

SCOTT NORTHRIP, CPA

P.O. Box 642, Hobart, Oklahoma 73651

Independent Auditor's Report

To The Board of Directors of
Rural Water, Sewer, & Solid Waste Management Dist. #1
Beckham County, Oklahoma

Report on the Financial Statements

I have audited the accompanying financial statements of Rural Water, Sewer, & Solid Waste Management District #1, Beckham County, Oklahoma (District), as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair representation of these financial statements in accordance accounting principle generally accepted in the United States of America; this includes 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted the 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 I 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 supporting 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 entity'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 entity'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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Auditor's Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Rural Water, Sewer, & Solid Waste Management District #1, Beckham County, Oklahoma, as of June 30, 2020 and 2019, and the respective changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Requirements by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated July 22, 2020, on my consideration of the District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and 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.

Scott Northrip, CPA

Certified Public Accountant

July 22, 2020

**Rural Water, Sewer, & Solid Waste Management
District #1, Beckham County, Oklahoma**

Comparative Statement of Net Position
As of June 30, 2020 and 2019

ASSETS:	<u>2020</u>	<u>2019</u>
Current Assets:		
Cash & Cash Equivalents (Note 8)	\$ 699,394	\$ 556,527
Accounts Receivable-Net (Note 2)	95,334	64,426
Interest Receivable	335	434
Prepaid Insurance	31,001	29,232
Other Receivable	-	-
Inventory	137,782	170,990
Total Current Assets	<u>\$ 963,846</u>	<u>\$ 821,609</u>
Noncurrent Assets:		
Construction in Progress	\$ -	\$ -
Other Noncurrent Assets	2,975	2,975
Capital Assets:		
Land & Water Rights	292,647	292,647
Other Capital Assets, net of depreciation (Note 6)	5,316,978	5,490,002
Total Noncurrent Assets	<u>\$ 5,612,600</u>	<u>\$ 5,785,624</u>
TOTAL ASSETS	<u>\$ 6,576,446</u>	<u>\$ 6,607,233</u>
 LIABILITIES AND NET POSITION:		
Current Liabilities:		
Accounts Payable	\$ 27,877	\$ 200,622
Interest Payable	4,455	4,556
Customer Deposits	12,900	13,200
Line of credit - Southwest State Bank	1	1
Current Portion of Long-term Liabilities	69,242	66,342
Total Current Liabilities	<u>\$ 114,475</u>	<u>\$ 284,721</u>
Long-Term Liabilities: (Note 10)		
Notes Payable - net of current portion	<u>\$ 2,848,576</u>	<u>\$ 2,917,691</u>
Net Position:		
Restricted Fund Balance	\$ 200,000	\$ 200,000
Unrestricted Fund Balance	371,691	278,336
Total Fund Balance	<u>\$ 571,691</u>	<u>\$ 478,336</u>
Member Investments	564,200	549,600
Donated Assets (Note 7)	1,057,076	1,056,457
Gain on Acquisition of Loans (Note 12)	894,056	894,056
Grants	526,372	426,372
TOTAL NET POSITION	<u>\$ 3,613,395</u>	<u>\$ 3,404,821</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 6,576,446</u>	<u>\$ 6,607,233</u>

See accompanying notes to the financial statements.

**Rural Water, Sewer & Solid Waste Management
District #1, Beckham County, Oklahoma**

Comparative Statement of Activities
For the Years Ended June 30, 2020 and 2019

	2020	2019
OPERATING REVENUES:		
Water Sales	\$ 1,097,940	\$ 964,846
Sale of Supplies	1,711	1,370
Installation & Fees	5,205	6,313
Total Operating Revenues	\$ 1,104,856	\$ 972,529
OPERATING EXPENSES:		
Salaries	\$ 255,854	\$ 250,736
Depreciation Expense	213,648	215,626
Interest Expense	126,536	129,314
Utilities	72,250	83,250
Installation & Supplies	136,835	286,561
Director's Fees, Travel & Benefits	5,932	7,181
Insurance	36,935	34,418
Employee Benefits	63,716	58,825
Outside Services	35,022	36,245
Transportation Expense	27,444	35,815
Office Supplies & Postage	12,601	16,139
Legal & Professional Fees	55,098	15,605
Dues & Licenses	20,135	12,917
Payroll Tax Expense	20,733	20,344
Water Purchases	36,044	28,012
Bad Debts Expense	403	2,105
Leak Detection Expense	-	50,700
Miscellaneous Expense	2,878	3,495
Communication Expense	5,223	4,797
Advertising Expense	39	-
Total Operating Expenses	\$ 1,127,326	\$ 1,292,085
OPERATING INCOME (LOSS)	\$ (22,470)	\$ (319,556)
OTHER REVENUES (EXPENSES):		
Investment Revenues	\$ 8,470	\$ 10,291
Donations	-	(250)
Insurance & FEMA Refunds	105,794	9,379
Other Income	1,561	4,510
Gain on Sale of Assets	-	-
Total Other Revenues(Expenses)	\$ 115,825	\$ 23,930
NET INCOME	\$ 93,355	\$ (295,626)

See accompanying notes to the financial statements.

