

AUDIT REPORT
CHEROKEE COUNTY RURAL WATER DISTRICT NO. 12
FOR THE YEAR ENDED DECEMBER 31, 2017

AUDITED BY
ALAN CHAPMAN
CERTIFIED PUBLIC ACCOUNTANT
104 S. Muskogee Ave.
TAHLEQUAH, OKLAHOMA

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INDEPENDENT AUDITOR'S REPORT

Board of Directors

Cherokee County Rural Water District No.12

Report on the Financial Statements

I have audited the accompanying financial statements activities of Cherokee County Rural Water District No.12 (the District), as of and for the year ended December 31, 2017, 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 from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of business-type activities of Cherokee County Rural Water District No. 12. as of December 31, 2017 and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

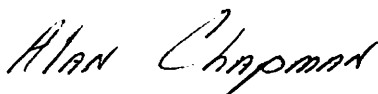
Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who consider it to be an essential part of financial reporting for placing the basic financial statements in the appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated May 29, 2018, on my consideration of Cherokee County Rural Water District No. 12's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my 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.12 internal control over financial reporting and compliance.

May 29, 2018

A handwritten signature in cursive script that reads "Alan Chapman".

Alan Chapman, CPA

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 12
STATEMENT OF NET POSITION
DECEMBER 31, 2017

ASSETS

CURRENT ASSETS

CIB	\$ 31,918
RESERVE	14,111
SAVINGS	48,890
ACCOUNTS RECEIVABLE	<u>4,578</u>

TOTAL CURRENT ASSETS 99,496

FIXED ASSETS

DISTRIBUTION SYSTEM	117,822
LAND	8,213
MACHINERY & EQUIPMENT	21,163
LESS ACCUMULATED DEPRECIATION	<u>(58,942)</u>

TOTAL (NET) CAPITAL ASSETS 88,256

OTHER ASSETS

PREPAID INSURANCE	<u>656</u>
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TOTAL OTHER ASSETS 656

TOTAL ASSETS \$ 188,408

LIABILITIES AND NET WORTH

CURRENT LIABILITIES

CURRENT PART LONG TERM DEBT	4,792
ACCOUNT PAYABLE	<u>1,654</u>

TOTAL CURRENT LIABILITIES 6,446

LONG-TERM LIABILITIES

LONG-TERM NOTE	<u>11,677</u>
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TOTAL LONG TERM LIABILITIES 11,677

TOTAL LIABILITIES 18,123

EQUITY

MEMBER INVESTMENT	42,794
DONATED CAPITAL	69,681
UNRESTRICTED/RETAINED EARNINGS	45,484
RESTRICTED/NET PROFIT/ (LOSS)	<u>12,326</u>

TOTAL EQUITY 170,285

TOTAL LIABILITIES AND NET WORTH \$ 188,408

The accompanying notes and auditors report are an integral part of these financial statements.

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 12
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2017

<u>INCOME</u>		
WATER	\$ 47,353	
SERVICE CHGS	125	
PENALTIES	<u>532</u>	
TOTAL INCOME		48,010
<u>EXPENSES</u>		
ACCOUNTING & BILLING	\$ 3,839	
CONTRACT LABOR	8,358	
AUDIT FEES	1,250	
LEGAL FEES	3,963	
POSTAGE/ SHIPPING	673	
OFFICE SUPPLIES	150	
INSURANCE AND BONDS	1,574	
DUES AND SUBSCRIPTIONS	137	
BANK CHARGES	29	
WATER PURCHASED	25	
WATER TESTING FEES	754	
LICENSES, PERMITS, ETC.	46	
REPAIRS & MAINTENANCE	1,069	
FIELD SUPPLIES/CHEMICALS	3,463	
EQUIPMENT RENTAL	576	
UTILITIES	2,058	
DEQ REGULATORY FEE	2,168	
DEPRECIATION EXPENSE	<u>4,862</u>	
TOTAL EXPENSE		<u>34,992</u>
NET OPERATING PROFIT/ LOSS		13,017
<u>NON OPERATING INCOME & EXPENSE</u>		
INCOME - INTEREST	\$ 235	
EXPENSE - INTEREST	<u>(926)</u>	
TOTAL NON-OPERATING INCOME- EXPENSE		<u>(691)</u>
CHANGE IN NET POSITION		<u>\$ 12,326</u>

The accompanying notes and auditors report are an integral part of these financial statements.

