

**Lincoln County Rural Water District No. 1
Sparks, Oklahoma**

Financial Statements and
Reports of Independent Auditor

July 31, 2022

Audited by

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

Broken Arrow, Oklahoma

Lincoln County Rural Water District No. 1
Sparks, Oklahoma

Board of Directors

July 31, 2022

Chairman

Amy Brown

Vice Chairman

Richard Coyle

Secretary

Clara Rickard

Member

Lowery Holland

Treasurer

Peggy Hollis

Bookkeeper

Patty Barker

Operator

Earl Hall

Lincoln County Rural Water District No. 1
Sparks, Oklahoma

Table of Contents
July 31, 2022

Board of Directors	1
Table of Contents	2
Independent Auditor's Report	3
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	6
Disposition of Prior Year's Significant Deficiencies	8
Schedule of Audit Results	9
Combined Financial Statements:	
Statement of Net Position – Modified Cash Basis	10
Statement of Revenues, Expenses and Changes in Net Position – Modified Cash Basis	11
Statement of Cash Flows – Modified Cash Basis	12
Notes to the Financial Statements	13



BLEDSON, HEWETT & GULLEKSON
CERTIFIED PUBLIC ACCOUNTANTS, PLLLP

Eric M. Bledsoe, CPA
Jeffrey D. Hewett, CPA
Christopher P. Gullekson, CPA

P.O. BOX 1310 • 121 E. COLLEGE ST. • BROKEN ARROW, OK 74013 • (918) 449-9991 • (800) 522-3831 • FAX (918) 449-9779

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Lincoln County Rural Water District No. 1
Sparks, Oklahoma

Report on the Audit of the Financial Statements

We have audited the accompanying modified cash basis financial statements of the Lincoln County Rural Water District No. 1, Sparks, Oklahoma (the District), as of and for the year ended July 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Opinion

As discussed in Note 1, the District prepares its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of the District as of July 31, 2022, and the respective changes in modified cash basis financial position and its cash flows for the year then ended, in accordance with the modified cash basis of accounting described in Note 1.

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 District 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 these financial statements in accordance with the modified cash basis of accounting described in Note 1, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. 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.

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 District'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 District'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 District'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.

Supplementary Information

The District has not presented the Management's Discussion and Analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

The prior year "memorandum only" comparative information is presented for the purposes of additional analysis and are not a required part of the basic financial statements of the District. Such information has not been subjected to the auditing procedures applied in our audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated January 3, 2024 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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

January 3, 2024



BLEDSON, HEWETT & GULLEKSON
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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Lincoln County Rural Water District No. 1
Sparks, 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 modified cash basis financial statements of the Lincoln County Rural Water District No. 1, Sparks, Oklahoma (the District), as of and for the year ended July 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 January 3, 2024.

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) 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 were not identified. However, as described in the accompanying schedule of audit results as 22-1, we identified a significant deficiency in the internal controls that was considered to be a material weakness.

Compliance and Other Matters

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 grant agreements, non-compliance 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*.

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.

Bledsoe, Hewett & Gullekson

Bledsoe, Hewett & Gullekson
Certified Public Accountants, PLLLP

January 3, 2024

Lincoln County Rural Water District No. 1
Sparks, Oklahoma

Disposition of Prior Year's Significant Deficiencies
July 31, 2022

There were no prior year significant deficiencies.

Lincoln County Rural Water District No. 1
Sparks, Oklahoma
Schedule of Audit Results
July 31, 2022

Section 1 – Summary of Auditor’s Results:

1. An unmodified opinion report was issued on the modified cash basis financial statements.
2. The audit reported one significant deficiency, item 2022-1 in the internal controls, which was considered a material weakness.
3. The audit disclosed no instances of noncompliance which are material to the financial statements.

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

2022-1 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 District’s assets and ensure accurate financial reporting.

Condition - Presently the same individual performs all accounting functions: receives utility service-related payments, is responsible for service billing and adjustment, makes bank deposits, writes checks, reconciles the monthly bank statements and prepares monthly financial reports.

Cause – The District’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 the accounting functions, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation - While it may not be cost effective to hire additional administrative staff that would be necessary in order to adequately segregate the responsibilities, the District should consider a formal evaluation of their risks associated with this lack of segregation of duties. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with the lack of segregation of duties.

