

**STEPHENS COUNTY RURAL WATER,  
SEWER AND SOLID WASTE  
MANAGEMENT DISTRICT NO. 3**

Financial Statements and  
Independent Auditor's Report

December 31, 2020

**STEPHENS COUNTY RURAL WATER, SEWER AND  
SOLID WASTE MANAGEMENT DISTRICT NO. 3  
December 31, 2020**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Stephens County Rural Water, Sewer and  
Solid Waste Management District No. 3

### Report on the Financial Statements

We have audited the accompanying financial statements and related notes to the financial statements of Stephens County Rural Water, Sewer and Solid Waste Management District No. 3 as of and for the fifteen months ended December 31, 2020, which collectively comprise the Stephens County Rural Water, Sewer and Solid Waste Management District No. 3'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 Stephens County Rural Water, Sewer and Solid Waste Management District No. 3 as of December 31, 2020 and the results of its operations and its cash flows for the fifteen months then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 3, 2021, on our consideration of the Stephens County Rural Water, Sewer and Solid Waste Management District No. 3's internal control over financial reporting and 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 the 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 Stephens County Rural Water, Sewer and Solid Waste Management District No. 3's internal control over financial reporting and compliance.



Duncan, Oklahoma  
August 3, 2021

**STEPHENS COUNTY RURAL WATER, SEWER AND  
SOLID WASTE MANAGEMENT DISTRICT NO. 3  
Statement of Net Position  
December 31, 2020**

<b>Assets</b>	<u>2020</u>	<u>9/30/2019 (Memo only)</u>
<b>Current assets</b>		
Cash and cash equivalents	\$ 70,374	\$ 101,246
Certificates of deposit	49,543	47,755
Accounts receivable	18,678	21,757
Prepaid insurance	2,333	8,684
	<u>140,928</u>	<u>179,441</u>
<b>Restricted certificates of deposit</b>		
Pledged to secure notes payable	17,660	33,103
Meter deposits reserve	34,089	28,384
	<u>51,749</u>	<u>61,487</u>
<b>Property, plant and equipment, net</b>	515,391	572,135
<b>Other assets</b>		
Refundable deposits	<u>1,000</u>	<u>1,000</u>
Total assets	<u>\$ 709,069</u>	<u>\$ 814,063</u>
<b>Liabilities and Net Position</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 4,407	\$ 10,149
Accrued salaries	1,663	2,756
Accrued compensated absences	1,009	2,716
Accrued interest payable	31	61
Notes payable	17,660	33,103
	<u>24,770</u>	<u>48,785</u>
<b>Long-term liabilities</b>		
Meter deposits	<u>34,089</u>	<u>28,384</u>
	34,089	28,384
<b>Net Position</b>		
Invested in capital assets, net of related debt	497,731	539,032
Restricted	-	-
Unrestricted	152,479	197,862
	<u>650,210</u>	<u>736,894</u>
Total liabilities and net position	<u>\$ 709,069</u>	<u>\$ 814,063</u>

The accompanying notes are an integral part of the financial statements.

**STEPHENS COUNTY RURAL WATER, SEWER AND  
SOLID WASTE MANAGEMENT DISTRICT NO. 3**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Fifteen Months ended December 31, 2020**

	<u>2020</u>	<u>12 Months 9/30/2019 (Memo only)</u>
<b>Operating Revenues</b>		
Water and sewer revenue	\$ 358,242	\$ 274,776
<b>Operating Expenses</b>		
Water purchased	14,804	5,867
Water Testing	29,185	-
Supplies	27,574	16,233
Contract labor	700	9,205
Office expense	18,240	9,407
Dues, fees & license	10,655	15,647
Insurance & bonds	24,985	13,993
Professional fees	8,112	6,200
Truck expenses	6,308	5,458
Depreciation	67,248	47,719
Interest expense	1,022	683
Utilities & telephone	30,084	23,465
Repairs & maintenance	28,005	20,313
Salaries & wages	127,153	100,028
Employee benefits	21,343	11,728
Payroll taxes	10,652	8,681
Bad debts	-	159
Bank & credit card fees	3,217	3,025
Board member honorarium	9,100	7,800
Miscellaneous other	8,360	8,655
	<u>446,750</u>	<u>314,265</u>
Total expenses		
Net Income (Loss) from Operations	(88,508)	(39,489)
<b>Other Revenues (Expenses)</b>		
Interest income	<u>1,824</u>	<u>1,610</u>
Net Income (Loss)	(86,684)	(37,879)
Capital Contributions, member investments	<u>-</u>	<u>-</u>
Change in Net position	(86,684)	(37,879)
<b>Net Position - Beginning of year</b>	<u>736,894</u>	<u>774,773</u>
<b>Net Position - End of year</b>	\$ <u><u>650,210</u></u>	\$ <u><u>736,894</u></u>

