

**CHEROKEE COUNTY RURAL WATER DISTRICT NO. 1  
FORT GIBSON, OKLAHOMA**

**FINANCIAL STATEMENTS  
AND REPORTS OF INDEPENDENT AUDITOR**

**DECEMBER 31, 2017**

Audited by

**SANDERS, BLEDSOE & HEWETT  
CERTIFIED PUBLIC ACCOUNTANTS, LLP**

BROKEN ARROW, OK

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 1  
BOARD OF DIRECTORS  
DECEMBER 31, 2017

**BOARD OF DIRECTORS**

**Chairman**

Dianne Barker-Harrold

**Vice-Chairman**

Ethan Kaopio

**Secretary/Treasurer**

Jeff Delmedico

**Members**

Mark Hatley

Steve Stacks

**Plant Manager**

Bobby Moss

**Office Manager**

Diane McKinzie

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 1  
FORT GIBSON, OKLAHOMA  
DECEMBER 31, 2017

TABLE OF CONTENTS

	<u>Page</u>
Board of Directors	1
Table of Contents	2
Independent Auditor's Report	3
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	5
Disposition of Prior Year's Significant Deficiencies	7
Schedule of Audit Results	8
 <u>COMBINED FINANCIAL STATEMENTS:</u>	
Statement of Net Position	9
Statement of Revenues, Expenses and Changes in Net Position	10
Statement of Cash Flows	11
Notes to Financial Statements	12
 <u>OTHER SUPPLEMENTARY INFORMATION:</u>	
Schedule of Water Rates and Customers (unaudited)	17



# SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Cherokee County Rural Water District No. 1  
Fort Gibson, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Cherokee County Rural Water District No. 1 (the District), Fort Gibson, Oklahoma, as of and for the year ended December 31, 2017, 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.

### **Opinions**

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 December 31, 2017, 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 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 March 20, 2018 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 District's internal control over financial reporting and compliance.



Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP

March 20, 2018



**SANDERS, BLEDSOE & HEWETT**  
CERTIFIED PUBLIC ACCOUNTANTS, LLP

**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**

Board of Directors  
Cherokee County Rural Water District No. 1  
Fort Gibson, Oklahoma

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. 1 (the District), Fort Gibson, Oklahoma, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 20, 2018.

**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 significant deficiency in the internal controls that we do not consider 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 17-1, not to be a material weakness.

#### Compliance

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*.

#### District's Response to Findings

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.



Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP

March 20, 2018

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 1  
FORT GIBSON, OKLAHOMA  
DISPOSITION OF PRIOR YEAR'S SIGNIFICANT DEFECIENCIES  
DECEMBER 31, 2017

16-1 - Lack of Segregation of Duties

The exception that there were inherent limitations resulting from a small number of employees performing functions that would normally be divided among employees were a larger number available which prevented a proper segregation of accounting functions which is necessary to assure adequate internal accounting controls continued in the current fiscal year.



CHEROKEE COUNTY RURAL WATER DISTRICT NO. 1  
FORT GIBSON, OKLAHOMA  
SCHEDULE OF AUDIT RESULTS  
DECEMBER 31, 2017

Section 1 – Summary of Auditor’s Results:

1. An unmodified opinion report was issued on the financial statements.
2. The audit disclosed a significant deficiency in the internal controls, which was not considered a material weakness.
3. The audit disclosed no instances of noncompliance.

Section 2 – Findings relating to the financial statements required to be reported in accordance with GAGAS:

17-1 – 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.

