

**SOUTH DELAWARE COUNTY
REGIONAL WATER AUTHORITY
Annual Financial Report**

Fiscal Year Ended June 30, 2020

Delaware County, Oklahoma

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Board of Trustees

Del Patterson	Chairman
Max Wollard	Vice-Chairman
Dalton Asbury	Trustee
Darrel Pickup	Trustee
Keith Morgan	Trustee



Elfrink and Associates, PLLC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
South Delaware County Regional Water Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the South Delaware County Regional Water Authority ("Authority"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility 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; 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

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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 Authority as of June 30, 2020, and the change in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Government Accounting and Auditing

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and is related directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2020 on our consideration of the Authority'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 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 Authority's internal control over financial reporting and compliance.



Elfrink and Associates, PLLC

Tulsa, Oklahoma
October 30, 2020

Management Discussion and Analysis

This section of the South Delaware County Regional Water Authority's ("Authority") annual financial report presents management's analysis of the Authority's financial performance during the fiscal year ended June 30, 2020. Please read it in conjunction with the financial statements which follow this section.

Financial Highlights

As of June 30, 2020, South Delaware County Regional Water Authority (SDCRWA) can proclaim the new plant, transmission lines, and tanks and towers are completed. We have retained approximately \$50,000 in construction funds to complete the remainder of the total project. Excavation work began in June 2017 on the construction of the new plant located near the site of the existing plant and completion of all three contracts was scheduled for July of 2020. Three separate contracts were approved. Contract #1 for the new plant to Huffman Construction, LLC in the amount of \$7,679,000 with Change Orders amounting to \$1,004,511 was added to include additional upgrades to the plant. Contract #2 for Transmission line to Cross-Bo Construction LLC \$1,089,515 and Contract #3 for Tanks and Towers to Circle P Welding \$582,370 were completed early. The source of funding for the project was provided by grants from Cherokee Nation/Indian Health Services, and a loan and grant from the Oklahoma Water Resource Board/DEQ Drinking Water State Revolving Fund. Initial funding was also provided by a loan and grant from USDA Rural Development. Additional funding was required to construct a separate chemical building and provide upgrades to the intake. Those monies were provided by USDA Rural Development in a subsequent grant and loan.

In April of 2019, in preparation of the annual budget for FY ending June 30, 2020, we anticipated the new plant would become operational in September 2019 and made our forecast accordingly. Total Operating Revenue was \$1,094,600 versus actual \$930,800 as shown in Table 2, a shortfall of \$163,800. This shortfall is a result of: 1) Loss of Revenue from wholesale water sales due to delayed startup-- \$118,922 and 2) West Siloam Springs delayed startup until late February and their loss of sales due to COVID 19 --\$78,000 for a total shortfall of \$196,922. Budgeted Total Operating Expense was \$782,500 in contrast to actual of \$762,800 as shown in Table 1.

One of the secondary benefits of the project has been the affect of the addition of 21 master meters along with the automatic read system throughout the system has had on the system water loss. We have been better able to track and pinpoint major and minor leaks. In the first six months of operations (7-1-17 to 12-31-17) SDCRWA experienced average water loss of 7,365,000 gallons per month or 43.3 % of water sales. By comparison, the last six months (4-1-20 to 9-30-20) we have experienced average water loss of 4,205,000 gallons per month or 17.9% of water sales, a reduction of 3,160,000 gallons per month and 25.4% in water sales.

Overview of the Financial Statements

This annual report consists of two parts: management's discussion and analysis of the financial statements and the financial statements. The financial statements also include notes that explain the information contained in the financial statements in greater detail.

Required Financial Statements

The financial statements of the Authority use accounting methods similar to those used by private sector companies. The statement of net position includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investment in resources (assets) and the obligations of the Authority to creditors (liabilities). The assets and liabilities are presented in a classified format, which distinguishes between current and noncurrent assets and liabilities. Current assets are those assets expected to be converted to cash or used to pay current liabilities within 12 months. Conversely, noncurrent assets and liabilities are those expected to extend beyond a 12-month period. The statement of net position also provides the basis for computing rate of return, evaluating the capital structure of the Authority, and assessing the liquidity and financial flexibility of the Authority. All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and change in net position. This statement reports information about the Authority's activities and measures the success of the Authority's operations over the past year.

