# **Logan County Rural Water** District #1 Audit Report For Year Ending July 31, 2021 O Scott Northrip, CPA P.O. Box 642 Hobart, OK 73651 (580) 726-5681

### 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 Logan County, Oklahoma

Report on the Financial Statements

I have audited the accompanying financial statements of Rural Water, Sewer, & Solid Waste Management District #1, Logan County, Oklahoma (District), as of and for the years ended July 31, 2021 and 2020, 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, Logan County, Oklahoma, as of July 31, 2021 and 2020, 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 October 7, 2021, 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

October 7, 2021

Statement of Net Position As of July 31, 2021 and 2020

ASSETS:	2021	2020
Current Assets:		400.000
Cash & Cash Equivalents	\$ 1,012,449	\$ 463,636
Investments	6,235,124	5,683,976
Accounts Receivable (Note 2)	234,273	302,298
Other Receivable	-	-
Interest Receivable	16,637	20,439
Prepaid Insurance	36,270	31,328
Prepaid Interest	-	1,155
Inventory	125,159	44,093
Total Current Assets	\$ 7,659,912	\$ 6,546,925
Noncurrent Assets:		
Construction in Progress (Note 12) Capital Assets: (Note 6)	\$ 314,178	\$ 63,731
Land & Water Rights	501,790	396,575
Other Capital Assets, net of depreciation (Note 5)	15,493,916	15,598,192
Total Noncurrent Assets	\$ 16,309,884	\$ 16,058,498
Total Noncurrent Assets	Ψ 10,000,000.	<u> </u>
TOTAL ASSETS	\$ 23,969,796	\$ 22,605,423
LIABILITIES AND NET POSITION:		
Current Liabilities:		
Accounts Payable	\$ 68,355	\$ 60,213
Interest Payable	575	505
Customer Deposits	191,463	206,524
Current Portion of Long-term Liabilities	182,995	189,772
Total Current Liabilities	\$ 443,388	\$ 457,014
Total Guitent Liabilities		
Long-Term Liabilities: (Note 9)		
Notes Payable, net of current	\$ 2,818,074	\$ 3,002,272
Net Position:		
Restricted Fund Balance (Note 11)	\$ 18,810	\$ 29,928
Unrestricted Fund Balance	6,382,014	5,406,449
Total Fund Balance	\$ 6,400,824	\$ 5,436,377
Member Investments	4,649,961	4,271,861
Donated Assets (Note 5)	6,234,591	6,038,941
Grants	2,611,933	2,611,933
Impact Fees	811,025	787,025
TOTAL NET POSITION	\$ 20,708,334	\$ 19,146,137
TOTAL LIABILITIES AND NET POSITION	\$ 23,969,796	\$ 22,605,423

Comparative Statement of Activities For the Years Ended July 31, 2021 and 2020

	2021		2020
OPERATING REVENUES:			
Water Sales	\$ 2,830,265	\$	2,526,266
Sewer Service Revenues	115,546		81,679
Late Fees	40,613		33,891
Connection & Convenience Charges	26,411		29,188
Royalties - Edmond	133,212		122,126
Miscellaneous Revenues	45,891		30,717
Total Operating Revenues	\$ 3,191,938		2,823,867
OPERATING EXPENSES:			
Salaries	\$ 482,591	\$	427,156
Depreciation Expense	542,812		544,137
Interest Expense	91,540		69,524
Water Purchases	295,301		254,750
Utilities	110,858		117,579
Supplies & Chemicals	287,782		208,465
Repairs & Maintenance	187,455		205,540
Insurance	43,928		35,440
Legal & Professional Fees	32,124		90,347
Transportation Expense	26,921		12,745
Employee Benefits	95,117		101,774
Payroll Tax Expense	31,657		29,290
Communication Expense	6,066		7,642
Office Supplies & Postage	45,377		40,589
Bad Debt Expense	20,031		2,243
Director's Fees	6,900		6,700
Dues & Licenses	8,083		9,006
Equipment Rent	5,620		8,025
Credit Card and Bank Fees	2,115		11,946
Web Host Expense	3,919		32,990
Miscellaneous Expense	3,439		7,900_
Total Operating Expenses	\$ 2,329,636	\$	2,223,788
OPERATING INCOME (LOSS)	\$ 862,302	\$	600,079
OTHER REVENUES (EXPENSES):			
Investment Revenues	\$ 102,145	\$	113,970
Settlement Fees	Ţ ,OZ,	7	_
Gain on Sale of Assets	-		-
Total Other Revenues(Expenses)	\$ 102,145	\$	113,970
NET INCOME	\$ 964,447	\$	714,049

