

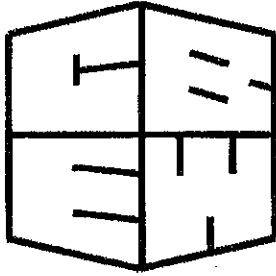
**LONE CHIMNEY WATER ASSOCIATION**

**BASIC FINANCIAL STATEMENTS**  
**June 30, 2023**

# LONE CHIMNEY WATER ASSOCIATION

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## **CBEW Professional Group, LLP**

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### **INDEPENDENT AUDITOR'S REPORT**

August 28, 2023

Board of Directors  
Lone Chimney Water Association

#### ***Opinions***

We have audited the accompanying financial statements of the business-type activities of Lone Chimney Water Association (the Association), as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects the financial position of the business-type activities of the Lone Chimney Water Association as of June 30, 2023 and 2022, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinions***

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Association and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

**Other Matters**

*Required Supplementary Information*

The Association has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires 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 financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinions on the basic financial statements are not affected by this missing information.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2023, on our consideration of the Lone Chimney Water Association'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 and compliance and results of that testing, and not to provide an opinion on the effectiveness of the Association's 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 Lone Chimney Water Association's internal control over financial reporting and compliance.

***CBEW Professional Group, LLP***

CBEW Professional Group, LLP  
Certified Public Accountants

**LONE CHIMNEY WATER ASSOCIATION**  
**STATEMENT OF NET POSITION**  
**June 30, 2023 and 2022**

	<u>June 30,</u> <u>2023</u>	<u>June 30,</u> <u>2022</u>
<b>Assets:</b>		
Cash and cash equivalents (Note 1)	\$ 492,381	\$ 384,454
Investments	237,868	237,715
Accounts receivables (net of allowance for uncollectible)	327,555	480,584
Unbilled revenues	124,725	136,816
Prepaid insurance	33,530	30,304
Inventory (Note 1)	51,842	52,975
Temporarily restricted assets:		
Cash and cash equivalents (Note 1)	410,757	596,384
Restricted assets:		
Customer deposits (Note 1)	-	-
<b>Capital assets:</b>		
Land	270,707	270,707
Construction in process	-	-
Water system, buildings, improvements and equipment, net of depreciation (Notes 1 & 3)	4,116,532	4,319,708
<b>Other:</b>		
Other assets	-	-
Easements, net of amortization	46,460	65,049
<b>Total assets</b>	<u>6,112,357</u>	<u>6,574,696</u>
<b>Deferred outflows of resources:</b>		
<b>Total deferred outflows</b>	<u>-</u>	<u>-</u>
<b>Current liabilities:</b>		
Accounts payable	92,421	93,366
Customer deposits	-	-
Payroll taxes payable	-	5,954
Accrued Compensation	8,893	4,703
Interest payable	25,978	27,777
Current portion of notes payable (Note 3)	205,000	200,000
<b>Total current liabilities</b>	<u>332,292</u>	<u>331,800</u>
<b>Long-term liabilities:</b>		
Notes payable (Note 3)	3,230,730	3,435,730
<b>Total long-term liabilities</b>	<u>3,230,730</u>	<u>3,435,730</u>
<b>Total liabilities</b>	<u>3,563,022</u>	<u>3,767,530</u>
<b>Deferred inflows of resources:</b>		
<b>Total deferred inflows</b>	<u>-</u>	<u>-</u>
<b>Net position:</b>		
Net investment in capital assets	951,509	954,685
Temporarily restricted (Note 1)	410,757	596,384
Unrestricted	1,187,069	1,256,097
<b>Total net position</b>	<u>2,549,335</u>	<u>2,807,166</u>
<b>Total liabilities and net position</b>	<u>\$ 6,112,357</u>	<u>\$ 6,574,696</u>

The accompanying notes are an integral part of the basic financial statements.