**Rural Water, Sewer & Solid Waste Management
District #1, Beckham County, Oklahoma**
Comparative Statement of Changes in Net Position
For the Years Ended June 30, 2020 and 2019

	2020	2019
Balance, July 1	\$ 3,404,821	\$ 3,605,137
Net Income (Loss)	93,355	(295,626)
Prior Period Adjustment (Note 11)	-	-
Member Investments	14,600	16,600
Donated Assets (Note 7)	619	3,710
Grants	100,000	75,000
Total Changes in Net Position	\$ 208,574	\$ (200,316)
Balance, June 30	\$ 3,613,395	\$ 3,404,821

See accompanying notes to the financial statements.

Rural Water, Sewer & Solid Waste Management District #1, Beckham County, Oklahoma

Comparative Statement of Cash Flows
For the Years Ended June 30, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 1,073,948	\$ 1,000,659
Payments to suppliers	(588,445)	(504,434)
Payments to employees	(340,303)	(329,905)
Net Cash Provided by Operating Activities	\$ 145,200	\$ 166,320
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	\$ (40,625)	\$ (363,941)
Donated Assets	619	3,710
Payments for Construction in Progress	-	-
Purchase of Land and Water Rights	-	-
Principal payments on notes payable	(66,215)	(63,441)
Interest paid on notes payable	(126,637)	(129,411)
Proceeds from Grants	100,000	75,000
Proceeds from sale of assets	-	-
Net Cash Used In Capital & Related Financing Activities	\$ (132,858)	\$ (478,083)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment Receipts	\$ 8,570	\$ 10,968
Other Proceeds & Disbursements	107,355	13,639
Proceeds from memberships	14,600	16,600
Net Cash Provided from Investing Activities	\$ 130,525	\$ 41,207
INCREASE (DECREASE) IN CASH AND INVESTMENTS	\$ 142,867	\$ (270,556)
Cash and Investment Balance - Beginning	556,527	827,083
CASH AND INVESTMENT BALANCE - ENDING	\$ 699,394	\$ 556,527
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ (22,470)	\$ (319,556)
Adjustments to reconcile operating income to net cash provided (used):		
Interest Expense	126,536	129,314
Depreciation expense	213,648	215,626
Change in assets and liabilities:		
Accounts Receivable	(30,908)	28,130
Other Receivables	-	-
Prepaid Insurance	(1,769)	(1,287)
Inventory	33,208	(46,184)
Accounts Payable	(172,745)	160,377
Customer Deposits	(300)	(100)
Net Cash Provided from Operating Activities	\$ 145,200	\$ 166,320

See accompanying notes to the financial statements.

Rural Water, Sewer & Solid Waste Management District #1, Beckham County, Oklahoma

Notes to the Financial Statements
For the Years Ended June 30, 2020 and 2019

Note 1 - Significant Accounting Policies

Organization:

Rural Water, Sewer & Solid Waste Management District #1, Beckham Co., OK, (District) was formed under the Oklahoma Rural Water Act to provide water in a designated area in and around Beckham County, Oklahoma to individuals and businesses that purchase a membership. The District served 1,221 and 1,221 meters at June 30, 2020 and 2019.

Basis of Accounting:

The District is a proprietary fund type of entity and uses the accrual method of accounting which reports revenues when earned and expenses when incurred. The District is not legally required to adopt a budget or report on budget comparisons in this report.

Fixed Assets and Depreciation:

The District records its fixed assets at their historical cost or donated value. Depreciation is calculated on each individual asset using the straight-line method of depreciation at the asset's estimated useful life. The District estimates the useful lives of the assets based on the type of asset. The lives range from 4 to 50 years.

Income Tax:

The District is exempt from federal and state income taxes under IRS Code Section 115 (a) as an agency of the State of Oklahoma.

Note 2 - Accounts Receivable

The accounts receivable represents the water usage and service revenues for June plus any unpaid balances from the previous months. The District uses the direct method to account for bad debts. No provision for an allowance has been made based on the history of the District's bad debts being very small or nonexistent. The accounts receivable balances at June 30, 2020 and 2019 were \$97,319 and \$66,411. The meters are read monthly.

Note 3 - Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 4 - Contingencies

The District did not have any contingencies as of the date of the audit.

Note 5 - Restricted Assets

The District has restricted certificates of deposit in the amount of \$200,000 for debt service as required by Rural Development's mortgage as of June 30, 2020 and 2019.