See accompanying notes to the financial statements.

Comparative Statement of Changes in Net Position For the Years Ended July 31, 2021 and 2020

	2021	2020
Balance, August 1	\$ 19,146,137	\$ 17,241,607
Net Income (Loss) Member Investments Donated Assets Impact Fees Grants	964,447 378,100 195,650 24,000	714,049 388,840 737,641 39,000 25,000
Total Changes in Net Assets	\$ 1,562,197	\$ 1,904,530
Balance, July 31	\$ 20,708,334	\$ 19,146,137

Comparative Statement of Cash Flows For the Years Ended July 31, 2021 and 2020

	 2021		2020
CASH FLOWS FROM OPERATING ACTIVITIES:		_	
Receipts from customers	\$ 3,259,963	\$	2,773,049
Payments to suppliers	(1,177,691)		(1,006,815)
Payments to employees	 (609,365)		(558,220)
Net Cash Provided by Operating Activities	\$ 1,472,907	\$	1,208,014
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Purchase of fixed assets	\$ (543,751)	\$	(1,086,673)
Payments for Construction in Progress	(250,447)		(8,000)
Donated Assets	195,650		737,641
Principal payments on notes payable	(190,975)		(190,034)
Interest paid on notes payable	(91,470)		(78,462)
Proceeds from long-term notes	-		83,416
Proceeds from grant	-		25,000
Proceeds from sale of assets	 (555 555)	_	(547.440)
Net Cash Used In Capital & Related Financing Activities	\$ (880,993)	\$	(517,112)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment Receipts	\$ 105,947	\$	113,717
Proceeds from impact fees	24,000		39,000
Proceeds from memberships	378,100		388,840_
Net Cash Provided from Investing Activities	\$ 508,047	\$	541,557
INCREASE (DECREASE) IN CASH AND INVESTMENTS	\$ 1,099,961	\$	1,232,459
Cash and Investment Balance - Beginning	 6,147,612		4,915,153
CASH AND INVESTMENT BALANCE - ENDING	\$ 7,247,573	\$	6,147,612
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Operating Income (Loss)	\$ 862,302	\$	600,079
Adjustments to reconcile operating income to net cash provided (used) by Operating Activities:			
Interest Expense	91,540		69,524
Depreciation expense	542,812		544,137
Change in assets and liabilities:			
Accounts Receivable	68,025		(50,818)
Prepaid Insurance	(4,942)		3,767
Prepaid Interest	1,155		3,890
Inventory	(81,066)		11,077
Accounts Payable	8,142		10,718
Customer Deposits	 (15,061)	•	15,640
Net Cash Provided from Operating Activities	\$ 1,472,907	\$	1,208,014

See accompanying notes to the financial statements.

Notes to the Financial Statements For the Years Ended July 31, 2021 and 2020

#### Note 1 - Significant Accounting Policies

#### Organization:

Rural Water, Sewer, and Solid Waste Management District #1, Logan County, Oklahoma (District) is an Oklahoma trust formed under the Oklahoma Rural Water Act to provide water, sewer, and solid waste management in a designated area in and around Logan County, Oklahoma to individuals and businesses that purchase a benefit unit. The District served 4,134 and 3,917 meters at July 31, 2021 and 2020 respectively.