**LONE CHIMNEY WATER ASSOCIATION**  
**STATEMENT OF ACTIVITIES**  
For the Years Ended June 30, 2023 and 2022

	<u>June 30,</u> <u>2023</u>	<u>June 30,</u> <u>2022</u>
<b>Revenues:</b>		
Water sales	\$ 1,715,571	\$ 1,890,739
Miscellaneous income	68,976	6,727
<b>Total revenues</b>	<u>1,784,547</u>	<u>1,897,466</u>
<b>Expenses:</b>		
Amortization	18,590	18,590
Bank charges	-	-
Contract services	-	-
Depreciation	211,677	326,867
Employee benefits	1,230	1,630
Insurance	148,763	126,670
Lab fees	19,341	24,113
Legal and accounting	7,212	15,819
Licenses and permits	276	366
Miscellaneous	18,207	12,055
Office supplies and postage	7,136	4,109
Payroll taxes	51,065	43,186
Rental expense	7,900	7,900
Repair and maintenance	379,508	225,448
Salaries	371,899	317,143
Supplies	426,780	318,728
Surveying	-	-
Telephone	15,020	13,850
Transportation	31,051	29,710
Travel	526	411
Utilities	91,156	85,071
Water purchases	146,973	88,899
<b>Total expenses</b>	<u>1,954,310</u>	<u>1,660,565</u>
<b>Operating income (loss)</b>	<u>(169,763)</u>	<u>236,901</u>
<b>Other income and expense:</b>		
Interest income	15,075	2,005
Trustee fees	(13,851)	(13,953)
Interest expense	(89,293)	(95,431)
<b>Total other income and expense</b>	<u>(88,069)</u>	<u>(107,379)</u>
<b>Change in net position - net income (loss)</b>	(257,832)	129,522
<b>Net position - beginning of year</b>	<u>2,807,167</u>	<u>2,677,645</u>
<b>Net position - end of year</b>	<u>\$ 2,549,335</u>	<u>\$ 2,807,167</u>

The accompanying notes are an integral part of the basic financial statements.

**LONE CHIMNEY WATER ASSOCIATION**  
**STATEMENT OF CHANGES IN NET POSITION**  
**For the Years Ended June 30, 2023 and 2022**

	<u>Net Position (Unrestricted)</u>	<u>Net Position (Temporarily Restricted)</u>	<u>Total Net Assets</u>
<b>Balance - beginning of year 6-30-21</b>	\$ 2,045,102	\$ 632,543	\$ 2,677,645
Change in net position	<u>165,682</u>	<u>(36,160)</u>	<u>129,522</u>
<b>Balance - end of year 6-30-22</b>	<u>\$ 2,210,784</u>	<u>\$ 596,383</u>	<u>\$ 2,807,167</u>
<b>Balance - beginning of year 6-30-22</b>	\$ 2,210,784	\$ 596,383	\$ 2,807,167
Change in net position	<u>(72,205)</u>	<u>(185,627)</u>	<u>(257,832)</u>
<b>Balance - end of year 6-30-23</b>	<u>\$ 2,138,579</u>	<u>\$ 410,756</u>	<u>\$ 2,549,335</u>

The accompanying notes are an integral part of the basic financial statements.

