

CHERRY TREE RURAL WATER DISTRICT

STILWELL, OKLAHOMA

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

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
Cherry Tree Rural Water District
Stilwell, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements Cherry Tree Rural Water District as of and for the year then 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.

Managements 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.

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 Cherry Tree Rural Water District as of December 31, 2015 and 2016, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principals generally accepted in the United States of America.

Other Matters

Required Supplementary Information

The Cherry Tree Rural Water District 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 December 5, 2017, on our consideration of Cherry Tree Rural Water District's, internal controls over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cherry Tree Rural Water District's internal control over financial reporting and compliance



Robert St. Pierre C.P.A., P.C.
Certified Public Accountant
December 5, 2017

**FINANCIAL
SECTION**

CHERRY TREE RURAL WATER DISTRICT
BALANCE SHEET
DECEMBER 31, 2015 and 2016

ASSETS	2016	2015
CURRENT ASSETS:		
Cash on Hand (Note B)	388	416
Cash In Bank-Operating Account (Note B)	98,161	56,082
Savings-Bank of Commerce (Note B)	373	373
Accounts Receivable (net of allowance) (Note C)	<u>56,043</u>	<u>47,781</u>
TOTAL CURRENT ASSETS	<u>154,965</u>	<u>104,652</u>
FIXED ASSETS:		
Fixed Assets (Note E)	1,058,353	775,304
Accumulated Depreciation (Note E)	<u>(639,894)</u>	<u>(633,077)</u>
NET FIXED ASSETS	<u>418,459</u>	<u>142,227</u>
TOTAL ASSETS	<u><u>573,424</u></u>	<u><u>246,879</u></u>
LIABILITIES AND FUND EQUITY		
CURRENT LIABILITIES		
Accounts Payable	49,661	5,138
Payroll Liabilities	2,838	1,946
Current Portion of Long Term Debt (Note D)	<u>22,552</u>	<u>7,234</u>
TOTAL CURRENT LIABILITIES	<u>75,051</u>	<u>14,318</u>
LONG TERM LIABILITIES		
Notes Payable (Note D)	234,258	19,043
Customer Meter Deposits	<u>74,683</u>	<u>70,604</u>
TOTAL LONG TERM LIABILITIES	<u>308,941</u>	<u>89,647</u>
TOTAL LIABILITIES	<u>383,992</u>	<u>103,965</u>
NET ASSETS		
Restricted Net Assets	74,683	70,604
Investment in Fixed Assets Net of Related Debt	161,649	115,950
Unrestricted	<u>(46,900)</u>	<u>(43,640)</u>
TOTAL NET ASSETS	<u>189,432</u>	<u>142,914</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 573,424</u></u>	<u><u>\$ 246,879</u></u>

CHERRY TREE RURAL WATER DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2015 & 2016

	2016	2015
REVENUE:		
Water Sales	\$ 578,300	\$ 462,124
Sewer Charges	18,609	10,301
Meter Taps	9,000	4,149
Reconnect Fees	4,950	3,900
Late Fees	<u>24,617</u>	<u>18,135</u>
TOTAL OPERATING REVENUE	<u>635,476</u>	<u>498,609</u>
EXPENDITURES:		
Water Purchased	268,133	220,350
Payroll	87,760	77,496
Bad Debt	14,722	-
Contract Labor	56,255	28,501
Electric	9,627	10,454
Insurance	15,868	17,302
Office Supplies	-	852
Other Administrative Expense	9,267	3,691
Postage	4,522	4,710
Payroll Taxes	7,250	6,187
Professional Fees	37,844	33,900
Repairs and Maintenance	67,499	34,230
Telephone	8,643	7,092
Vehicle Expense	12,294	14,388
Depreciation	<u>12,727</u>	<u>8,725</u>
TOTAL OPERATING EXPENDITURES	<u>612,411</u>	<u>467,878</u>
NET INCOME FROM OPERATIONS	<u>23,065</u>	<u>30,731</u>
OTHER INCOME (EXPENDITURES):		
Interest Income	67	48
Cherokee Nation Grant	18,000	-
Other Income	11,906	5,472
Change in Accounting Method	(5,202)	-
Interest Expense	<u>(1,318)</u>	<u>(546)</u>
TOTAL OTHER INCOME AND EXPENSE	<u>23,453</u>	<u>4,974</u>
NET INCOME	46,518	35,705
NET ASSETS, BEGINNING OF THE YEAR	<u>142,914</u>	<u>107,209</u>
NET ASSETS, END OF THE YEAR	<u><u>\$ 189,432</u></u>	<u><u>\$ 142,914</u></u>

