

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

Financial Statements and  
Independent Auditor's Report

December 31, 2021

**STEPHENS COUNTY RURAL WATER, SEWER AND  
SOLID WASTE MANAGEMENT DISTRICT NO. 3  
December 31, 2021**

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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

### Opinion

We have audited the accompanying financial statements of Stephens County Rural Water, Sewer and Solid Waste Management District No. 3 as of and for the year ended December 31, 2021, and the related notes to the financial statements, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Stephens County Rural Water, Sewer and Solid Waste Management District No. 3 as of December 31, 2021, and the changes in financial position and its cash flows 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.. 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 Stephens County Rural Water, Sewer and Solid Waste Management District No. 3, 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 opinion.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 Stephens County Rural Water, Sewer and Solid Waste Management District No. 3'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 opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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 Stephens County Rural Water, Sewer and Solid Waste Management District No. 3'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 Stephens County Rural Water, Sewer and Solid Waste Management District No. 3'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.

#### **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 July 26, 2022, 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 effectiveness of the Stephens County Rural Water, Sewer and Solid Waste Management District No. 3's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Stephens County Rural Water, Sewer and Solid Waste Management District No. 3's internal control over financial reporting and compliance.



Duncan, Oklahoma  
July 26, 2022

**STEPHENS COUNTY RURAL WATER, SEWER AND  
SOLID WASTE MANAGEMENT DISTRICT NO. 3  
Statement of Net Position  
December 31, 2021**

<b>Assets</b>	<u>2021</u>	<u>12/31/2020 (Memo only)</u>
<b>Current assets</b>		
Cash and cash equivalents	\$ 52,389	\$ 70,374
Certificates of deposit	63,900	49,544
Accounts receivable	18,302	18,678
Prepaid insurance	7,348	2,333
	<u>141,938</u>	<u>140,929</u>
<b>Restricted certificates of deposit</b>		
Pledged to secure notes payable	-	17,660
Meter deposits reserve	38,655	34,089
	<u>38,655</u>	<u>51,749</u>
<b>Property, plant and equipment, net</b>	466,255	515,391
<b>Other assets</b>		
Refundable deposits	<u>1,000</u>	<u>1,000</u>
Total assets	<u>\$ 647,848</u>	<u>\$ 709,069</u>
 <b>Liabilities and Net Position</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 5,984	\$ 4,407
Accrued salaries	1,663	1,663
Accrued compensated absences	1,947	1,009
Accrued interest payable	-	31
Notes payable	-	17,660
	<u>9,594</u>	<u>24,770</u>
<b>Other liabilities</b>		
Meter deposits	<u>38,655</u>	<u>34,089</u>
	38,655	34,089
<b>Net Position</b>		
Invested in capital assets, net of related debt	466,255	497,731
Restricted	-	-
Unrestricted	<u>133,344</u>	<u>152,479</u>
	599,599	650,210
Total liabilities and net position	<u>\$ 647,848</u>	<u>\$ 709,069</u>

**STEPHENS COUNTY RURAL WATER, SEWER AND  
SOLID WASTE MANAGEMENT DISTRICT NO. 3**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Year ended December 31, 2021**

	<u>2021</u>	<u>15 Months 12/31/2020 (Memo only)</u>
<b>Operating Revenues</b>		
Water and sewer revenue	\$ 288,731	\$ 358,242
<b>Operating Expenses</b>		
Water purchased	2,791	14,804
Water Testing	12,068	29,185
Supplies	28,732	27,574
Contract labor	144	700
Office expense	9,530	18,240
Dues, fees & license	4,367	10,655
Insurance & bonds	9,859	24,985
Professional fees	18,384	8,112
Truck expenses	6,676	6,308
Depreciation	56,147	67,248
Interest expense	260	1,022
Utilities & telephone	24,331	30,084
Repairs & maintenance	15,457	28,005
Salaries & wages	108,019	127,153
Employee benefits	22,037	21,343
Payroll taxes	8,591	10,652
Bad debts	1,078	-
Bank & credit card fees	2,568	3,217
Board member honorarium	6,800	9,100
Miscellaneous other	2,804	8,363
	<u>340,642</u>	<u>446,750</u>
Total expenses		
Net Income (Loss) from Operations	(51,911)	(88,508)
<b>Other Revenues (Expenses)</b>		
Interest income	<u>1,300</u>	<u>1,824</u>
Net Income (Loss)	(50,611)	(86,684)
Capital Contributions, member investments	<u>-</u>	<u>-</u>
Change in Net position	(50,611)	(86,684)
<b>Net Position - Beginning of year</b>	<u>650,210</u>	<u>736,894</u>
<b>Net Position - End of year</b>	\$ <u><u>599,599</u></u>	\$ <u><u>650,210</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  
Year ended December 31, 2021**

