

**CHOCTAW COUNTY RURAL WATER  
AND SEWER DISTRICT NO. 1**

GRANT, OKLAHOMA

FINANCIAL STATEMENTS AND AUDITOR'S REPORT

YEAR ENDED OCTOBER 31, 2021

Audited by

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

BROKEN ARROW, OK

CHOCTAW COUNTY RURAL WATER AND SEWER DISTRICT NO. 1  
BOARD OF DIRECTORS  
OCTOBER 31, 2021

BOARD OF DIRECTORS

Chairperson	Susan Brewer
Vice-Chairperson	Candy Tollett
Secretary/Treasurer	Odis Brewer
Member	Glenn Clark
Member	Kenneth McMillian

MANAGER

Charles W. Motes

Bookkeeper

Traci Dickieson

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## **INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Choctaw County Rural Water and Sewer District No. 1  
Grant, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Choctaw County Rural Water and Sewer District No. 1 (the District), Grant, Oklahoma, as of and for the year ended October 31, 2021, 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 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 October 31, 2021, 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**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 - 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The prior year "memorandum only" comparative information and the supplementary information on page 20 are 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 December 3, 2021 on our consideration of the Authority'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

December 3, 2021

## **RURAL WATER AND SEWER DIST#1, CHOCTAW COUNTY**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**OCTOBER 31, 2021**

Our discussion and analysis of the Rural Water & Sewer Dist#1, Choctaw County's financial performance provides an overview of the District's financial activities for the fiscal year ended October 31, 2021. Please read it in conjunction with the District's financial statements that begin on page 12.

#### **FINANCIAL HIGHLIGHTS**

- The District has over 900 users on its system.
- The District's Net position increased \$680 for the current fiscal year.
- The District's operating expenses exceeded operating revenues by \$11,595. During the 2020-21 fiscal year, the District actually brought in \$831,312 and spent \$842,907, plus \$60,500 in capital asset additions.

#### **Using This Report**

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34 as applicable to the District's basis of accounting.

#### **Basis of Accounting**

The District has elected to present its financial statements in the accrual basis of accounting. According to the accrual basis, revenues are recorded when earned and expenses are recognized when incurred. This policy is in accordance with generally accepted accounting principles.

#### **The Financial Statement**

One of the most important questions asked about the District's finances is, "Is the District as a whole better or worse off as a result of the year's activities?" The Statement of Net Position, the Statement of Revenues, Expenses and Changes in

Net Position and the Statement of Cash Flows report information about the District and its activities in a way that helps answer this question.

These three statements report the District's net position and the changes in them. You can think of the District's net position-the difference between assets and liabilities - as one way to measure the District's financial position. Over time, increases in the District's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in water rates paid or charged and the condition of the District's water system, to assess the overall health of the District.

The District has only one type of fund or activity, which is defined as *Business-type activities*. This is considered a proprietary fund. This means the District charges a fee to customers to help it cover all or most of the cost of certain services it provides.

### **Net Position, and Changes in Net Position**

The Districts Net Position was higher in 2020-21, increasing from \$1,613,617 to \$1,614,297. Our analysis below focuses on the Net Position (Table1) and in Net position (Table 2) of the District's business-type activities.

**Table 1- Net Position:**

	2020-21	2019-20	Variances
Current and other assets	\$ 522,340	596,223	(73,883)
Capital assets, net	2,689,829	2,766,092	(76,263)
Total Assets	<u>\$ 3,212,169</u>	<u>3,362,315</u>	<u>(150,146)</u>
Current liabilities	\$ 120,426	147,166	26,740
Long-term liabilities	1,477,446	1,601,532	124,086
Total Liabilities	<u>\$ 1,597,872</u>	<u>1,748,698</u>	<u>150,826</u>
Invest. In capital assets, net of related debt	\$ 1,111,089	1,026,039	85,050
Restricted	101,294	198,579	(97,285)
Unrestricted	401,914	388,999	12,915
Total Net Position	<u>\$ 1,614,297</u>	<u>1,613,617</u>	<u>680</u>

Net Position of the District increased by 0.04% (\$1,614,297 compared to \$1,613,617). Unrestricted net position-the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, increased from \$388,999 to \$401,914.