The accompanying notes are an integral part of the financial statements.

**STEPHENS COUNTY RURAL WATER, SEWER AND  
SOLID WASTE MANAGEMENT DISTRICT NO. 3  
Statement of Cash Flows  
Fifteen Months ended December 31, 2020**

	2020	12 Months 9/30/2019 (Memo only)
<b>Cash Flows from Operating Activities</b>		
Cash receipts from customers	\$ 361,321	\$ 273,220
Cash payments to employees for services	(129,954)	(104,823)
Cash payments to suppliers of goods or services	(180,164)	(110,967)
Cash payments for other operating expenses	(70,554)	(52,185)
Net cash provided (used) by operating activities	(19,351)	5,245
<b>Cash Flows from Capital and Related Financing Activities</b>		
Principal repayment on loans	(15,442)	(10,552)
Proceeds from bank loans	-	26,000
Interest paid on loans	(1,052)	(646)
Customer meter deposits increase	5,705	(3,474)
Purchase of property and equipment	(10,505)	(41,551)
Net cash provided (used) by financing activities	(21,294)	(30,223)
<b>Cash Flows from Investing Activities</b>		
CD's redeemed	7,949	37,375
Interest income	1,824	1,840
Net cash provided (used) by investing activities	9,773	39,215
<b>Net increase (decrease) in cash and cash equivalents</b>	(30,872)	14,237
<b>Cash and Cash Equivalents - Beginning of year</b>	101,246	87,009
<b>Cash and Cash Equivalents - End of year</b>	70,374	101,246
Reconciliation of operating income to net cash provided (used) by operating activities:		
Net income (loss) from operations	\$ (88,508)	\$ (39,489)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	67,248	47,719
Interest expense	1,022	683
(Increase) decrease in accounts receivable	3,079	(1,556)
Increase (decrease) in accounts payable and accrued expenses	(8,543)	(677)
(Increase) decrease in other current assets	6,350	(1,434)
Net cash provided (used) by operating activities	\$ (19,351)	\$ 5,246

The accompanying notes are an integral part of the financial statements.

**STEPHENS COUNTY RURAL WATER, SEWER AND  
SOLID WASTE MANAGEMENT DISTRICT NO. 3**  
**Notes to Financial Statements**  
**December 31, 2020**

**Note A:        Organization and Significant Accounting Policies**

**Organization and Nature of Activities**

The Stephens County Rural Water, Sewer and Solid Waste Management District No. 3 (District) was organized under the laws of Oklahoma as a rural water district on September 19, 1966. The purpose of the District is to provide water and sewer services to owners and occupants within the geographic boundaries of the district it serves in Stephens County, Oklahoma.

**Basis of Presentation and Measurement Focus**

The financial statements of the District have been prepared on the accrual basis of accounting and, accordingly, include all significant receivables, payables and other liabilities.

All activities of the District are business-type activities, financed in whole or in part by fees charged to member users for water and sewer services. The business-type activity utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities (whether current or non current, financial, or non financial) associated with their activities are reported. Proprietary fund equity is classified as net position. Operating revenues are defined as those revenues derived in the ordinary course of providing water and sewer services to users. Nonoperating revenues consists of interest on deposits.

**Cash and Cash Equivalents**

Cash and cash equivalents consist of demand deposits and certificates of deposit in financial institutions with original maturities of less than ninety days, less and except amounts restricted for any purpose.

**Property, Plant and Equipment**

Property, plant and equipment are stated at historical cost basis less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Estimated useful lives generally range from five to forty years. The District capitalizes property and equipment for which the purchase cost is at least \$2,500.