Cherokee County Rural Water District No. 1  
Statement of Net Position  
December 31, 2017

<u>ASSETS:</u>	<u>2017</u>	<u>-Memorandum- -Only- 2016</u>
Current assets:		
Cash	\$ 4,011	(718)
Current portion of receivables	15,976	15,836
Prepaid assets	2,343	3,767
Total current assets	22,330	18,885
Noncurrent assets:		
Restricted cash with fiscal agent	5,741	5,139
Restricted investment with fiscal agents	33,593	33,593
Capital assets, net	724,712	525,356
Other assets, net	9,194	9,825
Total noncurrent assets	773,240	573,913
<b>TOTAL ASSETS</b>	<b>\$ 795,570</b>	<b>592,798</b>
<u>LIABILITIES:</u>		
Accounts payables	\$ 1,871	3,407
Loans payable	0	2,126
Notes payable - current portion	12,400	11,400
Notes payable - long-term portion	252,100	264,500
Total Liabilities	266,371	281,433
<u>NET POSITION:</u>		
Invested in capital assets, net of related debt	460,212	247,330
Restricted for debt service and deposits	39,334	38,732
Unrestricted assets	29,653	25,303
Total Net Position	529,199	311,365
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 795,570</b>	<b>592,798</b>

The accompanying notes to the financial statements are an integral part of this statement

Cherokee County Rural Water District No. 1  
Statement of Revenues, Expenses and Changes in Net Position  
For The Year Ended December 31, 2017

	<u>2017</u>	<u>-Memorandum- -Only- 2016</u>
Operating Revenues:		
Water sales and other sales	\$ 212,941	193,957
Operating Expenses:		
Chemicals	6,167	5,363
Professional fees	11,525	4,635
Supplies and parts	14,795	17,478
Equipment rental	5,429	6,564
Insurance and bonds	12,446	18,430
Lake Water usage	986	939
Miscellaneous	9,685	2,720
Office supplies and postage	4,650	3,349
Dues and memberships	10,167	9,038
Repair labor	14,850	15,736
Salaries	60,674	57,734
Payroll taxes	5,038	2,930
Utilities and telephone	18,827	17,038
Vehicles	8,817	8,924
Water testing	4,303	4,438
Depreciation	27,652	27,706
Amortization	631	631
Total expenses from operations	<u>216,642</u>	<u>203,653</u>
Operating Income (Loss)	(3,701)	(9,696)
Non-Operating Revenues (Expenses):		
Interest income	67	1
Cherokee Nation grant	83,078	9,970
Other grants	142,825	0
Interest paid on long-term debt	(4,435)	(3,889)
Total non-operating revenues (expenses)	<u>221,535</u>	<u>6,082</u>
Change in Net Position	217,834	(3,614)
Total Net Position, beginning of period	<u>311,365</u>	<u>314,979</u>
Total Net Position, end of period	<u>\$ 529,199</u>	<u>\$ 311,365</u>

The accompanying notes to the financial statements are an integral part of this statement

Cherokee County Rural Water District No. 1  
Statement of Cash Flows  
For the Year Ended December 31, 2017

	2017	Memorandum Only 2016
Cash Flows from Operating Activities:		
Receipts from customers	\$ 212,801	191,653
Payments to employees	(65,712)	(62,484)
Payments to vendors	(122,759)	(114,041)
	24,330	15,128
Net Cash Provided by Operating Activities		
Cash Flows from Investing Activities:		
Interest revenue	67	1
Capital assets purchased	(227,008)	(13,772)
Cherokee Nation grant	83,078	9,970
Other grants	142,825	0
	(1,038)	(3,801)
Net Cash Provided by (used in) Investing Activities		
Cash Flows from Financing Activities:		
Loan proceeds - short term	0	3,802
Loan payments	(2,126)	(1,676)
Interest expense on debt	(4,435)	(3,889)
Principal payments on debt	(11,400)	(10,600)
	(17,961)	(12,363)
Net Cash Provided by (used in) Financing Activities		
Net Increase (Decrease) in Cash	5,331	(1,036)
Cash and cash equivalents, beginning of period	38,014	39,050
Cash and cash equivalents, end of period	\$ 43,345	38,014
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating Income	\$ (3,701)	(9,696)
Adjustments to reconcile operating income to net cash provided (used by operating activities):		
Depreciation Expense	27,652	27,706
Amortization Expense	631	631
(Increase) decrease in accounts receivable	(140)	(2,304)
(Increase) decrease in prepaid expenses	1,424	(994)
Increase (decrease) in accounts payables	(1,536)	(215)
	24,330	15,128
Net Cash Provided by Operating Activities		
	\$ 24,330	15,128