**LONE CHIMNEY WATER ASSOCIATION**  
**STATEMENT OF CASH FLOWS**  
For the Years Ended June 30, 2023 and 2022

	<u>June 30,</u> <u>2023</u>	<u>June 30,</u> <u>2022</u>
<b>Cash flows from operating activities:</b>		
Cash received from customers	\$ 1,949,666	\$ 1,790,844
Cash payments to suppliers for goods & contractors & other services	(1,728,845)	(1,274,572)
<b>Net cash provided by operating activities</b>	<u>220,821</u>	<u>516,272</u>
<b>Cash flows from capital and related financing activities:</b>		
Acquisition & construction of capital assets	(8,500)	(279,573)
Principal paid on debt	(200,000)	(190,000)
Interest paid on debt	(91,092)	(97,262)
Proceeds of issuance of debt	-	-
Uses of (payments to) reserve accounts	185,627	36,159
Trustee fees	(13,851)	(13,953)
<b>Net cash used in capital and related financing activities</b>	<u>(127,816)</u>	<u>(544,629)</u>
<b>Cash flows from investing activities:</b>		
(Purchase) liquidation of investments - unrestricted	(153)	-
Interest income	15,075	2,005
<b>Net cash provided by investing activities</b>	<u>14,922</u>	<u>2,005</u>
<b>Net increase (decrease) in cash</b>	107,927	(26,352)
<b>Cash and cash equivalents at beginning of year</b>	<u>384,454</u>	<u>410,806</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 492,381</u>	<u>\$ 384,454</u>
<b>Reconciliation of operation income to net cash provided by operating activities:</b>		
Operating income (loss)	\$ (169,763)	\$ 236,901
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Amortization	18,590	18,590
Depreciation	211,677	326,867
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	153,028	(105,974)
(Increase) decrease in unbilled revenues	12,091	(648)
(Increase) decrease in prepaid expenses	(3,226)	(687)
(Increase) decrease in inventory	1,133	(7,343)
(Increase) decrease in other assets	-	-
Increase (decrease) in accounts payable	(945)	45,393
Increase (decrease) in accrued compensation	4,190	(1,897)
Increase (decrease) in payroll taxes payable	(5,954)	5,070
<b>Total adjustments</b>	<u>390,584</u>	<u>279,371</u>
<b>Net cash provided by operating activities</b>	<u>\$ 220,821</u>	<u>\$ 516,272</u>

The accompanying notes are an integral part of the basic financial statements.



# LONE CHIMNEY WATER ASSOCIATION

## NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2023 and 2022

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Lone Chimney Water Association (the Association), an Oklahoma association of public agencies, was created pursuant to Title 74, O.S. 1981, Sections 1001-1008, the Oklahoma Interlocal Cooperation Act. The Association was formed to provide a centralized water treatment and distribution system for surrounding communities. The Association currently sells water wholesale to twelve rural water systems located in Payne, Pawnee, Noble and Lincoln counties. Also, the Association has residential customers who have paid the required meter installation fees. The system is comprised of the 564-acre Lone Chimney Lake, built in 1980-85, a modern water treatment plant completed in 1986, and about 70 miles of water distribution mains. Service to customers began in mid 1986. The Association is exempt from federal and state income taxes.

The Board of Directors consists of 8 members representing the water systems that are parties to long-term contracts with the Association (i.e., more than ten years) plus 1 representative of the other system customers serving 4-year terms. The vacant Board seats are elected at the annual meeting in July, and following, the Board of Directors meet and elect a chairman, vice-chairman, and secretary-treasurer. All Board members serve without pay.

The more significant of the government's accounting policies are described below.

#### A. Reporting Entity

Lone Chimney Water Association is an independent, self-contained reporting entity with no associated component units. It is operated in a manner similar to a private business enterprise where the cost (expenses, including depreciation and amortization) of providing water services is financed through user charges.

#### B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with Generally Accepted Accounting Principles (GAAP) promulgated in the United States of America. The accounting and financial reporting treatment is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation are included on the statement of net position. The operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Depreciation expense is provided for capital assets based upon estimated useful lives. Amortization expense is provided for easements based upon a 40-year life.

Financial activity is accounted for on the flow of economic resources measurement focus using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

#### C. Assets, Liabilities and Equity

##### 1. Deposits and Investments

Oklahoma Statutes authorize the Association 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 Association can invest in direct debt securities of the United States unless such an investment is expressly prohibited by law.

For financial statement presentation and for purposes of statements of cash flows, the Association's cash and cash equivalents are considered to be cash on hand, demand deposits and certificates of deposit with a maturity date of three months or less.

**LONE CHIMNEY WATER ASSOCIATION**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

June 30, 2023 and 2022

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Assets, Liabilities and Equity (Continued)**

**1. Deposits and Investments (Continued)**

*Custodial Credit Risk*

At June 30, 2023, the Association held deposits of approximately \$1,141,007 financial institutions. The Association'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 Association or by its agent in the Association's name.

*Investment Interest Rate Risk*

The Association 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 Association has no policy that limits its investment choices other than the limitation 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.).