**Table 2- Changes in Net position:**

	<u>2020-21</u>	<u>2019-20</u>	<u>Variances</u>
Revenues:			
Charges for services	\$ 813,907	833,513	(19,606)
Other revenue	24,774	61,557	(36,783)
Interest	653	3,249	(2,596)
PPP loan forgiveness	64,017	0	64,017
Total Revenues	<u>\$ 903,351</u>	<u>898,319</u>	<u>5,032</u>
Expenses:			
Salaries, taxes and benefits	\$ 286,864	325,543	38,679
Maintenance and repairs	215,765	157,155	(58,610)
Other expenses	200,457	168,465	(31,992)
Depreciation / Amortization	139,821	137,107	(2,714)
Interest on debt	59,764	60,750	986
Total Expenses	<u>\$ 902,671</u>	<u>849,020</u>	<u>(53,651)</u>
Changes in Net Position	680	49,299	(48,619)
Net Position, Beginning	<u>1,613,617</u>	<u>1,564,318</u>	<u>49,299</u>
Net Position, Ending	<u>\$ 1,614,297</u>	<u>1,613,617</u>	<u>680</u>

The District's total revenue increased by 0.05 percent (\$5,032). The total cost of all expenses increased by 6.3 percent (\$53,651).

### **Capital Assets**

At October 31, 2021, the District had \$2,689,829 invested in capital assets, net of depreciation, including land, the water system, treatment plant, vehicles and equipment. In 2020-21, the District added \$60,500 in additions to capital assets, including pumps and meters. The District considers any item purchased in excess of \$1,000, and a useful life of over three years, to be classified as a capital asset.



### **Long-Term Debt**

The District has outstanding Revenue Bonds with Okla Water Resources Board. These bonds were incurred to pay off prior debt, and make various improvements and expansions over the years. On October 31, 2021, the District had outstanding long-term debt of \$1,485,000. The District also has a lease-purchase financing agreement for a backhoe with an outstanding balance of \$17,296. In the 2019-20 fiscal year, the District received a PPP loan in the amount of \$64,017 to assist them with payroll during the Covid-19 pandemic. The PPP loan was fully forgiven. The balances of these debts are shown in detail in the notes section of this audit report on page 17.

### **Economic Factors and Next Year's Budget and Rates**

For the upcoming fiscal year ending October 31, 2022, the District's operating budget is fairly consistent with prior years. Further water and sewer rates and service increases could be necessary due to economic factors.

### **Contacting the District's Financial Management**

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Office at P.O. Box 63, Grant, OK or call (580) 326-7777



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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  
Choctaw County Rural Water and Sewer District No. 1  
Grant, 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 Choctaw County Rural Water and Sewer District No. 1 (the District), Grant, Oklahoma, as of and for the year ended October 31, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 3, 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. We identified no deficiencies in the internal controls that we considered 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.

#### 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*.

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

December 3, 2021

CHOCTAW COUNTY RURAL WATER AND SEWER DISTRICT NO.1  
DISPOSITION OF PRIOR YEAR'S SIGNIFICANT DEFICIENCIES  
OCTOBER 31, 2021

There were no prior year significant deficiencies.

CHOCTAW COUNTY RURAL WATER AND SEWER DISTRICT NO. 1  
SCHEDULE OF AUDIT RESULTS, FINDINGS AND QUESTIONED COSTS  
OCTOBER 31, 2021

Section 1 – Summary of Auditor’s Results:

1. An unmodified opinion was issued on the financial statements.
2. The audit disclosed no significant deficiencies in the internal controls.
3. The audit disclosed no instances of noncompliance.

