

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

Fiscal Year Ended June 30, 2021

Delaware County, Oklahoma

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Board of Trustees

| | |
|----------------|---------------|
| Del Patterson | Chairman |
| Darrel Pickup | Vice-Chairman |
| Max Wollard | Trustee |
| Keith Morgan | Trustee |
| Clifton Hughes | 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, 2021, 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, 2021, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 10, 2021 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

Elfrink and Associates, PLLC

Tulsa, Oklahoma

August 10, 2021

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, 2021. Please read it in conjunction with the financial statements which follow this section.

Financial Highlights

In December 2020, South Delaware County Regional Water Authority was awarded the Pisces and Aquarius Award for Excellence in System Partnerships by the U.S. Environmental Protection Agency. The following is a summation and description as presented in the award.

SDCRWA received \$15 million from various entities, including the Oklahoma DWSRF program to construct a surface water treatment plant and provide drinking water to nearby communities. These communities in northeastern Oklahoma were struggling to address various water challenges, including exceeding various EPA maximum contaminant levels (MCL) and sulfur smelling water. To address these challenges, the communities decided to create a regional water provider who could provide safe, reliable, drinking water; this led to the creation of SDCRWA. Once created, SDCRWA moved forward with construction of a new surface water treatment plant. The Oklahoma DWSRF partnered with USDA-RD, Indian Health Services, the Cherokee Nation and SDCRWA to provide over \$15 million in funding for the new facility. The project was completed in December 2019 and allows SDCRWA to continue providing safe, reliable drinking water to several disadvantaged communities in northeastern Oklahoma.

SDCRWA is proud to be the recipient of this national award for excellence. Presently our production is at 45% of capacity. That being the case nearby communities and Rural Water Districts are expressing an interest in obtaining water from SDCRWA.

In late December the Authority purchased a 2020 Chevrolet pickup to replace the 2010 Ford for \$30,277. Money was released from the Savings account for the purchase. There was approximately \$50,000 left in the Construction Account and that was used to finalize the project.

The budgeted Operating Revenue for FY ending 6-30-2021 was \$1,172,496 and budgeted Operating Expense was \$1,076,100. The actual Operating Revenue was \$1,094,129, a shortfall of \$78,367. Most of this shortfall can be attributed to loss of sales to schools and chicken facilities due to Covid19. The actual Operating Expense was \$1,237,168 an increase of \$161,068. Most of the increase is due additional assets from the project being added to the depreciation schedule, and chemicals and utilities almost doubling what was initially forecast in planning stages.

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.

SOUTH DELAWARE COUNTY REGIONAL WATER AUTHORITY
ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2021

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 2021 | FY 2020 | Change |
|----------------------------------|-------------------|-------------------|-------------------|
| Current and other assets | \$ 535.6 | \$ 674.9 | \$ (139.3) |
| Capital assets | 16,857.4 | 17,206.9 | (349.5) |
| Total assets | <u>17,393.0</u> | <u>17,881.8</u> | <u>(488.8)</u> |
| Long-term debt outstanding | 8,163.5 | 8,367.2 | (203.7) |
| Other liabilities | 91.9 | 146.9 | (55.0) |
| Total liabilities | <u>8,255.4</u> | <u>8,514.1</u> | <u>(258.7)</u> |
| Net position | | | |
| Net investment in capital assets | 8,693.9 | 8,833.5 | (139.6) |
| Restricted | 206.4 | 89.9 | 116.5 |
| Unrestricted | 237.3 | 444.3 | (207.0) |
| Total net position | <u>\$ 9,137.6</u> | <u>\$ 9,367.7</u> | <u>\$ (230.1)</u> |

As shown in table 1, total net position decreased by \$230,114.

Change in Net Position

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

| | FY 2021 | FY 2020 | Change |
|--------------------------------------|-------------------|-------------------|-----------------|
| Operating revenues | \$ 1,094.1 | \$ 930.8 | \$ 163 |
| Operating expenses | 718.5 | 762.7 | (44.2) |
| Operating income before depreciation | <u>375.6</u> | <u>168.1</u> | <u>207.5</u> |
| Depreciation | 518.7 | 335.2 | 183.5 |
| Operating loss | (143.1) | (167.1) | 24.0 |
| Interest expense | (165.0) | (43.2) | (121.8) |
| Interest income | 0.2 | 0.3 | (0.1) |
| Road grant to FRPOA | - | (227.9) | 227.9 |
| Debt issuance and legal costs | (16.2) | (16.5) | 0.3 |
| Loss before capital contributions | <u>(324.1)</u> | <u>(454.4)</u> | <u>130.3</u> |
| Capital contributions | 94.0 | 937.0 | (843.0) |
| Change in net position | <u>(230.1)</u> | <u>482.6</u> | <u>(712.7)</u> |
| Net position - beginning | <u>9,367.7</u> | <u>8,885.1</u> | <u>482.6</u> |
| Net position - ending | <u>\$ 9,137.6</u> | <u>\$ 9,367.7</u> | <u>\$ (230)</u> |

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 net position decreased from the prior year by \$230,114.