The final required financial statement is the statement of cash flows. The primary purpose of this statement is to provide information about the Authority's sources and uses of cash during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Financial Analysis of the Authority

Our analysis of the Authority begins with a measure of the Authority's financial position or financial health by reporting its assets and liabilities and the difference between them, the "net position". Over time, increases and decreases in the Authority's net position are one indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors such as new water supply facilities, water demand, economic conditions, population growth, state and federal regulation, and changes in government legislation must also be considered in evaluating the Authority's financial health. The statement of revenues, expenses, and change in net position provides information that is useful in evaluating whether the Authority has successfully recovered all of its costs through its water rates and other charges, as well as its creditworthiness.

Net Position

A summary of the Authority's statements of net position is presented in Table 1.

Table 1
Condensed Statements of Net Position
(In Thousands of Dollars)

	FY 2020	FY 2019	Change
Current and other assets	\$ 674.9	\$ 347.4	\$ 327.5
Capital assets	17,206.9	17,027.1	179.8
Total assets	<u>17,881.8</u>	<u>17,374.5</u>	<u>507.3</u>
Long-term debt outstanding	8,367.2	7,902.4	464.8
Other liabilities	146.9	587.0	(440.1)
Total liabilities	<u>8,514.1</u>	<u>8,489.4</u>	<u>24.7</u>
Net position			
Net investment in capital assets	8,833.5	8,710.9	122.6
Unrestricted	534.2	174.2	360.0
Total net position	<u>\$ 9,367.7</u>	<u>\$ 8,885.1</u>	<u>\$ 482.6</u>

As shown in table 1, total net position increased by \$482,621.

Change in Net Position

Table 2
Condensed Statements of Revenues, Expenses, and Changes in Net Position
(In Thousands of Dollars)

	FY 2020	FY 2019	Change
Operating revenues	\$ 930.8	\$ 780.6	\$ 150
Operating expenses	762.7	665.4	97.3
Operating income before depreciation	168.1	115.2	52.9
Depreciation	335.2	208.8	126.4
Operating loss	(167.1)	(93.6)	(73.5)
Interest expense	43.2	26.7	16.5
Road grant for FRPOA	227.9	-	227.9
Debt issuance and legal costs	16.5	15.4	1.1
Loss before contributions and transfer of cash from FRRWD	<u>(454.7)</u>	<u>(135.7)</u>	<u>(319.0)</u>
Capital contributions	937.0	3,016.6	(2,079.6)
Interest income	0.3	-	0.3
Change in net position	<u>482.6</u>	<u>2,880.9</u>	<u>(2,398.3)</u>
Net position - beginning	<u>8,885.1</u>	<u>6,004.2</u>	<u>2,880.9</u>
Net position - ending	<u>\$ 9,367.7</u>	<u>\$ 8,885.1</u>	<u>\$ 483</u>

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Table 2 reflects the statements of revenues, expenses, and changes in net position and provides information as to the nature and source of these changes.

As shown in Table 2, the change in net position increased from the prior year by \$482,621. This major change is attributable to capital contributions from the USDA Rural Development.

Capital Assets and Long-term Debt

The Authority had invested \$8,833,480 in capital assets net of related debt (including outstanding retainage and payables expected to be paid by additional loan proceeds) at June 30, 2020.