**CHEROKEE COUNTY RURAL WATER DISTRICT NO. 12
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED
DECEMBER 31, 2017**

CASH FLOW FROM OPERATING ACTIVITIES

CASH INFLOWS:	
PAYMENTS RECEIVED FROM CUSTOMERS	\$ 47,693
CASH OUTFLOWS:	
PAYMENTS TO SUPPLIERS FOR GOODS & SERVICES	<u>(28,622)</u>
NET CASH PROVIDED USED BY OPERATING ACTIVITIES	<u>19,071</u>

CASH FLOWS FROM NO-CAPITAL FINANCING ACTIVITIES

PRINCIPAL REDUCTION OF LONG-TERM DEBT (NET)	(4,505)
BORROWED ON LONG TERM NOTES	-
INTEREST PAYMENTS ON NOTES	<u>(926)</u>
NET CASH PROVIDED (USED) FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(5,431)

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

PURCHASE OF CAPITAL ASSETS	<u>-</u>
NET CASH PROVIDED USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	-

CASH FLOWS FROM INVESTING ACTIVITIES

CONNECTION FEE	-
INTEREST RECEIVED FROM INVESTMENTS	<u>235</u>

<u>NET CASH INFLOW (OUTFLOW) FROM ALL ACTIVITIES</u>	13,875
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>81,043</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>94,918</u></u>

CASH AND CASH EQUIVALENTS

UNRESTRICTED CASH AND CASH EQUIVALENTS	80,807
RESTRICTED CASH AND CASH EQUIVALENTS	<u>14,111</u>
	\$ 94,918

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

OPERATING INCOME (LOSS)	13,017
DEPRECIATION	5,375
(INCREASE) DECREASE IN ACCOUNTS & GRANTS RECEIVABLE	(317)
(INCREASE) DECREASE IN PREPAID EXPENSES	-
INCREASE(DECREASE)IN PAYABLES	<u>996</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u><u>\$ 19,071</u></u>

The accompanying notes and auditors report are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 12
P.O. BOX 190
HULBERT, OK 74441

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cherokee County Rural Water District No. 12 was incorporated under the Rural Water District Act of Oklahoma, for the purpose of acquiring water rights, and to build and acquire pipelines and other facilities and to operate the same for the purpose for furnishing water to serve the need of owners and occupants of land located within the district. The District is exempt from federal and state income tax.

The membership consists of approximately 70 users. The board of Directors consists of 7 members serving 3- year terms with 1 operator. Vacant Seats are elected at the end of October to start in January of following year.

The more significant of the government's accounting policies are describe below.

A. Reporting Entity

The District complies with GASB Statement No 14, "The Financial Reporting Entity." This statement establishes standards for defining and reporting on the financial reporting entity. It defines component units as legally separate organizations for which the elected officials of the primary government are financially accountable and together organizations for which the nature and significance of their relationship with primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The District considered all potential component units in determining what organizations should be included in the financial statements. Based on these criteria, there are no component units to include in the District's financial statements.

B. Measurement Focus and Basis of Accounting and Basis of Presentation- Fund Accounting

The District's fund is enterprise fund. Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. These activities are finance primarily by user charges and the measurements of financial activity focuses on net income measurement similar to the private sector.

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 12
P.O. BOX 190
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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting and Basis of Presentation- Fund Accounting (Continued)

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with Generally Accepted Accounting Principles (GAAP) promulgated in the United States of America. The accounting and financial reporting treatment is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation are included on the statement of net assets. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) in net total assets. Depreciation expense is provide for capital assets based upon estimated useful lives.

