
CHERRY TREE RURAL WATER DISTRICT

STILWELL, OKLAHOMA

AUDITED FINANCIAL STATEMENTS AND NOTES
For the year ended December 31, 2013 and 2014

Audited by

ROBERT ST. PIERRE CPA, P.C.
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INDEPENDENT

AUDITOR'S

REPORTS

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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's as of and for the year then ended December 31, 2013 and 2014, 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, 2013 and 2014, 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 October 7, 2015, 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
October 7, 2015

FINANCIAL

SECTION

CHERRY TREE RURAL WATER DISTRICT
BALANCE SHEET
DECEMBER 31, 2013 and 2014

ASSETS	2014	2013
CURRENT ASSETS:		
Cash on Hand (Note B)	1,483	5,722
Cash In Bank-Operating Account (Note B)	27,591	4,550
Savings-Bank of Commerce (Note B)	372	372
Accounts Receivable (net of allowance) (Note C)	43,931	64,162
TOTAL CURRENT ASSETS	73,377	74,806
FIXED ASSETS:		
Fixed Assets	733,204	656,828
<i>Accumulated Depreciation</i>	<i>(624,351)</i>	<i>(612,861)</i>
NET FIXED ASSETS	108,853	43,967
TOTAL ASSETS	182,230	118,773
LIABILITIES AND FUND EQUITY		
CURRENT LIABILITIES		
Accounts Payable	6,063	35,010
Payroll Liabilities	1,878	4,330
Current Portion of Long Term Debt (Note D)	2,415	13,053
TOTAL CURRENT LIABILITIES	10,356	52,393
LONG TERM LIABILITIES		
Notes Payable-Truck Loans (Note D)	-	2,281
Customer Meter Deposits	64,664	61,099
TOTAL LONG TERM LIABILITIES	64,664	63,380
TOTAL LIABILITIES	75,020	115,773
NET ASSETS		
Restricted Net Assets	64,610	61,099
Investment in Fixed Assets Net of Related Debt	106,438	28,633
Unrestricted	(63,838)	(86,732)
TOTAL NET ASSETS	107,210	3,000
TOTAL LIABILITIES AND NET ASSETS	\$ 182,230	\$ 118,773

**CHERRY TREE RURAL WATER DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2013 & 2014**

	2014	2013
REVENUE:		
Water Sales	\$ 464,813	\$ 460,691
Sewer Charges	10,564	12,091
Meter Taps	4,050	5,500
Reconnect Fees	7,130	3,750
Late Fees	20,244	15,518
	<u>506,801</u>	<u>497,550</u>
TOTAL OPERATING REVENUE		
EXPENDITURES:		
Water Purchased	240,136	233,468
Payroll	76,320	86,080
Bad Debt	9,915	-
Contract Labor	26,386	40,673
Electric	10,989	11,497
Insurance	14,695	11,227
Office Supplies	766	1,662
Other Administrative Expense	956	7,057
Postage	4,435	5,104
Payroll Taxes	6,333	7,147
Professional Fees	33,700	35,975
Repairs and Maintenance	26,221	52,955
Telephone	11,601	8,136
Vehicle Expense	13,963	18,401
Depreciation	11,490	11,174
	<u>487,906</u>	<u>530,556</u>
TOTAL OPERATING EXPENDITURES		
NET INCOME FROM OPERATIONS	<u>18,895</u>	<u>(33,006)</u>
OTHER INCOME (EXPENDITURES):		
Interest Income	22	23
Cherokee Nation Grant	76,584	
Other Income	10,775	7,295
Gain on Sale of Assets	-	2,553
Interest Expense	(2,066)	(3,003)
	<u>85,315</u>	<u>6,868</u>
TOTAL OTHER INCOME AND EXPENSE		
NET INCOME	104,210	(26,138)
NET ASSETS, BEGINNING OF THE YEAR	<u>3,000</u>	<u>29,138</u>
NET ASSETS, END OF THE YEAR	<u>\$ 107,210</u>	<u>\$ 3,000</u>

CHEROKEE TREE RURAL WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013 & 2014