Table 3
Capital Assets
(In Thousands of Dollars)

	FY 2020	FY 2019	Change
Non-depreciable assets			
Water capacity rights	\$ 60.0	\$ 60.0	\$ -
Construction in progress	58.2	10,603.1	(10,544.9)
Depreciable assets			
Buildings	25.6	25.6	-
Equipment and furniture	141.9	138.5	3.4
Water system	17,673.3	6,616.8	11,056.5
Accumulated depreciation	(752.1)	(416.9)	(335.2)
Totals	\$ 17,206.9	\$ 17,027.1	\$ 179.8
	FY 2020	FY 2019	Change
Capital lease	\$ 74.6	\$ 97.6	\$ (23.0)
Notes payable	8,292.6	7,804.8	487.8
	\$ 8,367.2	\$ 7,902.4	\$ 464.8

Table 4
Long-Term Debt
(In Thousands of Dollars)

	FY 2020	FY 2019	Change
Capital lease	\$ 74.6	\$ 97.6	\$ (23.0)
Notes payable	8,292.6	7,804.8	487.8
	\$ 8,367.2	\$ 7,902.4	\$ 464.8

During the year, the Authority took draws on USDA Rural Development grants in the amount of \$933,630.22 and the supplement loan of \$371,000.00 and also from Oklahoma Water Resource Board note of \$180,457.78 note to finance continuing construction on the new water treatment plan and related distribution lines and storage tanks. The RD note payments began in June of 2020.

Economic Factors and Next Year's Budget and Rates

The Board of SDCRWA will continue to use the five-year financial plan prepared by Municipal Financial Services, Inc as a tool in preparation of the annual budget for fiscal year ending June 30, 2021. Historical data from March 30, 2020 was also used in determining the budget. It is anticipated that water usage will increase in the upcoming year. With the new rates that were implemented in December 2019, an increase of 21%, we foresee no change in water rates for FY ending 6-30-21. We are forecasting Operating Revenue at \$1,172,496.

This financial report is designed to provide a general overview of the Authority's finances for those having an interest therein. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the South Delaware County Regional Water Authority, PO Box 8, 653 Valley View Road, Kansas, OK 74347-9305.

**Statement of Net Position
June 30, 2020**

Assets

Current assets:

Unrestricted assets

Cash and cash equivalents	\$ 354,498
Accounts receivable from the sale of water	82,324
Prepaid expense	10,397
Inventory	74,071

Total unrestricted current assets	521,290
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Restricted assets:

Grants receivable	34,296
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Total current assets	555,586
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Noncurrent assets:

Cash restricted - utility deposits	29,491
Cash restricted - reserve requirements	22,097
Flint Ridge POA escrow for capital projects	67,762
Construction in progress	58,160
Water capacity rights	60,000
Capital assets, depreciable, net	17,088,711

Total noncurrent assets	17,326,221
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Total assets	17,881,807
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Liabilities

Current liabilities:

Accounts payable	56,023
Accrued payroll	2,127
Accrued compensated absences	5,978
Accrued interest payable	12,390
Construction funds accounts payable	40,519
Current portion of long term debt	196,431

Total current liabilities	313,468
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Noncurrent liabilities:

Deposits held for customers	29,900
Long-term debt	8,170,737

Total noncurrent liabilities	8,200,637
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Total liabilities	8,514,105
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Net position

Net investment in capital assets	8,833,480
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Unrestricted	534,222
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Total net position	\$ 9,367,702
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See accompanying notes to the financial statements

SOUTH DELAWARE COUNTY REGIONAL WATER AUTHORITY
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FISCAL YEAR ENDED JUNE 30, 2020

Statement of Revenues, Expenses, and Change in Net Position
Year Ended June 30, 2020

Service revenues	
Revenue from the sale of water	<u>\$ 930,784</u>
Operating expenses	
Salaries and benefits	336,709
Chemicals and supplies	90,703
Repair and maintenance	88,456
License and fees	12,863
Automobile expense	22,700
Utilities	127,006
Insurance	44,485
Office and billing	26,682
Other	13,161
Depreciation	<u>335,174</u>
Total operating expenses	<u>1,097,939</u>
Operating loss	(167,155)
Nonoperating revenues (expenses)	
Capital contributions	933,630
Private donations	3,401
Interest income	302
Legal fees and debt issuance costs	(16,495)
Road grant for Flint Ridge POA	(227,858)
Interest expense	<u>(43,204)</u>
Total nonoperating revenues (expenses)	649,776
Change in net position	482,621
Net position - beginning	<u>8,885,081</u>
Net position - ending	<u><u>\$ 9,367,702</u></u>