Management Response –

Lincoln County Rural Water District No. 1
Sparks, Oklahoma
Statement of Net Position - Modified Cash Basis
July 31, 2022

	July 31,	
	-Memorandum-	
	-Only-	
<u>ASSETS</u>	<u>2022</u>	<u>2021</u>
Current Assets:		
Cash-		
Operating account	\$ 34,216	20,138
Restricted Assets:		
Cash-		
Utility deposits - savings	12,753	12,752
Loan account	5,470	23,271
Investments-		
Utility deposits - savings	17,769	17,396
Debt service reserve - Rural Development	6,132	6,132
Total restricted assets	42,124	59,551
Capital Assets:		
Plant and buildings	478,995	478,995
Equipment	45,006	27,118
Land	2,000	2,000
Total capital assets	526,001	508,113
Less accumulated depreciation	(362,916)	(350,629)
Total capital assets (net)	163,085	157,484
Other Assets:		
Deposit with insurance pool	1,000	1,000
Total Assets	\$ 240,425	238,173
 <u>LIABILITIES AND NET POSITION</u>		
Current Liabilities:		
Security deposits	\$ 25,903	23,528
Current maturities of long-term debt	9,770	4,347
Total current liabilities	35,673	27,875
Long-Term Debt, less current maturities:		
Notes payable	27,842	42,499
Total Liabilities	63,515	70,374
Net Position:		
Net investment in capital assets	125,473	110,638
Restricted	23,901	29,403
Unrestricted	27,536	27,758
Total net position	176,910	167,799
Total Liabilities and Net Position	\$ 240,425	238,173

The accompanying notes are an integral part of the financial statements

Lincoln County Rural Water District No. 1
Sparks, Oklahoma

Statement Of Revenues, Expenses and Changes In Net Position - Modified Cash Basis
For Year Ended July 31, 2022

	<u>2021-22</u>	<u>-Memorandum- -Only- 2020-21</u>
Revenue from Operations:		
Water sales	\$ 128,365	101,702
Benefit units	2,900	3,150
Miscellaneous	210	4,582
Total revenue from operations	<u>131,475</u>	<u>109,434</u>
Expenses from Operations:		
Chemicals & lab	9,163	8,524
Insurance, bonds, dues & fees	16,515	12,640
Payroll, taxes, & contract labor	45,963	48,303
Utilities & rent	15,173	12,455
Supplies & maintenance	18,646	20,740
Travel & mileage	459	1,299
Depreciation	12,287	11,009
Professional fees	0	1,600
Office supplies	2,676	2,061
Total expenses from water operations	<u>120,882</u>	<u>118,631</u>
Net Income (Loss) from Operations	10,593	(9,197)
Other Income:		
Interest earnings	<u>406</u>	<u>0</u>
Other Expenses:		
Interest paid on debt	(1,888)	(1,762)
Prior period adjustment	<u>0</u>	<u>(6,265)</u>
Total other expenses	<u>(1,888)</u>	<u>(8,027)</u>
Increase (decrease) in Net Position	9,111	(17,224)
Net Position, beginning of period	<u>167,799</u>	<u>185,023</u>
Net Position, end of period	<u><u>\$ 176,910</u></u>	<u><u>167,799</u></u>

Lincoln County Rural Water District No. 1
Sparks, Oklahoma
Statement of Cash Flows - Modified Cash Basis
For Year Ended July 31, 2022

	<u>2021-22</u>	<u>Memorandum Only 2020-21</u>
Cash Flows from Operating Activities:		
Receipts from customers	\$ 134,425	109,434
Payments to employees	(45,963)	(48,303)
Payments to vendors	(63,207)	(61,816)
Total cash flows from operating activities	<u>25,255</u>	<u>(685)</u>
Cash Flows from Capital and Related Financing Activities:		
Principal paid on long-term debt	(9,234)	(4,786)
Interest paid on long-term debt	(1,888)	(1,762)
Loan proceeds	0	23,650
Capital assets (purchased) sold	(17,888)	0
Prior period adjustment to restricted assets	0	(6,265)
Net cash used in capital and related financing activities	<u>(29,010)</u>	<u>10,837</u>
Cash Flows from Investing Activities:		
Interest revenue	<u>406</u>	<u>0</u>
Net increase (decrease) in cash	(3,349)	10,152
Cash and cash equivalents, beginning of period	<u>79,689</u>	<u>69,537</u>
Cash and cash equivalents, end of period	<u><u>\$ 76,340</u></u>	<u><u>79,689</u></u>
 <u>Reconciliation of operating income (loss) to net cash provided by operating activities:</u>		
Operating Income	\$ 10,593	(9,197)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation Expense	12,287	11,009
Increase (decrease) in security deposits	<u>2,375</u>	<u>(2,497)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 25,255</u></u>	<u><u>(685)</u></u>

The accompanying notes to the financial statements are an integral part of this statement

Lincoln County Rural Water District No. 1
Sparks, Oklahoma

Notes to Financial Statements
For the Year Ended July 31, 2022

Note 1 – Significant Accounting Policies

Basis of Accounting

The modified cash basis of accounting is followed for all accounts. Revenues are recorded when received and expenditures are recognized when paid. This basis of accounting is not in accordance with generally accepted accounting principles.

