

**Stephens County Rural
Water District #5**
Audit Report
For Year Ending September 30, 2022

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Independent Auditor's Report

To The Board of Directors of
Rural Water, Sewer, & Solid Waste Management Dist. #5
Stephens County, Oklahoma

Report on the Audit of the Financial Statements

Opinion

I have audited the basic financial statements of Rural Water, Sewer, & Solid Waste Management District #5, Stephens County, Oklahoma (District), as of and for the years ended September 30, 2022 and 2021 and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rural Water, Sewer, & Solid Waste Management District #5, Stephens County, Oklahoma, as of September 30, 2022 and 2021, and the respective changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

I conducted the audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (Government Auditing Standards). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of the District and to meet my other ethical responsibilities, in accordance with the relevant ethical requirements relating to the audits. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Responsibility of Management for the Financial Statements

Management is responsible for the preparation and fair representation of these financial statements in accordance accounting principle generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for 12 months after the date of the financial statements and no conditions were found that raise substantial doubt.

Auditor's Responsibility for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with GAAS, I: a) exercised professional judgement and maintained professional skepticism throughout the audit, b) identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements, c) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed, d) evaluate 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, e) conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time, and f) required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that I identified during the audit.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated October 29, 2022, on my consideration of the District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Scott Northrip, CPA
Certified Public Accountant

October 29, 2022

Rural Water, Sewer, & Solid Waste Management District #5, Stephens County, Oklahoma

Comparative Statement of Net Position
As of September 30, 2022 and 2021

	2022	2021
ASSETS:		
Current Assets:		
Cash & Cash Equivalents (Note 9)	\$ 1,791,635	\$ 1,486,695
Accounts Receivable (Note 2)	189,725	158,412
Other Receivable	-	-
Interest Receivable	124	131
Prepaid Insurance	27,695	38,618
Inventory	70,070	49,406
Total Current Assets	\$ 2,079,249	\$ 1,733,262
Noncurrent Assets:		
Construction in Progress	\$ 192,755	\$ 126,603
Capital Assets: (Note 5)		
Land, Water Rights, Deposits & Loan Fees	282,319	292,646
Other Capital Assets, net of depreciation	8,734,046	9,066,161
Total Noncurrent Assets	\$ 9,209,120	\$ 9,485,410
TOTAL ASSETS	\$ 11,288,369	\$ 11,218,672
LIABILITIES AND NET POSITION:		
Current Liabilities:		
Accounts Payable	\$ 47,031	\$ 31,277
Interest Payable	284	345
Current Portion of Long-term Liabilities	418,971	402,855
Total Current Liabilities	\$ 466,286	\$ 434,477
Long-Term Liabilities:		
Notes Payable - net of current portion	\$ 879,718	\$ 1,297,019
Net Position:		
Restricted Fund Balance (Note 9)	\$ 412,326	\$ 409,648
Unrestricted Fund Balance	848,856	481,845
Total Fund Balance	\$ 1,261,182	\$ 891,493
Member Investments	1,688,386	1,602,886
Grants (Note 10)	6,082,909	6,082,909
Donated Assets (Note 6)	909,888	909,888
TOTAL NET POSITION	\$ 9,942,365	\$ 9,487,176
TOTAL LIABILITIES AND NET POSITION	\$ 11,288,369	\$ 11,218,672

See accompanying notes to the financial statements.

Rural Water, Sewer, & Solid Waste Management District #5, Stephens County, Oklahoma

Comparative Statement of Activities
For the Years Ended September 30, 2022 and 2021

	2022	2021
OPERATING REVENUES:		
Water Sales	\$ 2,093,911	\$ 1,742,027
Water Sales - Bulk	1,543	146
Sale of Supplies	-	-
Connection Charges & Road Bores	27,433	19,860
Damage Reimbursement	12,886	36,399
Miscellaneous Revenues	1,887	2,520
Total Operating Revenues	\$ 2,137,660	\$ 1,800,952
OPERATING EXPENSES:		
Salaries	\$ 392,960	\$ 378,557
Water Purchases	33,635	15,712
Depreciation Expense	406,287	475,415
Interest Expense	69,904	86,385
Utilities	115,937	89,166
System Repairs, Supplies & Trenching Expense	415,768	357,125
Insurance	50,678	41,559
Legal & Professional Fees	9,795	12,370
Vehicle & Travel Expense	63,571	46,214
Employee Benefits	69,910	70,413
Payroll Tax Expense	32,020	30,992
Rent Expense	6,126	6,551
Office Supplies, Security & Postage	37,351	34,270
Communication Expense	11,035	13,279
Director's Meetings & Fees	7,151	6,313
Loan Costs Amortization	10,326	10,326
Dues & Fees	42,462	47,836
Bad Debts	3,847	6,305
Advertising & Promotions Expense	4,527	2,322
Miscellaneous Expense	4,730	4,218
Total Operating Expenses	\$ 1,788,020	\$ 1,735,328
OPERATING INCOME (LOSS)	\$ 349,640	\$ 65,624
OTHER REVENUES (EXPENSES):		
Investment Revenues	\$ 5,606	\$ 2,644
Rent Income	14,443	5,707
Reimburse line relocate	-	-
Gain on Sale of Assets	-	-
Total Other Revenues(Expenses)	\$ 20,049	\$ 8,351
EXCESS REVENUES (EXPENSES)	\$ 369,689	\$ 73,975

See accompanying notes to the financial statements.

