

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

**FINANCIAL STATEMENTS
AND REPORTS OF INDEPENDENT AUDITOR**

DECEMBER 31, 2020

Audited by

**BLEDSON, HEWETT & GULLEKSON
CERTIFIED PUBLIC ACCOUNTANTS, PLLLP**

BROKEN ARROW, OK

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 1
BOARD OF DIRECTORS
DECEMBER 31, 2020

BOARD OF DIRECTORS

Chairman

Tom Cole

Vice-Chairman

Ethan Kaopio

Secretary/Treasurer

Jeff Delmedico

Members

Jason Graber

Steve Stacks

Plant Manager

Bobby Moss

Office Manager

Diane McKinzie

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 1
FORT GIBSON, OKLAHOMA
DECEMBER 31, 2020

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INDEPENDENT AUDITOR'S REPORT

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

Report on Financial Statements

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, 2020 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, 2020, 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 18 is 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 16, 2021 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.

Bledsoe, Hewett & Gullekson

Bledsoe, Hewett & Gullekson
Certified Public Accountants, PLLLP

March 16, 2021



BLEDSON, HEWETT & GULLEKSON
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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, 2020, 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 16, 2021.

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 significant deficiencies in the internal controls that we consider to be material weaknesses.

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 deficiencies, described in the accompanying schedule of findings and responses as items 2020-1 and 2020-2, to be material weaknesses.

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 two instances of noncompliance (items 2021-1 and 2020-2) 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.

Bledsoe, Hewett & Gullekson

Bledsoe, Hewett & Gullekson
Certified Public Accountants, PLLLP

March 16, 2021

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 1
FORT GIBSON, OKLAHOMA
DISPOSITION OF PRIOR YEAR'S SIGNIFICANT DEFICIENCIES
DECEMBER 31, 2020

2019-1 - 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, 2020

Section 1 – Summary of Auditor’s Results:

1. An unmodified opinion report was issued on the financial statements.
2. The audit disclosed two significant deficiencies (items 2020-1 and 2020-2) in the internal controls over financial reporting, which were material weaknesses.
3. The audit disclosed two instances of noncompliance (items 2020-1 and 2020-2) which were material to the financial statements.

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

2020-1 – 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.

2020-2 -- Debit Card Purchases

Condition-

During our review of District expenditures, we observed a large number of debit card purchases. It is unusual for a District this size to have this many debit card purchases. Typically, debit card usage should be limited to incidental purchases, not regular operating expenses. Extensive use of debit cards circumvents internal controls that are in place for approving and reviewing purchases prior to payment being made and requires no checks to be signed by board members, which is an essential control for a small client. More concerning is that we were unable to locate adequate supporting documentation for these purchases, which would include itemized invoices. The number of debit card transactions during the year is as follows:

<u>Month</u>	<u>Number of Debit Card Transactions</u>
January '20	36
February	27
March	36
April	33
May	34
June	50
July	42
August	56
September	60
October	50
November	55
December	52
Total	<u>531</u>

Criteria-

Expenditures should only be paid after the receipt of adequate documentation, which would include an itemized invoice that details the purchase, a purpose and disposition of the purchase, and for meal related purchases, a listing of individuals present if more than one.

Cause-

Procedures were not in place to require the proper documentation be obtained and that all purchases be detailed with an allowable purpose/disposition. Further, controls were not in place over the debit card usage.

Effect-

This increases the risk that a misappropriation of assets will occur and not be detected whether due to error or fraud. Without adequate documentation, we are unable to provide an opinion on the allowability of the debit card purchases. According to the vendor listed on each bank statement, a comparative summary of all 2020 debit card transactions is detailed by category as follows:

<u>Description</u>	<u>Amount</u>
Gas Stations	\$ 5,547.16
Meals / Restaurants	1,201.97
Auto Parts	4,896.71
Lowe's	4,627.78
Other	<u>6,524.77</u>
Total	<u>\$ 22,798.39</u>

Recommendation-

We recommend that procedures be put in place to ensure that invoices are properly maintained and filed in a manner where they are easily located. Debit card purchases should always be supported with the itemized vendor receipt. In addition, documentation for fuel and meal purchases should be detailed and clearly state the purpose for the purchase to indicate it was business related. For meal expenditures, we also recommend that a listing of all employees be included that reconciles to the amount of meals purchased. Further, we recommend that the Board review bank statements monthly and that no purchases be approved by the Board without adequate documentation.

Response-

The District has not responded to the audit finding as of the date of this audit report.

Cherokee County Rural Water District No. 1
Statement of Net Position
December 31, 2020

<u>ASSETS:</u>	<u>2020</u>	<u>-Memorandum- -Only- 2019</u>
Current assets:		
Cash	\$ 2,354	3,150
Accounts receivable	19,552	19,256
Prepaid insurance	1,948	2,218
Total current assets	49,854	24,624
Noncurrent assets:		
Restricted cash with fiscal agent	6,703	7,662
Restricted investment with fiscal agents	33,592	33,592
Capital assets, net	1,006,289	1,035,789
Other assets, net	7,304	7,935
Total noncurrent assets	1,053,888	1,084,978
TOTAL ASSETS	\$ 1,103,742	1,109,602
<u>LIABILITIES:</u>		
Accounts payable	\$ 1,682	6,303
Notes payable - current portion	15,700	14,500
Notes payable - long-term portion	208,500	224,200
Total Liabilities	225,882	245,003
<u>NET POSITION:</u>		
Net investment in capital assets	782,089	797,089
Restricted for debt service and deposits	40,295	41,254
Unrestricted assets	55,476	26,256
Total Net Position	877,860	864,599
TOTAL LIABILITIES AND NET POSITION	\$ 1,103,742	1,109,602