Financial activity is accounted for on the flow of economic resources measurement focus using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recoded at the time liabilities are incurred. In compliance with the Governmental Accounting Standards Board (GASB) Statement No. 34 "Basic Financial Statement- and Management's Discussion and Analysis-for State and Local Governments which requires the classification of net assets into three components- invested in capital assets, net of related debt, restricted; and unrestricted.

C. Assets, Liabilities, and Net Assets

1. Deposits and investments

Oklahoma statutes authorize the District to invest in certificates of deposit, repurchase agreements, passbooks, banker's acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the District can invest in direct debt securities of the United States unless such investment is expressly prohibited by law.

All the bank deposits are held at financial institutions and are carried at cost. For purposes of statement of cash flows, the District considers cash and highly liquid investment with an initial maturity of three months or less to be cash equivalents.

**CHEROKEE COUNTY RURAL WATER DISTRICT NO. 12
P.O. BOX 190
HULBERT, OK 74441**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities, and Net Assets (Continued)

Custodial Credit Risk

At December, 31, 2017 the District held deposits of approximately \$94,918 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit, are entirely covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the district of by its agent in the District's name.

Investment Interest Rate

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The District has no Policy that limits its investment Choices other than the limitation of state law as follows:

- a. Direct obligations of U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is Pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or saving accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreement with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgment or bond or revenue anticipation notes of public trusts whose beneficiary is county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.

**CHEROKEE COUNTY RURAL WATER DISTRICT NO. 12
P.O. BOX 190
HULBERT, OK 74441**

1. SUMMARY OF SIGNIFICAN ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities, and Net Assets (Continued)

f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a-f).

The investments held at December 31, 2017 are as follows:

Type	Weighted Average Maturity (Months)	Credit Rating	Market Value	Cost
Investments				
Cert. of Deposit	6	N/A	<u>\$ 14,111</u>	<u>\$ 14,111</u>
Saving Acct.	12	N/A	<u>\$ 48,890</u>	<u>\$ 48,890</u>
 Total Investments			 <u>\$ 63,001</u>	 <u>\$ 63,001</u>

Concentration of Investment Credit Risk

The District places no limit on the amount it may invest in any one issuer. The District has the following credit risk: 22% in Certificates of Deposit (\$14,111) and 78% in Savings Accounts (\$48,890).

2. Fair Value of Financial Instruments

The District's financial statements include cash and investments. The District's estimates of fair values of its financial instruments recoded in the accompanying balance sheet. the carrying amount of these financial instruments approximates fair value because of the short maturity of these instrument.

3. Estimates

The Preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement and the reported amounts of revenues and expense during the reporting period. Accordingly, actual results could differ from those estimates.

**CHEROKEE COUNTY RURAL WATER DISTRICT NO. 12
P.O. BOX 190
HULBERT, OK 74441**

1. SUMMARY OF SIGNIFICAN ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities, and Net Assets (Continued)

4. Inventory

The District does not maintain an inventory of materials and supplies. These items are purchased when needed and expensed in that period.

5. Accounts Receivable

Accounts Receivable consist primarily of charges for water sales. Management has not establish a provision for uncollectable accounts. Such amount are written off the month in which management determines they are uncollectible.

6. Restricted Assets

The District currently has no restricted assets.

7. Capital Assets

The water storage and delivery system and furniture and equipment are recorded at cost. Donated Capital assets are Reported and estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

All reported assets are depreciated on the straight-line basis over their estimated useful lives ranging from five to fifty years.

Assets purchased with a value of \$500 or more that benefit more that one period will be depreciated.

**CHEROKEE COUNTY RURAL WATER DISTRICT NO. 12
P.O. BOX 190
HULBERT, OK 74441**

1. SUMMARY OF SIGNIFICAN ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities, and Net Assets (Continued)

8. Equity Classifications

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt- Consisted of capital assets including restricted capital assets, net of accumulated depreciation and reduce by the outstanding balances of any mortgages, notes, or other borrowings that are attributable to the acquisitions, construction, or improvement of those assets.
- b. Restricted net assets-Consists of net assets with constraints place on the use either by (1) external groups such as creditors, grantor, contributor, or laws or regulations of their governments; or (2) law through constitutional provisions or enabling legislation, or (3) elected restrictions by management concerning cash to be used for capital improvements.
- c. Unrestricted net assets- All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

