

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

Fiscal Year Ended June 30, 2024

Delaware County, Oklahoma

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Board of Trustees

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Darrel Pickup	Vice-Chairman
Jim Sixkiller	Trustee
Waylon Chandler	Trustee
Del Patterson	Trustee



INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
South Delaware County Regional Water Authority

Opinion

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, 2024, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Authority, as of June 30, 2024, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our 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*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the

aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2025, 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

March 31, 2025

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, 2024. Please read it in conjunction with the financial statements which follow this section.

Financial Highlights

For fiscal year ended June 30, 2024, South Delaware County Regional Water Authority (SDCRWA) experienced an operating revenue of \$1,737,600 an increase of \$96,000 over the \$ 1,643,000 reported in 2023. The increase is due primarily to an increase in the maintenance agreement with Adair County RWD #5. The operating expenses also increased by \$404,500. The increase was due to increase in production costs, security upgrades to the water system, and the addition of new employees. Net effect was an operating loss before depreciation of \$309,900.

The Authority continued to make timely payments on their existing long term loan payments to USDA-RD, OWRB and Communities Unlimited, and the short-term loan with Arvest Bank was paid off. A new five-year short-term debt was incurred to Arvest Equipment Finance in the amount of \$227,269 @ 6.3% interest for the lease/purchase of (2) one-ton trucks and (1) ¾ ton service truck.

The Chewey Road Project was completed by Orr Construction Inc in August 2024. Cherokee Nation made direct payments to Orr Construction Inc in the amount of \$1,962,500 over the two-year period. The total Chewey Road Project cost was \$2,091,615 which included the original study, engineering, and inspection costs. At fiscal year-end the Authority had signed 110 residential customers as a result of this project.

Additionally, SDCRWA received a grant in the amount of \$289,500 from Oklahoma Water Resources Board (OWRB) as a result of the American Rescue Plan Act (ARPA). This grant is to be used for further improvements on the Chewey Road Project. In fiscal year ending June 30, 2024, \$98,651 has been expended and is reported as Construction in Progress. The remaining \$190,849 is reported as Deferred Revenue. This grant is being used primarily for meter and line installation.

In August of 2024, Delaware County RWD #11 sold SDCRWA a main line and thirty-five meter connections to the east water tower and subsequently to Colcord for \$300,000. This acquisition provided SDCRWA better control over the water system since the tower was part of the 2017 Project.

Capital Assets increased by \$1,935,600 net of depreciation and Net Investment in Capital Assets increased by \$1,829,600.

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 audited 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)

	FY2024	FY2023	Change
Current and other assets	\$ 1,061.5	\$ 983.8	\$ 77.7
Capital assets	18,282.2	16,346.6	1,935.6
Total assets	<u>19,343.7</u>	<u>17,330.4</u>	<u>2,013.3</u>
Long-term debt outstanding	7,874.1	7,768.0	106.1
Other liabilities	643.7	264.8	378.9
Total liabilities	<u>8,517.8</u>	<u>8,032.8</u>	<u>485.0</u>
Net position			
Net investment in capital assets	10,408.1	8,578.5	1,829.6
Restricted	267.2	251.0	16.2
Unrestricted	150.6	468.1	(317.5)
Total net position	<u>\$ 10,825.9</u>	<u>\$ 9,297.6</u>	<u>\$ 1,528.3</u>

As shown in table 1, total net position increased by \$1,528,298.

Change in Net Position

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

	FY 2024	FY 2023	Change
Operating revenues	\$ 1,737.6	\$ 1,643.0	\$ 94.6
Operating expenses	1,407.9	1,003.4	404.5
Operating income before depreciation	329.7	639.6	(309.9)
Depreciation	634.2	524.4	109.8
Operating income (loss)	(304.5)	115.2	(419.7)
Loss on disposition of assets	(94.1)	-	(94.1)
Interest expense	(162.9)	(159.3)	(3.6)
Interest income	4.8	3.8	1.0
Loss before other items	<u>(556.7)</u>	<u>(40.3)</u>	<u>(516.4)</u>
Capital contributions	2,085.0	427.7	1,657.3
Change in net position	<u>1,528.3</u>	<u>387.4</u>	<u>1,140.9</u>
Net position - beginning	9,297.6	8,910.2	387.4
Net position - ending	<u>\$ 10,825.9</u>	<u>\$ 9,297.6</u>	<u>\$ 1,528.3</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.