The cash and investments held at June 30, 2023 are as follows:

Type	Weighted Average Maturity (Months)	Credit Rating	Market Value	Cost
Investments				
Money Market	N/A	AAAm	\$ 903,139	\$ 903,139
Certificate of deposit	9.82	N/A	237,868	237,868
Total investments			<u>\$ 1,141,007</u>	<u>\$ 1,141,007</u>

**Concentration of Investment Credit Risk**

The Association places no limit on the amount it may invest in any one issuer. The Association has the following of credit risk: 21% in Certificates of deposit (\$237,868) and 79% in money markets (\$903,139).

## LONE CHIMNEY WATER ASSOCIATION

### NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2023 and 2022

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### C. Assets, Liabilities and Equity (Continued)

###### 2. Restricted Cash and Investments

The restricted cash is the result of financial requirements of various note indentures between the Association and the Oklahoma Water Resources Board (OWRB) consist of funds held in reserve funds. Under the terms and provisions of the OWRB promissory note, these special funds are maintained with the Trustee bank for the benefit of the holders of the bond and are not subject to lien or attachment by any other creditors. Monies contained in the funds held by the Trustee are required to be continuously invested in authorized securities that mature not later than the respective dates when the funds shall be required for the purpose intended by the bonds. The funds are temporarily restricted but with prior written approval from OWRB, the funds can also be used for making improvements to the water system or for debt service. Under the terms and provisions of the promissory note, these funds may be maintained so long as the notes are outstanding. In addition, certain funds are restricted for customer deposits and are reflected as an asset and a corresponding liability.

###### 3. Fair Value of Financial Instruments

The Association's financial instruments include cash and cash equivalents, accounts receivable, accounts payable and notes payable. The Association's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of net position. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

###### 4. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

###### 5. Inventories

Inventories consist primarily of chemicals and water line supplies for the addition of new water lines and repair of old water lines. Inventory is valued at cost, principally on a first-in, first-out basis, but not in excess of market.

###### 6. Compensated Absences

It is the Association's policy to permit employees to accumulate earned but unused vacation time. Full-time employees are granted vacation and sick leave benefits in varying amounts to specified maximums depending on tenure. The Association has accrued compensated absences and has reported the amount in the financial statements.

###### 7. Capital Assets

Additions to the water treatment and delivery system and other equipment are recorded at cost or, if contributed property, at their estimated acquisition value at time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. The Association maintains a capitalization threshold of \$5,000 and an estimated useful life in excess of two (2) years.

**LONE CHIMNEY WATER ASSOCIATION**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**June 30, 2023 and 2022**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Assets, Liabilities and Equity (Continued)**

**7. Capital Assets (Continued)**

Depreciation has been calculated on each class of depreciable property using the straight-line method.

Estimated useful lives are as follows:

Water treatment and delivery system	35-40 years
Buildings and improvements	10-40 years
Machinery and equipment	5-10 years
Office equipment	3-7 years
Boat ramps and docks	15-30 years

**8. Easements**

Easement rights are being amortized on the straight-line method over the maximum 40-year period and are recorded at net on the financial statements.

**9. Net Position**

In the basic financial statements, net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws or other governments, or are imposed by law through constitutional provisions or enabling legislation. The Association applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

**10. Resource Use Policy**

It is in the Association's policy for all funds that when an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources, including net positions, are available, the Association considers restricted amounts to be spent first before any unrestricted amounts are used.

**D. Revenues, Expenses and Other Changes in Net Position**

**1. Operating Revenues and Expenses**

Operating revenues and expenses are principally from water sales and connection fees charged to new system subscribers. Customer water consumption is determined by monthly meter readings taken by the customer and once annually by Association personnel. The water sales from subscriber water consumption billed but unpaid at the Association's year-end are recognized as revenue in the current year and reported in the statement of net position as accounts receivable. Operating expense consist of those costs necessary to operate and maintain the water distribution system and for general administration of the Association.

**2. Non-Operating Revenue and Expenses**

Non-operating revenues and expenses consist of investment earnings, interest expense incurred on the Association's notes payable and gains and losses on sales or the abandonment of long-lived assets.

