

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

FINANCIAL STATEMENTS
AND REPORTS OF INDEPENDENT AUDITOR

DECEMBER 31, 2019

Audited by

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

BROKEN ARROW, OK

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 1
BOARD OF DIRECTORS
DECEMBER 31, 2019

BOARD OF DIRECTORS

Chairman

Tom Cole

Vice-Chairman

Ethan Kaopio

Secretary/Treasurer

Jeff Delmedico

Members

Jason Stacks

Steve Stacks

Plant Manager

Bobby Moss

Office Manager

Diane McKinzie

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 1
FORT GIBSON, OKLAHOMA
DECEMBER 31, 2019

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SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

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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, 2019 and the related notes to the financial statements, 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 opinion.

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 December 31, 2019, 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.

The prior year "memorandum only" comparative information and the supplementary information on page 21 presented for the purposes of additional analysis and are not a required part of the basic financial statements of the District. Such information has not been subjected to the auditing procedures applied in our audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2020 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 31, 2020



SANDERS, BLEDSOE & HEWETT

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**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, 2019, 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 31, 2020.

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 this deficiency, described in the accompanying schedule of findings and responses as item 19-1, 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 31, 2020

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 1
FORT GIBSON, OKLAHOMA
DISPOSITION OF PRIOR YEAR'S SIGNIFICANT DEFECIENCIES
DECEMBER 31, 2019

18-1 - 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, 2019

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:

19-1 – 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, 2019

<u>ASSETS:</u>	2019	-Memorandum- -Only- 2018
	<hr/>	<hr/>
Current assets:		
Cash	\$ 3,150	568
Accounts receivable	19,256	17,056
Prepaid insurance	2,218	2,443
Total current assets	<hr/> 24,624 <hr/>	<hr/> 20,067 <hr/>
Noncurrent assets:		
Restricted cash with fiscal agent	7,662	7,131
Restricted investment with fiscal agents	33,592	33,592
Capital assets, net	1,035,789	1,065,591
Other assets, net	7,935	8,563
Total noncurrent assets	<hr/> 1,084,978 <hr/>	<hr/> 1,114,877 <hr/>
TOTAL ASSETS	<u><u>\$ 1,109,602</u></u>	<u><u>1,134,944</u></u>
<u>LIABILITIES:</u>		
Accounts payable	\$ 6,303	2,762
Notes payable - current portion	14,500	13,400
Notes payable - long-term portion	<hr/> 224,200 <hr/>	<hr/> 238,700 <hr/>
Total Liabilities	<hr/> 245,003 <hr/>	<hr/> 254,862 <hr/>
<u>NET POSITION:</u>		
Net investment in capital assets	797,089	813,491
Restricted for debt service and deposits	41,254	40,723
Unrestricted assets	<hr/> 26,256 <hr/>	<hr/> 25,868 <hr/>
Total Net Position	<hr/> 864,599 <hr/>	<hr/> 880,082 <hr/>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 1,109,602</u></u>	<u><u>1,134,944</u></u>

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, 2019

	<u>2019</u>	<u>-Memorandum- -Only- 2018</u>
Operating Revenues:		
Water sales and other sales	\$ 234,920	216,020
Operating Expenses:		
Chemicals	5,341	4,083
Professional fees	3,586	8,803
Supplies and parts	28,515	15,748
Equipment rental	5,136	2,795
Insurance and bonds	20,419	20,881
Lake Water usage	1,118	1,037
Miscellaneous	3,516	4,726
Office supplies and postage	6,290	4,880
Dues and memberships	9,119	7,779
Repair labor	18,414	16,140
Salaries	63,173	63,006
Payroll taxes	5,138	5,255
Utilities and telephone	20,564	21,463
Vehicles	17,428	20,927
Water testing	5,448	5,236
Depreciation	29,802	25,127
Amortization	628	631
Total expenses from operations	<u>243,635</u>	<u>228,517</u>
Operating Income (Loss)	(8,715)	(12,497)
Non-Operating Revenues (Expenses):		
Interest income	567	394
Cherokee Nation grant	0	361,026
Other grants	0	7,700
Interest paid on long-term debt	(7,335)	(5,740)
Total non-operating revenues (expenses)	<u>(6,768)</u>	<u>363,380</u>
Change in Net Position	(15,483)	350,883
Total Net Position, beginning of period	<u>880,082</u>	<u>529,199</u>
Total Net Position, end of period	<u>\$ 864,599</u>	<u>880,082</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, 2019

