

Harper County Rural Water District No. 1
Financial Statements and Independent Auditor's Report
August 31, 2022

Harper Country Rural Water District No.1
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August 31, 2022

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Harper County Rural Water District No. 1

Opinion

We have audited the accompanying financial statements of the business-type activities of the Harper County Rural Water District No. 1, (the "District") as of and for the year ended August 31, 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 Harper County Rural Water District No. 1, as of August 31, 2022, and the respective changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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 Harper County Rural Water District No. 1, 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 opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

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 opinion. 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 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, 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 Harper County Rural Water District No. 1'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.

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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2022, on the consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions, laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the District's internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*.

FSW&B CPAs-PLLC

FSW&B CPA's-PLLC

Stillwater, OK
October 18, 2022

Harper County Rural Water District No. 1
Statement of Net Position
As of August 31, 2022

<u>ASSETS</u>		
<u>Current Assets</u>		
Cash in Bank-(Unrestricted)	\$	278,839
Investments		10,000
Accounts Receivable		42,620
Prepaid Insurance		10,419
Inventory		15,684
Total Current Assets		<u>357,562</u>
<u>Fixed Assets</u>		
Land		300
Water System and Building	2,791,867	
Accumulated Depreciation	<u>(1,548,574)</u>	1,243,293
Equipment and Vehicles	305,041	
Accumulated Depreciation	<u>(252,640)</u>	52,401
Total Fixed Assets		<u>1,295,994</u>
<u>Other Assets</u>		
Right-of-Way and Water Rights		<u>82,004</u>
Total Other Assets		<u>82,004</u>
TOTAL ASSETS		<u><u>1,735,560</u></u>
<u>LIABILITIES AND NET POSITION</u>		
<u>Current Liabilities</u>		
Accounts Payable		174
Payroll Taxes Payable		5,245
Current Portion of Long Term Liabilities		-
Total Current Liabilities		<u>5,419</u>
<u>Long-Term Liabilities</u>		
Note Payable		-
TOTAL LIABILITIES		<u>5,419</u>
<u>Net Position</u>		
Net Investment in Capital Assets		1,025,865
Unrestricted		<u>704,276</u>
Total Net Position		<u>1,730,141</u>
TOTAL LIABILITIES AND NET POSITION	\$	<u><u>1,735,560</u></u>

See Accompanying Notes to Financial Statements

Harper County Rural Water District No. 1
Statement of Revenues, Expenses, and Changes in Fund Net Position
For the Year Ended August 31, 2022

UNRESTRICTED NET POSITION

Operating Revenue:

Water Sales	\$ 432,667
New Installations	625
Membership Fees	7,500
Reconnect Fees	1,850
Labor	1,713
Penalties	2,760
Other Income	148
Total Operating Revenue	447,263

Expenses:

Program Services	
Bank Charges	345
Depreciation	75,428
Electricity & Utilities	24,651
Insurance	33,324
Legal & Professional	35,114
Miscellaneous Expenses	22,962
Office Supplies	15,572
Payroll Taxes	10,270
Repairs & Maintenance	18,507
Telephone	3,263
Testing & Water Supplies	17,400
Wages & Labor	143,647
Total Expenses	400,483

Excess (Deficit) of Operating Revenue Over Expenses 46,780

Other Revenue:

Interest Income	819
Grant Proceeds	91,467
Gain on Sale of Assets	-
Total Other Revenue	92,286

Other Expenses:

Interest Expense	-
Other Income & Expense	1,499
Total Other Expenses	1,499

Increase (Decrease) in Net Position 137,567

NET POSITION AT BEGINNING OF YEAR 1,572,710

Prior Period Adjustment 19,864

NET POSITION AT END OF YEAR \$ 1,730,141

1,730,141

-

Harper County Rural Water District No. 1
Statement of Cash Flow
August 31, 2022

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Operating Income (Loss)	137,567
Adjustment to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Prior Period Adjustment	19,864
Depreciation	75,428
Changes in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	4,126
(Increase) Decrease in Prepaid Expenses	(2,028)
Increase (Decrease) in Accounts Payable	(19,035)
Increase (Decrease) in Payroll Taxes Payable	2,788
Increase (Decrease) in Customer Deposit	-
Gain on Sale of Assets	-
Rounding Difference	-
	218,710
	218,710

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of Capital Assets	(135,651)
	(135,651)
	(135,651)

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Net Cash Provided (Used) by Financing Activities	-
Net Increase (Decrease) in Cash and Cash Equivalents	83,059
Beginning Cash and Cash Equivalents	195,780
Ending Cash and Cash Equivalents	278,839

Harper County Rural Water District No. 1
Notes to the Financial Statements
For the Year Ended August 31, 2022

NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity:

Harper County Water Corporation was a nonprofit corporation incorporated November 24, 1971 under the provisions of Title 18, Oklahoma Statutes Annotated, for the purpose of constructing and operating a water supply distribution system serving water users within the area.

