

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 11

HULBERT, OKLAHOMA

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

Audited by

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1113 NORTH SECOND ST.
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**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 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 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.

Prior Period Financial Statements

The financial statements of Cherokee County Rural Water District No. 11, as of December 31, 2013, were audited by other auditors whose report dated February 10, 2014, expressed and unmodified opinion on those statements.

Other Matters

Required Supplementary Information

Cherokee County Rural Water District No. 11 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 May 11, 2015, 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 11, 2015

FINANCIAL

SECTION

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 11
BALANCE SHEET
DECEMBER 31, 2013 AND 2014

	ASSETS	2014	2013
CURRENT ASSETS:			
Cash on Hand		650	450
Cash in Bank		217,263	131,710
Accounts Receivable (net of allowance) (Note B)		83,656	66,899
Inventory		74,859	65,608
	TOTAL CURRENT ASSETS	376,428	264,667
RESTRICTED ASSETS:			
Cash in Bank		158,191	158,590
	TOTAL RESTRICTED ASSETS	158,191	158,590
FIXED ASSETS:			
Land (Note C)		10,000	
Office Building (Note C)		45,598	40,636
Autos, Equipment & Tools (Note C)		505,236	536,914
Office Furniture and Equipment (Note C)		50,297	50,297
Water System (Note C)		6,253,493	5,977,494
<i>Accumulated Depreciation (Note C)</i>		(2,488,406)	(2,388,191)
	NET FIXED ASSETS	4,376,218	4,217,150
OTHER ASSETS:			
Deferred Origination Fees		-	7,298
Deferred Bond Fees		-	61,014
ORWA Reserve Certificate		1,000	1,000
<i>Prepaid Insurance</i>		19,093	22,195
	TOTAL OTHER ASSETS	20,093	91,508
	TOTAL ASSETS	4,930,930	4,731,915
LIABILITIES AND FUND EQUITY			
CURRENT LIABILITIES			
Accounts Payable		29,510	25,100
Credit Cards		5,976	4,919
Accrued Interest		38,276	41,578
Accrued Employee Benefits (Note E)		927	1,240
Payroll Taxes Payable		(336)	102
Current Portion of Long-Term Debt (Note D)		52,161	42,021
	TOTAL CURRENT LIABILITIES	126,514	114,960
LONG TERM LIABILITIES			
Note Payables (Note D)		1,680,581	1,467,932
	TOTAL LIABILITIES	1,807,095	1,582,892
NET ASSETS			
Invested in Capital Assets Net of Related Debt		2,643,476	2,707,197
Restricted for Debt Service		158,190	158,590
Unrestricted		322,169	283,236
	TOTAL NET ASSETS	3,123,835	3,149,023
	TOTAL LIABILITIES AND NET ASSETS	\$ 4,930,930	\$ 4,731,915

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 11
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN NET ASSETS
For the Year December 31, 2013 and 2014

	2014	2013
REVENUE:		
Water Sales (net of bad debt)	806,988	735,095
Penalties	20,753	14,357
Service Charges	4,440	6,225
	<u>832,181</u>	<u>755,677</u>
TOTAL OPERATING REVENUE	<u>832,181</u>	<u>755,677</u>
EXPENDITURES:		
Salaries - Maintenance	189,145	185,046
Salaries - Office	99,066	88,874
Employee Benefits	(313)	134
Contract Labor	5,576	12,644
Legal and Audit Fees	2,450	2,150
Bad Debts	1,317	8,949
Bank Charges	5,864	5,077
Office Supplies & Postage	20,965	21,371
Insurance & Bonds	76,661	63,414
Payroll Taxes	24,903	24,053
Retirement Benefits	13,326	13,581
Auto Expense	20,893	26,460
Advertising	2,657	1,818
Dues & Subscriptions and Fees	1,415	1,141
Telephone	16,120	12,965
Water Purchased	39,483	33,680
Water Testing Fees	6,805	6,466
DEQ Regulatory Fees	7,050	5,646
Uniform Expense	4,267	3,844
Employee Training & Drug Testing	940	534
Field Supplies and Repairs	48,625	81,125
Chemicals	25,001	8,738
Utilities	54,679	47,918
Equipment Rental	2,833	50
Depreciation Expense	146,093	104,377
Amortization Expense		3,161
Miscellaneous Expense	8,482	9,779
	<u>824,303</u>	<u>772,995</u>
TOTAL OPERATING EXPENDITURES	<u>824,303</u>	<u>772,995</u>
NET INCOME FROM OPERATIONS	<u>7,878</u>	<u>(17,318)</u>
OTHER INCOME (EXPENDITURES):		
Income - Interest	574	578
Income - Misc. Income/Expense (Net)	10,559	4,031
Income - Membership Connections	42,107	31,293
Income - Billing & Accounting	42,405	41,010
Gain on Sale of Fixed Assets	18,175	-
Donated Capital	-	101,225
Expense - Interest	(78,574)	(85,397)
	<u>35,246</u>	<u>92,740</u>
TOTAL OTHER INCOME AND EXPENSE	<u>35,246</u>	<u>92,740</u>
CHANGE IN NET ASSETS	43,124	75,422
PRIOR PERIOD ADJUSTMENT	(68,312)	85
NET ASSETS, BEGINNING OF THE YEAR	<u>3,149,023</u>	<u>3,073,516</u>
NET ASSETS, END OF THE YEAR	<u>\$ 3,123,835</u>	<u>\$ 3,149,023</u>