Capital Assets and Long-term Debt

The Authority had invested \$8,693,872 in capital assets net of related debt (including outstanding retainage and payables expected to be paid by additional loan proceeds) at June 30, 2021.

Table 3
Capital Assets
(In Thousands of Dollars)

| | FY 2021 | FY 2020 | Change |
|--------------------------|-------------|-------------|------------|
| Non-depreciable assets | | | |
| Water capacity rights | \$ 60.0 | \$ 60.0 | \$ - |
| Construction in progress | 94.0 | 58.2 | 35.8 |
| Depreciable assets | | | |
| Buildings | 25.6 | 25.6 | - |
| Equipment and furniture | 172.2 | 141.9 | 30.3 |
| Water system | 17,776.4 | 17,673.3 | 103.1 |
| Accumulated depreciation | (1,270.8) | (752.1) | (518.7) |
| Totals | \$ 16,857.4 | \$ 17,206.9 | \$ (349.5) |

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

| | FY 2021 | FY 2020 | Change |
|---------------|------------|------------|------------|
| Capital lease | \$ 50.6 | \$ 74.6 | \$ (24.0) |
| Notes payable | 8,112.9 | 8,292.6 | (179.7) |
| | \$ 8,163.5 | \$ 8,367.2 | \$ (203.7) |

During the year, the Authority received a grant from the Cherokee Nation in the amount of \$94,000 to fund a feasibility for water system improvements on the Chewey Road Area Extension.

Economic Factors and Next Year's Budget and Rates

The Board of SDCRWA continued 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 twelve months ending March 31, 2021 was used in determining the budget since we had a full year's actual data. It is anticipated that water usage will increase in the upcoming year. Rates for residential customers cannot be raised until three years after plant completion according to lease agreement. However, new rates for wholesale customers may need to be implemented during the year if budgeted revenue is not reached.

SOUTH DELAWARE COUNTY REGIONAL WATER AUTHORITY
ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2021

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, 2021**

Assets

Current assets:

Unrestricted assets

| | |
|--|------------|
| Cash and cash equivalents | \$ 124,549 |
| Accounts receivable from the sale of water | 87,291 |
| Prepaid expense | 11,246 |
| Inventory | 106,077 |

| | |
|----------------------|---------|
| Total current assets | 329,163 |
|----------------------|---------|

Noncurrent assets:

| | |
|---|------------|
| Cash restricted - utility deposits | 28,748 |
| Cash restricted - reserve requirements | 84,443 |
| Cash restricted - debt service | 14,008 |
| Flint Ridge POA escrow for capital projects | 79,325 |
| Construction in progress | 94,000 |
| Water capacity rights | 60,000 |
| Capital assets, depreciable, net | 16,703,350 |

| | |
|-------------------------|------------|
| Total noncurrent assets | 17,063,874 |
|-------------------------|------------|

| | |
|--------------|------------|
| Total assets | 17,393,037 |
|--------------|------------|

Liabilities

Current liabilities:

| | |
|-----------------------------------|---------|
| Accounts payable | 41,013 |
| Accrued payroll | 2,402 |
| Accrued compensated absences | 5,935 |
| Accrued interest payable | 12,821 |
| Current portion of long term debt | 201,558 |

| | |
|---------------------------|---------|
| Total current liabilities | 263,729 |
|---------------------------|---------|

Noncurrent liabilities:

| | |
|-----------------------------|-----------|
| Deposits held for customers | 29,800 |
| Long-term debt | 7,961,920 |

| | |
|------------------------------|-----------|
| Total noncurrent liabilities | 7,991,720 |
|------------------------------|-----------|

| | |
|-------------------|-----------|
| Total liabilities | 8,255,449 |
|-------------------|-----------|