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

NONE

**CHOCTAW COUNTY RURAL WATER AND SEWER DISTRICT NO. 1**  
**STATEMENT OF NET POSITION**  
**OCTOBER 31, 2021**

	October 31,	
	2021	(Memo Only) 2020
<b><u>ASSETS-</u></b>		
Current Assets:		
Cash on hand	\$ 100	100
Cash in bank	167,615	230,548
Investments	188,093	187,440
Accounts receivable	66,531	70,996
Supplies Inventory	24,318	24,318
Prepaid insurance	17,452	10,348
Total current assets	<u>464,109</u>	<u>523,750</u>
Non-Current Assets:		
Bond trustee accounts	11,467	22,651
Bond issuance costs (net)	46,764	49,822
Total non-current assets	<u>58,231</u>	<u>72,473</u>
Capital Assets:		
Office furniture and fixtures	45,364	45,364
Equipment and tools	346,159	346,159
Transportation equipment	203,942	203,942
Water and sewer system	4,609,388	4,548,888
Buildings	85,941	85,941
Land and water rights	96,745	96,745
Total capital assets	5,387,539	5,327,039
Less accumulated depreciation	(2,697,710)	(2,560,947)
Total capital assets (net)	<u>2,689,829</u>	<u>2,766,092</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 3,212,169</u></u>	<u><u>3,362,315</u></u>
<b><u>LIABILITIES-</u></b>		
Current Liabilities:		
Accounts payable	\$ 19,132	8,645
Current portion of debt due within one year	101,294	138,521
Total current liabilities	<u>120,426</u>	<u>147,166</u>
Non-Current Liabilities:		
Long-term debt	1,477,446	1,601,532
Total Liabilities	<u>1,597,872</u>	<u>1,748,698</u>
<b><u>NET POSITION-</u></b>		
Net investment in capital assets	1,111,089	1,026,039
Restricted for debt service	101,294	198,579
Unrestricted	401,914	388,999
Total Net Position	<u>1,614,297</u>	<u>1,613,617</u>
<b>TOTAL LIABILITIES &amp; NET POSITION</b>	<u><u>\$ 3,212,169</u></u>	<u><u>3,362,315</u></u>

The accompanying notes are an integral part of the financial statements

**CHOCTAW COUNTY RURAL WATER AND SEWER DISTRICT NO. 1**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEAR ENDED OCTOBER 31, 2021**

	2020-21	(Memo Only) 2019-20
Revenue from Operations:		
Water sales	\$ 790,561	806,105
Sewer sales	23,346	27,408
Other	17,405	25,957
Total revenue from operations	<u>831,312</u>	<u>859,470</u>
Expenses from Operations:		
Salaries	266,639	296,308
Taxes	20,225	29,235
Professional fees	4,736	4,542
Contract labor	26,106	9,136
Utilities	31,954	30,659
Insurance	72,830	61,043
Repairs and maintenance	106,802	91,881
Supplies and materials	108,963	65,274
Vehicles (gas and oil)	29,586	19,055
Membership fees, dues and permits	0	4,884
Telephone	5,319	4,502
Office materials and supplies	19,663	10,859
Water purchases	427	10,654
Depreciation	136,763	134,049
Amortization	3,058	3,058
Postage	4,774	6,666
Retirement	5,062	6,465
Total expenses from operations	<u>842,907</u>	<u>788,270</u>
Net Income (Loss) from Operations	(11,595)	71,200
Non-Operating Income/Expense:		
Interest revenue	653	3,249
Insurance proceeds	0	31,600
Memberships	7,369	4,000
PPP loan forgiveness	64,017	0
Interest expense on debt payments	(59,764)	(60,750)
Total non-operating income/expense	<u>12,275</u>	<u>(21,901)</u>
Change in net position - net income (loss)	680	49,299
Net Position - beginning of year	<u>1,613,617</u>	<u>1,564,318</u>
Net Position - end of year	<u>\$ 1,614,297</u>	<u>1,613,617</u>

The accompanying notes are an integral part of the financial statements

**CHOCTAW COUNTY RURAL WATER AND SEWER DISTRICT NO. 1**  
**STATEMENT OF CASH FLOWS**  
**FOR YEAR ENDED OCTOBER 31, 2021**