See accompanying notes to the financial statements

**Statement of Cash Flows
Year Ended June 30, 2020**

Operating activities

Receipts from customers	\$ 918,297
Payments for goods and services	(437,811)
Payments to employees	(340,745)
Net cash provided by operating activities	139,741

Capital and related financing activities

Proceeds from capital debt	551,458
Receipts from grant agreements	992,237
Receipts from private donations	3,401
Purchases of capital assets	(950,478)
Principal paid on capital debt	(86,737)
Interest paid on capital debt	(54,177)
Road grant paid to Flint Ridget POA	(227,858)
Deposits to Flint Ridge POA escrow account	(30,000)
Legal fees and other debt issuance costs	(16,495)
Net cash provided by capital and related financing activities	181,351

Investing activities

Interest and dividends	302
Net change in cash and cash equivalents	321,394
Cash and cash equivalents, beginning of year	84,692
Cash and cash equivalents, end of year	\$ 406,086

**Reconciliation of operating income to net cash
provided by operating activities**

Operating loss	\$ (167,155)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	335,174
Changes in operating assets and liabilities:	
Increase in accounts receivable	(18,687)
Increase in prepaid expense	(2,149)
Increase in inventory	(36,159)
Increase in accounts payable	26,553
Increase in deposits held for customers	6,200
Decrease in other accrued liabilities	(5,761)
Increase in compensated absences	1,725
Net cash provided by operating activities	\$ 139,741

See accompanying notes to the financial statements

Notes to the Financial Statements

1. Organization

The South Delaware Regional Water Authority (the Authority) was created on November 12, 2013 pursuant to Title 60, Oklahoma Statutes 2011, section 176 to 180.4, to promote, develop, and operate public works projects or facilities related to the provision of potable drinking water. The trust is governed by a five-member Board of Trustees with the County of Delaware, Oklahoma as beneficiary.

On May 19, 2017, the Flint Ridge Rural Water District transferred its entire operations to the South Delaware Regional Water Authority. Prior to that time, the Authority was in a development or planning stage.

2. Summary of Significant Accounting Policies

Operating Revenue and Expense

The Authority considers all revenue and expense associated with the delivery of water to customers to be operating activities. All other revenue and expense are considered to be nonoperating activities.

Net position

Net position is classified into three components:

- *Net Investment in Capital Assets* – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent amount is not included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflows of resources is included in the same net position component as the unspent proceeds.
- *Restricted* – This component consists of net position whose use is subject to external constraints (such as through debt covenants) by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Position* – This component consists of net position elements that do not meet the definition of restricted or net investment in capital assets.

When the Authority incurs an expenditure where it can use both restricted and unrestricted funds the Authority will first use restricted funds.

The accounting policies and practices of the Authority confirm to accounting principles generally accepted in the United States applicable to an enterprise fund of a government unit.

Measurement Focus and Basis of Accounting

The Authority is accounted for on the flow of economic resources measurement focus and uses the accrual basis of accounting in the preparation of financial statements. The accounting and reporting policies of the Authority conform to the accounting rules prescribed by the Governmental Accounting Standards Board (GASB). The Authority follows private sector guidance contained in GASB Statement No. 62, *Codification of Accounting and financial Reporting guidance contained in pre-November 30, 1989 FASB and AICPA pronouncements*.

Cash Equivalents

For purposes of the statement of cash flows, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and have original maturities of 91 days or less.

Investments

Investments are reported at fair value in the statement of net position, except for money market funds and U.S. government obligations with original maturities less than one year, which are reported at amortized cost as permitted by GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. All changes in the fair value of investments are recognized as gains or losses in the statement of revenues, expenses, and change in net position.