**Income Tax Status**

The District is exempt from income taxes under Internal Revenue Code Section 115(a).



**STEPHENS COUNTY RURAL WATER, SEWER AND  
SOLID WASTE MANAGEMENT DISTRICT NO. 3  
Notes to Financial Statements  
December 31, 2020**

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosed contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Allowance for Doubtful Accounts**

The District has established an allowance for doubtful accounts which represents five percent of the total accounts receivable from users at the financial statement date.

**Comparative Data**

The financial statements include certain prior period summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended September 30, 2019 from which the summarized information was derived.

**Subsequent Events**

Management has evaluated subsequent events through August 3, 2021, the date the financial statements were available to be issued.

**Note B: Deposits in Financial Institutions**

Deposits in financial institutions are presented in the statement of net assets as follows:

Cash and Cash Equivalents	\$ 70,374
Certificates of Deposit – Unrestricted	49,543
Certificates of Deposit – Restricted	<u>51,749</u>
Total Deposits	<u><u>\$ 171,666</u></u>

Deposits at December 31, 2020 include certificates of deposit, which total \$101,293. The certificates bear interest from .80 to 1.30 percent per annum, and mature within two years after the year ended December 31, 2020. The District's policy is to maintain all deposits in accounts that do not exceed the limits of FDIC insurance coverage. All account types are authorized under Oklahoma statutes. Fair value approximates the carrying amount due to the nature and maturity of the deposits.

**STEPHENS COUNTY RURAL WATER, SEWER AND  
SOLID WASTE MANAGEMENT DISTRICT NO. 3  
Notes to Financial Statements  
December 31, 2020**

At December 31, 2020, the carrying amount of the District's cash and certificates of deposit in financial institutions was \$171,380 and the bank balances were \$171,497. The District's policy is to require collateralization of deposits in excess of FDIC insurance coverage. The deposits held at financial institutions can be categorized according to three levels of risk, as follows:

- |            |  |
|------------|--|
| Category 1 | Deposits which are insured or collateralized with securities held by the District or by its agent in the District's name.                        |
| Category 2 | Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the District's name. |
| Category 3 | Deposits which are not insured or collateralized.  |

All deposits at December 31, 2020 were covered by FDIC insurance and are therefore classified as Category 1.

**Note C:      Accounts Receivable**

Accounts receivable, stated at \$18,678 consists of amounts receivable for water and sewer charges in the amount of \$19,658 less \$980 allowance for doubtful accounts.

**Note D:      Restricted Deposits**

The Meter Deposits reserve in the amount of \$34,089 represents deposits set aside to satisfy the liability for meter deposits collected from customers.

Certificate of Deposit is pledged to secure bank loans for the notes payable balance of \$17,660.

**STEPHENS COUNTY RURAL WATER, SEWER AND  
SOLID WASTE MANAGEMENT DISTRICT NO. 3  
Notes to Financial Statements  
September 30, 2019**

**Note E: Property, Plant and Equipment**

Property, plant and equipment consists of the following at September 30, 2019 and December 31, 2020, respectively:

	9/30/2019	Additions	Dispositions	12/31/2020
Water and sewer distribution systems	\$ 1,753,051	\$	\$	\$ 1,753,051
Wells and pumps	41,643	4,356		45,999
Equipment and vehicle	97,650	6,149	(7,994)	95,805
Buildings	121,269			121,269
Land	145,624			145,624
	<u>2,159,237</u>	<u>10,505</u>	<u>(7,994)</u>	<u>2,161,748</u>
Less: Accumulated Depreciation	(1,587,102)	(67,249)	7,994	(1,646,357)
Total property, plant and equipment	<u>\$ 572,135</u>	<u>\$ (56,744)</u>	<u>\$ -</u>	<u>\$ 515,391</u>

**Note F: Notes Payable**

\$17,660 is the remaining balance on a bank loan for \$26,000 originated June, 2019 to finance the purchase of a vehicle. The promissory note, secured by a bank certificate of deposit, provided for twelve monthly payments of \$471.30, including interest at 3.29%, beginning July 15, 2019. The note matured July 15, 2020 and was renewed into a new note maturing August 1, 2021. The new note provides for monthly payments of \$500, including interest at 3.24% with a balloon payment due August 1, 2021. The new note is also secured by a certificate of deposit.