	2020-21	(Memo Only) 2019-20
<b>Cash Flows from Operating Activities:</b>		
Cash received from customers	\$ 843,146	858,734
Cash payments to employees	(266,639)	(296,308)
Cash payments to suppliers for goods and contractors and other services	(440,433)	(257,034)
Net Cash Provided by Operating Activities	<u>136,074</u>	<u>204,356</u>
<b>Cash Flows from Investing Activities:</b>		
Capital assets sold (purchased)	(60,500)	(135,445)
Membership units	12,000	4,000
Interest and dividends	653	3,249
Net Cash Provided by Investing Activities	<u>(47,847)</u>	<u>(128,196)</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Bond trustee accounts liquidated (added)	(10,743)	(10,677)
Loan proceeds (PPP and lease-purchase)	0	165,053
Insurance reimbursements	0	31,600
Interest payments on debt	(59,764)	(60,750)
Principal payments on debt	(80,000)	(75,000)
Net Cash Provided by Capital and Related Financing Activities	<u>(150,507)</u>	<u>50,226</u>
Net increase (decrease) in cash and cash equivalents	(62,280)	126,386
Cash & cash equivalents, beginning of period	<u>418,088</u>	<u>291,702</u>
Cash & cash equivalents, end of period	<u><u>\$ 355,808</u></u>	<u><u>418,088</u></u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>		
Operating income (loss)	\$ (11,595)	71,200
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation and amortization expense	139,821	137,107
(Increase) decrease in accounts receivable	4,465	(736)
(Increase) decrease in prepaid expenses	(7,104)	(678)
(Increase) decrease in supplies inventory	0	1,280
(Decrease) increase in accounts payable	10,487	(3,817)
Net cash provided by operating activities	<u><u>\$ 136,074</u></u>	<u><u>204,356</u></u>

The accompanying notes are an integral part of the financial statements



**CHOCTAW COUNTY RURAL WATER AND SEWER DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**OCTOBER 31, 2021**

**Note A – Significant Accounting Policies**

Nature of Organization

The Choctaw County Rural Water and Sewer District No. 1 (the District) was created under the provisions of Title 82 of Oklahoma Statutes, Section 1324.1 – 1324.35 and the Laws of the State of Oklahoma. The purpose of this District is to provide water and sewer services to users.

Basis of Accounting

The accrual basis of accounting is followed for all accounts. Revenues are recorded when earned and accrued liabilities are recognized when incurred. This policy is in accordance with generally accepted accounting principles.

Cash

The District's operating accounts are with Bancfirst in Hugo, Oklahoma, and, at October 31, 2021, are detailed as follows:

Savings account (included in "investments")	\$ 980
Water and Sewer account	209,508
Less: outstanding checks	<u>(41,893)</u>
Total	<u><u>\$ 168,595</u></u>

The District maintained a bank account at Security National Bank, Hugo, Oklahoma, for their Paycheck Protection Program (PPP) loan proceeds. This account was classified as "cash in bank" in the financial statements. At October 31, 2021, this bank account had a balance of \$8,533, however, the PPP loan has been fully expended.

Investments

All investments are recorded at cost. Investments at October 31, 2021, are detailed as follows:

Bancfirst, Hugo, Oklahoma	
Certificate of Deposit No. 45463, dated 9-23-21, due 9-23-22, @ .35%	<u><u>\$ 187,113</u></u>

**CHOCTAW COUNTY RURAL WATER AND SEWER DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**OCTOBER 31, 2021**

**Note A – Significant Accounting Policies – cont'd**

Accounts Receivable

Billings for accounts receivable (water and sewer) at October 31, 2021 were \$66,531. An allowance for doubtful accounts was not computed on this balance. The direct write-off method is used by the District for bad accounts, which is not materially different from computing an allowance.

Inventory

Supplies inventory is valued at the lower of cost or market, using the FIFO method (first in, first out).