The accompanying notes to the financial statements are an integral part of this statement

**Cherokee County Rural Water District No. 1**  
**Fort Gibson, Oklahoma**  
**Notes to Financial Statements**  
**December 31, 2017**

**Note A – Significant Accounting Policies**

Organization

Cherokee County Rural Water District No. 1 (the District) is an Oklahoma non-profit water district organized under Title 82 of Oklahoma Statutes to provide water service to rural residents of Cherokee County, Oklahoma. The District is considered a political subdivision of the State of Oklahoma.

Basis of Accounting

The accrual basis of accounting is followed for all accounts. Revenues are recorded when earned and liabilities are recognized when incurred. This policy is in accordance with generally accepted accounting principles. The District has also complied with GASB Statement No. 34 financial reporting requirements.

Cash

The District’s accounts are with Fort Gibson State Bank, Fort Gibson, Oklahoma, and are detailed as follows:

	December 31,	
	2017	2016
Operating account	\$ 5,839	2,167
Add: deposits in transit	0	2,565
Less: outstanding checks	(1,828)	(5,450)
	\$ 4,011	(718)

Investments

The bookkeeper is authorized by the Board of Directors to invest certain amounts of money from available funds. The types of investments available are specified in and limited by Oklahoma Statutes, which includes certificates of deposit and governmental securities. Investments are recorded on the financial records and in the financial statements at cost. Income from investments is recorded when collected.

**Cherokee County Rural Water District No. 1**  
**Fort Gibson, Oklahoma**  
**Notes to Financial Statements**  
**December 31, 2017**

Restricted Asset – Investment Reserves

In compliance with Oklahoma Water Resources Board Loan Agreement, the district is required to establish, fund and maintain a Debt Service Reserve Account. These funds can only be used by the Local Trustee to pay the principal or, premium, if any, and interest on the note and any other indebtedness issued therewith as the same become due and payable. The account is fully funded as stipulated by Article 1.11 of the Loan Agreement. The reserve account funds have been deposited in an interest-bearing money market account at the Bank of Oklahoma, Oklahoma City, Oklahoma, which is insured by the federal government. At December 31, 2017, the restricted asset is detailed as follows:

Bank of Oklahoma, Tulsa, Oklahoma	
Money Market account No. 83-6084-06-1, @.90%	<u>\$ 33,593</u>

Collateral Pledged

It appears that all funds were adequately insured by the \$250,000 FDIC coverage per banking institution as of December 31, 2017.

Accounts Receivable

Billings for accounts receivable at December 31, 2017 were \$15,976. The amount of allowance for doubtful accounts was not material to this amount, and was not computed on this balance.

Memorandum Totals

The “Memorandum Only” captions above the total columns mean that amounts are presented for overview information purposes only.

Federal Income Tax

The District is exempt from Federal and State income taxes.

**Cherokee County Rural Water District No. 1**  
**Fort Gibson, Oklahoma**  
**Notes to Financial Statements**  
**December 31, 2017**

Fixed Assets

Fixed assets are valued at cost, depreciation is computed by use of the straight line method. The estimated useful lives of these assets are as follows:

Land	N/A
Office furniture & fixtures	5 years
Equipment & tools	5 years
Water & sewer system	40 years
Buildings	20-40 years
Computer equipment	3 years

The fixed asset information for the District is shown below:

	12/31/2016			12/31/2017
	Amount	Additions	Deletions	Amount
Land	\$ 16,647	-	-	16,647
Water System	1,090,954	236,978	-	1,327,932
Bldg & Equip.	33,508	-	-	33,508
Constr in Progress	9,970	-	9,970	-
Less: Accumulated Depreciation	<u>(625,723)</u>	<u>(27,652)</u>	<u>-</u>	<u>(653,375)</u>
Total	<u>\$ 525,356</u>	<u>209,326</u>	<u>-</u>	<u>724,712</u>