Materials and Supplies Inventories

Inventory consists of spare meters, parts, and chemicals and is valued at actual cost.

Capital Assets

It is the Authority's policy to capitalize property and equipment having an original cost in excess of \$1,000 and a useful life longer than one year. Capital assets are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Water distribution system	5 – 40 years
Field equipment	5 – 7 years
Buildings	40 years
Office equipment and furnishings	3-5 years
Vehicles	5-10 years

Maintenance, repairs, and minor renewals are charged to expense as incurred. Expenditures that materially increase value, increase capacity, or expend useful lives are capitalized. Capital assets are removed (net of accumulated depreciation) upon retirement or disposition. Related gains or losses are charged to nonoperating activities.

Water Capacity Rights

Water capacity rights represent the Authority's rights related to system rights-of-way, licenses, easements, and permits to take and use water. The Authority accounts for the water capacity rights in accordance with the provisions of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement requires that indefinite-lived intangible assets not be amortized, but instead be tested for impairment at least annually and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The Authority has not identified any indicators of impairment relative to the water capacity rights at June 30, 2020.

Impairment of Capital Assets and Insurance Recoveries

The Authority accounts for impairment of capital assets and insurance recoveries in accordance with the provisions of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement requires that capital assets be reviewed for impairment whenever events or changes in circumstances indicate that the service utility of the asset has declined significantly and unexpectedly. Impaired capital assets that will no longer be used are reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used are measured using the method that best reflects the diminished service utility of the asset: restoration cost approach, service units approach, or deflated depreciated replacement cost approach. Insurance recoveries related to impairment losses are netted against the impairment loss if received in the same year; otherwise the recovery is reported as revenue in the year received. No impairment losses were recognized in 2020.

Capitalization of Interest

Interest costs incurred are capitalized as part of the cost of constructing capital assets. In instances where proceeds of the related debt are externally restricted to financing the construction, the interest earned on funds restricted for construction are offset against the interest costs capitalized.

Debt Issue Costs

The Authority accounts for debt issuance costs in accordance with the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Debt issuance costs are expensed as incurred.

Commitments and Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines and penalties, and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated.

Capital Contributions

Capital contributions represent capital grants from the U.S. Department of Agriculture - Rural Development. Contributions are recognized when all applicable eligibility requirements of the grant have been met, pursuant to GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. The Authority had \$933,630 in capital contributions during the year ended June 30, 2020.

3. Rate-Making Policies and Procedures

As part of an agreement for the transfer of assets from the Flint Ridge Rural Water Authority, the Authority has agreed to fix a schedule of uniform and non-discriminatory rates, fees and charges for the use of the System and for services supplied by the System such as will provide in any year revenues sufficient to pay monthly debt service requirements including the principal and interest on all indebtedness incurred by the Authority including the establishment and maintenance of any funds, reserves, or accounts required pursuant to any indenture or other instrument securing such indebtedness. Effective December 2019 (completion of the System expansion), the Authority has agreed to implement a specified reduced rate schedule, however the rates and fees may be reviewed at least annually to determine adequacy.

4. Wholesale Water Contracts

The Authority has entered into contracts to provide water on a wholesale basis to the following entities:

- Rural Water, Sewer, Gas, and Solid Waste Management District No. 11, Delaware County, Oklahoma
- Kansas Public Works Authority – an Oklahoma Public Trust existing for the use and benefit of the Town of Kansas, Oklahoma
- West Siloam Springs Municipal Authority – an Oklahoma Public Trust existing for the use and benefit of the Town of West Siloam Springs, Oklahoma

As part of the agreement for the transfer of assets from the Flint Ridge Rural Water District, the Authority has agreed that it will not raise or lower rates for retail customers in excess of the percentage rate adjustment applied to the wholesale customers of the Authority.