**LONE CHIMNEY WATER ASSOCIATION**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**June 30, 2023 and 2022**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Revenues, Expenses and Other Changes in Net Position (Continued)**

**3. Bad Debts**

The Association uses the direct write-off method for recognizing bad debts. Under the direct write-off method, accounts receivable are charged to income during the period they are determined to be uncollectible. The use of this method does not result in a material difference from the valuation method required by generally accepted accounting principles.

**2. LONG-TERM DEBT**

Long-term debt consisted of two notes with the United States Department of Agriculture, Rural Development and two with Oklahoma Water Resources Board (OWRB). Now only one combined note exists. The note is secured by the water treatment plant and delivery system, dam, distribution lines, related equipment and water revenues derived from operations. Additional security has been pledged on the OWRB note by the eight members/owners of the Association. Each member/owner has pledged an amount equal to 150 percent of that member's relative ownership in the Association.

The notes are listed as follows:

Loan OWRB – Original amount of \$2,585,000, payable in annual installments of varying amounts of principal and semi-annual installments of interest for 15 years at varying interest rates of .65% to 3.4% to combine all existing debt into one loan, maturing in September of 2027.

Loan OWRB – Original amount of \$3,270,000, payable in annual installments of varying amounts of principal and semi-annual installments of interest for 25 years at varying interest rates of 1.84% to 2.7% to construct water line, maturing in September of 2039.

The following is a summary of long-term debt transactions during the year:

	Balance June 30, 2022	Additions	Reductions	Balance June 30, 2023	Current Portion
OWRB	\$ 1,145,000	\$ -	\$ 180,000	\$ 965,000	\$ 185,000
OWRB	2,490,730	-	20,000	2,470,730	20,000
Total	<u>\$ 3,635,730</u>	<u>\$ -</u>	<u>\$ 200,000</u>	<u>\$ 3,435,730</u>	<u>\$ 205,000</u>

**LONE CHIMNEY WATER ASSOCIATION**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2023 and 2022**

**2. LONG-TERM DEBT (Continued)**

Annual cash requirements to amortize these notes are as follows:

Year Ending June 30,	Payments Due
2024	\$ 302,350
2025	295,328
2026	293,405
2027	439,071
2028	437,173
2029-2033	1,141,698
2034-2038	1,143,793
2039	121,993
Total	4,174,811
Less interest	(739,081)
Note balance	\$ <u>3,435,730</u>

**3. DEFERRED COMPENSATION PLAN**

The Association offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The 457 Plan, available to all employees, permits them to defer a portion of their salary until future years. A Roth retirement plan is also offered to all employees without the benefit of deferring a portion of their salary. The deferred compensation and Roth Plan are available to employees at termination of employment, retirement, death, or an unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are held in trust for the exclusive benefit of participants and their beneficiaries.

It is the opinion of the Association's management that it has no liability for losses under the plan, but does have the duty of due care that would be required of an ordinary prudent investor.

**LONE CHIMNEY WATER ASSOCIATION**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2023 and 2022**

**4. CAPTIAL ASSETS**

The following is a summary of changes in property, plant and equipment.

	Balance June 30, 2022	Additions	Deletions	Balance June 30, 2023
<b>Non-depreciable assets:</b>				
Land	\$ 270,707	\$ -	\$ -	\$ 270,707
Construction in process	-	-	-	-
Total non-depreciable assets	<u>270,707</u>	<u>-</u>	<u>-</u>	<u>270,707</u>
<b>Depreciable assets:</b>				
Dam & distribution lines	10,204,362	-	-	10,204,362
Clean water plant	3,305,947	-	-	3,305,947
Machinery & equipment	877,663	-	-	877,663
Manager's house & furnishings	182,669	8,500	-	191,169
Buildings	73,032	-	-	73,032
Shell road	43,366	-	-	43,366
Storage tank	58,905	-	-	58,905
Boat ramp and dock	94,256	-	-	94,256
Lagoon	216,608	-	-	216,608
Office equipment	25,759	-	-	25,759
Total depreciable assets	<u>15,082,567</u>	<u>8,500</u>	<u>-</u>	<u>15,091,067</u>
Less accumulated depreication	<u>(10,762,859)</u>	<u>(211,676)</u>	<u>-</u>	<u>(10,974,535)</u>
Net depreciable assets	<u>4,319,708</u>	<u>(203,176)</u>	<u>-</u>	<u>4,116,532</u>
Total net capital assets	<u>\$ 4,590,415</u>	<u>\$ (203,176)</u>	<u>\$ -</u>	<u>\$ 4,387,239</u>

