

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 3

TAHLEQUAH, OKLAHOMA

AUDITED FINANCIAL STATEMENTS AND NOTES
For the year ended December 31, 2011 and 2012

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. 3
Tahlequah, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements Cherokee County Rural Water District No. 3 as of December 31, 2011 and 2012, 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. 3 as of December 31, 2011 and 2012, 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. 3, 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 March 7, 2013, 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 7, 2013

FINANCIAL

SECTION

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 3
BALANCE SHEET
DECEMBER 31, 2011 & 2012

	ASSETS	2012	2011
CURRENT ASSETS:			
Petty Cash (Note B)		\$ 1,040	\$ 1,039
Cash in Bank (Note B)		585,640	353,087
Certificates of Deposit (Note B)		194,647	193,237
Accounts Receivable (net of allowance) (Note C)		81,083	78,299
Accounts Receivable Contracts		21,923	196,108
Prepaid Insurance		10,690	13,024
Inventory		<u>67,520</u>	<u>66,241</u>
	TOTAL CURRENT ASSETS	962,543	901,035
RESTRICTED ASSETS:			
BancFirst Bond Debt Service		<u>45,317</u>	<u>45,517</u>
	TOTAL RESTRICTED ASSETS	45,317	45,517
FIXED ASSETS:			
Land		63,384	63,389
Vehicles		88,252	76,252
Buildings		130,063	120,808
Office Furniture and Equipment		122,420	118,696
Water System		5,725,845	5,486,055
Construction in Progress		-	-
Accumulated Depreciation		<u>(1,251,059)</u>	<u>(1,104,150)</u>
	NET FIXED ASSETS	<u>4,878,905</u>	<u>4,761,050</u>
	TOTAL ASSETS	<u><u>5,886,765</u></u>	<u><u>5,707,602</u></u>
LIABILITIES AND FUND EQUITY			
CURRENT LIABILITIES			
Accounts Payable		70,658	-
Payroll Taxes Payable		571	3,572
Current Portion of Long-Term Debt (Note E)		<u>47,973</u>	<u>48,570</u>
	TOTAL CURRENT LIABILITIES	<u>119,202</u>	<u>52,142</u>
LONG TERM LIABILITIES			
Note Payables (Note E)		3,255,118	3,339,045
Advanced Refunding of Bonds Payable (Note E)		<u>(776,313)</u>	<u>(905,698)</u>
	TOTAL LONG TERM LIABILITIES	<u>2,478,805</u>	<u>2,433,347</u>
NET ASSETS			
Invested in Capital Assets Net of Related Debt		2,352,127	2,279,133
Restricted for debt service		45,317	45,517
Unrestricted		<u>891,314</u>	<u>897,464</u>
	TOTAL NET ASSETS	<u>3,288,758</u>	<u>3,222,114</u>
	TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 5,886,765</u></u>	<u><u>\$ 5,707,603</u></u>

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 3
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2011 & 2012

	2012	2011
REVENUE:		
Water Sales	\$ 1,033,912	\$ 851,672
Other Operating Revenues	<u>1,724</u>	<u>6,536</u>
TOTAL OPERATING REVENUE	<u>1,035,636</u>	<u>858,208</u>
EXPENDITURES:		
Water Purchases-TPWA	95,070	83,852
Water Purchases-Springs	30,830	25,859
Treatment Plant & Supplies	25,356	-
Salaries and related expenses	229,939	192,679
Vehicle Expenses	12,503	9,212
Contract Services	8,555	18,716
Postage	14,456	14,571
Board Meeting Expense	2,358	3,230
Repairs and Maintenance	144,941	56,545
Property Taxes	-	16
Telephone/Utilities	31,822	48,482
Office Expense	11,083	7,048
Professional Fees	20,050	5,200
Insurance	23,714	30,486
Licenses/Subscriptions/Dues	5,391	5,676
Bank Service Charges	17,833	15,571
Travel	238	1,135
Amortization	-	5,393
Depreciation	<u>152,509</u>	<u>164,492</u>
TOTAL OPERATING EXPENDITURES	<u>826,648</u>	<u>688,163</u>
NET INCOME FROM OPERATIONS	<u>208,988</u>	<u>170,045</u>
OTHER INCOME (EXPENDITURES):		
Interest Income	2,132	2,210
Miscellaneous Income	9,912	7,168
Membership Income	91,250	41,850
Miscellaneous Expense	(41,544)	-
Grant Revenue	26,870	3,646
Amortization of Advance Refunding	(129,385)	(64,693)
Interest Expense	<u>(101,579)</u>	<u>(189,445)</u>
TOTAL OTHER INCOME AND EXPENSE	<u>(142,344)</u>	<u>(199,264)</u>
NET INCOME	66,644	(29,218)
NET ASSETS, BEGINNING OF THE YEAR	<u>3,222,114</u>	<u>3,251,332</u>
NET ASSETS, END OF THE YEAR	<u>\$ 3,288,758</u>	<u>\$ 3,222,114</u>

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 3
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011 & 2012

