

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

**TAHLEQUAH, OKLAHOMA**

**AUDITED FINANCIAL STATEMENTS AND NOTES  
For the year ended December 31, 2017 and 2018**

**Audited by**

**ROBERT ST. PIERRE, C.P.A., 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. 3  
Tahlequah, Oklahoma

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

We have audited the accompanying financial statements of the business-type activities of Cherokee County Rural Water District No. 3, as of and for the year ended December 31, 2017 and 2018, and the related notes to the financial statements, which collectively comprise the District's financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

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

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

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cherokee County Rural Water District No. 3, as of December 31, 2017 and 2018, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

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

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

In accordance with *Government Auditing Standards*, we have issued a report dated March 6, 2019, on our consideration of Cherokee County Rural Water District No. 3, internal controls over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cherokee County Rural Water District No. 3 internal control over financial reporting and compliance



Robert St. Pierre C.P.A., P.C.  
Certified Public Accountant  
March 6, 2019

**FINANCIAL**

**SECTION**

**CHEROKEE COUNTY RURAL WATER DISTRICT NO. 3**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31, 2017 & 2018**

	<b>ASSETS</b>	<b>2018</b>	<b>2017</b>
<b>CURRENT ASSETS:</b>			
Petty Cash (Note B)		\$ 1,040	\$ 1,040
Cash in Bank (Note B)		713,434	530,636
Edward Jones Brokerage Account		207,924	203,682
Accounts Receivable (net of allowance) (Note C)		93,009	93,789
Prepaid Insurance		6,867	10,533
Inventory		<u>81,194</u>	<u>74,867</u>
	<b>TOTAL CURRENT ASSETS</b>	<b>1,103,468</b>	<b>914,547</b>
<b>RESTRICTED ASSETS:</b>			
BancFirst Bond Debt Service		<u>45,159</u>	<u>44,814</u>
	<b>TOTAL RESTRICTED ASSETS</b>	<b>45,159</b>	<b>44,814</b>
<b>FIXED ASSETS:</b>			
Land		69,866	69,866
Vehicles		138,331	138,331
Buildings		171,254	159,568
Office Furniture and Equipment		309,408	307,933
Water System		7,276,807	7,254,423
Construction in Progress		158,980	67,534
Accumulated Depreciation		<u>(2,432,881)</u>	<u>(2,230,713)</u>
	<b>NET FIXED ASSETS</b>	<b>5,691,765</b>	<b>5,766,942</b>
	<b>TOTAL ASSETS</b>	<b><u>6,840,392</u></b>	<b><u>6,726,303</u></b>
<b>LIABILITIES AND FUND EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Accounts Payable		21,507	38,640
Payroll Taxes Payable		1,211	560
Accrued Compensated Absences		7,540	10,450
Current Portion of Long-Term Debt (Note E)		<u>117,703</u>	<u>722,765</u>
	<b>TOTAL CURRENT LIABILITIES</b>	<b>147,961</b>	<b>772,415</b>
<b>LONG TERM LIABILITIES</b>			
Note Payables (Note E)		3,252,075	2,639,000
Advanced Refunding of Bonds Payable (Note M)		<u>-</u>	<u>(129,387)</u>
	<b>TOTAL LONG TERM LIABILITIES</b>	<b>3,252,075</b>	<b>2,509,613</b>
<b>NET POSITION</b>			
Invested in Capital Assets Net of Related Debt		2,321,987	2,405,177
Restricted for debt service		45,159	44,814
Unrestricted		<u>1,073,210</u>	<u>994,284</u>
	<b>TOTAL NET POSITION</b>	<b>3,440,356</b>	<b>3,444,275</b>
	<b>TOTAL LIABILITIES AND NET POSITION</b>	<b><u>\$ 6,840,392</u></b>	<b><u>\$ 6,726,303</u></b>

**CHEROKEE COUNTY RURAL WATER DISTRICT NO. 3**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEAR ENDED DECEMBER 31, 2017 & 2018**