	2021	15 Months 12/31/2020 (Memo only)
<b>Cash Flows from Operating Activities</b>		
Cash receipts from customers	\$ 289,107	\$ 361,321
Cash payments to employees for services	(107,081)	(129,954)
Cash payments to suppliers of goods or services	(131,830)	(180,164)
Cash payments for other operating expenses	(47,824)	(70,554)
Net cash provided (used) by operating activities	2,373	(19,351)
<b>Cash Flows from Capital and Related Financing Activities</b>		
Principal repayment on loans	(17,660)	(15,442)
Proceeds from bank loans	-	-
Interest paid on loans	(291)	(1,052)
Customer meter deposits increase	4,566	5,705
Purchase of property and equipment	(7,011)	(10,505)
Net cash provided (used) by financing activities	(20,396)	(21,294)
<b>Cash Flows from Investing Activities</b>		
CD's (Increased) Redeemed	(1,262)	7,949
Interest income	1,300	1,824
Net cash provided (used) by investing activities	38	9,773
<b>Net increase (decrease) in cash and cash equivalents</b>	(17,985)	(30,872)
<b>Cash and Cash Equivalents - Beginning of year</b>	70,374	101,246
<b>Cash and Cash Equivalents - End of year</b>	52,389	70,374
Reconciliation of operating income to net cash provided (used) by operating activities:		
Net income (loss) from operations	\$ (51,911)	\$ (88,508)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	56,147	67,248
Interest expense	260	1,023
(Increase) decrease in accounts receivable	377	3,079
Increase (decrease) in accounts payable and accrued expenses	2,515	(8,543)
(Increase) decrease in other current assets	(5,015)	6,350
Net cash provided (used) by operating activities	\$ 2,373	\$ (19,351)

**STEPHENS COUNTY RURAL WATER, SEWER AND  
SOLID WASTE MANAGEMENT DISTRICT NO. 3  
Notes to Financial Statements  
December 31, 2021**

**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, 2021**

**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 ten 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 fifteen months ended December 31, 2020 from which the summarized information was derived.

**Subsequent Events**

Management has evaluated subsequent events through July 26, 2022, 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	\$ 52,389
Certificates of Deposit – Unrestricted	63,900
Certificates of Deposit – Restricted	<u>38,655</u>
Total Deposits	<u>\$ 154,944</u>

Deposits at December 31, 2021 include certificates of deposit, which total \$102,555. The certificate bears interest at 1.24 percent per annum, and matures within two years after the year ended December 31, 2021. 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, 2021**

At December 31, 2021, the carrying amount of the District's cash and certificates of deposit in financial institutions was \$154,944 and the bank balances were \$156,487. 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, 2021 were covered by FDIC insurance and are therefore classified as Category 1.

**Note C:      Accounts Receivable**

Accounts receivable, stated at \$18,302 consists of amounts receivable for water and sewer charges in the amount of \$20,361 less \$2,059 allowance for doubtful accounts.

**Note D:      Restricted Deposits**

The Meter Deposits reserve in the amount of \$38,655 represents deposits set aside to satisfy the liability for meter deposits collected from customers.

**Note E:      Subsequent Event and Contingency**

During 2022, management discovered a water leak in a line that passes underneath a highway. Management expects that repairs to be completed later in the 2022 calendar year will cost approximately \$60,000.

**Note F:      Revenue and Revenue Recognition**

The District recognizes revenue from sales of water and sewer services every month when the performance obligation of transferring product and providing services are met. Sales and service volume is measured by meter readings collected on or around the 25<sup>th</sup> of every month. Charges are billed to users based on the approved standard rates chart and invoices are mailed on or near the end of each calendar month. Charges for water and sewer are due by the fifteenth of the following month. If not paid by the end of following month, services are disconnected and additional fees are required to reconnect.

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

**Notes to Financial Statements**

**December 31, 2021**

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

Property, plant and equipment consists of the following at December 31, 2020 and 2021, respectively:

	12/31/2020	Additions	Dispositions	12/31/2021
Water and sewer distribution systems	\$ 1,753,051	\$	\$	\$ 1,753,051
Wells and pumps	45,999	7,011		53,010
Equipment and vehicle	95,805			95,805
Buildings	121,269			121,269
Land	145,624			145,624
	<u>2,161,748</u>	<u>7,011</u>	<u>-</u>	<u>2,168,759</u>
Less: Accumulated Depreciation	(1,646,357)	(56,147)		(1,702,504)
Total property, plant and equipment	<u>\$ 515,391</u>	<u>\$ (49,136)</u>	<u>\$ -</u>	<u>\$ 466,255</u>

**Note H: Notes Payable**

\$17,660 was the prior year balance on a bank loan for \$26,000 originated June, 2019 to finance the purchase of a vehicle. The original note was renewed in 2020 and scheduled to mature in August, 2021. The loan was fully retired in July, 2021.

Following is a summary of debt activity during the term from January 1, 2021 to December 31, 2021:

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

**STEPHENS COUNTY RURAL WATER, SEWER AND  
SOLID WASTE MANAGEMENT DISTRICT NO. 3  
Notes to Financial Statements  
December 31, 2021**

**Note I: 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, 2022:

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 J: 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 \$5,291 to employee SEP accounts during the year ended December 31, 2021.



**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 year ended December 31, 2021, 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 July 26, 2022.

**Report on 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. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 19-001 that we consider to be a material weakness.

## **Report on 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 statements. 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 the response.

### **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.

*Jayna Johnson, AC*

Duncan, Oklahoma  
July 26, 2022

**STEPHEN'S COUNTY RURAL WATER, SEWER AND  
SOLID WASTE MANAGEMENT DISTRICT NO. 3  
Schedule of Findings and Responses  
Year ended December 31, 2021**

**19-001**

**Criteria:** A good system of internal control requires a proper segregation of duties to prevent one individual from being in a position to execute, authorize and record the same transaction.

**Condition:** The same individual is responsible for generating customer billings, 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 a breach of internal controls could occur and not be detected in the normal course of operations.

**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. Some compensating controls are in place that require Board signature on checks. The Board should continue to be actively involved in the operations of the organization.

**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. The Board will continue to be actively involved in District operations.