Net position

| | |
|----------------------------------|-----------|
| Net investment in capital assets | 8,693,872 |
| Restricted for debt covenants | 98,451 |
| Restricted for capital projects | 79,325 |
| Unrestricted | 265,940 |

| | |
|--------------------|--------------|
| Total net position | \$ 9,137,588 |
|--------------------|--------------|

See accompanying notes to the financial statements

Statement of Revenues, Expenses, and Change in Net Position
Year Ended June 30, 2021

| | |
|--|----------------------------|
| Service revenues | |
| Revenue from the sale of water | <u>\$ 1,094,129</u> |
| Operating expenses | |
| Salaries and benefits | 314,021 |
| Chemicals and supplies | 106,598 |
| Repair and maintenance | 45,892 |
| License and fees | 11,712 |
| Automobile expense | 21,174 |
| Utilities | 128,669 |
| Insurance | 42,611 |
| Office and billing | 31,279 |
| Other | 16,473 |
| Depreciation | <u>518,739</u> |
| Total operating expenses | <u>1,237,168</u> |
| Operating loss | (143,039) |
| Nonoperating revenues (expenses) | |
| Capital contributions | 94,000 |
| Interest income | 169 |
| Legal fees and debt issuance costs | (16,200) |
| Interest expense | <u>(165,044)</u> |
| Total nonoperating revenues (expenses) | (87,075) |
| Change in net position | (230,114) |
| Net position - beginning | <u>9,367,702</u> |
| Net position - ending | <u><u>\$ 9,137,588</u></u> |

See accompanying notes to the financial statements

Statement of Cash Flows
Year Ended June 30, 2021

Operating activities

| | |
|---|--------------|
| Receipts from customers | \$ 1,089,062 |
| Payments for goods and services | (452,273) |
| Payments to employees | (313,789) |
| Net cash provided by operating activities | 323,000 |

Capital and related financing activities

| | |
|---|-----------|
| Receipts from grant agreements | 128,296 |
| Purchases of capital assets | (209,737) |
| Principal paid on capital debt | (203,690) |
| Interest paid on capital debt | (164,613) |
| Deposits to Flint Ridge POA escrow account | (30,000) |
| Draws on Flint Ridge POA escrow account for water lines | 18,437 |
| Legal fees | (16,200) |
| Net cash used by capital and related financing activities | (477,507) |

Investing activities

| | |
|--|------------|
| Interest and dividends | 169 |
| Net change in cash and cash equivalents | (154,338) |
| Cash and cash equivalents, beginning of year | 406,086 |
| Cash and cash equivalents, end of year | \$ 251,748 |

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

| | |
|--|--------------|
| Operating loss | \$ (143,039) |
| Adjustments to reconcile operating loss to net cash provided by operating activities: | |
| Depreciation expense | 518,739 |
| Changes in operating assets and liabilities: | |
| Increase in accounts receivable | (4,967) |
| Increase in prepaid expense | (849) |
| Increase in inventory | (32,006) |
| Decrease in accounts payable | (15,010) |
| Decrease in deposits held for customers | (100) |
| Increase in other accrued liabilities | 275 |
| Decrease in compensated absences | (43) |
| Net cash provided by operating activities | \$ 323,000 |

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, 2021.

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 2021.

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 \$94,000 in capital contributions during the year ended June 30, 2021.

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
- Cookson Hills – a home and school for at-risk children in Northeast 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, 2021 the Authority deposited \$30,000 with the POA and utilized \$18,437 for water line expansions, bringing the total amount in escrow to \$79,325.

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, 2021 the Authority had deposited \$81,309 to meet both reserve requirements.

Communities Unlimited

As a condition of the loan from Communities Unlimited, Inc., a debt reserve fund is required to be established and \$116 per month deposited to the fund until the reserve total reaches \$13,929. At June 30, 2021, the Authority had deposited \$3,134 to meet the reserve requirement.

The remaining balance of restricted cash includes \$14,008 for debt service on the OWRB note and \$28,748 for customer deposits held by the Authority.