#### **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 40 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 July plus any unpaid balances from the previous months. The District uses the reserve method to account for bad debts. No provision was made since the allowance is more than the the accounts receivable balances over 90 days old. The accounts receivable balances at July 31, 2021 and 2020 amounted to \$239,375 and \$307,400, and the allowance for bad debts in the amount of \$5,102 and \$5,102, respectively.

#### 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 - 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 July 31, 2021 and 2020 were \$195,650 and \$667,230, respectively.

Notes to the Financial Statements For the Years Ended July 31, 2021 and 2020

Note 6 - Changes in Fixed Assets

	Balance					Balance
Cost:	8/1/2020	F	Additions	Di	sposed	7/31/2021
Water System	\$ 22,105,475	\$	438,536	\$	-	\$ 22,544,011
Equipment	241,678		-		-	241,678
Vehicles	193,921		-		-	193,921
Buildings	192,429				***	192,429
Total Assets	\$ 22,733,503	\$	438,536	\$	-	\$ 23,172,039
Less: Accumulated Depreciation						
Water System	\$ 6,672,307	\$	513,561	\$	-	\$ 7,185,868
Equipment	158,461		9,175		-	167,636
Vehicles	120,175		15,569		-	135,744
Buildings	184,368		4,507			188,875
Total Accumulated Depreciation	 7,135,311		542,812		_	7,678,123
Net Fixed Assets	\$ 15,598,192	\$	(104,276)	\$	_	\$ 15,493,916

#### Note 7 - Components of Cash and Investments

	Date of	Interest	7/31/2021	7/31/2020
	Maturity	Rate	Balance	Balance
Petty Cash	_	0.00%	\$ 508	\$ 440
Hi-Fi Account - Oklahoma State Bank	-	0.10%	949,190	400,452
Construction Checking - Oklahoma State Bank	-	0.00%	100	100
Savings - Bancfirst	-	0.01%	62,651	62,645
Certificate - ORWAAG	-	2.10%	1,000	1,000
CD's & MM- Edward Jones	Various	Avg 1.4%	5,816,014	5,265,937
CD - Oklahoma State Bank	9/17/2022	0.50%	113,000	113,000
CD - Oklahoma State Bank	2/18/2022	0.50%	55,098	54,026
CD - Farmers & Merchants Bank	12/23/2021	1.49%	125,006	125,006
CD - Farmers & Merchants Bank	12/23/2021	1.49%	125,006	125,006
Total Cash and Investments	-		\$ 7,247,573	\$ 6,147,612

#### Note 8 - Retirement

The District provides a Simplied Employee Plan (SEP) retirement plan for its participating employees. The plan is administered by Edward Jones. The District contributions up to 5% of the employee wages until October, 2018 when the board approved a rate of 8%. The District contributed \$29,475 and \$25,895 during the years ending July 31, 2021 and 2020.

Notes to the Financial Statements For the Years Ended July 31, 2021 and 2020

#### Note 9 - Long Term Liabilities

#### Berkadia Mortgage

The District has one long-term note with Berkadia Mortgage. The note was from the original construction of the District plus improvements. The note is secured by the assets. The interest accrues at a fixed annual rate of 5% for a term of 40 years.

#### Oklahoma Water Resources Board

The District has borrowed \$584,566 from Oklahoma Water Resources Board for system booster station and extension as of July 31, 2012. The maximum loan is \$637,500. The note matures on 9-15-31. The note has accrued interest at a fixed rate of 3.03%. Interest and administrative fees of \$7,606.92 during construction has been capitalized.

The District borrowed \$1,250,000 from Oklahoma Water Resources Board for the new water tower and for the installation of electronic read meters. The note has a term of 20 years and accrues interest at a fixed rate of 2.46%. The District makes monthly payments of \$5,618.16.

