

**CHEROKEE COUNTY RURAL WATER DISTRICT NO. 8**

**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. 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, 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. 8 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. 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 March 7, 2013, 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  
March 7, 2013

**FINANCIAL**

**SECTION**

**CHEROKEE COUNTY RURAL WATER DISTRICT NO. 8**  
**BALANCE SHEET**  
**DECEMBER 31, 2011 and 2012**

<b>ASSETS</b>	<b>2012</b>	<b>2011</b>
<b>CURRENT ASSETS:</b>		
Cash in Bank	\$ 29,725	\$ 8,400
Accounts Receivable (net of allowance)	27,001	23,804
Prepaid Insurance	5,064	5,431
<b>TOTAL CURRENT ASSETS</b>	<b>61,790</b>	<b>37,635</b>
<b>RESTRICTED ASSETS:</b>		
Debt Service Fund	42,556	27,385
Debt Service Reserve Fund	70,747	70,740
Construction Fund	-	170,641
Debt Issuance Cost (Net of Amortization)	43,428	45,130
<b>TOTAL RESTRICTED ASSETS</b>	<b>156,731</b>	<b>313,896</b>
<b>FIXED ASSETS:</b>		
Land	2,000	2,000
Water System	2,595,584	1,097,726
Vehicles	39,600	39,600
Construction in Progress	-	1,318,991
Buildings and Equipment	101,281	92,148
<i>Accumulated Depreciation</i>	(550,367)	(474,262)
<b>NET FIXED ASSETS</b>	<b>2,188,098</b>	<b>2,076,203</b>
<b>TOTAL ASSETS</b>	<b>2,406,619</b>	<b>2,427,734</b>
<b>LIABILITIES AND FUND EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	14,337	11,642
Federal Withholding Tax Payable	869	904
State Withholding Tax Payable	112	120
State Unemployment Insurance Tax Payable	196	47
Current Portion of Bonds Payable	10,000	10,000
Accrued Interest Payable	41,119	51,381
<b>TOTAL CURRENT LIABILITIES</b>	<b>66,633</b>	<b>74,094</b>
<b>LONG TERM LIABILITIES</b>		
Bonds Payable ( <i>Net of Bond Discounts &amp; Premium</i> )	851,387	860,500
<b>TOTAL LONG TERM LIABILITIES</b>	<b>851,387</b>	<b>860,500</b>
<b>TOTAL LIABILITIES</b>	<b>918,020</b>	<b>934,594</b>
<b>NET ASSETS</b>		
Invested in Capital Assets Net of Related Debt	1,810,445	1,205,703
Restricted Net Assets	156,731	313,896
Unrestricted	(478,577)	(26,459)
<b>TOTAL NET ASSETS</b>	<b>1,488,599</b>	<b>1,493,140</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 2,406,619</b>	<b>\$ 2,427,734</b>

**CHEROKEE COUNTY RURAL WATER DISTRICT NO. 8**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED DECEMBER 31, 2011 and 2012**

	<b>2012</b>	<b>2011</b>
<b>REVENUE:</b>		
Water Sales	\$ 322,064	\$ 273,886
Other Operating Revenues	<u>13,108</u>	<u>15,080</u>
<b>TOTAL OPERATING REVENUE</b>	<u>335,172</u>	<u>288,966</u>
<b>EXPENDITURES:</b>		
Water Purchased	85,745	125,734
Labor-Manager and Meter Reader	40,052	50,548
Accounting & Billing Fees	18,653	17,431
Professional Fees	4,800	2,440
Bad Debt	4,744	6,269
Payroll Taxes	4,101	4,904
Employee Benefits	1,985	5,908
Automobile Expense	6,888	11,251
Bank Service Charges	1,014	1,093
Office Supplies	1,623	1,567
Postage & Delivery	4,366	2,392
Insurance	9,946	8,247
Licenses/Subscriptions/Dues	1,204	910
Repairs and Maintenance	7,842	3,042
Chemicals, Field Supplies & Testing	18,950	22,209
Equipment Rental	-	-
Utilities	11,117	12,494
Miscellaneous	1,095	891
Amortization	2,589	2,589
Depreciation	<u>76,105</u>	<u>38,235</u>
<b>TOTAL OPERATING EXPENDITURES</b>	<u>302,819</u>	<u>318,154</u>
<b>NET INCOME FROM OPERATIONS</b>	<u>32,353</u>	<u>(29,188)</u>
<b>OTHER INCOME (EXPENDITURES):</b>		
Interest Income	25	137
Other (Grant) Income	561	1,062,547
Membership Income	8,175	9,450
Interest Expense	<u>(45,655)</u>	<u>(83,957)</u>
<b>TOTAL OTHER INCOME AND EXPENSE</b>	<u>(36,894)</u>	<u>988,177</u>
<b>NET INCOME</b>	(4,541)	958,989
<b>NET ASSETS, BEGINNING OF THE YEAR</b>	<u>1,493,140</u>	<u>534,151</u>
<b>NET ASSETS, END OF THE YEAR</b>	<u>\$ 1,488,599</u>	<u>\$ 1,493,140</u>