	<b>2018</b>	<b>2017</b>
<b>REVENUE:</b>		
Water Sales	1,112,644	1,097,910
Other Operating Revenues	(1,289)	(1,073)
<b>TOTAL OPERATING REVENUE</b>	<b>1,111,355</b>	<b>1,096,837</b>
<b>EXPENSES</b>		
Water Purchases	115,518	118,105
Treatment Plant & Supplies	47,656	35,592
Salaries and Related Expenses	343,003	341,061
Vehicle Expenses	12,136	13,576
Contract Services	20,308	8,951
Postage	9,407	10,351
Board Meeting Expense	3,113	3,177
Repairs & Maintenance	102,722	90,592
Admin & Trustee Fees	14,032	14,412
Telephone/Utilities	44,547	31,319
Office Expenses	18,288	9,776
Professional Fees	7,150	6,700
Equipment Leases	90	3,423
Insurance	38,503	31,715
Licenses / Subscriptions / Dues	2,810	10,482
Bank Services Charges	1,532	230
Travel	135	95
Miscellaneous	5,255	2,994
Depreciation	202,169	210,533
<b>TOTAL OPERATING INCOME</b>	<b>988,374</b>	<b>943,084</b>
<b>OPERATING INCOME (LOSS)</b>	<b>122,981</b>	<b>153,753</b>
<b>NON-OPERATING INCOME &amp; EXPENSE</b>		
Interest Income	8,266	4,497
Miscellaneous Income	19,928	7254
Rent Revenue	4,750	4,750
Grant Revenue Cherokee Nation	27,037	226,559
Membership Income	52,501	46,250
Amortization of Advance Refunding	(129,387)	(129,385)
Interest Expense	(109,995)	(104,376)
<b>TOTAL NON-OPERATING INCOME AND EXPENSE</b>	<b>(126,900)</b>	<b>55,549</b>
<b>NET INCOME FROM OPERATIONS</b>	<b>(3,919)</b>	<b>209,302</b>
<b>NET POSITION BEG OF THE YEAR</b>	<b>3,444,275</b>	<b>3,234,973</b>
<b>NET POSITION END OF YEAR</b>	<b>3,440,356</b>	<b>3,444,275</b>



**STATEMENT OF CASH FLOWS**  
December 31, 2017 and 2018

	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash Inflows:		
Payments Received from Customers	1,112,135	1,103,807
Other cash Received	(2,910)	-
Cash Outflows:		
Payments for Salaries & Wages	(343,003)	(341,061)
Payments to Suppliers for Goods and Services	(462,347)	(372,991)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>303,875</b>	<b>389,755</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Additions to Capital Assets	(126,992)	(542,941)
Capital Contributions-Grants	27,037	226,559
Amortization	(129,385)	(129,385)
Borrowing of Long Term Debt	100,000	-
Principal Reduction of Long-Term Debt	37,400	(23,588)
Interest Payments on Notes	(109,995)	(104,376)
<b>Net Cash Provided(Used) for Capital &amp; Related Financing Activities</b>	<b>(201,935)</b>	<b>(573,731)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
(Purchase) of Investment Account	(4,242)	(2,530)
Membership Income	52,501	46,250
Miscellaneous Income	24,678	12,005
Interest Income	8,266	4,497
<b>Net Cash Provided (Used) for Investing Activities</b>	<b>81,203</b>	<b>60,222</b>
<b>NET CASH INFLOW (OUTFLOW) FROM ALL ACTIVITIES</b>	<b>183,143</b>	<b>(123,754)</b>
<b>CASH AND CASH EQUIVALENTS BEGINNING OF THE YEAR</b>	<b>576,490</b>	<b>700,244</b>
<b>CASH AND CASH EQUIVALENTS END OF THE YEAR</b>	<b>\$ 759,633</b>	<b>\$ 576,490</b>

**CHEROKEE COUNTY RURAL WATER DISTRICT NO. 3  
STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2017 and 2018**

	2018	2017
<b>Reconciliation of Operating Income (Loss to Net Cash) Provided by Operating Activities:</b>		
Operating Income	122,981	153,753
Depreciation and Amortization	202,169	210,533
<b>(Increase) Decrease in:</b>		
Accounts Receivable	780	6,970
Prepaid Insurance	3,666	7,467
Inventory	(6,329)	7,076
<b>(Increase) Decrease in:</b>		
Accounts Payable	(16,482)	3,532
Payroll Taxes Payable	(2,910)	424
	<u>303,875</u>	<u>389,755</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>303,875</u>	<u>389,755</u>

**FINANCIAL**

**STATEMENT**

**NOTES**

**CHEROKEE COUNTY RURAL WATER DISTRICT NO. 3**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

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

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

**1. Basis of Accounting**

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

**2. Basis of Presentation**

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

**3. Cash and Equivalents**

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

**4. Income Taxes**

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

**5. Property and Equipment**

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

## **6. Budgetary Data**

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

## **7. Capital Assets**

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

## **8. Accounts Receivable**

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

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

The District used the reserve method for recognizing bad debts.