5. Transfer of Operations – Flint Ridge Rural Water District

On May 19, 2017, the Authority entered into an Assignment and Assumption of Second Amended Lease Agreement that effectively transferred a water filtration and treatment plant, water collection and distribution system, associated improvements, and easements and water capacity rights from the Flint Ridge Rural Water District for Adair and Delaware Counties, Oklahoma, an Oklahoma Rural Water District (“FRRWD”). The transaction has been accounted for by the Authority as a transfer of operations pursuant to GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. Capital assets were transferred at the net book value as of the date of the transaction.

6. Flint Ridge Property Owners Association, Inc.

On May 19, 2017, the Flint Ridge Property Owners Association, Inc. ("POA") consented to the assignment of a lease from FRRWD to the Authority for the water system. The lease will expire on September 30, 2045 with a provision for an additional forty-year term upon mutual agreement of the parties. There is no rent payable under the lease, however, the Authority is required to establish and make an annual \$30,000 payment on December 15 each year to a "POA Fund", under the control of the POA, to be used for future line extensions and development for residential customers of the Authority. The contribution amount is adjusted annually by the same percentage as rates are adjusted by the Authority. By contract, the funds are required to be deposited into a separate account of the POA, and are not to be comingled with any other funds of the POA, and plans for any use of the funds must be submitted to the Authority for review. Consequently, the Authority has elected to record the payments made as an escrow deposit. In the year ending June 30, 2020 the Authority deposited \$30,000 with the POA and utilized \$22,238 for water line expansions, bringing the total amount in escrow to \$67,762.

7. Restricted Assets

Restricted funds are established to the extent required by debt covenants for the Authority's debt and other contractual arrangements as follows:

USDA-RD

As a condition of the USDA-RD loans, the Authority is required to deposit 10% of the monthly payment until one annual installment is accumulated as a debt service reserve. In addition, a depreciation reserve for short-lived assets must be established by depositing \$34,650 per year, or \$2,887.50 monthly. The requirement became effective when the new system came online. At June 30, 2020 the authority had deposited \$22,097 to meet both reserve requirements.

Grant Receivable

At June 30, 2020, grant receivables in the amount of \$34,296 were restricted for the payment of construction project payables.

8. Deposits and Investments

As of June 30, 2020, the Authority's deposits of \$406,086 were held in demand accounts and either fully insured by the FDIC or collateralized. The Authority had no investments.

9. Capital Assets

The following is a summary of capital asset changes for the year ended June 30, 2020:

	Balance <u>July 1, 2019</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2020</u>
Capital assets not being depreciated:				
Water capacity rights	\$ 60,000	\$ -	\$ -	\$ 60,000
Construction in progress	10,603,119	-	10,544,959	58,160
Total capital assets not being depreciated	<u>10,663,119</u>	<u>-</u>	<u>10,544,959</u>	<u>118,160</u>
Depreciable assets				
Buildings and improvements	25,632	-	-	25,632
Equipment and furniture	138,534	3,392	-	141,926
Water system	6,616,784	11,056,495	-	17,673,279
Total depreciable assets	<u>6,780,950</u>	<u>11,059,887</u>	<u>-</u>	<u>17,840,837</u>
Less accumulated depreciation	<u>416,952</u>	<u>335,174</u>	<u>-</u>	<u>752,126</u>
Capital assets, net	<u>\$17,027,117</u>	<u>\$10,724,713</u>	<u>\$10,544,959</u>	<u>\$ 17,206,871</u>

Depreciation expense was \$335,174 for the fiscal year ended June 30, 2020.

