

AUDIT REPORT
CHEROKEE COUNTY RURAL WATER DISTRICT NO. 9
FOR THE YEAR ENDED JUNE 30, 2016

AUDITED BY
ALAN CHAPMAN
CERTIFIED PUBLIC ACCOUNTANT
401 S. Water St.
TAHLEQUAH, OKLAHOMA

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INDEPENDENT AUDITOR'S REPORT

Board of Directors

Cherokee County Rural Water District No. 9

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Cherokee County Rural Water District No. 9 (the District), Hulbert, Oklahoma, as of and for the year ended June 30, 2016, which collectively comprise the District's basic 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. Management is also responsible for 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

Our responsibility is to express opinions 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 District'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 District's internal control. Accordingly, we 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of June 30, 2016, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

The District has not presented the Management's Discussion and Analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the

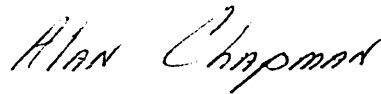
(Continued)

basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of the financial reporting for placing the basic financial statements in an 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, we have also issued our report dated August 1, 2016 on our consideration of the District'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 our testing of internal control over financial reporting or on 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 the Authority's internal control over financial reporting and compliance.

October 12, 2016

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

Alan Chapman, CPA

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 9
STATEMENT OF NET ASSETS
JUNE 30, 2016

ASSETS

CURRENT ASSETS

CIB	\$ 10,623	
SAVINGS	9,411	
ACCOUNTS RECEIVABLE	<u>4,594</u>	
TOTAL CURRENT ASSETS		\$ 24,628

RESTRICTED ASSETS

CIB-R.D RESERVE-LOAN 1	\$ 1,452	
CIB-R.D RESERVE-LOAN 2	<u>1,620</u>	
TOTAL RESTRICTED ASSETS		3,072

FIXED ASSETS

DISTRIBUTION SYSTEM	\$ 399,388	
LAND	23,960	
BUILDING	3,439	
MACHINERY & EQUIPMENT	11,335	
LESS ACCUMULATED DEPRECIATION	<u>(216,050)</u>	
TOTAL (NET) CAPITAL ASSETS		222,072

OTHER ASSETS

PREPAID INSURANCE	\$ <u>2,973</u>	
TOTAL OTHER ASSETS		<u>2,973</u>

TOTAL ASSETS		<u>\$ 252,745</u>
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The accompanying notes and auditors report are an integral part of these financial statements.

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 9
STATEMENT OF NET ASSETS
JUNE 30, 2016

LIABILITIES AND NET WORTH

CURRENT LIABILITIES

ACCOUNT PAYABLE	\$	3,448	
ACCRUED INTEREST		9	
CURRENT PART LONG-TERM DEBT		<u>1,509</u>	
TOTAL CURRENT LIABILITIES			\$ 4,966

LONG TERM LIABILITIES

LONG TERM NOTE	\$	<u>28,940</u>	
TOTAL LONG TERM LIABILITIES			<u>28,940</u>

TOTAL LIABILITIES			\$ 33,906
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EQUITY

MEMBER INVESTMENT	\$	3,648	
DONATED CAPITAL		358,476	
UNRESTRICTED/RETAINED EARNINGS		(136,893)	
RESTRICTED/NET PROFIT/ (LOSS)		<u>(6,392)</u>	
TOTAL EQUITY			<u>218,839</u>

TOTAL LIABILITIES AND NET WORTH			<u>\$ 252,745</u>
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The accompanying notes and auditors report are an integral part of these financial statements.

