

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 3

TAHLEQUAH, OKLAHOMA

AUDITED FINANCIAL STATEMENTS AND NOTES
For the year ended December 31, 2015 and 2016

Audited by

ROBERT ST. PIERRE, C.P.A., P.C.
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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. 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, 2015 and 2016, 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, 2015 and 2016, 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.

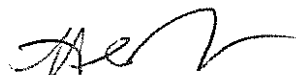
Other Matters

Required Supplementary Information

The Cherokee County Rural Water District No. 3, has not presented the management discussion and 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 15, 2017, 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 15, 2017

**FINANCIAL
SECTION**

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 3
BALANCE SHEET
DECEMBER 31, 2015 & 2016

	ASSETS	2016	2015
CURRENT ASSETS:			
Petty Cash (Note B)		\$ 1,040	\$ 1,040
Cash in Bank (Note B)		654,799	700,384
Certificates of Deposit (Note B)		-	-
Edward Jones Brokerage Account		201,152	198,841
Accounts Receivable (net of allowance) (Note C)		100,759	81,482
Accounts Receivable Contracts		-	-
Prepaid Insurance		17,609	6,259
Inventory		<u>82,334</u>	<u>76,589</u>
	TOTAL CURRENT ASSETS	1,057,693	1,064,595
RESTRICTED ASSETS:			
BancFirst Bond Debt Service		<u>44,405</u>	<u>44,681</u>
	TOTAL RESTRICTED ASSETS	44,405	44,681
FIXED ASSETS:			
Land		69,866	69,866
Vehicles		138,331	138,331
Buildings		159,568	159,068
Office Furniture and Equipment		276,913	274,432
Water System		6,705,772	6,046,245
Construction in Progress		104,264	92,579
Accumulated Depreciation		<u>(2,020,180)</u>	<u>(1,814,080)</u>
	NET FIXED ASSETS	5,434,534	4,966,441
	TOTAL ASSETS	<u>6,536,632</u>	<u>6,075,717</u>
LIABILITIES AND FUND EQUITY			
CURRENT LIABILITIES			
Accounts Payable		35,108	18,098
Payroll Taxes Payable		136	-
Accrued Compensated Absences		10,450	10,450
Current Portion of Long-Term Debt (Note E)		<u>619,214</u>	<u>64,001</u>
	TOTAL CURRENT LIABILITIES	<u>664,908</u>	<u>92,549</u>
LONG TERM LIABILITIES			
Note Payables (Note E)		2,895,523	2,987,254
Advanced Refunding of Bonds Payable (Note M)		<u>(258,772)</u>	<u>(388,157)</u>
	TOTAL LONG TERM LIABILITIES	<u>2,636,751</u>	<u>2,599,097</u>
NET ASSETS			
Invested in Capital Assets Net of Related Debt		1,919,797	1,527,029
Restricted for debt service		44,405	44,681
Unrestricted		<u>1,270,771</u>	<u>1,812,361</u>
	TOTAL NET ASSETS	<u>3,234,973</u>	<u>3,384,071</u>
	TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,536,632</u>	<u>\$ 6,075,717</u>

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 3
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2015 & 2016

