payable at December 31, 2014:

Payable to	Date Note Matures	Collateral Pledged	Rate of Interest	Balance At 12/31/2014	Current Portion Due in One Year	Interest Due in One Year
Revenue Bonds	2/1/2039	Pledged Revenues	5.25%	855,000	15,000	52,953
				<u>855,000</u>	<u>15,000</u>	<u>52,953</u>

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

Years ending December 31, :

	PRINCIPAL	INTEREST
2016	15,000	53,165
2017	15,000	52,862
2018	15,000	51,590
2019	15,000	50,802
2020	20,000	50,015
2021-2025	110,000	229,792
2026-2030	155,000	187,897
2031-2035	205,000	131,670
2035-2039	<u>290,000</u>	<u>53,235</u>
TOTAL	<u><u>840,000</u></u>	<u><u>861,028</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

NOTE E: MANagements 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, 2014, the balance of the debt service fund was \$41,977 and the balance of the debt reserve fund was \$70,761. 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, 2014 was as follows:

	Balance January 1, 2014	Additions	Reductions	Balance December 31, 2014
Capital Assets being Depreciated				
Land	2,000	-	-	2,000
Buildings and Building Improvements	6,245	-	-	6,245
Infrastructure	2,595,581	1	-	2,595,582
Equipment	124,429	-	-	124,429
Total Capital Assets being Depreciated	2,728,255	1	-	2,728,256
Less Accumulated Depreciation	604,009	69,005	-	673,014
Governmental Activities, Capital Assets, Net	2,124,246	(69,004)	-	2,055,242

Capital asset activity for business type activities for the year ended December 31, 2013 was as follows:

	Balance January 1, 2013	Additions	Reductions	Balance December 31, 2013
Capital Assets being Depreciated				
Land	2,000	-	-	2,000
Buildings and Building Improvements	3,340	2,905	-	6,245
Infrastructure	2,595,581	-	-	2,595,581
Equipment	137,541	7,484	20,596	124,429
Total Capital Assets being Depreciated	2,738,462	10,389	20,596	2,728,255
Less Accumulated Depreciation	550,367	72,179	18,537	604,009
Governmental Activities, Capital Assets, Net	2,188,095	(61,790)	2,059	2,124,246

Note M: Prior Period Adjustment

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 a prior period adjustment was needed due to a GASB pronouncement as described below.

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 (41,637).

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

Certified Public Accountant

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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. 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, 2013 and 2014, 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 August 10, 2015.

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 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. X-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
August 10, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

X-1

The inherent limitation resulting from a small number of employees performing functions that would normally be divided among several employees were a larger number available presents a proper segregation of accounting functions deficiency. A much larger staff would be necessary in order to assure adequate internal accounting controls. This deficiency requires the board to remain actively involved in the day to day activities of the water district.

Management Response

Management's response to the lack of segregation of duties is to use to the services of a local CPA Firm to help ensure that financial statements are free of material errors or fraud. Management also remains committed to staying actively involved in the financial matters of the district and consulting with the local CPA firm whenever needed.