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

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

## **11. Equity Classification**

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

1. Invested in capital assets, net of related debt- Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
2. Restricted net assets - Consists of net assets with constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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

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

## **13. Compensated Absences**

The district records a liability for unused vacation time of employees outstanding and due at the end of the year. As of December 31, 2018 and 2017 the District had \$7,540 and \$10,450 payable in accrued compensated absences.

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

The Company has evaluated subsequent events through March 6, 2019 the date which the financial statements were available to be issued.

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

Unrestricted Cash consists of the following:	2018	2017
Petty Cash	1,040	1,040
Armstrong Capital Account	241,349	184,759
Armstrong Construction Account	156,133	145,107
Armstrong Operating	<u>315,952</u>	<u>200,770</u>
<b>TOTAL UNRESTRICTED CASH</b>	<b>714,474</b>	<b>531,676</b>
<b>Restricted Cash</b>	<u><b>45,159</b></u>	<u><b>44,814</b></u>
<b>TOTAL CASH</b>	<b>759,633</b>	<b>576,490</b>

### **NOTE C: CONCENTRATION OF CREDIT RISK**

The organization's accounts receivable consists of monies due primarily from various state, federal, and local contracts and programs. The fair value of these receivables approximates the recorded amounts as of June 30, 2017 and 2018.

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash deposits. Accounts at each institution are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. At September 30, 2018 and December 31, 2017, the Company had \$65,952 and \$-0- in excess of the FDIC insured limit, respectively.

**NOTE D: 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.

	2018	2017
Current	\$ 80,807	\$ 80,473
30-60 Days	11,317	12,645
Over 60 Days	1,966	671
Over 90 Days	-	1,081
Allowance for Doubtful Accounts	<u>(1,081)</u>	<u>(1,081)</u>
Total Accounts Receivables	93,009	93,789

**NOTE E: INVENTORY**

Cherokee County Rural Water District No. 3, maintains a perpetual inventory of materials and supplies. The inventory balance as of December 31, 2017 and 2018 is included in the financial statements.

**NOTE F: LONG TERM DEBT**

The District had the following Long Term Debt and Bonds payable at December 31, 2018:

Payable to	Date Note Matures	Collateral Pledged	Rate of Interest	Original Balance	Balance At 12/31/2018
Armstrong Bank	1/14/2035	Water Storage	2.89%	761,397	757,778
OWRB	9/15/2040	Pledged Revenues	3.54%	2,689,000	2,612,000
				3,450,397	3,369,778

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

Years ending December 31 :

	PRINCIPAL	INTEREST
Current Portion	117,703	194,295
2020	120,804	192,553
2021	125,937	162,190
2022	129,103	189,921
2023	134,303	189,525
2024-2028	742,786	928,358
2029-2033	878,513	892,621
2034-2038	791,629	867,033
2039-2043	329,000	343,813
<b>TOTAL</b>	<b>3,369,778</b>	<b>3,960,309</b>

**NOTE G: MANAGEMENTS USE OF ESTIMATES**

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

**NOTE H: COMMITMENTS AND CONTINGENCIES**

Cherokee County Rural Water District No. 3, currently participates in various grant programs. These grants are subject to audit by the grantor agency or their representatives. Such audits could lead to requests for reimbursement to the grantor agency for services disallowed under the terms of the contract. Presently Cherokee County Rural Water District No. 3, is not aware of any pending requests, and in the opinion of management, any such amounts would not be considered material.



**NOTE I: 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 J: FINANCE- RELATED LEGAL AND CONTRACTUAL PROVISIONS**

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

**NOTE K: DEFICIT NET POSITION**

As indicated in the financial statements, there are no deficit net position for the District for this fiscal year.

**NOTE L: RESTRICTED ASSETS**

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

**NOTE M: REVENUE BONDS PAYABLE**

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

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

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

During 2012 the district did an advance refunding on the Revenue Bonds issued in 2009. The effect of the advance refunding is to remove all bond related accounts from the books of the district and to record a charge for Unamortized Charge on Advance Refunding in the amount of 970,390.94. The Unamortized amount will be amortized of 7.5 years, the time remaining until the bonds will be paid off. The amount amortized in 2017 and 2018 was 129,385, which shows up as an expense in the other income and expense lines of the Statement of Revenues, Expenditures and Changes in Net Assets leaving a balance of -0- as of December 31, 2018 in the advanced refunding of Bonds Payable.