Capital Assets

Capital ("fixed") assets are valued at cost; depreciation is computed by use of the straight-line method. The activity for capital assets (any item over \$1,000) are as follows:

	11/1/2020 Amount	Additions	Deletions	10/31/2021 Amount
Office furn. & fixt.	\$ 45,364	-	-	45,364
Equipment & tools	346,159	-	-	346,159
Transportation equip.	203,942	-	-	203,942
Water & sewer sys.	4,548,888	60,500	-	4,609,388
Buildings	85,941	-	-	85,941
Land & water rights	96,745	-	-	96,745
Total Fixed Assets	5,327,039	60,500	-	5,387,539
Less: Accumulated Depreciation	(2,560,947)	(136,763)	-	(2,697,710)
Total	<u>\$ 2,766,092</u>	<u>(76,263)</u>	<u>-</u>	<u>2,689,829</u>

Federal Income Tax

The District is exempt from federal and state income taxes.

Statement of Cash Flows

For purposes of the statement of cash flows, the District considers all highly liquid investments, such as certificates of deposit and savings accounts, as cash equivalents.

**CHOCTAW COUNTY RURAL WATER AND SEWER DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**OCTOBER 31, 2021**

**Note B – Cash and Investments**

Oklahoma Statutes authorize the District to invest in certificates of deposit, repurchase agreements, passbooks, bankers' 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 an investment is expressly prohibited by law.

Bank deposits are held at several financial institutions and are carried at cost. For purposes of statements of cash flows, the District considers cash and all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Custodial Credit Risk - At October 31, 2021, the District held deposits of approximately \$409,068 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 Risk - 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 limitations of state law, as follows:

- a. Direct obligations of the 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 savings 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 agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a 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.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a-d).

**Note C – Accumulated Unpaid Vacation and Sick Pay**

At October 31, 2021, no determination of the aggregate dollar value of vacation or sick pay had been made.

**CHOCTAW COUNTY RURAL WATER AND SEWER DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**OCTOBER 31, 2021**

**Note D – Long-Term Debt**

Long-term debt at October 31, 2021, is summarized as follows:

Series 2017 Promissory Note to Oklahoma Water Resources Board, dated June 6, 2017, totaling \$1,815,000 variable interest rates, payable in semi-annual principal and interest installments, final payment due Sept. 15, 2035	\$ 1,495,000
Lease-Purchase agreement for a backhoe with SNB Bank, dated Sept. 23, 2020, totaling \$101,036, 2.15% interest rate, payable in monthly principal and interest installments of \$1,497, final payment due Sept. 23, 2026	<u>83,740</u>
Total long-term debt	<u>\$ 1,578,740</u>

The estimated maturities for long-term debt mortgages for the next five (5) years, and in total thereafter, are detailed as follows:

Year Ending October 31,	Principal	Interest	Total
2022	\$ 101,294	56,802	158,096
2023	101,648	52,756	154,404
2024	107,009	49,674	156,683
2025	107,379	46,424	153,803
2026	111,410	43,166	154,576
2027-31	540,000	151,110	691,110
2031-36	<u>510,000</u>	<u>41,600</u>	<u>551,600</u>
Total	<u>\$ 1,578,740</u>	<u>441,532</u>	<u>2,020,272</u>

**Paycheck Protection Program (PPP) Loan**

This loan, administered through the Small Business Association, was enacted in 2020 by the federal government (CFDA No. 59.073) to enable small businesses and government entities to maintain payroll and other monthly costs during the Covid-19 pandemic. The majority of these funds (75%) must be used for payroll and related costs associated with doing business, such as utilities. As of October 31, 2020, the District has fully expended these loan proceeds, all for payroll expenditures. This PPP loan was fully forgiven during the 2020-21 fiscal year.

**CHOCTAW COUNTY RURAL WATER AND SEWER DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**OCTOBER 31, 2021**

**Note D – Long-Term Debt – cont’d.**

Restricted Assets

Under the terms of the 2017 loan agreement, the District must maintain restricted funds. The loan agreement requires the District to maintain trustee accounts in the form of a debt service fund and a construction fund. The funds are held at The Bank of Oklahoma. The balances of these accounts as of October 31, 2021 were \$11,467 in the debt service fund, and \$0 in the construction fund. A debt service reserve fund is not required as long as the District maintains a debt coverage ratio of 1.40 times (instead of the usual 1.25 times). If the District does not maintain a debt coverage ratio of 1.40 times or higher, they would have to fund a debt service reserve account within 24 months.