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 11
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	815,424	761,892
Cash Outflows:		
Payments to Suppliers for Goods, Services & Employees	<u>(682,943)</u>	<u>(649,000)</u>
Net Cash Provided (Used) by Operating Expenses	<u>132,481</u>	<u>112,892</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Principal Reduction of Long-Term Debt	(17,095)	(46,846)
Interest Payments on Notes & Bonds	<u>(78,574)</u>	<u>(85,397)</u>
Net Cash Provided(Used) for Capital & Related Financing Activities	<u>(95,669)</u>	<u>(132,243)</u>
CASH FLOWS FROM CAPITAL & FINANCING ACTIVITIES		
Purchase of Capital Assets	(305,162)	(214,076)
Borrowed on Long-Term Debt & Bonds	239,884	-
Other Misc. Income/Expense (Net)	<u>113,246</u>	<u>177,560</u>
Net Cash Provided(Used) for Capital & Related Financing Activities	<u>47,968</u>	<u>(36,516)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received from Investments	<u>574</u>	<u>578</u>
Net Cash Provided (Used) for Investing Activities	<u>574</u>	<u>578</u>
NET CASH INFLOW (OUTFLOW) FROM ALL ACTIVITIES	85,354	(55,289)
CASH AND CASH EQUIVALENTS BEGINNING OF THE YEAR	<u>290,750</u>	<u>346,039</u>
CASH AND CASH EQUIVALENTS END OF THE YEAR	<u><u>\$ 376,104</u></u>	<u><u>\$ 290,750</u></u>

Cherokee County Rural Water District No. 11
Notes to Financial Statements
For the Year Ended December 31, 2014

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, the District held deposits of approximately \$375,454 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, 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, 2013 and 2014:

	<u>Current</u>	<u>31-60 Days</u>	<u>60-90 Days</u>	<u>Over 90 Days</u>	<u>Prepayments</u>	<u>Total</u>
2014	73,788	13,288	3,511	1,125	(8,056)	83,656
2013	58,979	7,359	3,136	819	(3,394)	66,899

C. Changes in Capital Assets

Capital asset activity for the year was as follows:

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 Furniture & Equipment	50,297	-	-	50,297
Equipment & Autos	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	91,756	4,376,218

2013	Beginning of Year	Additions	Deletions	End of Year
Capital Assets				
Land	-	-	-	-
Distribution System	4,492,819	1,484,675	-	5,977,494
Buildings	39,838	798	-	40,636
Office Equipment & Equipment	47,435	2,862	-	50,297
Trucks	506,997	29,917	-	536,914
Total Capital Assets	5,087,089	1,518,252	-	6,605,341
Less: Accumulated Depreciation	(2,283,814)	(104,377)	-	(2,388,191)
Net Book Value	2,803,275	1,413,875	-	4,217,150

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:

Year Ended Dec. 31,	Principal	Interest
Current Portion	52,161	91,109
2016	58,684	88,585
2017	60,281	85,739
2018	61,953	82,817
2019	63,705	79,815
Thereafter	1,435,958	828,950
Total	1,732,742	1,257,015

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
Notes Payable	1,509,953	239,884	17,095	1,732,742
Total	1,509,953	239,884	17,095	1,732,742

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 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 11, 2015 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 was \$13,326.

SUPPLEMENTARY

INFORMATION

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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, 2013 and 2014, 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 11, 2015.

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. 2014-1

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 11, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

2014-1

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's Response

Management's response to the lack of segregation of duties is to use the services of a local accounting 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 their Auditor whenever needed.