	2016	2015
REVENUE:		
Water Sales	\$ 1,107,317	\$ 1,078,165
Other Operating Revenues	(849)	2,762
	<u>1,106,468</u>	<u>1,080,927</u>
TOTAL OPERATING REVENUE		
EXPENDITURES:		
Water Purchases	130,095	103,838
Treatment Plant & Supplies	30,803	28,578
Salaries and related expenses	331,807	290,800
Vehicle Expenses	21,283	13,132
Contract Services	35,249	6,837
Postage	8,339	9,420
Board Meeting Expense	2,691	3,127
Repairs and Maintenance	204,571	92,165
Admin & Trustee Fees	15,271	15,491
Telephone/Utilities	41,989	50,480
Office Expense	15,145	20,111
Professional Fees	6,500	5,950
Insurance	24,182	40,026
Licenses/Subscriptions/Dues	11,744	3,796
Bank Service Charges	165	215
Travel	106	43
Miscellaneous	3,231	17,580
Depreciation	206,101	201,687
Amortization of Advance Refunding	129,385	129,385
	<u>1,218,657</u>	<u>1,032,661</u>
TOTAL OPERATING EXPENDITURES		
NET INCOME FROM OPERATIONS	<u>(112,189)</u>	<u>48,266</u>
OTHER INCOME (EXPENDITURES):		
Interest Income	3,430	2,111
Miscellaneous Income	24,405	24,951
Membership Income	36,250	51,250
Miscellaneous Expense	-	(618)
Grant Revenue	-	(9,900)
Interest Expense	(100,994)	(94,230)
	<u>(36,909)</u>	<u>(26,436)</u>
TOTAL OTHER INCOME AND EXPENSE		
NET INCOME	(149,098)	21,830
NET ASSETS, BEGINNING OF THE YEAR	<u>3,384,071</u>	<u>3,362,241</u>
NET ASSETS, END OF THE YEAR	<u>\$ 3,234,973</u>	<u>\$ 3,384,071</u>

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 3
STATEMENT OF CASH FLOWS
December 31, 2015 and 2016

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Inflows:		
Payments Received from Customers	1,087,191	1,041,070
Other cash Received	-	-
Cash Outflows:		
Payments for Salaries & Wages	(331,807)	(290,800)
Payments to Suppliers for Goods and Services	(551,313)	(446,508)
	<u>204,071</u>	<u>303,762</u>
Net Cash Provided (Used) by Operating Expenses		
CASH FLOWS FROM FINANCING ACTIVITIES		
Additions to Capital Assets	(674,194)	(125,631)
Capital Contributions-Grants	-	66,301
(Purchase) of Investment Account	(2,311)	(841)
Proceeds from Long-Term Debt	558,600	-
Amortization of Advance Refunding	(129,385)	-
Principal Reduction of Long-Term Debt	34,267	(93,196)
Interest Payments on Notes	(100,994)	(94,230)
	<u>(314,017)</u>	<u>(247,597)</u>
Net Cash Provided(Used) for Capital & Related Financing Activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Membership Income	36,250	51,250
Miscellaneous Income	24,405	(618)
Interest Income	3,430	2,112
	<u>64,085</u>	<u>52,744</u>
Net Cash Provided (Used) for Investing Activities		
NET CASH INFLOW (OUTFLOW) FROM ALL ACTIVITIES	(45,861)	108,909
CASH AND CASH EQUIVALENTS BEGINNING OF THE YEAR	<u>746,105</u>	<u>637,196</u>
CASH AND CASH EQUIVALENTS END OF THE YEAR	<u>\$ 700,244</u>	<u>\$ 746,105</u>

**CHEROKEE COUNTY RURAL WATER DISTRICT NO. 3
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 and 2016**

	2016	2015
Reconciliation of Operating Income (Loss to Net Cash) Provided by Operating Activities:		
Operating Income	(112,189)	177,651
Depreciation and Amortization	206,101	201,687
Amortization Bond Refinancing	129,385	
Advanced Refunding of Debt	-	(88,710)
(Increase) Decrease in:		
Accounts Receivable	(19,277)	11,393
Prepaid Insurance	(5,745)	5,718
Inventory	(11,350)	(10,165)
(Increase) Decrease in:		
Accounts Payable	17,146	6,188
Payroll Taxes Payable	-	-
	<u>204,071</u>	<u>303,762</u>
Net Cash Provided (Used) by Operating Activities		

FINANCIAL

STATEMENT

NOTES

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

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 did start accruing for a liability for compensated absences in 2014. In prior years the District did not consider the amount of compensated absences to be material to the financial statements and did not record an accrual for compensated absences.

14. Evaluation of Subsequent Events.

The Company has evaluated subsequent events through March 15, 2017 the date which the financial statements were available to be issued.