**Debt Service Coverage Calculation:**

Income from operations	\$ (11,595)
Add:	
Depreciation and amortization	139,821
Membership fees	-
Interest income	653
Income available for debt service	<u>\$ 128,879</u>
Debt service:	
Interest expense	\$ 56,802
Principal payments	101,294
Total debt service requirements	<u>\$ 158,096</u>
Debt service coverage ratio	<u>0.8</u>

**Note E – Subsequent Events**

Management has evaluated subsequent events through December 3, 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.

**CHOCTAW COUNTY RURAL DISTRICT NO. 1**  
**Schedule of Water Rates and Customers**  
**-Unaudited Information-**  
**October 31, 2021**

**Water Rates**

0 – 1,000 gallons	=	\$40.00
2,000 gallons	=	\$42.75
3,000 gallons	=	\$47.75
4,000 – 8,000 gallons	=	\$53.75 + \$6.00 per 1,000 gallons over 4,000
9,000+ gallons	=	\$84.65 + \$6.90 per 1,000 gallons over 9,000

**Sewer Rates**

0 – 1,000 gallons	=	\$18.04
1,000+ gallons	=	\$18.04 + .63 per 1,000 gallons

**Customers**

The District had 904 water customers and 92 sewer customers at the close of the fiscal year.

**Costs**

Benefit unit cost is \$1,000 residential and \$1,400 commercial  
Membership fee only is \$100  
Reconnect fee is \$75



**BLEDSON, HEWETT & GULLEKSON**  
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December 3, 2021

Mr. Charles Motes, Manager  
Choctaw County Rural Water & Sewer District No. 1  
Grant, Oklahoma

Dear Mr. Motes:

The following section contains the observations and recommendations relayed to management that are immaterial control deficiencies, which we feel need to be communicated to you so that appropriate action may be taken to correct these deficiencies. These items are not included in your audit report, as they are not considered material in nature. They are simply observations of some immaterial findings that could evolve into material findings if not addressed or corrected.

Minutes

There were several Board meetings that we were unable to determine if the regularly scheduled or special meeting actually took place, or if they were cancelled due to lack of quorum. In addition, the minutes that were available did not always provide sufficient detail concerning the business to be transacted. We recommend that the Board clerk begin keeping a detailed record of the Board meetings and all business conducted during each meeting. Each meeting file should include all pertinent information for that meeting including the agenda, County Clerk notice, typed minutes, and all financial documents that are reviewed and/or approved by the Board.

Quarterly IRS Reports

During our review of the quarterly IRS payroll filings, we were unable to reconcile the W-2 filing to the quarterly IRS reports for the 2020 calendar year. The District has not received any correspondence from the IRS to warrant further concern at this time, however, we recommend that the IRS tax filings be carefully monitored each quarter to ensure that the correct tax withholdings are made and paid to the IRS in a timely manner.

## Financial Reporting

During our audit, we observed several key accounting functions are not properly ran through the District's accounting software. It appears that some monthly District obligations, such as employee health insurance, were not recorded as an expense in the software. In addition, although customer payments are recorded in the software, the corresponding revenue recognition entry is not recorded in the software. This resulted in revenue amounts reported on the operating statement each month that did not reflect the actual revenues collected. We recommend that the District bookkeeper consider different procedures for recording the District transactions. One suggested procedure would be to have the operating statement each month reflect the actual banking transactions for that month. The revenues on the operating statement should match the total deposits from the bank statement and the expenditures should match the total checks/withdrawals from the bank statement. The bank statement should then be attached to the operating statement each month and reviewed by the Board. These procedures would more closely resemble a cash basis of bookkeeping and will ensure accurate financial information is reported. Another alternative would be to record every transaction in the software and classify each transaction using double entry accounting methods. While the District does have the software available for this type of reporting, additional training would need to be provided so that all transactions are recorded properly.

We take this opportunity to thank you and your professional staff for the outstanding cooperation and invaluable assistance you gave us during our recent onsite audit work.

Sincerely,



Christopher P. Gullekson

For

Bledsoe, Hewett & Gullekson  
Certified Public Accountants, PLLLP