CHERRY TREE RURAL WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015 & 2016

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Inflows:		
Payments Received from Customers	657,120	494,759
Other Receipts	4,078	5,994
Cash Outflows:		
Payments for Payroll and Taxes	(151,265)	(83,683)
Payments to Suppliers for Goods and Services	<u>(403,004)</u>	<u>(376,383)</u>
Net Cash Provided (Used) by Operating Expenses	<u>106,929</u>	<u>40,687</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest Paid on Long Term Debt	(1,318)	(546)
Borrowing of Long Term Debt	237,759	26,277
Acquisition of Capital Assets	(294,160)	(42,100)
Principal Reduction of Long-Term Debt	(7,225)	(2,415)
Other Income	-	5,472
Insurance Proceeds from Disposal of Assets	-	-
Net Cash Provided(Used) for Capital & Related Financing Activities	<u>(64,944)</u>	<u>(13,312)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	66	51
Net Cash Provided (Used) from Investing Activities	<u>66</u>	<u>51</u>
NET CASH INFLOW (OUTFLOW) FROM ALL ACTIVITIES	42,051	27,426
CASH AND CASH EQUIVALENTS BEGINNING OF THE YEAR	<u>56,871</u>	<u>29,445</u>
CASH AND CASH EQUIVALENTS END OF THE YEAR	<u><u>\$ 98,922</u></u>	<u><u>\$ 56,871</u></u>

**CHERRY TREE RURAL WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015 & 2016**

	2016	2015
Reconciliation of Operating Income (Loss to Net Cash) Provided by Operating Activities:		
Operating Income	46,518	30,731
Interest Income	-	-
Depreciation	12,727	8,725
(Increase) Decrease in:		
Accounts Receivable	(8,262)	(3,852)
Other Receivables		
(Increase) Decrease in:		
Accounts Payable	51,868	(911)
Other Liabilities	<u>4,078</u>	<u>5,994</u>
Net Cash Provided (Used) by Operating Activities	<u><u>106,929</u></u>	<u><u>40,687</u></u>

FINANCIAL

STATEMENT

NOTES

**CHERRY TREE RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cherry Tree Rural Water District 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 Cherry Tree Rural Water District 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

Cherry Tree Rural Water District is exempt from Federal Income Taxes.

5. Inventory

Cherry Tree Rural Water District does not maintain inventory of materials and supplies. Material and supplies are expensed directly to supplies when paid.

6. 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.

7. 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.

8. Allowance for Doubtful Accounts

The District used the reserve method for recognizing bad debts.

9. Long Term Debt

Long-term debt is reported at face value, net of applicable discounts and deferred loss on refunding.

10. 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."

11. 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.

12. 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, 2015 and 2016 would not be material to the financial statements taken as a whole.