**LONE CHIMNEY WATER ASSOCIATION**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2023 and 2022**

**4. CAPTIAL ASSETS (Continued)**

	Balance June 30, 2021	Additions	Deletions	Balance June 30, 2022
<b>Non-depreciable assets:</b>				
Land	\$ 270,707	\$ -	\$ -	\$ 270,707
Construction in process	-	-	-	-
Total non-depreciable assets	<u>270,707</u>	<u>-</u>	<u>-</u>	<u>270,707</u>
<b>Depreciable assets:</b>				
Dam & distribution lines	10,204,362	-	-	10,204,362
Clean water plant	3,305,947	-	-	3,305,947
Machinery & equipment	598,089	279,574	-	877,663
Manager's house & furnishings	182,669	-	-	182,669
Buildings	73,032	-	-	73,032
Shell road	43,366	-	-	43,366
Storage tank	58,905	-	-	58,905
Boat ramp and dock	94,256	-	-	94,256
Lagoon	216,608	-	-	216,608
Office equipment	25,759	-	-	25,759
Total depreciable assets	<u>14,802,993</u>	<u>279,574</u>	<u>-</u>	<u>15,082,567</u>
Less accumulated depreication	<u>(10,435,992)</u>	<u>(326,867)</u>	<u>-</u>	<u>(10,762,859)</u>
Net depreciable assets	<u>4,367,001</u>	<u>(47,293)</u>	<u>-</u>	<u>4,319,708</u>
Total net capital assets	<u>\$ 4,637,708</u>	<u>\$ (47,293)</u>	<u>\$ -</u>	<u>\$ 4,590,415</u>

**5. RISK MANAGEMENT**

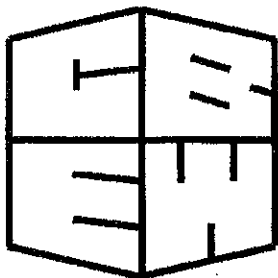
The Association is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Association continues to carry commercial insurance for these risks, including general and auto liability, property damage, and public officials' liability. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

The Association is a defendant in legal actions arising from normal activities. Although most of such actions are covered by insurance, certain actions might have some degree of exposure to the Association. The outcome of these lawsuits is not presently determinable, and it is not known if the resolution of these matters will have a material adverse effect on the financial condition of the Association. The Association is the defendant in litigation that as of the audit release date was ongoing.



**LONE CHIMNEY WATER ASSOCIATION**

**REPORT REQUIRED BY *GOVERNMENT AUDITING STANDARDS***  
**June 30, 2023**



## **CBEW Professional Group, LLP**

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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**

August 28, 2023

Board of Directors  
Lone Chimney Water Association

We have audited, in accordance with the 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 financial statements of the business-type activities of the Lone Chimney Water Association (the Association), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements, and have issued our report thereon dated August 28, 2023. The Association did not present the Management's Discussion and Analysis required by the Governmental Accounting Standards Board.

#### ***Report on Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the Association's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity'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.

Our consideration of internal control was for the limited purpose described in the first 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 certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2023-001 and 2023-002 to be material weaknesses.