## NOTE N: CAPITAL ASSETS

Capital asset balances and activity for the year ended December 31, 2017 and 2018, were as follows:

<u>2018</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets, not being Depreciated:				
Land	69,866	-	-	69,866
<b>TOTAL Capital Assets, not being Depreciated</b>	<b>69,866</b>	<b>-</b>	<b>-</b>	<b>69,866</b>
Capital Assets, being Depreciated				
Buildings	159,569	11,686	-	171,255
Water Distribution System	7,229,378	113,830	-	7,343,208
Machinery and Equipment	391,224	-	-	391,224
Office Equipment	9,286	1,475	-	10,761
Vehicles	138,332	-	-	138,332
<b>TOTAL Capital Assets, being Depreciated</b>	<b>7,927,789</b>	<b>126,991</b>	<b>-</b>	<b>8,054,780</b>
Less Accumulated Depreciation for:				
Accumulated Depreciation	(2,230,713)	(202,168)	-	(2,432,881)
<b>TOTAL Accumulated Depreciation</b>	<b>(2,230,713)</b>	<b>(202,168)</b>	<b>-</b>	<b>(2,432,881)</b>
<b>TOTAL Capital Assets, Being Depreciated, Net</b>	<b>5,697,076</b>	<b>(75,177)</b>	<b>-</b>	<b>5,621,899</b>
<b>Capital Assets, Net</b>	<b>5,766,942</b>	<b>(75,177)</b>	<b>-</b>	<b>5,691,765</b>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>2017</u>				
Capital Assets, not being Depreciated:				
Land	69,866	-	-	69,866
<b>TOTAL Capital Assets, not being Depreciated</b>	<b>69,866</b>	<b>-</b>	<b>-</b>	<b>69,866</b>
Capital Assets, being Depreciated				
Buildings	159,569	-	-	159,569
Water Distribution System	6,717,457	511,921	-	7,229,378
Machinery and Equipment	360,204	31,020	-	391,224
Office Equipment	9,286	-	-	9,286
Vehicles	138,332	-	-	138,332
<b>TOTAL Capital Assets, being Depreciated</b>	<b>7,384,848</b>	<b>542,941</b>	<b>-</b>	<b>7,927,789</b>
Less Accumulated Depreciation for:				
Accumulated Depreciation	(2,020,180)	(210,533)	-	(2,230,713)
<b>TOTAL Accumulated Depreciation</b>	<b>(2,020,180)</b>	<b>(210,533)</b>	<b>-</b>	<b>(2,230,713)</b>
<b>TOTAL Capital Assets, Being Depreciated, Net</b>	<b>5,364,668</b>	<b>332,408</b>	<b>-</b>	<b>5,697,076</b>
<b>Capital Assets, Net</b>	<b>5,434,534</b>	<b>332,408</b>	<b>-</b>	<b>5,766,942</b>

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**SUPPLEMENTARY**

**INFORMATION**

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors  
Cherokee County Rural Water District No. 3  
Tahlequah, Oklahoma

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Cherokee County Rural Water District No. 3 as of and for the year ended December 31, 2017 and 2018, and the related notes to the financial statements, which collectively comprise Cherokee County Rural Water District No. 3's basic financial statements and have issued our report thereon dated March 6, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Cherokee County Rural Water District No 3's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Cherokee County Rural Water District No 3's internal control. Accordingly, we do not express an opinion on the effectiveness of Cherokee County Rural Water District No 3's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned cost that we consider to be significant deficiencies. 2018-1

### **Compliance and Other Matters**

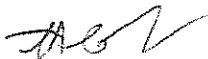
As part of obtaining reasonable assurance about whether Cherokee County Rural Water District No. 3's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards

### **Cherokee County Rural Water District No. 3's Response to Findings**

Cherokee County Rural Water District No. 3's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Cherokee County Rural Water District No. 3's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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



Robert St. Pierre C.P.A., P.C.  
Certified Public Accountant  
March 6, 2019

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

2018-1

**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 2017.

**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.