**Note B – Long-term Debt**

Long-term debt as of December 31 is summarized as follows:

	<u>2017</u>	<u>2016</u>
Note FAP-98-0029-L, variable interest rate, mortgage payable to the Oklahoma Water Resource Board, required semi-annual installments, through August 15, 2030	\$ 264,500	275,900
Less: current maturities	<u>(12,400)</u>	<u>(11,400)</u>
Total	<u>\$ 252,100</u>	<u>264,500</u>

**Cherokee County Rural Water District No. 1**  
**Fort Gibson, Oklahoma**  
**Notes to Financial Statements**  
**December 31, 2017**

The maturities for the next five years plus the total amount due thereafter are detailed as follows:

**Oklahoma Water Resources Board**

2018	\$ 12,400
2019	13,400
2020	14,500
2021	15,700
2022	17,000
2023-27	108,100
2028-30	<u>83,400</u>
 Total	 <u>\$ 264,500</u>

**Note C – Short-term Loan**

On April 15, 2016 the District took out a loan with Fort Gibson State Bank in the amount of \$3,802 with a 6% interest rate to purchase a 1993 Ford Ranger Pickup. This loan was paid off in the 2017 fiscal year.

**Note D – Contributed Capital**

In 2016, the District received a grant from the Cherokee Nation in the amount of \$9,970. This grant is to pay for the construction of a new water tower. In 2017, the district received \$83,078 in grant funds from the Cherokee Nation, \$60,000 from the EODD and \$82,825 from the CDBG to complete the water tower construction project.

**Note E – Insurance and Surety Bond Coverage**

At December 31, 2017, the District had appropriate coverage against all major perils.

**Note F – Subsequent Events**

Management has evaluated subsequent events through March 20, 2018, which is the date the financial statements were available to be issued and have determined that no additional information needs to be added to the financial statements.



**Cherokee County Rural Water District No. 1**  
**Fort Gibson, Oklahoma**  
**Notes to Financial Statements**  
**December 31, 2017**

**Note G – Pending Litigation and Subsequent Events**

A property owner of 220 acres sued the District for the right to be supplied a large amount of water, which could not be sustained by the current water system. In a jury trial in August, 2011, a judgment in excess of \$400,000 was rendered against the District. The District does not have enough funds to satisfy this judgment amount, so the plaintiff sought to garnish the District's bank accounts.

In January, 2012, the District filed a petition under Chapter 9 of the U.S. Bankruptcy Code in order to preserve the use of all District assets. Under Chapter 9, operations of the District will continue uninterrupted, and customers of the District will see no change in their water service. The District approved a bankruptcy plan in 2013, which was approved by the Court in 2014.

In 2018, the District is starting a new utility relocation project. The Cherokee Nation will be providing all the funding for this project.

**CHEROKEE COUNTY RURAL WATER DISTRICT NO. 1**  
**Schedule of Water Rates and Customers**  
**-Unaudited Information-**  
**December 31, 2017**

Water Rates

0 – 1,000 gallons	=	\$35.00
1,001 – 2,000 gallons	=	\$35.00 plus \$3.50 per thousand gallons
2,001 – 3,000 gallons	=	\$38.50 plus \$4.00 per thousand gallons
3,001 – 4,000 gallons	=	\$42.50 plus \$5.00 per thousand gallons
4,001 – 5,000 gallons	=	\$47.50 plus \$6.00 per thousand gallons
5,001 – 7,000 gallons	=	\$53.50 plus \$7.00 per thousand gallons
7,001 – 10,000 gallons	=	\$67.50 plus \$8.00 per thousand gallons
Over 10,000 gallons	=	\$91.50 plus \$9.00 per thousand gallons

Water Loss

Total gallons purchased and produced	30,269,000
Total gallons sold to District customers	<u>(14,575,650)</u>
Total 2017 water loss	<u>15,693,350</u>
Percentage of water loss	<u>51.85%</u>

Customers

The District had 360 customers at the close of the fiscal year.

Current membership/tap fee is \$2,000.