**Rural Water, Sewer, & Solid Waste Management
District #5, Stephens County, Oklahoma**

Comparative Statement of Changes in Net Position
For the Years Ended September 30, 2022 and 2021

	2022	2021
Balance, October 1	\$ 9,487,176	\$ 9,003,602
Excess Revenues (Expenses)	369,689	73,975
Prior Period Adjustment	-	-
Member Investments	85,500	97,500
Grants	-	299,999
Donated Assets	-	12,100
Total Changes in Net Assets	\$ 455,189	\$ 483,574
Balance, September 30	\$ 9,942,365	\$ 9,487,176

See accompanying notes to the financial statements.

Rural Water, Sewer, & Solid Waste Management District #5, Stephens County, Oklahoma

Comparative Statement of Cash Flows
For the Years Ended September 30, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 2,106,347	\$ 1,754,967
Payments to suppliers	(800,600)	(695,318)
Payments to employees & benefits	(494,890)	(479,962)
Net Cash Provided by Operating Activities	\$ 810,857	\$ 579,687
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of fixed assets	\$ (74,172)	\$ (695,547)
Payments for construction in progress	(66,152)	(126,603)
Donated Assets	-	12,100
Principal payments on notes payable	(401,185)	(381,566)
Interest paid on notes payable	(69,957)	(85,414)
Proceeds from sale of assets	-	-
Proceeds from Long-term notes	-	-
Proceeds from Grants	-	299,999
Net Cash Used In Capital & Related Financing Activities	\$ (611,466)	\$ (977,031)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment Receipts	\$ 5,606	\$ 2,637
Proceeds from memberships	85,500	97,500
Prior Period Adjustment	-	-
Miscellaneous Receipts	14,443	5,707
Net Cash Provided from Investing Activities	\$ 105,549	\$ 105,844
INCREASE (DECREASE) IN CASH AND INVESTMENTS	\$ 304,940	\$ (291,500)
Cash and Investment Balance - Beginning	1,486,695	1,778,195
CASH AND INVESTMENT BALANCE - ENDING	\$ 1,791,635	\$ 1,486,695
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Excess Operating Revenues (Expenses)	\$ 349,640	\$ 65,624
Adjustments to reconcile operating income to net cash provided (used) by Operating Activities:		
Interest Expense	69,904	85,353
Depreciation expense & Loan Amortization	416,613	485,741
Change in current assets and liabilities:		
Accounts Receivable	(31,313)	(45,985)
Other Receivable	-	-
Prepaid Insurance	10,923	(16,583)
Inventory	(20,664)	753
Accounts Payable	15,754	4,784
Net Cash Provided from Operating Activities	\$ 810,857	\$ 579,687

See accompanying notes to the financial statements.

Rural Water, Sewer, & Solid Waste Management District #5, Stephens County, Oklahoma

Notes to the Financial Statements
For the Years Ended September 30, 2022 and 2021

Note 1 - Significant Accounting Policies

Organization:

Rural Water, Sewer, & Solid Waste Management District #5, Stephens County, Oklahoma (District) is an Oklahoma non-profit corporation formed under the Oklahoma Rural Water Act for the purpose of supplying water to the rural areas in and around Stephens County, Oklahoma. The District is governed by a Board of Directors who have been elected from and by the members of the District at the annual membership meeting. The District served 2,322 meters at September 30, 2022 and sold 160.3 million gallons of water during the year.

Basis of Accounting:

The District is a proprietary fund type of entity and uses the accrual method of accounting which reports revenues when earned and expenses when incurred. The District is not legally required to adopt a budget or report on budget comparisons in this report.

Fixed Assets and Depreciation:

The District records its fixed assets at their historical cost or donated value. Depreciation is calculated on each individual asset using the straight-line method of depreciation at the asset's estimated useful life. The District estimates the useful lives of the assets based on the type of asset. The lives range from 5 to 40 years.

Income Tax:

The District is exempt from federal and state income taxes under IRS Code Section 115 (a) as an agency of Stephens County, Oklahoma.

Inventory:

The District carries an inventory of supply parts used to repair the water system. The inventory is reported at the market value as of September 30, 2022 and 2021.

Note 2 - Accounts Receivable

The accounts receivable represents the water usage and service revenues for September plus any unpaid balances from the previous months. The District uses the direct method to account for bad debts. The accounts receivable balances at September 30, 2022 and 2021 amounted to \$192,584 and \$161,271, respectively with the deduction of the allowance for bad debts of \$2,859 for both years. The meters are read by the District monthly.

Note 3 - Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 4 - Contingencies

The District didn't have any contingencies as of the date of the audit.