The District borrowed \$1,200,000 from Oklahoma Water Resources Board for constructing new water lines. The note has a term of 20 years and accrues interest at a fixed rate of 2.6%. The District began monthly payments on April 15, 2016 in the amount of \$6,396.41. Interest of \$6,212.58 was capitalized during year ending 7-31-15.

The District borrowed \$1,000,000 from Oklahoma Water Resources Board for constructing new water tank and booster pump station. The note has a term of 20 years and accrues at a fixed rate of 2.81%. The District capitalized interest of \$11,428.93 during the construction of the project. The District began making payments on March 15, 2020 until March 15, 2035 at a fixed rate of 2.6%. The District received a reduction of principal grant of \$25,000 at the completion of the project. The District received proceeds of \$83,415.56 during July 31, 2020.

#### **Rural Development**

The District borrowed \$300,000 for the construction of a new water tower and water well. The District began making monthly payments of \$1,374 on May 1, 2003. The interest accrues at a fixed rate of 4.625% annually. The note is secured by the assets.

	Note	Balance	Balance	Annual
	Number	7/31/2021	7/31/2020	Payment
Berkadia	4	2,322	16,376	13,440
Rural Development		203,674	210,688	16,488
OWRB - Series 2009		342,549	371,286	40,080
OWRB - Series 2011		671,103	720,665	67,418
OWRB - Series 2015		876,943	929,628	76,757
OWRB - Series 2018		904,478	943,401	65,525
TOTAL		3,001,069	3,192,044	279,708
Less: Current Portion		182,995	189,772	_
NET LONG-TERM NOTE	ES [	\$ 2,818,074	\$ 3,002,272	•

The District's OWRB loans Series 2009 and 2011 received a reduction of debt because the OWRB refinanced the bonds and is sharing the savings from the refinance with the District. The savings amounted to \$8,060 on series 2009 and \$15,194 on series 2011.

Notes to the Financial Statements For the Years Ended July 31, 2021 and 2020

#### Note 9 - Long Term Liabilities - continued

Current Portion:	Berkadia	OWRB09	RD	OWRB11	OWRB 15	OWRB 18
Year Ending 7-31-22	2.322	29.626	7,233	50,806	54,084	38,924
<del>-</del>	-,022	30.543	7,567	52,081	55,519	40,040
Year Ending 7-31-23		31.465	7.934	53.349	56,937	41,189
Year Ending 7-31-24	-	32,462	8.302	54.367	58.502	42.307
Year Ending 7-31-25	-	,	-,	55.920	60.055	43.585
Year Ending 7-31-25	-	33,467	8,700	55,920	00,000	40,000

#### Note 10 - Prior Period Adjustment

The District didn't make any prior period adjustments during the years ending July 31, 2021 or 2020.

#### Note 11 - Restricted and Reserved Assets

Restricted for Debt Service  CD's for Berkadia Mortgage  CD's for Rural Development loan	\$	2,322 16,488
Total Restricted Assets	\$	18,810
Reserved for Future Improvements		
CD's for System Improvements & Water rights	5	,816,014
Total Reserved Assets	5	,816,014

#### Note 12 - Construction in Progress

The District has 6 projects in progress as of July 31, 2021 which were not completed as of the end of the year. The projects will be capitalized and begin depreciating upon completion of the projects. The Air Depot extension project carries over \$50,131, a new well project has a cost of \$18,360, an 8" water line extension on Henney Rd has a cost of \$5,510, a line extension on Karl St. of \$3,765, a 2" line extension on Gloria Place of \$4,530 and a new office building of \$231,882 for the total construction in progress of \$314,178.00

#### Note 13 - Evaluation of Subsequent Events

The subsequent events of the District were reviewed through October 7, 2021, the date of the 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 Logan 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, Logan County, Oklahoma (District), as of and for the years ending July 31, 2021 and 2020, and have issued my report thereon dated October 7, 2021.

#### 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

October 7, 2021