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, 2020

	2020	-Memorandum- -Only- 2019
Operating Revenues:		
Water sales and other sales	\$ 262,099	234,920
Operating Expenses:		
Chemicals	7,067	5,341
Professional fees	3,595	3,586
Supplies and parts	29,295	28,515
Equipment rental	6,641	5,136
Insurance and bonds	21,072	20,419
Lake Water usage	1,166	1,118
Miscellaneous	3,632	3,516
Office supplies and postage	4,027	6,290
Dues and memberships	9,176	9,119
Repair labor	17,458	18,414
Salaries	64,432	63,173
Payroll taxes	5,186	5,138
Utilities and telephone	19,999	20,564
Vehicles	11,979	17,428
Water testing	6,793	5,448
Depreciation	29,500	29,802
Amortization	631	628
Total expenses from operations	241,649	243,635
Operating Income (Loss)	20,450	(8,715)
Non-Operating Revenues (Expenses):		
Interest income	42	567
Interest paid on long-term debt	(7,231)	(7,335)
Total non-operating revenues (expenses)	(7,189)	(6,768)
Change in Net Position	13,261	(15,483)
Total Net Position, beginning of period	864,599	880,082
Total Net Position, end of period	\$ 877,860	864,599

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, 2020

	2020	Memorandum Only 2019
Cash Flows from Operating Activities:		
Receipts from customers	\$ 261,803	232,720
Payments to employees	(69,618)	(68,311)
Payments to vendors	(146,251)	(141,128)
Net Cash Provided by Operating Activities	45,934	23,281
 Cash Flows from Investing Activities:		
Interest revenue	42	567
Net Cash Provided by (used in) Investing Activities	42	567
 Cash Flows from Capital and Related Financing Activities:		
Interest expense on debt	(7,231)	(7,335)
Principal payments on debt	(14,500)	(13,400)
Net Cash Provided by (used in) Capital and Related Financing Activities	(21,731)	(20,735)
 Net Increase (Decrease) in Cash	24,245	3,113
 Cash and cash equivalents, beginning of period	44,404	41,291
Cash and cash equivalents, end of period	\$ 68,649	44,404
 Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating Income	\$ 20,450	(8,715)
Adjustments to reconcile operating income to net cash provided (used by operating activities):		
Depreciation Expense	29,500	29,802
Amortization Expense	631	628
(Increase) decrease in accounts receivable	(296)	(2,200)
(Increase) decrease in prepaid expenses	270	225
Increase (decrease) in accounts payables	(4,621)	3,541
Net Cash Provided by Operating Activities	\$ 45,934	23,281

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, 2020

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 Firststar Bank, Muskogee, Oklahoma, and are detailed as follows:

	December 31,	
	2020	2019
Operating account	\$ 30,442	3,449
Less: outstanding checks	(2,088)	(299)
Total	\$ 28,354	3,150

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, 2020

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, 2020, 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>6,703</u>
Total	<u>\$ 40,295</u>

Collateral Pledged

It appears that all funds were adequately insured by the \$250,000 FDIC coverage per banking institution as of December 31, 2020.

Accounts Receivable

Billings for accounts receivable at December 31, 2020 were \$19,552. 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, 2020

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:

	12/31/2019			12/31/2020
	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	(708,304)	(29,500)	-	(737,804)
Total	\$ 1,035,789	(29,500)	-	1,006,289

Note B – Long-term Debt

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

	<u>2020</u>	<u>2019</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	\$ 224,200	238,700
Less: current maturities	(15,700)	(14,500)
Total	\$ 208,500	224,200

**Cherokee County Rural Water District No. 1
Fort Gibson, Oklahoma
Notes to Financial Statements
December 31, 2020**

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

<u>Oklahoma Water Resources</u>	
<u>Board</u>	
2021	\$ 15,700
2022	17,000
2023	18,400
2024	19,800
2025	21,500
2026-30	<u>131,800</u>
Total	<u>\$ 224,200</u>

Note C – 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 D – Insurance and Surety Bond Coverage

At December 31, 2020, the District had appropriate coverage against all major perils.

Note E – Subsequent Events

Management has evaluated subsequent events through March 16, 2021 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, 2020

Note F – Pending Litigation

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 settled all outstanding claims during the 2020 fiscal year.

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 1
Schedule of Water Rates and Customers
-Unaudited Information-
December 31, 2020

Water Rates

0 – 1,000 gallons	=	\$45.00
1,001 – 2,000 gallons	=	\$45.00 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>2020</u>	<u>2019</u>
Total gallons purchased and produced	33,405,000	30,491,000
Total gallons sold to District customers	(14,286,950)	(13,456,101)
Total water loss	<u>19,118,050</u>	<u>17,034,899</u>
Percentage of water loss	<u>57.2%</u>	<u>55.9%</u>

Customers

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

Current membership/tap fee is \$2,500.