II. Detailed Notes Concerning the Funds

B. Accounts Receivable

Following is and aged schedule of accounts receivable as of December 31, 2017:

<u>Current</u>	<u>0-30 Days</u>	<u>31-60 Days</u>	<u>Over 60 Days</u>	<u>Prepayments</u>	<u>Total</u>
3,865	601	439	116	(443)	4,578

**CHEROKEE COUNTY RURAL WATER DISTRICT NO. 12
P.O. BOX 190
HULBERT, OK 74441**

II. Detailed Notes Concerning the Funds (Continued)

C. Changes in Capital Assets

Capital assets activity for the year was as follows:

	BEGINNING OF YEAR	ADDITIONS	DELETIONS	END OF YEAR
CAPITAL ASSETS				
DISTRIBUTION SYSTEM	117,822			117,822
LAND	8,213			8,213
MACHINERY & EQUIPMENT	<u>21,162</u>			<u>21,162</u>
 TOTAL CAPITAL ASSETS	 147,197			 147,197
 LESS: ACCUMULATED DEPRECIATION	 <u>53,567</u>	 <u>5,375</u>		 <u>58,942</u>
 NET BOOK VALUE	 <u>93,630</u>			 <u>88,255</u>

D. Long-Term Debt

The District had the following long term debt at December 31, 2017

Cherokee County Rural Water District No. 12 has a note payable to Rural Development with an original principal amount of \$24,277.00 and a maturity date of 03/18/2021. The note has a 5 year term and bears interest at 4.5% with monthly installments of \$452.60.

Annual debt service on the note over the life of the loan is as follows:

2018	\$ 4,791
2019	5,011
2020	5,242
2021	<u>1,425</u>
Total	\$16,469

**CHEROKEE COUNTY RURAL WATER DISTRICT NO. 12
P.O. BOX 190
HULBERT, OK 74441**

Long term debt consists of a note payable. The following is a summary of the changes in general long-term debt, including the current part, of the District for the fiscal year.

Notes Payable - Beginning of the year:	\$20,974
Borrowing	-
Reduction of Principal	<u>(4,505)</u>
Notes Payable - End of Year:	\$16,469

III. Other Information

A. Risk Management

The District is exposed to various risk of loss related to torts: theft of, damage to, and destruction of assets: errors and omissions: injuries to employees and natural disaster. The District purchases commercial insurance to cover these risks, including general and auto liability, property damage, and public officials liability. There were no significant reductions in insurance coverage from the prior year. settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
COMBINED FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Cherokee County Rural Water District No. 12

I 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 the business-type activities Cherokee County Rural Water District No. 12, as of and for the year ended December 31, 2017 and have issued our report thereon dated May 29, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Cherokee County Rural Water District No. 12 internal control over financial reporting as a basis for designing my audit procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cherokee County Rural Water District No. 12 internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cherokee County Rural Water District No. 12 financial statements are free of 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,

Report on Compliance (continued)

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*.

Purpose of this Report

This report is intended solely for the information and use of the Board of Directors, management, and all applicable federal and state agencies, and is not intended to be and should not be used by anyone other than these specified parties.

May 29, 2018

A handwritten signature in cursive script that reads "Alan Chapman".

Alan Chapman, CPA

**CHEROKEE COUNTY RURAL WATER DISTRICT NO. 12
P.O. BOX 190
HULBERT, OK 74441**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Criteria: The District's management is responsible for internal controls over financial reporting. This include controls over the fair and complete presentation of the District's annual financial statements in accordance with GAAP. The preparation of financial statement in accordance with GAAP requires internal controls over both (1) recording, processing and summarizing accounting data (i.e., maintaining books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting). Professional audit standards clearly indicate that the external financial statement auditor cannot take the responsibility for any part of managements control activities or be a component of the internal controls over financial reporting.

Responsible Official's Response: The District concurs with the recommendation and will strive to expand their knowledge and understanding of the presentation and disclosure of the financial statements.