NOTE B: CASH AND EQUIVALENTS

Unrestricted Cash consists of the following:	2016	2015
Petty Cash	1,040	1,040
Armstrong Capital Account	151,580	140,846
Armstrong Construction Account	312,842	274,106
Armstrong Operating	<u>190,377</u>	<u>285,432</u>
TOTAL UNRESTRICTED CASH	655,839	701,424
Restricted Cash	<u>44,405</u>	<u>44,681</u>
TOTAL CASH	<u><u>700,244</u></u>	<u><u>746,105</u></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.

	2016	2015
Current	\$ 91,394	\$ 78,164
30-60 Days	13,134	8,620
Over 60 Days	822	938
Over 90 Days	1,649	
Allowance for Doubtful Accounts	<u>(6,240)</u>	<u>(6,240)</u>
Total Accounts Receivables	<u>100,759</u>	<u>81,482</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, 2015 and 2016 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, 2016:

Payable to	Date Note Matures	Collateral Pledged	Rate of Interest	Balance At 12/31/2016	Current Portion Due in One Year	Interest Due in One Year
Armstrong Bank	3/16/2017	Water Storage	2.89%	558,600	558,600	3,096
Armstrong Bank	8/18/2013	Water Storage	3.95%	193,137	15,614	8,032
OWRB	9/15/1940	Pledged Revenues	3.54%	2,763,000	45,000	140,400
				<u>3,514,737</u>	<u>619,214</u>	<u>151,528</u>

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

Years ending December 31 :

	PRINCIPAL	INTEREST
2017	66,251	154,344
2018	66,915	154,244
2019	72,605	150,322
2020	78,324	145,722
2021	453,466	649,051
2022-2026	494,962	495,450
2027-2031	680,000	299,697
2032-2036	790,000	88,469
2037-2041	193,000	-
2042-2044	-	-
TOTAL	<u>2,895,523</u>	<u>2,137,299</u>

NOTE F: 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 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 the Debt Service Fund held by BancFirst Bank.

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 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 2015 and 2016 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 258,772 as of December 31, 2016 in the advanced refunding of Bonds Payable.

SUPPLEMENTARY

INFORMATION

NOTE N: CAPITAL ASSETS

Capital asset balances and activity for the year ended December 31, 2015 and 2016, were as follows:

<u>2016</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
TOTAL Capital Assets, not being Depreciated	69,866	-	-	69,866
Capital Assets, being Depreciated				
Buildings	159,068	501	-	159,569
Water Distribution System	6,046,245	671,212	-	6,717,457
Machinery and Equipment	357,724	2,480	-	360,204
Office Equipment	9,286	-	-	9,286
Vehicles	138,332	-	-	138,332
TOTAL Capital Assets, being Depreciated	6,710,655	674,193	-	7,384,848
Less Accumulated Depreciation for:				
Accumulated Depreciation	(1,814,079)	(206,101)	-	(2,020,180)
TOTAL Accumulated Depreciation	(1,814,079)	(206,101)	-	(2,020,180)
TOTAL Capital Assets, Being Depreciated, Net	4,896,576	468,092	-	5,364,668
Capital Assets, Net	4,966,442	468,092	-	5,434,534
<u>2015</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
TOTAL Capital Assets, not being Depreciated	69,866	-	-	69,866
Capital Assets, being Depreciated				
Buildings	159,068	-	-	159,068
Water Distribution System	6,046,245	-	-	6,046,245
Machinery and Equipment	357,724	-	-	357,724
Office Equipment	9,286	-	-	9,286
Vehicles	138,332	-	-	138,332
TOTAL Capital Assets, being Depreciated	6,710,655	-	-	6,710,655
Less Accumulated Depreciation for:				
Accumulated Depreciation	(1,618,108)	(195,971)	-	(1,814,079)
TOTAL Accumulated Depreciation	(1,618,108)	(195,971)	-	(1,814,079)
TOTAL Capital Assets, Being Depreciated, Net	5,092,547	(195,971)	-	4,896,576
Capital Assets, Net	5,162,413	(195,971)	-	4,966,442

**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, 2015 and 2016, 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 15, 2017.

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. 2016-1

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 15, 2017

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

2016-1

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 2015.

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.