**Rural Water, Sewer, & Solid Waste Management
District #1, Beckham County, Oklahoma**

Notes to the Financial Statements
For the Years Ended June 30, 2020 and 2019

Note 6 - Changes in Capital Assets

	Balance 7/1/2019	Additions	Disposed	Balance 6/30/2020
Water System Plant Assets	\$ 9,001,254	\$ 33,639	\$ -	\$ 9,034,893
Office Furniture & Fixtures	46,131	-	-	46,131
Equipment	191,264	6,986	-	198,250
Vehicles	103,548	-	-	103,548
Buildings & Improvements	298,778	-	-	298,778
Total Assets	\$ 9,640,975	\$ 40,625	\$ -	\$ 9,681,600
Less: Accumulated Depreciation	4,150,973	213,649	-	4,364,622
Net Fixed Assets	\$ 5,490,002	\$ (173,024)	\$ -	\$ 5,316,978

Note 7 - Donated Assets

Donated assets are the estimated value of water lines installed by members from the existing lines of the system to the member's meter. The value of the lines donated to the District for the years ending June 30, 2020 and 2019 were \$619 and \$3,710, respectively.

Note 8 - Components of Cash and Investments

	Date of Maturity	Interest Rate	6/30/2020 Balance
Petty Cash	-	0.00%	\$ 200
Checking - All American Bank	-	0.35%	98,187
Super Now - All American Bank	-	0.15%	261,007
CD - All American Bank	2/14/2021	2.00%	70,000
CD - All American Bank	2/14/2021	2.00%	70,000
CD - All American Bank	2/14/2021	2.00%	100,000
CD - All American Bank	2/14/2021	2.00%	100,000
Total Cash and Investments			\$ 699,394

The District has pledges from All American Bank that covers amount not insured by FDIC.

Rural Water, Sewer, & Solid Waste Management District #1, Beckham County, Oklahoma

Notes to the Financial Statements
For the Years Ended June 30, 2020 and 2019

Note 9 - Retirement

The District provides a 401(k) retirement plan for its employees and matches contributions up to 5%. The District contributed \$11,102 and \$10,690 for the years June 30, 2020 and 2019, respectively.

Note 10 - Long Term Liabilities

The District has two 40 year notes with Rural Development, an agency of the United States Department of Agriculture. The loans are fixed interest notes. The notes are secured by the assets of the District. Rural Development requires the District to reserve enough funds to pay an amount equal to a year's total payments. The District makes monthly payments on the notes.

Note Number	Date of Note	Annual Payments	Balance 6/30/2020	Balance 6/30/2019	Interest Rate
91-01	11/17/2006	\$ 135,408	\$ 2,056,941	\$ 2,103,838	4.250%
91-03	11/17/2006	57,444	860,877	880,195	4.375%
		<u>\$ 192,852</u>	<u>\$ 2,917,818</u>	<u>\$ 2,984,033</u>	
Less: Current Portion			69,242	66,342	
Net Long-Term Balance			<u>\$ 2,848,576</u>	<u>\$ 2,917,691</u>	

Current Portion:		Note 9101	Note 9103
Year Ending	6/30/2021	49,022	20,220
Year Ending	6/30/2022	51,147	21,122
Year Ending	6/30/2023	53,363	22,065
Year Ending	6/30/2024	55,675	23,050
Year Ending	6/30/2025	58,088	24,079

Note 11 - Prior Period Adjustments

There were no prior period adjustments in the financial statements for the year ending June 30, 2020 or 2019.

Note 12 - Gain on Acquisition of Loans

The District purchased notes from FmHA through the Farmers Home Administration Discount Purchase Program on July 7, 1988. The discounted principal plus accrued interest was \$894,056 less than the carrying value of the notes which resulted in a gain from acquisition.

Note 13 - Grants

The District received proceeds from SWODA REAP Grant for the purchase and improvement of the telemetry for the water system in the amount of \$75,000 during the year ending June 30, 2019. The District received grant proceeds from the Oklahoma Water Resources Board Emergency Grant of \$100,000 for damages to water system for year ending June 30, 2020 .

**Rural Water, Sewer, & Solid Waste Management
District #1, Beckham County, Oklahoma**

Notes to the Financial Statements
For the Years Ended June 30, 2020 and 2019

Note 14 - Construction in Progress

The District did not have any construction projects in progress during the years ending June 30, 2020 or 2019.

Note 15 - Subsequent Events

The District's subsequent events have been evaluated through July 22, 2020, the date of financial statements.

SCOTT NORTHRIP, CPA

P.O. Box 642, Hobart, Oklahoma 73651

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
Rural Water, Sewer, and Solid Waste Management Dist. #1
Beckham County, Oklahoma

I 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 basic financial statements of Rural Water, Sewer, and Solid Waste Management District #1, Beckham County, Oklahoma (District), as of and for the years ending June 30, 2020 and 2019, and have issued my report thereon dated July 22, 2020.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, I performed test 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, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I considered the District's internal control over financial reporting (internal control) to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District'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.

Report on Compliance and Internal Controls-Continued

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 communication is not suitable for any other purpose.

Scott Northrip

Certified Public Accountant

July 22, 2020