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Inflows:		
Payments Received from Customers	527,031	482,572
Other Receipts	3,511	
Cash Outflows:		
Payments for Payroll and Taxes	(86,973)	(89,950)
Payments to Suppliers for Goods and Services	(420,788)	(391,247)
	<u>22,781</u>	<u>1,375</u>
Net Cash Provided (Used) by Operating Expenses		
	<u>22,781</u>	<u>1,375</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest Paid on Long Term Debt	(2,066)	(3,003)
Acquisition of Capital Assets	(76,376)	
Principal Reduction of Long-Term Debt	(12,918)	(13,132)
Other Income	87,359	7,295
Insurance Proceeds from Disposal of Assets	-	8,301
	<u>(4,001)</u>	<u>(539)</u>
Net Cash Provided(Used) for Capital & Related Financing Activities		
	<u>(4,001)</u>	<u>(539)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	22	23
	<u>22</u>	<u>23</u>
Net Cash Provided (Used) from Investing Activities		
	<u>22</u>	<u>23</u>
NET CASH INFLOW (OUTFLOW) FROM ALL ACTIVITIES	18,802	859
CASH AND CASH EQUIVALENTS BEGINNING OF THE YEAR	<u>10,644</u>	<u>9,785</u>
CASH AND CASH EQUIVALENTS END OF THE YEAR	<u>\$ 29,446</u>	<u>\$ 10,644</u>

**CHERRY TREE RURAL WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013 & 2014**

	2014	2013
Reconciliation of Operating Income (Loss to Net Cash) Provided by Operating Activities:		
Operating Income	18,895	(33,006)
Interest Income	-	-
Depreciation	11,490	11,174
(Increase) Decrease in:		
Accounts Receivable	20,231	(17,978)
Other Receivables		
(Increase) Decrease in:		
Accounts Payable	(31,346)	38,185
Other Liabilities	<u>3,511</u>	<u>3,000</u>
Net Cash Provided (Used) by Operating Activities	<u><u>22,781</u></u>	<u><u>1,375</u></u>

FINANCIAL

STATEMENT

NOTES

**CHERRY TREE RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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, 2013 and 2014 would not be material to the financial statements taken as a whole.

13. Evaluation of Subsequent Events

The Company has evaluated subsequent events through October 7, 2015 the date which the financial statements were available to be issued.

NOTE B: CASH AND EQUIVALENTS

Unrestricted Cash consists of the following:	2014	2013
Cash in Bank-Operating Account	27,591	4,550
Savings-Bank of Commerce	372	372
Cash on Hand	<u>1,483</u>	<u>5,722</u>
TOTAL UNRESTRICTED CASH	<u>29,446</u>	<u>10,644</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.

	2014	2013
Current	\$ 36,885	\$ 37,909
1-30 Days	525	24,449
30-60 Days	5,828	1,580
Over 60 Days	20,693	10,224
Allowance for Doubtful Accounts	<u>(20,000)</u>	<u>(10,000)</u>
Total Accounts Receivables	<u>43,931</u>	<u>64,162</u>

NOTE D: LONG TERM DEBT

The District had the following Note payable at December 31, 2014:

Payable to	Date Note Matures	Collateral Pledged	Rate of Interest	Balance At 12/31/2014	Current Portion Due in One Year	Interest Due in One Year
Note Payable-Truck Loan	2/28/2015	Equipment	8.25%	2,415	2,415	100
				<u>2,415</u>	<u>2,415</u>	<u>100</u>

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

Years ending December 31, :

	PRINCIPAL	INTEREST
2014	-	-
2015	-	-
2016	-	-
2017	-	-
2018	-	-
Thereafter	-	-
TOTAL	<u>-</u>	<u>-</u>

NOTE E: 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 F: 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 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.

SUPPLEMENTARY

INFORMATION

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Certified Public Accountant

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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, 2013 and 2014, 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 October 7, 2015.

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. 2013-1, 2013-2, 2013-3

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
October 7, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

2013-1

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.

Managements 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 of 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.

2013-2

The invoices for contract labor did not contain the amount of time worked, the location or description of services performed or any other detail as to what the contract laborer provided.

Managements Response

Management will require all future invoices for contract labor to have the amount of time worked, the rate of compensation and the location or details of the work performed on the invoices, prior to issuing payments.

2013-3

During the year it was noted that District did not have adequate cash to pay customer meter deposits. The District should have a separate cash account to segregate customer meter deposits from operating cash. At year end the District held 64,610 of customer meter deposits and did not have any cash set aside for payment of those deposits.

Managements Response

Management will work closely with their CPA to monitor the outstanding deposits and will try to open an account during the 2015 year to start to set aside monies for payment of those deposits. The funds will be restricted to use and only payments to customers will be acceptable.