10. Long-Term Debt

Long-term debt at June 30, 2020 consisted of:

Arvest Equipment Finance lease issued July 15, 2017 in the amount of \$63,941, bearing interest at the rate of 4.15%, payable at \$1,127 for 63 months, and secured by an excavator and flatbed trailer, maturing in October 2022. In the event of a default, the equipment may be forfeited. \$ 29,958

Arvest Equipment Finance lease issued January 7, 2019 in the amount of \$59,808, bearing interest at the rate of 4.15%, payable at \$1,127 for 63 months, and secured by a 2018 Dodge truck, maturing in December 2023. In the event of a default, the truck may be forfeited. 44,627

USDA-RD Note issued May 19, 2017 in the amount of \$6,749,000 bearing interest at the rate of 1.75% and is payable over 40 years with monthly payments of \$20,720 beginning June 19, 2020. Upon default, the government at its option may declare all or any part of the debt immediately due and payable. 6,738,274

USDA-RD Note issued October 30, 2019 in the amount of \$371,000 bearing interest at the rate of 2.35% and is payable over 40 years with monthly payments of \$1,199 beginning November 30, 2019. Upon default, the government at its option may declare all or any part of the debt immediately due and payable. 364,628

SOUTH DELAWARE COUNTY REGIONAL WATER AUTHORITY
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OWRB DWSRF Note issued May 19, 2017 in the amount of \$1,163,857 bearing interest at the rate of 2.96%, payable over 30 years with a final payment due March 15, 2049. In the event of a default, the OWRB may sue for specific performance of any or all of the debt covenants, accelerate the payment of principal and interest, appoint a temporary trustee to take over, operate, and maintain the system on a profitable basis or sue to enforce or enjoin the action or inaction of parties under the provisions of the loan agreement.

1,087,469

Note payable to Communities Unlimited, Inc. issued March 17, 2019 in the amount of \$112,000, bearing interest at 4.5%, payable in 120 monthly installments of \$1,161, beginning April 21, 2019, with no payments made in the current year.

102,212

Total long-term debt at June 30, 2020

\$ 8,367,168

The Authority's changes in long-term liabilities for the fiscal year ended June 30, 2020 were as follows:

	Balance			Balance		Amounts Due
	July 1, 2019	Additions	Retirements	June 30, 2020	in One Year	
Capital leases payable	\$ 97,582	\$ -	\$ 22,997	\$ 74,585	\$ 24,019	
Notes payable	7,804,865	551,458	63,740	8,292,583	172,412	
Total long term debt	<u>\$ 7,902,447</u>	<u>\$ 551,458</u>	<u>\$ 86,737</u>	<u>\$ 8,367,168</u>	<u>\$ 196,431</u>	

Annual debt service requirements to maturity for long-term debt as of June 30, 2020 are as follows:

Year Ending	Notes Payable		Capital Leases Payable		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
June 30						
2021	\$ 172,412	\$ 161,871	\$ 24,019	\$ 3,373	\$ 196,431	\$ 165,244
2022	176,068	158,215	25,256	2,137	201,324	160,352
2023	179,812	154,472	17,351	942	197,163	155,414
2024	183,644	150,640	7,960	161	191,604	150,801
2025	187,568	146,715	-	-	187,568	146,715
2026 to 2030	984,772	671,631	-	-	984,772	671,631
2031 to 2035	1,031,768	570,003	-	-	1,031,768	570,003
2036 to 2040	1,139,435	462,336	-	-	1,139,435	462,336
2041 to 2045	1,259,015	342,756	-	-	1,259,015	342,756
2046 to 2050	1,278,159	212,271	-	-	1,278,159	212,271
2051 to 2055	1,215,247	99,893	-	-	1,215,247	99,893
2056 to 2060	484,683	9,500	-	-	484,683	9,500
Total	<u>\$ 8,292,583</u>	<u>\$ 3,140,303</u>	<u>\$ 74,585</u>	<u>\$ 6,613</u>	<u>\$ 8,367,168</u>	<u>\$ 3,146,916</u>

11. Commitments and Contingencies

Litigation

The Authority may be party to various legal proceedings, which normally occur in the ordinary course of business. Management has deemed that no accrual or provision is required at June 30, 2020 related to legal proceedings.

Grant Program Involvement

The Authority is subject to audit examinations by funding agencies to determine compliance with grant conditions. In the event that expenditures would be disallowed, repayment could be required.