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 9
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

INCOME

WATER	\$ 51,642	
SERVICE CHGS	-	
PENALTIES	876,000	
ALLOWANCES	-	
TOTAL INCOME		52,518

EXPENSES

ACCOUNTING & BILLING	\$ 2,810	
CONTRACT LABOR	15,055	
AUDIT FEES	1,250	
BAD DEBTS	1,063	
BANK CHARGES	60	
POSTAGE/ SHIPPING	392	
OFFICE SUPPLIES	340	
BONDS/ HEALTH INSURANCE/COMP	2,126	
MISC EXPENSE	-	
DUES & SUB & FEE	136	
WATER PURCHASED	641	
WATER TESTING FEES	3,300	
DEQ REGULATORY FEE	3,513	
REPAIRS & MAINTENANCE	740	
FIELD SUPPLIES/CHEMICALS	16,128	
UTILITIES	3,830	
DEPRECIATION EXPENSE	8,805	
TOTAL EXPENSE		60,189
NET OPERATING PFT/ LOSS		(7,671)

NO OPERATING INCOME & EXPENSE

INCOME-INTEREST	\$ 36	
INCOME-MISC	2,807	
EXPENSE- INTEREST	(1,564)	
TOTAL NON-OPERATING INCOME- EXPENSE		1,279
NET PROFIT/ LOSS		\$ (6,392)

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

**CHEROKEE COUNTY RURAL WATER DISTRICT NO. 9
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED
JUNE 30, 2016**

CASH FLOW FROM OPERATING ACTIVITIES

CASH INFLOWS:

PAYMENTS RECEIVED FROM CUSTOMERS 52,123

CASH OUTFLOWS:

PAYMENTS TO SUPPLIERS FOR GOODS & SERVICES (51,472)

NET CASH PROVIDED USED BY OPERATING ACTIVITIES 651

CASH FLOWS FROM NO-CAPITAL FINANCING ACTIVITIES

PRINCIPAL REDUCTION OF LONG-TERM DEBT (NET) (1,509)

BORROWED ON LONG TERM NOTES -

INTEREST PAYMENTS ON NOTES (1,564)

NET CASH PROVIDED (USED) FOR CAPITAL AND RELATED FINANCING ACTIVITIES (3,073)

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

MISC. INCOME 2,807

PURCHASE OF CAPITAL ASSETS -

NET CASH PROVIDED USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES 2,807

CASH FLOWS FROM INVESTING ACTIVITIES

INTEREST RECEIVED FROM INVESTMENTS 36

NET CASH INFLOW (OUTFLOW) FROM ALL ACTIVITIES 421

PRIOR PERIOD ADJUSTMENT -

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 22,685

CASH AND CASH EQUIVALENTS AT END OF YEAR 23,106

CASH AND CASH EQUIVALENTS

UNRESTRICTED CASH AND CASH EQUIVALENTS 20,034

RESTRICTED CASH AND CASH EQUIVALENTS 3,072

23,106

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

OPERATING INCOME (LOSS) (7,671)

DEPRECIATION 8,805

(INCREASE) DECREASE IN ACCOUNTS & GRANTS RECEIVABLE (395)

INCREASE (DECREASE) IN PREPAID EXPENSES (88)

INCREASE (DECREASE) IN PAYABLES 0

NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES 651

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. 9
P.O. BOX 190
HULBERT, OK 74441**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cherokee County Rural Water District No. 9 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 81 users. The board of Directors consists of 5 members with 1 operator.

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. 9
P.O. BOX 190
HULBERT, OK 74441**

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. 9
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 June 30, 2016 the District held deposits of approximately \$23,106 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 or 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. 9
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).

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.

4. Inventory

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

**CHEROKEE COUNTY RURAL WATER DISTRICT NO. 9
P.O. BOX 190
HULBERT, OK 74441**

1. SUMMARY OF SIGNIFICAN ACCOUNTING POLICIES (Continued)

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

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 a reserve for loans 1 and 2 in the amount of \$3,072.

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. 9
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 June 30, 2016:

<u>Current</u>	<u>0-30 Days</u>	<u>31-60 Days</u>	<u>Over 60 Days</u>	<u>Prepayments</u>	<u>Total</u>
4,693	350	279	607	(1,335)	4,594

**CHEROKEE COUNTY RURAL WATER DISTRICT NO. 9
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	399,388			399,388
LAND	23,960			23,960
BUILDING	3,439			3,439
MACHINERY & EQUIPMENT	<u>11,335</u>			<u>11,335</u>
 TOTAL CAPITAL ASSETS	 438,122			 438,122
 LESS: ACCUMULATED DEPRECIATION	 <u>207,245</u>	 <u>8,805</u>		 <u>216,050</u>
 NET BOOK VALUE	 <u>239,682</u>	 <u>8,805</u>		 <u>222,072</u>

**CHEROKEE COUNTY RURAL WATER DISTRICT NO. 9
P.O. BOX 190
HULBERT, OK 74441**

II. Detailed Notes Concerning the Funds (Continued)

D. Long-Term Debt

The District has no long-term debt.