	2019	Memorandum Only 2018
Cash Flows from Operating Activities:		
Receipts from customers	\$ 232,720	214,940
Payments to employees	(68,311)	(68,261)
Payments to vendors	(141,128)	(133,707)
	23,281	12,972
Net Cash Provided by Operating Activities		
 Cash Flows from Investing Activities:		
Interest revenue	567	394
Capital assets purchased	0	(366,006)
Cherokee Nation grant	0	361,026
Other grants	0	7,700
	567	3,114
Net Cash Provided by (used in) Investing Activities		
 Cash Flows from Capital and Related Financing Activities:		
Interest expense on debt	(7,335)	(5,740)
Principal payments on debt	(13,400)	(12,400)
	(20,735)	(18,140)
Net Cash Provided by (used in) Capital and Related Financing Activities		
 Net Increase (Decrease) in Cash	 3,113	 (2,054)
Cash and cash equivalents, beginning of period	41,291	43,345
Cash and cash equivalents, end of period	\$ 44,404	41,291
 Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating Income	\$ (8,715)	(12,497)
Adjustments to reconcile operating income to net cash provided (used by operating activities):		
Depreciation Expense	29,802	25,127
Amortization Expense	628	631
(Increase) decrease in accounts receivable	(2,200)	(1,080)
(Increase) decrease in prepaid expenses	225	(100)
Increase (decrease) in accounts payables	3,541	891
	23,281	12,972
Net Cash Provided by Operating Activities	\$ 23,281	12,972

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, 2019

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,	
	2019	2018
Operating account	\$ 3,449	2,646
Less: outstanding checks	(299)	(2,078)
Total	\$ 3,150	568

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, 2019

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 Account and 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. These accounts are 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 accounts at the Bank of Oklahoma, Oklahoma City, Oklahoma, which is insured by the federal government. At December 31, 2019, the restricted assets are detailed as follows:

Bank of Oklahoma, Tulsa, Oklahoma:	
Money Market account No. 83-6084-06-1, @.90%	\$ 33,592
Checking account No. 83-6084-06-1	<u>7,662</u>
Total	<u>\$ 41,245</u>

Collateral Pledged

It appears that all funds were adequately insured by the \$250,000 FDIC coverage per banking institution as of December 31, 2019.

Accounts Receivable

Billings for accounts receivable at December 31, 2019 were \$19,256. 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, 2019

Capital Assets

Capital 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 capital asset information for the District is shown below:

	12/31/2018			12/31/2019
	Amount	Additions	Deletions	Amount
Land	\$ 16,647	-	-	16,647
Water System	1,691,438	-	-	1,691,438
Bldg & Equip.	36,008	-	-	36,008
Less: Accumulated Depreciation	(678,502)	(29,802)	-	(708,304)
Total	\$ 1,065,591	(29,802)	-	1,035,789

Note B – Long-term Debt

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

	<u>2019</u>	<u>2018</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	\$ 238,700	251,100
Less: current maturities	(14,500)	13,400
Total	\$ 224,200	264,500

Cherokee County Rural Water District No. 1
Fort Gibson, Oklahoma
Notes to Financial Statements
December 31, 2019

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

Oklahoma Water Resources Board

2020	\$ 14,500
2021	15,700
2022	17,000
2023	18,400
2024	19,800
2025-29	97,100
2030-34	<u>56,200</u>
Total	<u>\$ 238,700</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. In 2018, the district received \$361,026 in grant funds from the Cherokee Nation to complete the Rocky Top 6 Mile line upgrade/relocation project.

Note E – Insurance and Surety Bond Coverage

At December 31, 2019, the District had appropriate coverage against all major perils.

Note F – Subsequent Events

Management has evaluated subsequent events through March 31, 2020 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, 2019

Note G – Pending Litigation

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 started a system upgrade project. The Cherokee Nation will be providing all the funding for this project.

In March, 2020, a claim was filed against the District with the Cherokee County District Court. The plaintiff in the claim is seeking unpaid fees for repairs made to water lines. The District is scheduled to appear in court in April, 2020. The outcome of the case is not deemed material to financial statements.

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 1
Schedule of Water Rates and Customers
-Unaudited Information-
December 31, 2019

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	=	\$48.50 plus \$4.00 per thousand gallons
3,001 – 4,000 gallons	=	\$62.50 plus \$5.00 per thousand gallons
4,001 – 5,000 gallons	=	\$77.50 plus \$6.00 per thousand gallons
5,001 – 7,000 gallons	=	\$93.50 plus \$7.00 per thousand gallons
7,001 – 10,000 gallons	=	\$127.50 plus \$8.00 per thousand gallons
Over 10,000 gallons	=	\$181.50 plus \$9.00 per thousand gallons

Water Loss

	<u>2019</u>	<u>2018</u>
Total gallons purchased and produced	30,491,000	30,328,000
Total gallons sold to District customers	<u>(13,456,101)</u>	<u>(14,721,00)</u>
Total water loss	<u>17,034,899</u>	<u>15,607,000</u>
Percentage of water loss	<u>55.9%</u>	<u>51.5%</u>

Customers

The District had 336 customers at the close of the fiscal year.

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