

STEPHENS COUNTY RURAL WATER AND SEWER DISTRICT NO. 1

FINANCIAL STATEMENTS

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Year Ended October 31, 2021

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Stephens County Rural Water and
Sewer District No. 1
Velma, Oklahoma

I have audited the accompanying financial statements of the business activities of the Stephens County Rural Water and Sewer District No. 1 as of October 31, 2021, and the related notes to the financial statements, which collectively comprise the Stephens County Rural Water and Sewer District No. 1's 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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

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, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, of the Stephens County Rural Water and Sewer District No. 1 as of October 31, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The Stephens County Rural Water and Sewer District No. 1 has not presented a management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of the basic financial statements.

Other Information

In accordance with *Government Auditing Standards*, I have also issued a report dated March 13, 2022, on my consideration of Stephens County Rural Water and Sewer District No. 1's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of this is to describe the scope of my 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 compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

Patti J. Clift, CPA

Duncan, Oklahoma
March 13, 2022

STEPHENS COUNTY RURAL WATER AND SEWER DISTRICT NO. 1

Statement of Fund Net Position October 31, 2021

ASSETS

CURRENT ASSETS

Cash	\$	65,535
Cash Equivalent - Certificate of Deposit		516,087
Accounts Receivable - Net		29,458
Prepaid Insurance		6,053
Total Current Assets		<u>617,133</u>

PROPERTY PLANT AND EQUIPMENT

Land and Building		37,788
Office Equipment		8,611
Water Distribution System		1,254,015
Irrigation System		26,534
Sewer System Costs		307,307
Transportation System		89,968
		<u>1,724,223</u>
Less Accumulated Depreciation		(1,438,703)
Total Property Plant & Equipment		<u>285,520</u>

OTHER ASSETS

RESTRICTED CASH

Cash Restricted for Meter Deposits		6,487
Cash Equivalent - Certificate of Deposit - Meter Deposits		22,800
Total Other Assets		<u>29,287</u>

TOTAL ASSETS	\$	<u>931,940</u>
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STEPHENS COUNTY RURAL WATER AND SEWER DISTRICT NO. 1

**Statement of Fund Net Position
October 31, 2021**

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	\$	9,004
Water Meter Deposits		28,861
Total Current Liabilities	\$	37,865
Total Liabilities	\$	37,865

NET POSITION

Net Position - invested in capital assets	\$	285,520
Net Position - unallocated		608,555
TOTAL NET POSITION	\$	894,075

**STEPHENS COUNTY RURAL WATER AND SEWER
DISTRICT NO. 1**

**Statement of Revenues, Expenses and
Changes in Fund Net Position Compared to Budget
For the Year Ended October 31, 2021**

	ACTUAL	BUDGET
SUPPORT AND REVENUE		
Water Revenues	\$ 283,371	\$ 289,000
Other Operating Income	3,000	1,000
Total Revenues	286,371	290,000
 OPERATING EXPENSES		
Personnel Salaries and Taxes	144,973	-
Depreciation Expense	42,918	-
Repairs & Maintenance	39,625	-
Insurance Expense	26,199	-
Electricity	32,550	-
Office Expense	23,075	-
Professional Fees	4,750	-
Utilities	5,685	-
Mowing	4,065	-
Phone Expense	2,617	-
Water Rights Lease	1,800	-
Dues and Memberships	670	-
Supplies	9,677	-
Bad Debt Expense	1,187	280,000
Total Operating Expenses	339,791	280,000
Income From Operations	(53,420)	10,000
 NON-OPERATING REVENUE		
Interest Income	2,009	7,000
Rental Income	3,600	3,600
Total Non-Operating Income	5,609	10,600
 CHANGE IN NET POSITION	(47,811)	20,600
BEGINNING NET POSITION	941,886	93,822
ENDING NET POSITION	\$ 894,075	\$ 114,422

STEPHENS COUNTY RURAL WATER AND SEWER DISTRICT NO. 1

Statement of Cash Flows October 31, 2021

	ACTUAL
Cash Flow from Operating Activities	
Cash Received from Customers	\$ 280,286
Other Operating Receipts	3,000
Cash Received from Rental Receipts	3,600
Cash Paid to Lessors for Water Rights Lease	(1,800)
Cash Paid to Suppliers for Services	(143,875)
Cash Paid for Personnel Services	(144,973)
Net Cash provided (used) by Operating Activities	<u>\$ (3,762)</u>
Cash Flow from Investing Activities	
Cash Payments for the purchase of property	-
Interest Income Received	2,009
Net Cash provided (used) by Investing Activities	<u>2,009</u>
Cash Flow from Financing Activities	
Net Cash provided (used) by Financing Activities	<u>-</u>
Net Increase (Decrease) in cash and cash equivalents	<u>\$ (1,753)</u>
Cash and Cash Equivalents, Beginning of Year	<u>\$ 583,375</u>
Cash and Cash Equivalents, End of Year	<u>\$ 581,622</u>