COVID-19

In December 2019, a novel strain of coronavirus was reported to have surfaced in China and subsequently spread throughout the United States, causing business disruption through temporary business closures throughout the country as well as significant mediation efforts. The impact and duration from this event cannot be reasonably estimated at this time.

12. Subsequent Events

Management has evaluated subsequent events through the date of this report and determined that no additional information needs to be added to the financial statements.

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020**

Federal Grantor/Pass Through Agency Grantor/Program Title	Federal CFDA Number	Pass-through Identifying Number	Federal Expenditures
FEDERAL AWARDS:			
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Water and Waste Disposal Systems for Rural Communities (Loan)	10.760	91-04	\$371,000
Water and Waste Disposal Systems for Rural Communities (Grant)	10.760	91-03	933,630
Total Water and Wast Disposal Systems for Rural Communities			1,304,630
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>			
Passed through the Oklahoma Water Resources Board:			
Safe Drinking Water State Revolving Fund	66.468	ORF-16-0004-DW	180,458
TOTAL FEDERAL EXPENDITURES			\$1,485,088

Note 1 – Basis of Presentation

This schedule includes the federal grant activity of the South Delaware County Regional Water Authority (“Authority”) under programs of the federal government for the year ended June 30, 2020. The information in this schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net position or cash flows of the Authority.

Note 2 – Summary of Significant Accounting Policies

Expenditures reported on the Schedule of Expenditures of Federal Awards are reported on the accrual basis of accounting (U.S. GAAP) which may be different from other information contained in the Authority’s financial statements.

Note 3 – The above awards did not include an indirect cost rate in the allowable costs and consequently the Authority did not use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.



Elfrink and Associates, PLLC

Certified Public Accountants

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 Trustees
South Delaware County Regional Water Authority

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 South Delaware County Regional Water Authority ("Authority"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Authority's basic financial statements, and have issued our report thereon dated October 30, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority'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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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.

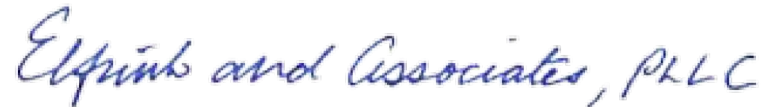
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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.

A handwritten signature in blue ink that reads "Elfrink and Associates, PLLC". The signature is written in a cursive, flowing style.

Elfrink and Associates, PLLC

Tulsa, Oklahoma

October 30, 2020



Elfrink and Associates, PLLC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Trustees
South Delaware County Regional Water Authority

Report on Compliance for Each Major Federal Program

We have audited the South Delaware County Regional Water Authority's ("Authority") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2020. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Other Matters

The results of our auditing procedures disclosed no instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance.

Report on Internal Control over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and

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Government Accounting and Auditing

performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Elfrink and Associates, PLLC". The signature is written in a cursive, flowing style.

Elfrink and Associates, PLLC

Tulsa, Oklahoma

October 30, 2020

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SOUTH DELAWARE COUNTY REGIONAL WATER AUTHORITY, OKLAHOMA
Year ended June 30, 2020

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: *unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? *No*
- Significant deficiencies identified that are considered to be material weaknesses? *No*
- Noncompliance material to financial statements noted? *No*

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? *No*
- Significant deficiencies identified that are not considered to be material weaknesses? *No*

Type of auditor’s report issued on compliance for major programs: *unmodified*

Any audit findings disclosed that are required to be reported in accordance with *Uniform Guidance*? *No*

Identification of major programs:

<u>CFDA Number</u>	<u>Federal Program</u>
10.760	<i>Water and Waste Disposal Systems for Rural Communities</i>

Dollar threshold used to distinguish between type A and type B programs: *\$750,000*

The auditee was considered to be a low-risk auditee.

Note: The Authority has not prepared a *Summary Schedule of Prior Audit Findings and Corrective Action Plan* as there were no findings in the prior year.

Section II – Financial Statement Finding

No matters to report.

Section III – Federal Award Findings and Questioned Costs

No matters to report.