Cash

The District's accounts are with BancFirst, Chandler, Oklahoma and at July 31, 2022 are detailed as follows:

Maintenance and operation account (checking)	\$ 34,216
Savings account	12,753
Loan account (generator project)	<u>5,470</u>
Total	<u>\$ 52,439</u>

Investments

All investments are stated at cost, which approximates market value unless otherwise indicated. Investments at July 31, 2022 are detailed as follows:

Certificates of deposit	<u>\$ 23,901</u>
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Restricted Assets

In accordance with the loan agreement with Rural Development, the District is required to maintain a reserve fund in an amount equal to one year's loan payments. Accordingly, the District was required to have \$6,132 in the reserve account at July 31, 2022. The balance in the reserve account was \$6,132 at July 31, 2022.

The District also requires a refundable security deposit of \$200 for residential and \$1,200 for commercial tap holders. The deposit is refundable at termination or on the final bill. The current balance of the security deposits is \$17,769.

Lincoln County Rural Water District No. 1
Sparks, Oklahoma

Notes to Financial Statements
For the Year Ended July 31, 2022

Note 1 – Significant Accounting Policies – cont'd

Capital Assets

Any items purchased or constructed in excess of \$1,000 and a useful life of over two years is considered a capital asset by the District, and will be depreciated over a specific time. Capital assets are valued at cost, depreciation is computed by use of the straight-line method. The estimated useful lives for capital assets are detailed as follows:

Land (not depreciable)	
Plant & Building	40 years
Equipment	7 years

The capital asset information for the District is shown below:

	7/31/2021 Amount	Additions	Deletions	7/31/2022 Amount
Land	\$ 2,000	-	-	2,000
Plant & Buildings	478,995	-	-	478,995
Equipment	27,118	17,888	-	45,006
Total Capital Assets	508,113	17,888	-	526,001
Less: Accumulated Depreciation	(350,629)	(12,287)	-	(362,916)
Total	\$ 157,484	5,601	-	163,085

Federal Income Tax

The District is exempt from all federal and state income taxes.

Collateral Pledged

It appears that all funds were adequately insured by the \$250,000 of FDIC coverage as of July 31, 2022.

Lincoln County Rural Water District No. 1
Sparks, Oklahoma

Notes to Financial Statements
For the Year Ended July 31, 2022

Note 1 – Significant Accounting Policies – cont'd

Equity Classification

Equity is classified as net position and displayed in three components:

1. Net Investment in capital assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvements of those assets and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.
2. Restricted – Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) laws through constitutional provisions of enabling legislation.
3. Unrestricted – Net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Note 2 – Long-Term Debt

At July 31, 2022, long-term debt is summarized as follows:

Note 91-08, 6.625% mortgage payable to Rural Development, \$511 per month, February 25, 1998, maturing in 2028	\$ 18,877
Promissory note, 2.55% payable to BancFirst, \$416 per month, dated June 16, 2021, maturing in 2026	<u>18,735</u>
Total long-term debt	<u>\$ 37,612</u>

Lincoln County Rural Water District No. 1
Sparks, Oklahoma
Notes to Financial Statements
For the Year Ended July 31, 2022

Note 2 – Long-Term Debt – cont'd

The estimated maturities for long-term debt are as follows:

	<u>Rural</u> <u>Development</u>	<u>BancFirst</u>
2022 – 23	\$ 5,203	4,568
2023 – 24	5,503	4,685
2024 – 25	5,821	4,806
2025 – 26	2,350	4,676
2026 – 27	<u>0</u>	<u>0</u>
Total	<u>\$ 18,877</u>	<u>18,735</u>

Note 3 – Insurance and Surety Bond Coverage

The District appears to have had adequate insurance to cover all major perils at July 31, 2022.

Note 4 – Subsequent Events

Management has evaluated subsequent events through January 3, 2024, 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.