STEPHENS COUNTY RURAL WATER AND SEWER DISTRICT NO. 1

Statement of Cash Flows October 31, 2020

Reconciliation of Net Income to Net Cash Provided by Operating Activities

Net Income	<u>\$ (47,811)</u>
Adjustments to reconcile Net Income to net Cash Provided by Operating Activities	
Depreciation and Amortization	42,918
(Increase) Decrease in Accounts Receivable	(1,299)
(Increase) Decrease in Prepaid Insurance	(2,173)
Increase (Decrease) in Accounts Payable	6,612
Non-Operating Interest Received	<u>(2,009)</u>
	<u>44,049</u>
Net Cash Provided (used) by Operating Activities	<u>\$ (3,762)</u>

STEPHENS COUNTY RURAL WATER AND SEWER DISTRICT NO. 1

Notes to the Financial Statements October 31, 2021

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Business Activities

The District provides water and sewer services to rural customers in the Stephens County area.

Property and Equipment

Property and equipment are valued at historical cost. For financial reporting purposes, depreciation of property and equipment is calculated using the straight-line method. The estimated useful lives of property and equipment range from 5 to 50 years.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

These financial statements are reported using the current financial resources measurement focus and the accrual basis of accounting in accordance with generally accepted accounting principles. Their revenues are recognized when earned. All major revenues are susceptible to accrual. Expenses are recognized when they are incurred.

Income Taxes

The District is organized under the Rural Water, Sewer, Gas and Solid Waste Management Districts Act of Oklahoma and is considered a political subdivision of the State of Oklahoma. Therefore, no provision for income taxes has been made and the District files no tax returns.

Cash Equivalents

For purposes of the statement of cash flows, the District No.1 considers any cash equivalents to be cash held in checking accounts and certificates of deposit but does not include investments restricted for meter deposits.

Pronouncements of the FASB

Applicable pronouncements of the FASB and GASB have been applied when applicable.

STEPHENS COUNTY RURAL WATER AND SEWER DISTRICT NO. 1

Notes to the Financial Statements October 31, 2021

Operating Revenue

Operating revenue consists of revenue received from sale of sewer and water services and all items related to these sales such as benefit units and. Other revenue, such as interest and rentals.

NOTE 2 - CASH AND INVESTMENTS

The Stephens County Rural Water and Sewer District No. 1 has not entered into any reverse repurchase agreements during the fiscal year ended October 31, 2021.

As of October 31, 2021, the District had cash in banks totaling \$94,822, and Certificates of Deposit totaling \$516,087 totaling cash and cash equivalents to be \$610,909. The District's cash and cash equivalents in all banking institutions are 100% was insured by FDIC insurance of \$250,000 maintained by the financial institution. However, Bank of Commerce, Duncan, Oklahoma has deposits of \$262,695, which is over the \$250,000 coverage by \$12,695.

Cash belonging to the District is placed in the custody of Trustees, who are responsible for making investments of any idle funds. Oklahoma State Law, Title 62, 348.1, allows for investment of funds in the following:

1. Direct obligations of the United States Government to the payment of which the full faith and credit of the Government of the United States or of this state is pledged.
2. Certificates of deposit of savings and loan associations, banks, and trust companies when the certificates of deposit are secured by acceptable collateral as in the deposit of other public monies.
3. Savings accounts or savings certificates of savings and loan associations, banks, and trust companies, to the extent that the accounts or certificates are fully insured by the Federal Deposit Insurance Corporation.
4. Investments as authorized by Section 348.3 of this title (including obligations of the United States government, its agencies and instrumentalities; certain negotiable certificates of deposit issued by a nationally or state chartered bank, a savings bank, a savings and loan association or a state-licensed branch of a foreign bank; certain prime bankers acceptances, prime commercial paper and repurchase agreements) which are fully collateralized in investments specified in paragraphs one through three above, and where the collateral has been deposited with a trustee or custodian bank in an irrevocable trust or escrow account established for such purposes.

STEPHENS COUNTY RURAL WATER AND SEWER DISTRICT NO. 1

Notes to the Financial Statements October 31, 2021

5. County, municipal or school district direct debt obligations for which an ad valorem tax may be levied or bond and revenue bond and revenue anticipation notes issued, money judgments against such county, municipal or school district ordered by a court of record or bonds or bond and revenue anticipation notes issued by a public trust for which such county, municipal or school district is a beneficiary thereof.