8. Deposits and Investments

As of June 30, 2021, the Authority's deposits of \$251,748 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, 2021:

| | Balance <u>July 1, 2020</u> | <u>Additions</u> | <u>Deletions</u> | Balance <u>June 30, 2021</u> |
|--|--------------------------------|---------------------|------------------|---------------------------------|
| Capital assets not being depreciated: | | | | |
| Water capacity rights | \$ 60,000 | \$ - | \$ - | \$ 60,000 |
| Construction in progress | 58,160 | 94,000 | 58,160 | 94,000 |
| Total capital assets not being depreciated | <u>118,160</u> | <u>94,000</u> | <u>58,160</u> | <u>154,000</u> |
| Depreciable assets | | | | |
| Buildings and improvements | 25,632 | - | - | 25,632 |
| Equipment and furniture | 141,926 | 30,277 | - | 172,203 |
| Water system | 17,673,279 | 103,101 | - | 17,776,380 |
| Total depreciable assets | <u>17,840,837</u> | <u>133,378</u> | <u>-</u> | <u>17,974,215</u> |
| Less accumulated depreciation | <u>752,126</u> | <u>518,739</u> | <u>-</u> | <u>1,270,865</u> |
| Capital assets, net | <u>\$ 17,206,871</u> | <u>\$ (291,361)</u> | <u>\$ 58,160</u> | <u>\$ 16,857,350</u> |

Depreciation expense was \$518,739 for the fiscal year ended June 30, 2021.

10. Long-Term Debt

Long-term debt at June 30, 2021 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. | \$ 17,443 |
| Arvest Equipment Finance lease issued January 7, 2019 in the amount of \$59,808, bearing interest at the rate of 4.15%, payable at \$1,155 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. | 33,115 |
| 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. | 6,606,504 |
| 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. | 358,837 |

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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. 1,055,950

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. 91,629

Total long-term debt at June 30, 2021 \$ 8,163,478

The Authority's changes in long-term liabilities for the fiscal year ended June 30, 2021 were as follows:

| | Balance | | | Balance June 30, 2021 | Amounts Due in One Year |
|------------------------|---------------------|-------------|-------------------|--------------------------|----------------------------|
| | July 1, 2020 | Additions | Retirements | | |
| Capital leases payable | \$ 74,585 | \$ - | \$ 24,027 | \$ 50,558 | \$ 25,256 |
| Notes payable | 8,292,583 | - | 179,663 | 8,112,920 | 176,302 |
| Total long term debt | <u>\$ 8,367,168</u> | <u>\$ -</u> | <u>\$ 203,690</u> | <u>\$ 8,163,478</u> | <u>\$ 201,558</u> |

Annual debt service requirements to maturity for long-term debt as of June 30, 2021 are as follows:

| Year Ending | Notes Payable | | Capital Leases Payable | | Total | |
|--------------|---------------------|---------------------|------------------------|-----------------|---------------------|---------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| June 30 | | | | | | |
| 2022 | \$ 176,302 | \$ 157,982 | \$ 25,256 | \$ 2,137 | \$ 201,558 | \$ 160,119 |
| 2023 | 180,052 | 154,231 | 17,356 | 942 | 197,408 | 155,173 |
| 2024 | 183,893 | 150,391 | 7,946 | 161 | 191,839 | 150,552 |
| 2025 | 187,825 | 146,458 | - | - | 187,825 | 146,458 |
| 2026 | 191,853 | 142,430 | - | - | 191,853 | 142,430 |
| 2027 to 2031 | 991,263 | 649,712 | - | - | 991,263 | 649,712 |
| 2032 to 2036 | 1,053,727 | 548,044 | - | - | 1,053,727 | 548,044 |
| 2037 to 2041 | 1,163,878 | 437,893 | - | - | 1,163,878 | 437,893 |
| 2042 to 2046 | 1,286,245 | 315,525 | - | - | 1,286,245 | 315,525 |
| 2047 to 2051 | 1,232,418 | 186,941 | - | - | 1,232,418 | 186,941 |
| 2052 to 2056 | 1,237,079 | 78,061 | - | - | 1,237,079 | 78,061 |
| 2057 to 2059 | 228,385 | 2,777 | - | - | 228,385 | 2,777 |
| Total | <u>\$ 8,112,920</u> | <u>\$ 2,970,445</u> | <u>\$ 50,558</u> | <u>\$ 3,240</u> | <u>\$ 8,163,478</u> | <u>\$ 2,973,685</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, 2021 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.

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.



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, 2021, and the related notes to the financial statements, which collectively comprise Authority's basic financial statements, and have issued our report thereon dated August 10, 2021.

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.

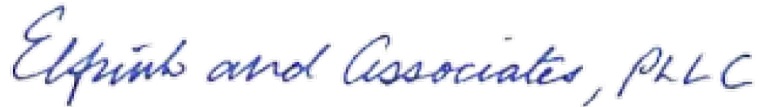
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not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

August 10, 2021