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Inflows:		
Payments Received from Customers	1,031,128	820,293
Other cash Received	1,724	6,536
Cash Outflows:		
Payments for Salaries & Wages	(227,381)	(18,716)
Payments to Suppliers for Goods and Services	(378,339)	(510,418)
	<u>427,132</u>	<u>297,695</u>
Net Cash Provided (Used) by Operating Expenses		
CASH FLOWS FROM FINANCING ACTIVITIES		
Additions to Capital Assets	(269,670)	(271,865)
Capital Contributions-Grants	26,870	3,646
Contracts Receivables	174,185	284,671
Capital Grants Expended	(41,544)	-
Principal Reduction of Long-Term Debt	(84,524)	(292,484)
Interest Payments on Notes	(101,579)	(189,445)
	<u>(296,262)</u>	<u>(465,477)</u>
Net Cash Provided(Used) for Capital & Related Financing Activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Membership Income	91,250	41,850
Miscellaneous Income	9,912	7,167
(Increase) Decrease in Trust Accounts	(200)	289,248
Interest Income	2,132	2,210
	<u>103,094</u>	<u>340,475</u>
Net Cash Provided (Used) for Investing Activities		
NET CASH INFLOW (OUTFLOW) FROM ALL ACTIVITIES	233,964	172,693
CASH AND CASH EQUIVALENTS BEGINNING OF THE YEAR	<u>547,363</u>	<u>374,670</u>
CASH AND CASH EQUIVALENTS END OF THE YEAR	<u>\$ 781,327</u>	<u>\$ 547,363</u>

**CHEROKEE COUNTY RURAL WATER DISTRICT NO. 3
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 and 2012**

	2012	2011
Reconciliation of Operating Income (Loss to Net Cash) Provided by Operating Activities:		
Operating Income	208,988	170,045
Depreciation and Amortization	152,509	164,492
(Increase) Decrease in:		
Accounts Receivable	(2,783)	(31,379)
Prepaid Insurance	2,333	-
Inventory	(1,276)	8,692
(Increase) Decrease in:		
Accounts Payable	70,658	(10,856)
Annuity Payable	-	-
Payroll Taxes Payable	<u>(3,297)</u>	<u>(3,299)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>427,132</u></u>	<u><u>297,695</u></u>

FINANCIAL

STATEMENT

NOTES

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2012

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 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, 2011 and 2012 would not be material to the financial statements taken as a whole.

NOTE B: CASH AND EQUIVALENTS

Unrestricted Cash consists of the following:	2012	2011
Petty Cash	1,040	1,040
Armstrong Capital Account	126,129	125,636
Armstrong Construction Account	136,866	33,593
Armstrong Operating	322,645	193,857
CD Bank of Cherokee County #2004	97,282	96,577
CD Bank of Cherokee County #1009	<u>97,365</u>	<u>96,660</u>
TOTAL UNRESTRICTED CASH	<u>781,327</u>	<u>547,363</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.

	2012	2011
Current	\$ 77,358	\$ 73,856
1-30 Days	7,602	7,612
30-60 Days	1,648	3,071
Over 60 Days	715	-
Allowance for Doubtful Accounts	<u>(6,240)</u>	<u>(6,240)</u>
Total Accounts Receivables	<u>81,083</u>	<u>78,299</u>

NOTE D: INVENTORY

During the fiscal year ending December 31, 2005, Cherokee County Rural Water District No. 3 began counting inventory of materials and supplies. The inventory balance as of December 31, 2011 and 2012 is included in the financial statements.

NOTE E: LONG TERM DEBT

The District had the following Long Term Debt and Bonds payable at December 31, 2011:

Payable to	Date Note Matures	Collateral Pledged	Rate of Interest	Balance At 12/31/2012	Current Portion Due in One Year	Interest Due in One Year
Armstrong Bank	8/18/2013	Water Storage	3.95%	\$ 267,091	12,973	10,674
OWRB	9/15/1940	Pledged Revenues	3.54%	3,036,000	35,000	47,654
				<u>3,303,091</u>	<u>47,973</u>	<u>58,328</u>

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

Years ending December 31, :

	PRINCIPAL	INTEREST
2013	53,494	172,622
2014	54,037	170,038
2015	59,602	167,295
2016	65,189	164,393
2017	68,500	161,331
Thereafter	<u>2,954,296</u>	<u>2,146,414</u>
TOTAL	<u>3,255,118</u>	<u>2,982,093</u>

NOTE F: 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 G: 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 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.

NOTE I: 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 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.

NOTE K: 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 made up of four individual account all held by the Trustee Bank (Wells Fargo). The four accounts are the main bond account, the debt service reserve fund, the sinking fund, and the construction fund.

NOTE L: 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 M: ADVANCE REFUNDING OF REVENUE BONDS

During 2011 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 2012 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 776,312 in the advanced refunding of Bonds Payable.

SUPPLEMENTARY

INFORMATION

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. 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, 2011 and 2012, 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 7, 2013.

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 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. X-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 7, 2013

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 or 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.