13. Evaluation of Subsequent Events

The Company has evaluated subsequent events through December 5, 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
Cash in Bank - Armstrong Bank	61,568	56,082
Cash in Bank - Bank of Commerce	36,336	
Savings-Bank of Commerce	373	373
Cash on Hand	<u>645</u>	<u>416</u>
TOTAL UNRESTRICTED CASH	<u>98,922</u>	<u>56,871</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	\$ 59,671	\$ 34,999
1-30 Days	-	8,127
30-60 Days	4,083	3,194
Over 60 Days	12,289	21,461
Allowance for Doubtful Accounts	<u>(20,000)</u>	<u>(20,000)</u>
Total Accounts Receivables	<u>56,043</u>	<u>47,781</u>

NOTE D: LONG TERM DEBT

The District had the following Notes payable at December 31, 2016:

Payable to	Date Note Matures	Original Balance	Collateral Pledged	Rate of Interest
Armstrong Bank	11/2/2031	300,000	Equipment	2.98%
Armstrong Bank	2/28/2015	29,739	Equipment	8.25%

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

Years ending December 31, :

	PRINCIPAL	INTEREST
Current Portion	22,552	8,276
2018	22,994	7,615
2019	18,807	6,958
2020	16,021	6,454
2021	16,506	5,970
2022-2026	90,318	22,065
2026-2031	69,612	6,874
TOTAL	256,810	64,212

NOTE E: FIXED ASSETS

The Cherry Tree Rural Water District does maintain its General Fixed Assets Account Group which under the accrual basis of accounting is in conformity with (GAGAS) Generally Accepted Governmental Accounting Standards.

Capital asset activity for Business Type Activities for the year ended December 31, 2016 was as follows:

	Balance December 31, 2015	Additions	Reductions	Balance December 31, 2016
Capital Assets being Depreciated				
Automobiles and Trucks	66,427	-	-	66,427
Buildings and Building Improvements	16,000	-	-	16,000
Water Line	645,825	294,161	(11,112)	928,874
Equipment	47,052	-	-	47,052
Total Capital Assets	775,304	294,161	(11,112)	1,058,353
Less Accumulated Depreciation				
Automobiles and Trucks	39,663	5,948	-	45,611
Buildings and Building Improvements	16,000	-	-	16,000
Water Line	532,025	5,807	(5,910)	531,922
Equipment	45,389	972	-	46,361
Total Accumulated Depreciation	633,077	12,727	(5,910)	639,894
Business Type Activities, Capital Assets, Net	142,227	281,434	(5,202)	418,459

Capital asset activity for Business Type Activities for the year ended December 31, 2015 was as follows:

	Balance December 31, 2014	Additions	Reductions	Balance December 31, 2015
Capital Assets being Depreciated				
Automobiles and Trucks	66,427	-	-	66,427
Buildings and Building Improvements	16,000	-	-	16,000
Water Line	635,218	10,607	-	645,825
Equipment	45,298	1,754	-	47,052
Total Capital Assets	762,943	12,361	-	775,304
Less Accumulated Depreciation				
Automobiles and Trucks	35,804	3,859	-	39,663
Buildings and Building Improvements	16,000	-	-	16,000
Water Line	528,575	3,450	-	532,025
Equipment	43,973	1,416	-	45,389
Total Accumulated Depreciation	624,352	8,725	-	633,077
Business Type Activities, Capital Assets, Net	138,591		-	142,227

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

Cherry Tree Rural Water District 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 Cherry Tree Rural Water District 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.

SUPPLEMENTARY

INFORMATION

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING 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
Cherry Tree Rural Water District
Stilwell, 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 Cherry Tree Rural Water District as of and for the year ended December 31, 2015 and 2016, and the related notes to the financial statements, which collectively comprise Cherry Tree Rural Water District's basic financial statements and have issued our report thereon dated December 5, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Cherry Tree Rural Water District'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 Cherry Tree Rural Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of Cherry Tree Rural Water District'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 Cherry Tree Rural Water District'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

Cherry Tree Rural Water District's Response to Findings

Cherry Tree Rural Water District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Cherry Tree Rural Water District'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
December 5, 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 a limited number of individuals has responsibility for all functions of the financial statement reporting. These individuals have oversight responsibilities for billing and adjustments; posting of payments 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 2014.

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.