Debt service requirements on the bank loan are as follows:

<u>Due Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
December 31, 2021	17,660	347	18,007

Following is a summary of debt activity during the term from October 1, 2019 to December 31, 2020:

	<u>Beginning Balance</u>	<u>New Borrowing</u>	<u>Repayment</u>	<u>Ending Balance</u>
Bank loan	24,795	0	(7,135)	17,660

**STEPHENS COUNTY RURAL WATER, SEWER AND  
SOLID WASTE MANAGEMENT DISTRICT NO. 3  
Notes to Financial Statements  
December 31, 2020**

**Note G: Risk Management**

The District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

The following coverage was in effect pursuant to ORWA Assurance Group Protection Plan, Agreement number 10288 for the policy period ending June 1, 2021:

General liability, aggregate	\$1,000,000
Buildings and personal property	1,327,530
Automobile, comprehensive and collision	64,980
Automobile liability, aggregate	1,000,000
Employment practices liability, aggregate	1,000,000
Errors or omissions liability	1,000,000
Employee dishonesty, blanket	10,000

Workers compensation insurance is also provided pursuant to an annual contract with ORWA.

**Note H: Retirement Plan**

During the year ended September 30, 2003, the District implemented a SEP-IRA plan (a defined contribution plan) for its eligible employees. The District may elect to contribute between five and fifteen percent of employee compensation to the plan annually; contributions during the current year were made at five percent. Contributions vest immediately and are not subject to forfeiture. Employees are eligible for participation upon reaching age 21 and having performed services for the District for at least six months of the most recent five year period. The District contributed a total of \$5,030 to employee SEP accounts during the 15 months ended December 31, 2020.



**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 Directors  
Stephens County Rural Water, Sewer  
and Solid Waste Management District No. 3

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 Stephens County Rural Water, Sewer and Solid Waste Management District No. 3, as of and for the fifteen months ended December 31, 2020, and the related notes to the financial statements, which collectively comprise Stephens County Rural Water, Sewer and Solid Waste Management District No. 3's basic financial statements, and have issued our report thereon dated August 3, 2021.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Stephens County Rural Water, Sewer and Solid Waste Management District No. 3'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Stephens County Rural Water, Sewer and Solid Waste Management District No. 3's internal control. Accordingly, we do not express an opinion on the effectiveness of the Stephens County Rural Water, Sewer and Solid Waste Management District No. 3'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 and not be identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as item 19-001 that we consider to be a significant deficiency.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Stephens County Rural Water, Sewer and Solid Waste Management District No. 3's financial statements are free from material misstatements, 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*.

## **Stephens County Rural Water, Sewer and Solid Waste Management District No. 3 Response to Finding**

Stephens County Rural Water, Sewer and Solid Waste Management District No. 3's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Stephens County Rural Water, Sewer and Solid Waste Management District No. 3's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **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.



Duncan, Oklahoma  
August 3, 2021

**STEPHEN'S COUNTY RURAL WATER, SEWER AND  
SOLID WASTE MANAGEMENT DISTRICT NO. 3  
Schedule of Findings and Responses  
Year ended December 31, 2020**

**19-001**

**Criteria:** The segregation of duties and responsibilities between different individuals is an important control activity needed to adequately protect the District's assets and ensure accurate financial reporting.

**Condition:** The same individual is responsible for customer billings and receiving payments, making and recording deposits, reconciling bank accounts, maintaining billing registers and preparing financial statements.

**Cause and Effect:** The limited staffing of the District makes it difficult to segregate duties appropriately. Without sufficient segregation of duties, the risk significantly increases that errors and/or fraud related to sales and collection of funds, including misappropriation of assets, could occur and not be detected in a timely manner.

**Recommendation:** The District should evaluate the risks associated with the lack of segregation of duties and consider implementing controls that would help mitigate those risks.

**Management's Response:** Due to the District size and limited number of personnel, it is not feasible to segregate duties for optimal internal control; the cost of correcting the weakness would be prohibitive, however the District will consider the possibility of other compensating controls.