**CHEROKEE COUNTY RURAL WATER DISTRICT NO. 8**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2011 and 2012**

	<b>2012</b>	<b>2011</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash Inflows:		
Payments Received from Customers	331,976	291,905
Cash Outflows:		
Payments to Suppliers for Goods and Services	<u>(226,559)</u>	<u>(279,763)</u>
<b>Net Cash Provided (Used) by Operating Expenses</b>	<u>105,417</u>	<u>12,142</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Membership Income	8,175	9,450
Decrease (Increase) in Investments	160,177	291,950
Other Income	561	1,062,547
Interest Income	25	137
<b>Net Cash Provided (Used) for Investing Activities</b>	<u>168,938</u>	<u>1,364,084</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Additions to Capital Assets	(188,000)	(1,320,733)
Principal Reduction of Long-Term Debt	(9,113)	(10,000)
Interest Payments on Notes	<u>(55,917)</u>	<u>(56,370)</u>
<b>Net Cash Provided(Used) for Capital &amp; Related Financing Activities</b>	<u>(253,030)</u>	<u>(1,387,103)</u>
<b>NET CASH INFLOW (OUTFLOW) FROM ALL ACTIVITIES</b>	21,325	(10,877)
<b>CASH AND CASH EQUIVALENTS BEGINNING OF THE YEAR</b>	<u>8,400</u>	<u>19,277</u>
<b>CASH AND CASH EQUIVALENTS END OF THE YEAR</b>	<u><u>\$ 29,725</u></u>	<u><u>\$ 8,400</u></u>
<b>Interest Expense</b>	<u>45,655</u>	<u>83,957</u>
	<u>45,655</u>	<u>83,957</u>

**CHEROKEE COUNTY RURAL WATER DISTRICT NO. 8  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2011 and 2012**

	<b>2012</b>	<b>2011</b>
<b>Reconciliation of Operating Income (Loss to Net Cash) Provided by Operating Activities:</b>		
Operating Income	32,353	(29,188)
Amortization	2,588	2,589
Depreciation	76,105	38,235
<b>(Increase) Decrease in:</b>		
Accounts Receivable	(3,196)	2,939
Prepaid Insurance	367	(1,450)
<b>(Increase) Decrease in:</b>		
Accounts Payable	(2,695)	(909)
Payroll Taxes Payable	(105)	(74)
	<u>105,417</u>	<u>12,142</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>105,417</u>	<u>12,142</u>

**FINANCIAL**

**STATEMENT**

**NOTES**

**CHEROKEE COUNTY RURAL WATER DISTRICT NO. 8**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

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

**14. Evaluation of Subsequent Events**

The Company has evaluated subsequent events through March 7, 2013 the date which the financial statements were available to be issued.

**NOTE B: CASH AND EQUIVALENTS**

Unrestricted Cash consists of the following:	<b>2012</b>	<b>2011</b>
Cash Checking	28,441	7,108
Capital Acquisition Fund	1,284	1,292
CD Bank of America	<u>-</u>	<u>-</u>
<b>TOTAL UNRESTRICTED CASH</b>	<b><u>29,725</u></b>	<b><u>8,400</u></b>

**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	19,614	19,568
1-30 Days	5,761	3,676
30-60 Days	1,626	561
Over 60 Days	3,994	741
Allowance for Doubtful Accounts	<u>(3,994)</u>	<u>(742)</u>
Total Accounts Receivables	<u><u>27,001</u></u>	<u><u>23,804</u></u>

**NOTE D: LONG TERM DEBT**

The District had the following Bonds payable at December 31, 2011 and 2012:

Payable to	Date Note Matures	Collateral Pledged	Rate of Interest	Balance At 12/31/2011	Current Portion Due in One Year	Interest Due in One Year
Revenue Bonds	2/1/1939	Pledged Revenues	6.65%	885,000	15,000	55,527
				<u>885,000</u>	<u>15,000</u>	<u>55,527</u>

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

Years ending December 31, :

	PRINCIPAL	INTEREST
2014	15,000	54,740
2015	15,000	53,952
2016	15,000	53,165
2017	15,000	52,862
2018	15,000	51,590
Thereafter	<u>795,500</u>	<u>702,929</u>
TOTAL	<u><u>870,500</u></u>	<u><u>969,238</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, 2012, the balance of the debt service fund was \$42,556 and the balance of the debt reserve fund was \$70,746. 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 of 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.

**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. 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, 2011 and 2012, 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 March 7, 2013.

**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  
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 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.