Effective July 22, 2014, the corporation was restructured by dissolving the existing corporation and reforming as a rural water district under the provisions of 82 O.S. §§ 1324.1 et. seq, Oklahoma Statutes Annotated. The new organization name is Harper County Rural Water District No. 1 (the “District”).

Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

The District’s fund is an enterprise fund. Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. The activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

The proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

The fund financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles (GAAP).

Bank Deposits and Investments:

All bank deposits and investments are in institutions insured by the Federal Government’s appropriate agency. All investments are presented at their cost. Funds not covered by insurance could be at risk.

Cash and Cash Equivalents:

For purposes of the statement of cash flows, the District considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Accounts Receivable:

Accounts receivable consists of the amounts owed to the District by customers for water sales, late fees, and memberships. Billings for accounts receivable at August 31, 2022 were \$42,620. Allowance for doubtful accounts was not computed on this balance because uncollectibles do not have a material effect on the balance sheet.

Property and Equipment:

Purchased property and equipment are recorded at cost and consist of the water system, building, and equipment. Donated property and equipment is recorded at fair market value at the date of donation. Depreciation is computed on the straight-line method based on estimated useful lives.

Deferred Revenue:

Deferred revenue is used to account for prepaid service fees. As services are used, revenue is recognized.

Harper County Rural Water District No. 1
Notes to the Financial Statements
For the Year Ended August 31, 2022

NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –
Continued

Inventories:

Inventories are stated at the lower of cost (determined on a first-in, first-out basis) or market.

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.

Net Position:

Net position is displayed in three components as follows:

Net investment in capital assets- consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of any debt or other borrowings that are attributable to the acquisition, construction, or improvements of these assets.

Restricted- consists of net position with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) through constitutional provisions or enabling legislation.

Unrestricted- all other net position that does not meet the definitions of “net investment in capital assets” or “restricted”.

It is the District’s policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Operating Revenues and Expenses:

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services.

Budgets and Budgetary Accounting:

The District is not required to submit a legally binding budget. They did not prepare a budget for fiscal year 2022.

NOTE B – INVESTMENTS

Certificates of Deposit and Investment:

	<u>Amount</u>
RWAAG	<u>\$10,000</u>
Total Investments	<u>\$10,000</u>

Harper County Rural Water District No. 1
Notes to the Financial Statements
For the Year Ended August 31, 2022

NOTE C – CONTINGENCIES

Grants require the fulfillment of certain conditions as set forth in the grant instrument. Failure to fulfill the conditions could result in the return of funds to the grantor. Although that is a possibility, the Board deems the contingency remote, since by accepting the grants and their terms; it has accomplished the objectives of the Corporation to the provisions of the grant.

NOTE D – FIXED ASSETS

Investment in property and equipment, at August 31, 2022, was as follows:

	Balance 09/01/21	Additions	Dispositions	Balance 8/31/2022
Property & Equipment	\$ 2,961,257	\$ 135,651	\$ -	\$ 3,096,908
Accumulated Depreciation	(1,725,786)	(75,428)		(1,801,214)
Net Property & Equipment	1,235,471	60,223	-	1,295,694
Land	300			300
Total Net Assets	\$ 1,235,771	\$ 60,223	\$ -	\$ 1,295,994

Donated assets are the estimated fair market value at the date of transfer. During the year ended August 31, 2021, there were no donated assets.

NOTE E – NOTES PAYABLE

The District has a LOC at Great Plains National Bank, Buffalo, OK, in the amount of \$60,230. The District utilized the LOC on June 21, 2019 in the amount of \$35,000. The note has an interest rate of 5.5% on the unpaid principal balance. The loan was made in anticipation of receipt of a grant to pay for the drilling of a new water well. The note was used to pay for \$32,500 in engineering costs related to the drilling of the well. The note was paid off in 2020. The District did not renew LOC.

NOTE F- SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 18, 2022, the financial statements were available to be issued. In March 2020, the State of Oklahoma issued a state of emergency due to the COVID-19 pandemic following CDC guidelines. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the District's financial condition or operations. At the time of issue date, the District has had no difficulty continuing operations.



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

To the Board of Directors
Harper County Rural Water District No. 1

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 Harper County Rural Water District No. 1, (the "District") as of and for the year ended August 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 18, 2022.

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 (internal control) to determine the 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 District's internal control. Accordingly, we do not express 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.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies or material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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 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 or other matters that are required to be reported under *Government Auditing Standards*.

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.

FSW&B CPAs-PLLC

FSW&B CPAs-PLLC

Stillwater, Oklahoma

October 18, 2022