Rural Water, Sewer, & Solid Waste Management District #5, Stephens County, Oklahoma

Notes to the Financial Statements
For the Years Ended September 30, 2022 and 2021

Note 5 - Fixed Assets

	Balance		Balance	
	10/1/2021	Additions	Disposed	9/30/2022
Water System Plant Assets	\$ 17,208,246	\$ 74,172	\$ -	\$ 17,282,418
Machinery & Equipment	51,703	-	-	51,703
Office Furniture & Fixtures	53,430	-	-	53,430
Vehicles	326,388	-	-	326,388
Office Buildings	202,941	-	-	202,941
Total Assets	\$ 17,842,708	\$ 74,172	\$ -	\$ 17,916,880
Less: Accumulated Depreciation	8,776,547	406,287	-	9,182,834
Net Fixed Assets	\$ 9,066,161	\$ (332,115)	\$ -	\$ 8,734,046

Note 6 - Donated Assets

Donated assets is the estimated value of water lines installed by members from the existing water lines of the system to the member's meter. The value of the lines donated to the District for the years ending September 30, 2022 and 2021 were \$0 and \$12,100, respectively.

Note 7 - Long-Term Liabilities

The District has long-term notes payable with Arvest Bank, the Oklahoma Water Resources Board and S. Geiger. All notes are fixed interest notes except the OWRB which is adjusted annually. The notes are secured by the assets of the District.

	Interest Rate	9/30/2022	9/30/2021	Monthly Payment
Arvest Bank	5.25%	89,689	108,874	2,167
OWRB Series 2013	3.40%	1,180,000	1,550,000	35,927
S. Geiger	0.00%	29,000	41,000	1,000
Total		\$ 1,298,689	\$ 1,699,874	\$ 39,094
Less: Current Portion		(418,971)	(402,855)	
Long-term Portion		\$ 879,718	\$ 1,297,019	

Current Portion:		Arvest	OWRB	Geiger
Year Ending	9/30/2023	21,971	385,000	12,000
Year Ending	9/30/2024	23,150	400,000	12,000
Year Ending	9/30/2025	24,384	395,000	5,000
Year Ending	9/30/2026	20,184	0	-
Year Ending	9/30/2027	-	0	-

Note 8 - Retirement Plan

The District provides a money purchase retirement plan for its full time employees. The plan is administered by American United Life. The District contributes 9% of the employees wages.

**Rural Water, Sewer, & Solid Waste Management
District #5, Stephens County, Oklahoma**

Notes to the Financial Statements
For the Years Ended September 30, 2022 and 2021

Note 9 - Components of Cash and Equivalents

		9/30/2022	9/30/2022	9/30/2021
	Date of Maturity	Interest Rate	Balance	Balance
Petty Cash	-	0.00%	\$ 300	\$ 300
Checking - Arvest Bank	-	0.50%	346,190	154,735
Savings - Arvest Bank	-	0.50%	697,515	563,494
Savings - Arvest Bank	-	0.50%	80,788	66,329
Checking - Arvest Bank (Credit Card Payments)	-	0.00%	4,280	44,295
CD - Arvest Bank	10/25/2026	0.85%	122,439	121,478
CD - Arvest Bank	9/2/2025	1.10%	126,797	125,416
OWRB loan reserve - Bancfirst	-	0.71%	412,326	409,648
Reserve Certificates - ORWAAG	-	2.17%	1,000	1,000
Total Cash and Equivalents			\$ 1,791,635	\$ 1,486,695

Reserved:

Tower Maintenance	\$ 80,788
Water Rights	249,236
System Improvement	697,515
	<u>\$ 1,027,539</u>

Restricted:

OWRB Debt Service	\$ 412,326
	<u>\$ 412,326</u>

Note 10 - Grants

The District has been awarded a CDBG grant during the years ending September 30, 2021 in the amount of \$299,999 for improvements to the water system. The District is required to match funds totalling \$300,001. The District completed the project during the year ending September 30, 2021.

Note 11 - Prior Period Adjustment

The District did not have any prior period adjustment for the years ending September 30, 2022 or 2021.

Note 12 - Evaluation of Subsequent Events

The subsequent events of the District were evaluated through October 27, 2022, the date of the report.

SCOTT NORTHRIP, CPA

P.O. Box 642, Hobart, Oklahoma 73651

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND INTERNAL CONTROL OF THE FINANCIAL STATEMENTS IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
Rural Water, Sewer, and Solid Waste Management Dist. #5
Stephens County, Oklahoma

I have audited the basic financial statements of Rural Water, Sewer, and Solid Waste Management District #5, Stephens County, Oklahoma (District), as of and for the year ending September 30, 2022 and 2021, and have issued my report thereon dated October 29, 2022. I conducted the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, I performed test of its compliance with certain laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with such provisions was not an objective of our audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that require to be reported under *Government Auditing Standards*.

Internal Control

In planning and performing the audit, I considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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.

Report on Compliance and Internal Controls-Continued

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.

My consideration of the internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Scott Northrip, CPA

Certified Public Accountant

October 29, 2022