Capital Assets and Long-term Debt

The Authority had invested \$10,408,100 in capital assets net of related debt at June 30, 2024.

Table 3
Capital Assets
(In Thousands of Dollars)

	FY 2024	FY 2023	Change
Non-depreciable assets			
Water capacity rights	\$ 60.0	\$ 60.0	\$ -
Construction in progress	77.5	158.4	(80.9)
Depreciable assets			
Buildings	25.6	25.6	-
Equipment and furniture	504.3	198.7	305.6
Water system	20,533.9	18,219.8	2,314.1
Accumulated depreciation	(2,919.1)	(2,315.9)	(603.2)
Totals	\$ 18,282.2	\$ 16,346.6	\$ 1,935.6

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

	FY 2024	FY 2023	Change
Capital lease	\$ 295.9	\$ 7.9	\$ 288.0
Notes payable	7,578.2	7,760.1	(181.9)
	\$ 7,874.1	\$ 7,768.0	\$ 106.1

Economic Factors and Next Year's Budget and Rates

Historical data from twelve months ending March 31, 2024, 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. New rates for wholesale customers will be implemented in January of 2025 an increase of 0.30 per thousand. Usage rates of the same amount for residential customers will be implemented in January of 2025 with no change in the base rate. With the projected increase in water usage and the new rates and new customers from the Chewey Road and Daytown Road to Colcord we expect the budgeted revenue for fiscal year ending June 30, 2025, to be \$1,955,000.

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, 2024**

Assets	
Current assets:	
Unrestricted assets	
Cash and cash equivalents	\$ 4,315
Accounts receivable from the sale of water	184,589
Insurance claims receivable	115,180
Grants receivable	30,000
Employee receivable	27,876
Prepaid expense	24,695
Inventory	345,693
Total current assets	<u>732,348</u>
Noncurrent assets:	
Cash restricted - utility deposits	62,000
Cash restricted - reserve requirements	115,908
Cash restricted - debt service	14,913
Flint Ridge POA escrow for capital projects	136,330
Construction in progress	77,487
Water capacity rights	60,000
Capital assets, depreciable, net	18,144,720
Total noncurrent assets	<u>18,611,358</u>
Total assets	<u>19,343,706</u>
Liabilities	
Current liabilities:	
Accounts payable	310,454
Accrued payroll	1,327
Accrued compensated absences	16,643
Accrued interest payable	23,914
Deferred revenue - OWRB Grant	190,849
Unearned meter connection fees	32,000
Current portion of long term debt	240,021
Total current liabilities	<u>815,208</u>
Noncurrent liabilities:	
Deposits held for customers	68,574
Long-term debt	7,634,042
Total noncurrent liabilities	<u>7,702,616</u>
Total liabilities	<u>8,517,824</u>
Net position	
Net investment in capital assets	10,408,144
Restricted for debt covenants	130,821
Restricted for capital projects	136,330
Unrestricted	150,587
Total net position	<u>\$ 10,825,882</u>

See accompanying notes to the financial statements

**Statement of Revenues, Expenses, and Change in Net Position
Year Ended June 30, 2024**

Service revenues	
Revenue from the sale of water	\$ 1,584,784
Maintenance services	152,800
Total service revenues	<u>1,737,584</u>
Operating expenses	
Salaries and benefits	703,046
Chemicals and supplies	122,708
Repair and maintenance	119,045
License and fees	7,077
Automobile expense	85,527
Training	10,957
Utilities	148,697
Insurance	56,951
Office and billing	134,125
Audit fees	10,500
Other	9,266
Depreciation	634,167
Total operating expenses	<u>2,042,066</u>
Operating income	(304,482)
Nonoperating revenues (expenses)	
Private donations	3,049
Grant revenue	98,651
Capital contributions	1,983,265
Loss on disposition of assets	(94,071)
Interest income	4,824
Interest expense	(162,938)
Total nonoperating revenues (expenses)	<u>1,832,780</u>
Change in net position	1,528,298
Net position - beginning	<u>9,297,584</u>
Net position - ending	<u>\$ 10,825,882</u>