Lone Chimney Water Association  
August 28, 2023

***Report Compliance and Other Matters***

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

***Association's Response to Findings***

*Government Auditing Standards* requires the auditor to perform limited procedures on the Association's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Association's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

***Purpose of this Report***

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

***CBEW Professional Group, LLP***

CBEW Professional Group, LLP  
Certified Public Accountants

## LONE CHIMNEY WATER ASSOCIATION

### SCHEDULE OF FINDINGS AND RESPONSES For the Year Ended June 30, 2023

#### 2023-001. Internal Control – Segregation of Duties

**Criteria:** The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets and reconciliation of those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

**Condition:** Presently the same individual that receives utility service-related cash payments is also responsible for service billing and adjustment, also balances the daily cash drawer, posts payments to subsidiary accounts receivable ledger and reconciles the monthly bank statements. In addition, only limited oversight is provided over this individual in the conduct of their daily functions. This finding was also noted in 2022.

**Cause:** The entity's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

**Effect or Potential Effect:** Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to utility billing and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

**Recommendation:** We recommend that management and the board should consider a formal evaluation of their risks associated with this lack of duties segregation over utility cash and receivables. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with lack of segregation of duties, such as providing increased management oversight and an independent reconciliation of accounts. For example, the entity might consider soliciting the assistance of independent volunteer labor to perform certain functions including to act as compensating procedures where applicable.

**Responsible Official's Response:** The Association concurs with the recommendation, although, the cost to correct this condition might exceed the benefit, the Association has made certain changes in procedures that will improve the overall lack of segregation of duties and has implemented compensating procedures as appropriate.

#### 2023-002. Internal Control – Material Adjusting Journal Entries

**Criteria:** The government's management is responsible for internal controls over accounting and financial reporting. This responsibility includes the design and implementation of controls over the fair and complete presentation of the government's annual financial statements in accordance with generally accepted accounting principles (GAAP) from trial balances derived from the government's accounting records. For trial balances to be both complete and accurate, the government must have effective internal controls over recording, processing, summarizing, and adjusting accounting data. As evidence of effective internal controls over accounting and financial reporting, there should generally be few, if any, material adjustments to the trial balances required that are detected and corrected solely as a result of the financial statement audit. In other words, government management should not rely on the external auditor to detect and correct material misstatements in the books and records as part of its internal controls, but rather should have its own procedures designed and in place that are independent of the external auditor to provide reasonable, although not absolute, assurance that material misstatements will be detected and corrected in its trial balances prior to audit.

**Condition:** The government's trial balances for the year ended June 30, 2023, required a number of material adjusting journal entries in order for the financial statements to be prepared in accordance with GAAP. These necessary adjusting entries, identified solely as a result of the financial statement audit, included such adjustments as the following: fixed asset purchases, depreciation, amortization, note payments and interest expense. This finding was also noted in 2022.

**LONE CHIMNEY WATER ASSOCIATION**

**SCHEDULE OF FINDINGS AND RESPONSES  
For the Year Ended June 30, 2023**

2023-002. Internal Control – Material Adjusting Journal Entries (Continued)

***Cause:*** The government's accounting and financial reporting staff lacks the necessary expertise, relative to the complex nature of applying GAAP applicable to state and local governments, sufficient to provide reasonable assurance that the trial balances used for preparing the GAAP financial statements are complete and accurate prior to audit. As a result, management has had to rely on the external auditors to identify and correct a number of material misstatements in the trial balances.

***Effect or Potential Effect:*** As a result of this condition, without reliance on its external auditors, the government lacks the necessary internal controls over the completeness and accuracy of the trial balances that are used in the preparation of its financial statements in accordance with GAAP. This condition can result in undetected and uncorrected material misstatements in the financial statements that are not detected by management and may also not be detected by the financial statement audit. In addition, if management's intentions are to continue to rely on the external auditor to detect and correct material misstatements, this condition could place the auditor in a questionable position regarding auditor independence as a result of the auditor performing part of management's functions in regards to the trial balances.

***Recommendation:*** The government should consider designing and implementing sufficient internal controls over the completeness and accuracy of trial balances by obtaining the necessary expertise and continuing education to apply GAAP in the development of working trial balances that will be used to prepare the government's annual financial statements. This could be achieved through employment of qualified accounting staff or the outsourcing of these control activities to a qualified accounting firm other than the external auditor.

***Responsible Official's Response:*** The Association concurs with the recommendation, and will strive to prepare and post material adjusting journal entries to the financial statements.