Note #2031, account #0420110731256933, original date of issue was on October 28, 1991 @ 5.0% annual interest. The principal amount outstanding at June 30, 2016 was \$15,638. Debt service for the next five year is as follows:

Year End June 30,	Principle	Interest	Total
2017	710	742	1,452
2018	744	708	1,452
2019	778	674	1,452
2020	812	640	1,452
2021	<u>847</u>	<u>605</u>	<u>1,452</u>
Totals	<u><u>3,891</u></u>	<u><u>3,3690</u></u>	<u><u>7,260</u></u>

Note #2031-02, account #0420110731256933, original date of issue was on October 28, 1991 @ 5.0% annual interest. The principal amount outstanding at June 30, 2016 was \$14,807. Debt service for the next five year is as follows:

Year End June 30,	Principle	Interest	Total
2017	836	784	1,620
2018	876	744	1,620
2019	916	704	1,620
2020	956	664	1,620
2021	<u>996</u>	<u>624</u>	<u>1,620</u>
Totals	<u><u>4,580</u></u>	<u><u>3,520</u></u>	<u><u>8,100</u></u>

**CHEROKEE COUNTY RURAL WATER DISTRICT NO. 9
P.O. BOX 190
HULBERT, OK 74441**

II. Detailed Notes Concerning the Funds (Continued)

E. Changes in General Long-Term Debt

	Balance Beg. of Year	Advances	Reduction	Balance End of Year
Notes Payable	<u>30,449</u>	=	<u>1,509</u>	<u>28,940</u>
Totals	<u>30,449</u>	=	<u>1,509</u>	<u>28,940</u>

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.

B. Arbitrage Agreement

The District should monitor their obligation related to the arbitrage agreement signed when they obtained their loan from the OWRB. The arbitrage calculations are normally due every five years.

REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS

**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. 9

We have audited, 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, the accompanying financial statements of the Cherokee County Rural Water District No. 9 (the District), Hulbert, Oklahoma, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 12, 2016.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting in order to determine our auditing procedures that are appropriate for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in the internal controls that we considered to be a material weakness.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District'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. We consider the deficiency described in the accompanying schedule of findings and responses as item 16-1, not to be a material weakness.

Compliance and Other Matters

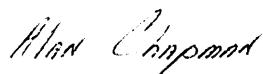
As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the 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 that are required to be reported under *Government Auditing Standards*.

Report on Compliance (continued)

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The 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.

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

October 12, 2016



Alan Chapman, CPA

**CHEROKEE COUNTY RURAL WATER DISTRICT NO. 9
P.O. BOX 190
HULBERT, OK 74441**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

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.

Condition: Management is responsible for the preparation and fair presentation of the financial statement in accordance with applicable financial reporting. Accordingly, the District's ability to prepare financial statements in accordance with (GAAP). The Size of the District's accounting and administrative staff preclude certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties.

Recommendation: This situation dictates that the Board remain involved in the financial affairs of the organization to provide oversight and independent review functions.

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.

16-1 – Lack of Segregation of Duties Condition: The inherent limitations resulting from a small number of employees performing functions that would normally be divided among employees were a larger number available prevent a proper segregation of accounting functions, which is necessary in order to assure adequate internal accounting controls. Criteria- An organization should ensure that there is a proper segregation of duties regarding cash collections and the payment of expenses. Cause- The District is not large enough to justify the hiring of additional personnel. Effect- There is always the possibility that not all collections are actually receipted or deposited, and the possibility that funds expended are not used for actual District obligations. Recommendation- The current procedures should not be changed. However, there should be additional personnel instilled into the collection, receipt, deposit, reconciliation and payment procedures when this becomes economically possible. Response- Additional personnel will be hired when the actual funds are available.