See accompanying notes to the financial statements

Statement of Cash Flows
Year Ended June 30, 2024

Operating activities	
Receipts from customers	\$ 1,875,192
Payments for goods and services	(770,435)
Payments to employees	(696,091)
Net cash provided by operating activities	<u>408,666</u>
Capital and related financing activities	
Proceeds from capital debt	295,919
Receipts from grant agreements	289,500
Receipts from private donations	3,049
Purchases of capital assets	(680,616)
Principal paid on capital debt	(189,906)
Interest paid on capital debt	(151,249)
Deposits to Flint Ridge POA escrow account	(30,000)
Net cash used by capital and related financing activities	<u>(463,303)</u>
Investing activities	
Interest and dividends	<u>4,824</u>
Net change in cash and cash equivalents	(49,813)
Cash and cash equivalents, beginning of year	246,949
Cash and cash equivalents, end of year	<u>\$ 197,136</u>
Reconciliation of operating income to net cash provided by operating activities	
Operating loss	\$ (304,482)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	634,167
Changes in operating assets and liabilities:	
Decrease in accounts receivable	157,408
Increase in insurance claim receivable	(115,180)
Increase in employee receivable	(27,876)
Increase in prepaid expense	(11,617)
Increase in inventory	(100,239)
Increase in accounts payable	189,330
Decrease in deposits held for customers	(19,800)
Decrease in other accrued liabilities	(1,193)
Increase in compensated absences	8,148
Net cash provided by operating activities	<u>\$ 408,666</u>

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, 2024.

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 2024.

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.

3. Rate-Making Policies and Procedures

As part of an agreement for the transfer of assets from the Flint Ridge Rural Water District, 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. 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 more than the percentage rate adjustment applied to the wholesale customers of the Authority. Wholesale rates were raised December 1, 2022, however residential rates will not be raised until December 2024.

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
- The Demand Project – a non-profit organization providing emergency residency for women

5. 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, 2024 the Authority deposited \$30,000 with the POA, bringing the total amount in escrow to \$136,330.

6. 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, 2024 the Authority had deposited \$115,908 to meet both reserve requirements.

The remaining balance of restricted cash includes \$14,913 for debt service on the OWRB note and \$62,000 for customer deposits held by the Authority.

7. Deposits and Investments

As of June 30, 2024, the Authority’s deposits of \$197,136 were held in demand accounts and fully insured by the FDIC. The Authority had no investments.

8. Capital Assets

The following is a summary of capital asset changes for the year ended June 30, 2024:

	Balance <u>July 1, 2023</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2024</u>
Capital assets not being depreciated:				
Water capacity rights	\$ 60,000	\$ -	\$ -	\$ 60,000
Construction in progress	158,350	86,237	167,100	77,487
Total capital assets not being depreciated	<u>218,350</u>	<u>86,237</u>	<u>167,100</u>	<u>137,487</u>
Depreciable assets				
Buildings and improvements	25,632	-	-	25,632
Equipment and furniture	198,692	305,652	-	504,344
Water system	18,219,812	2,464,056	150,000	20,533,868
Total depreciable assets	<u>18,444,136</u>	<u>2,769,708</u>	<u>150,000</u>	<u>21,063,844</u>
Less accumulated depreciation	<u>2,315,922</u>	<u>634,167</u>	<u>30,965</u>	<u>2,919,124</u>
Capital assets, net	<u>\$ 16,346,564</u>	<u>\$ 2,221,778</u>	<u>\$ 286,135</u>	<u>\$ 18,282,207</u>

Depreciation expense was \$634,167 for the fiscal year ended June 30, 2024.

9. Long-Term Debt

Long-term debt at June 30, 2024 consisted of:

Arvest Equipment Finance lease issued July 3, 2023 in the amount of \$68,650, bearing interest at the rate of 5.17%, payable at in annual payments of \$15,931, and secured by a 2023 Kobelco Excavator, maturing in August 2028.

In the event of a default, the excavator may be forfeited. \$ 68,650

SOUTH DELAWARE COUNTY REGIONAL WATER AUTHORITY
ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2024

Arvest Equipment Finance lease issued October 6, 2023 in the amount of \$227,269, bearing interest at the rate of 6.30%, payable annually in October at \$54,533, and secured by three 2024 pickup trucks, maturing in October 2028. In the event of a default, the trucks may be forfeited.	227,269
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.	6,197,080
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.	340,618
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.	980,216
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.	<u>60,230</u>
Total long-term debt at June 30, 2024	<u>\$7,874,063</u>

The Authority's changes in long-term liabilities for the fiscal year ended June 30, 2024 were as follows:

	Balance		Balance	Amounts Due	
	<u>July 1, 2023</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2024</u>	<u>in One Year</u>
Capital leases payable	\$ 7,928	\$ 295,919	\$ 7,928	\$ 295,919	\$ 52,359
Notes payable	7,760,122	-	181,978	7,578,144	187,662
Total long term debt	<u>\$ 7,768,050</u>	<u>\$ 295,919</u>	<u>\$ 189,906</u>	<u>\$ 7,874,063</u>	<u>\$ 240,021</u>

SOUTH DELAWARE COUNTY REGIONAL WATER AUTHORITY
ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2024

Annual debt service requirements to maturity for long-term debt as of June 30, 2024 are as follows:

Year Ending June 30	Notes Payable		Capital Leases Payable		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2025	\$ 187,662	\$ 146,621	\$ 52,359	\$ 18,106	\$ 240,021	\$ 164,727
2026	191,685	142,598	55,592	14,872	247,277	157,470
2027	195,805	138,479	58,984	11,480	254,789	149,959
2028	200,025	134,259	62,585	7,879	262,610	142,138
2029	201,803	129,939	66,399	4,066	268,202	134,005
2030 to 2034	1,011,796	589,975	-	-	1,011,796	589,975
2035 to 2039	1,117,274	484,498	-	-	1,117,274	484,498
2040 to 2044	1,234,408	367,363	-	-	1,234,408	367,363
2045 to 2049	1,307,396	237,607	-	-	1,307,396	237,607
2050 to 2054	1,193,800	121,340	-	-	1,193,800	121,340
2055 to 2059	736,490	20,748	-	-	736,490	20,748
Total	<u>\$ 7,578,144</u>	<u>\$ 2,513,427</u>	<u>\$ 295,919</u>	<u>\$ 56,403</u>	<u>\$ 7,874,063</u>	<u>\$ 2,569,830</u>

10. 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, 2024 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.

11. 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.



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, 2024, and the related notes to the financial statements, which collectively comprise Authority's basic financial statements, and have issued our report thereon dated March 31, 2025.

Report on 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and management responses as items 2024-01, 2024-02, and 2024-03 that we consider to be material weaknesses.

Report on Compliance and Other Matters

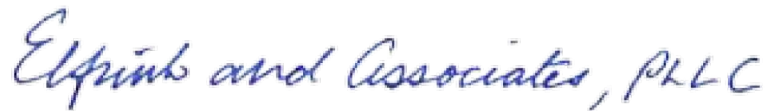
As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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*.

The Authority's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Authority's responses to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Authority's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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

March 31, 2025

SOUTH DELAWARE COUNTY REGIONAL WATER AUTHORITY

FISCAL YEAR ENDED JUNE 30, 2024

SCHEDULE OF FINDINGS AND RESPONSES

This schedule is presented as an addendum to accompany the *“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”*. Consideration of items listed should be made in conjunction with that report.

2024-01 – Potential Conflict of Interest

CONDITION: Management reported that the water utilities superintendent was operating an outside business that provided services similar to those provided by South Delaware County Regional Water Authority (“Authority”). We noted that the superintendent was purchasing inventory for his private business through the Authority (see finding 2024-02 on Inventory Controls), and the Authority reported a receivable from the superintendent in the amount of \$27,876 as of June 30, 2024 for inventory purchases. The superintendent is a full-time, exempt (salaried) employee of the Authority and is the direct supervisor of all field staff. We noted that the Authority reported a 40% increase in operating expenses in fiscal year 2024 versus fiscal year 2023 yet only a 6% increase in operating revenues. This year-over-year increase included a 56% increase in payroll costs. In addition, the superintendent was paid to inspect the construction progress of a water line project administered by the Cherokee Nation for benefit of the Authority separately from the salary provided by the Authority.

CRITERIA: Oklahoma statutes Title 74, Chapter 62 Rule 4 addresses conflicts of interest. Rule 4.2 specifies that applicability includes authorities of the State of Oklahoma. Rule 4.4 specifies that an employee shall not use his or her office for his or her own private gain.

EFFECT: Fraud, abuse or waste could occur and be undetected. For instance, inventory or supplies could be used for the superintendent’s private enterprise and not disclosed. Employees of the Authority could be directed to work on a private enterprise project and be paid by the Authority.

CAUSE: The Authority does not have procedures in place to identify and prohibit conflicts of interest related to employees, in particular those in a management and/or supervisory position.

RECOMMENDATION: The Authority should consult legal counsel in this matter to determine if a change in its policies and procedures is warranted to ensure that employees and trustees are free of conflict of interest.