NOTE 3 - RESTRICTED CASH AND INVESTMENTS

Restricted cash and investments include amounts owed customers for utility deposits. The amount restricted was \$29,287 as of October 31, 2021. Restricted assets are not available for any other purpose except utility deposits.

NOTE 4 - RETIREMENT PLAN

The Stephens Co. Rural Water and Sewer District No. I participates in a retirement plan, the Rural Municipal Plan, which is a money purchase defined contribution pension plan. Benefits are based upon the total amount of contributions, plus or minus investment returns. The contributions and benefits are not tied to the profitability of the District in any way. The employer contribution is 7% of the employees' gross pay. The employer contribution amounted to \$6,474 for the year ended October 31, 2021.

NOTE 5 - ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Allowance for Doubtful Accounts for Accounts Receivable was \$2,330 as of October 31, 2021. The allowance is maintained to estimate uncollectible utility accounts in excess of the customers utility deposit. The allowance is based upon the past due receivables and historical provisions. No additional provision was made during the year.

NOTE 6 - COMPENSATED ABSENCES

The district vests vacation time with the employees on each calendar year. Each employee is entitled up to 20 days of paid vacation. The district also allows time off for illness in the form of "sick pay". These amounts accrue at the rate of one day a month up to a maximum total of six months or 980 hours. Of this amount, only five days may be taken at one time without a letter from a physician stating an extended absence is necessary. Also, none of vacation accruals may be carried over to future years and sick pay is not payable on termination or retirement.

STEPHENS COUNTY RURAL WATER AND SEWER DISTRICT NO. 1

Notes to the Financial Statements October 31, 2021

The district has elected to not accrue any amount for accumulated sick pay under Generally Accepted Accounting Principles, if it is not reasonably determinable an amount will be incurred or that amount can be estimated, it is not to be accrued. The district feels under their policy an amount cannot be estimated.

NOTE 7 - FIXED ASSETS

Fixed assets are recorded at historical cost. Depreciation and accumulated depreciation are recorded for assets purchased with general funds in the amount of \$2,500.00 or more. Assets purchased with grant program funds are recorded for control purposes, but depreciation is not because the cost has been fully recovered through direct charges to grant program cost.

A summary of changes in Fixed Assets for the year ended October 31, 2021, is as follows:

	<u>10/31/2020</u>	<u>Additions</u>	<u>Disposals</u>	<u>10/31/2021</u>
<u>Enterprise Fund Assets</u>				
Equipment	\$ 1,686,435	\$ -	\$ -	\$ 1,686,435
Land and Buildings	37,788	-	-	37,788
Total	<u>\$ 1,724,223</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,724,223</u>
<u>Accumulated Depreciation</u>				
Equipment	\$ 1,362,934	\$ 42,752	\$ -	\$ 1,405,686
Land and Buildings	32,851	166	-	33,017
Total	<u>\$ 1,395,785</u>	<u>\$ 42,918</u>	<u>\$ -</u>	<u>\$ 1,438,703</u>

Depreciation expense for the year ended October 31, 2021 was \$42,918.

STEPHENS COUNTY RURAL WATER AND SEWER DISTRICT NO. 1

Notes to the Financial Statements October 31, 2021

NOTE 6 - BUSINESS RISKS

The District is dependent on water from wells located in the SW/4 of the NW/4 of the NW/4 and the N/2 of the NW/4 of the SW/4 of Section 13, Township 1 South, Range 5 West of the Indian Meridian. A Conveyance of Water Wells. Lease of Water Rights dated May 20, 1964 was initially for a term of 10 years. However, it was later amended to a term of 60 years. This lease expires May 20, 2024. The Board of Trustees is aware of the lease expiring in 2 years and is working to negotiate an extension of the lease.

**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING, COMPLIANCE, AND OTHER MATTERS BASED
ON
FINANCIAL STATEMENT AUDIT PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS.**

To the Board of Trustees
Stephens County Rural Water and
Sewer District No. 1
Velma, Oklahoma

I 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 Comptroller General of the United States, the financial statements of the business type activities of the Stephens County Rural Water and Sewer District No. 1 (“District”) as of and for the year ended October 31, 2021, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued my report thereon dated March 13, 2022.

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course 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 material misstatements 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.

My consideration for 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. Given these limitations identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I 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 District's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matter 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 my 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.

Duncan, Oklahoma
March 13, 2022