RESPONSE: The Authority, under direction of our attorney, no longer allows the Superintendent to do work for the Authority without a Board voted on Waiver of Conflict of Constraint. The Board is also considering further separation of his employment as a full-time employee and making him an as-needed consultant, based on the findings of this audit.

2024-02 – Inventory Controls

CONDITION: Inventory is counted quarterly and adjusted to repair and maintenance expense based on the inventory value as identified in the count. When performing onsite fieldwork, several stacks of inventory were noted outside the Authority's security fence. Management indicated that, although purchased by and shipped to the Authority, this inventory was personal property of the water utility superintendent, yet it had been included in the inventory counts for the Authority and the superintendent had not been invoiced for the items. Subsequently, management invoiced the superintendent and recorded an employee receivable. Management reported the receivable was paid by the superintendent in October 2024.

CRITERIA: Good internal control practices assure that the inventory is properly accounted for and assets are protected against unnecessary loss and misuse. Oklahoma statutes and/or constitution appear to prohibit Authorities from making loans to employees.

EFFECT: Employee misappropriation could be concealed as an expense and not be detected in a timely manner. Inventory could be lost or stolen due to lack of physical control. The Authority could be in violation of Oklahoma statutes and/or the Oklahoma Constitution.

CAUSE: The Authority does not adequately track inventory issuances/variances. The Authority does not have a policy regarding the use of Authority assets or credit for personal gain.

RECOMMENDATION: The Authority should develop inventory control procedures to ensure that inventory is properly tracked and valued. The Authority should also consult legal counsel in this matter to determine if a change in its policies and procedures is warranted to ensure that employees are not permitted to use the Authority's assets or credit for personal gain.

RESPONSE: We are currently implementing an inventory Software system that will interface at as high a level as possible with our Account Software to control the current levels of stock, controlling the new purchases of stock and having a way to assign stock to particular jobs or being able to invoice our maintenance customers who the inventory is being held for. Inventory levels have drastically increased due to post pandemic supply chain issues and turnaround times needed for re-stocking. Only our inventories will be stored on our property now as well.

2024-03 – Segregation of Duties – Payroll Approval

CONDITION: Employee salaried wages were discussed at the December 19, 2023 Board of Trustees meeting and the minutes contain the new salary for the business manager but indicate that the superintendent and assistant superintendent salaries should be determined by the business manager. The business manager prepares the payroll which is reviewed by the contract accountant. However, the contract accountant does not verify changes in wages by reviewing minutes or confirming with Board members. In addition to employee pay raises and Christmas bonuses on December 31, 2024, six employees received \$49,640.36 during the year ended June 30, 2024. The business manager reported that these were performance and American Rescue Plan Act ("ARPA") bonuses, yet the Authority did not report receiving any funds from ARPA for this purpose. Payroll is a significant expense for the Authority and fiscal year payroll costs for the year ended June 30, 2024 were 56% higher than the prior year despite only a 6% increase in revenue. Cash balances and unrestricted equity were at a dangerously low level at June 30, 2024 and do not appear to warrant the payment of bonuses.

CRITERIA: A core principle in risk management is ensuring that no single individual has unchecked control over a critical function. In small entities where personnel are limited, the governing board may need to take a more active role in verifying or approving transactions.

EFFECT: Fraud, abuse or waste could occur and be undetected.

CAUSE: The Board appears to have given unchecked authority over payroll issues to the business manager.

RECOMMENDATION: Official, signed board minutes should reflect the amount and effective dates of any and all pay raises, including bonuses for all employees. A Board member should be identified to review and approve payroll registers prior to payment. The review should include comparing the amounts paid to the board approved pay rate. Evidence of the review, such as the signature and date of the person reviewing, should be included.

RESPONSE: Only the board currently has permission to give raises or bonuses, based on recommendations from the Business Manager and the Contract Accounting Manager. The instance mentioned at the end of 2023 was requested by the Board President to increase the salaried positions to better reflect wage increases in June 2024 due to an anticipated increase in employees to manage to new maintenance contracts with Adair RWD #5 and the installation of 340 tap sites in a newly added RV Park on the new Chewey Line Extension. Those salaried raises at the end 2023 were later rescinded when estimated income increases from sales of water to both Adair 5 RWD #5 and Watts PWD through another existing customer did not progress as promised by funding agencies. All future pay increases & decreases will be done in executive sessions following those rules and later voted on in the open board meeting and included in the minutes.