

STEPHENS CO. 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, 2012

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Stephens Co. Rural Water and Sewer District No. 1

We have audited the accompanying basic financial statements of the business-type activities of Stephens Co. Rural Water and Sewer District No. 1 as of October 31, 2012 and for the year then ended as listed in the table of contents. These basic financial statements are the responsibility of the District's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Stephens Co. Rural Water and Sewer District No. 1 as of October 31, 2012, and the respective changes in financial position and its cash flows for the year then ended, in conformity with generally accepted accounting principles accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report December 7, 2012 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on 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 our audit.

The District has adopted the new financial reporting model required by GASB Statement No. 34. Management's Discussion and Analysis as required by accounting principles generally accepted in the United States of America are not included as supplementary information.


Duncan, Oklahoma
December 7, 2012

STEPHENS CO. RURAL WATER AND SEWER DISTRICT NO. 1

Statement of Fund Net Assets
October 31, 2012

ASSETS

CURRENT ASSETS

Cash	\$	102,064
Investments		277,830
Accounts receivable - Net		22,882
Prepaid insurance		9,308
Total Current Assets		<u>412,084</u>

PROPERTY, PLANT AND EQUIPMENT

Equipment		1,500,491
Land and Buildings		37,788
Less: Accumulated Depreciation		<u>(1,079,623)</u>
Total Property, Plant and Equip.		<u>458,656</u>

OTHER ASSETS

Deposits		599
Restricted investments		23,690
Total Other Assets		<u>24,289</u>

TOTAL ASSETS		<u>895,029</u>
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LIABILITIES AND EQUITY

CURRENT LIABILITIES

Customer's meter deposits		22,445
Trade accounts payable		4,028
Other payables		516
Total Current Liabilities		<u>26,989</u>

NET ASSETS

Net assets - invested in capital assets		458,656
Net assets - restricted for meter deposits		22,445
Net assets - unallocated		<u>386,939</u>
TOTAL NET ASSETS	\$	<u>868,040</u>

See accompanying notes to financial statements.

STEPHENS CO. RURAL WATER AND SEWER DISTRICT NO. 1

Statements of Revenues, Expense and
Changes in Net Assets Compared to Budget
For the year ended October 31, 2012

	ACTUAL	BUDGET
REVENUE		
Water revenue	\$ 303,139	\$ 260,000
Other operating income	<u>2,000</u>	<u>2,030</u>
 Total Revenue	 <u>305,139</u>	 <u>262,030</u>
 OPERATING EXPENSES		
Expenses		226,000
Personnel costs	100,404	
Other operating costs	32,259	
Depreciation	38,279	
Utilities purchased	32,114	
Insurance purchased	23,385	
Supplies	17,613	
Professional services	4,210	
Other costs	<u>2,249</u>	
Total Expenses	<u>250,513</u>	<u>226,000</u>
 Income From Operations	 <u>54,626</u>	 <u>36,030</u>
 OTHER INCOME AND EXPENSE		
Interest income	5,563	4,000
Rent income	<u>5,800</u>	<u>6,000</u>
 Total Other Income and Expense	 <u>11,363</u>	 <u>10,000</u>
 NET INCOME (LOSS)	 65,989	 46,030
 BEGINNING NET ASSETS	 <u>802,051</u>	 <u>802,051</u>
 ENDING NET ASSETS	 <u><u>\$ 868,040</u></u>	 <u><u>\$ 848,081</u></u>

See accompanying notes to financial statements.

STEPHENS CO. RURAL WATER AND SEWER DISTRICT NO.1

Statement of Cash Flows

October 31, 2012

Cash flow from operating activities:	
Cash received from customers	\$ 307,997
Cash paid employees	(102,653)
Rent income received	5,800
Cash payments to suppliers	(110,691)
Interest income received	5,563
Net cash provided (used) by operating activities	<u>106,016</u>
Cash flow from investing activities:	
Cash payments for the purchase of property	<u>(54,439)</u>
Net cash provided (used) by investing activities	(54,439)
Net increase (decrease) in cash and equivalents	<u>51,577</u>
Cash and equivalents, beginning of year	328,317
Cash and equivalents, end of year	<u><u>\$ 379,894</u></u>

See accompanying notes to financial statements.

STEPHENS CO. RURAL WATER AND SEWER DISTRICT NO.1

Statement of Cash Flows
October 31, 2012

Reconciliation of net income to net cash
provided by operating activities

Net Income	\$ 65,989
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	38,279
(Increase) decrease in accounts receivable	2,858
(Increase) decrease in prepaid expenses	(1,960)
Increase (decrease) in accounts payable	850
Total adjustments	<u>40,027</u>
Net cash provided (used) by operating activities	<u>\$ 106,016</u>

See accompanying notes to financial statements.

STEPHENS CO. RURAL WATER AND SEWER DISTRICT NO. 1

Notes to Financial Statements
October 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business Activity

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 No. 1 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 have been applied when applicable.

STEPHENS CO. RURAL WATER AND SEWER DISTRICT NO. 1

Notes to Financial Statements
October 31, 2012

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. Other revenue, such as interest and rentals are considered non-operating revenue.

NOTE 2 - CASH, INVESTMENTS AND REVERSE REPURCHASE AGREEMENTS

The Stephens Co. Rural Water and Sewer District No. 1 has not entered into any reverse repurchase agreements during the fiscal year ended October 31, 2012.

Cash accounts totaled \$102,663 as of October 31, 2012. Investments in certificates of deposit totaled \$301,520 as of October 31, 2012. The cash accounts and certificates of deposits were fully covered by F.D.I.C. insurance and pledged securities.

Cash belonging to the District is placed in the custody of the Board, who is 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.
5. County, municipal or school district direct debt obligations for which an ad

STEPHENS CO. RURAL WATER AND SEWER DISTRICT NO. 1

Notes to Financial Statements
October 31, 2012

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.

Interest Rate and Credit Risk

All of the cash accounts and certificates of deposit were secured by FDIC insurance. The District maintains all investments

NOTE 3 - RESTRICTED INVESTMENTS

Restricted cash and investments include amounts owed customers for utility deposits. The amount restricted was \$23,690 as of October 31, 2012. 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. 1 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 \$4,941 for the year ended October 31, 2012.

NOTE 5 - ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Allowance for Doubtful Accounts for Accounts Receivable was \$4,825 as of October 31, 2012. The allowance is maintained to estimate uncollectible utility accounts in excess of the customer's utility deposit. The allowance is based upon the past due receivables and historical provisions.

NOTE 6 - COMPENSATED ABSENCES

The district vests vacation time with the employees on the basis of a 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 CO. RURAL WATER AND SEWER DISTRICT NO. 1

Notes to Financial Statements
October 31, 2012

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 \$500.00 or more. Assets purchased with grant program funds are recorded for control purposes, but depreciation is not recorded for these assets 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, 2012, is as follows:

	<u>Balance</u> <u>10/31/11</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>10/31/12</u>
<u>General Fund Assets</u>				
Equipment	\$1,446,052	54,439		\$1,500,491
Land and Buildings	37,788			37,788
	<hr/>			
Total	\$1,483,840	54,439	0	\$1,538,279
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<u>Accum. Depreciation</u>				
Equipment	\$1,011,386	37,534		\$1,048,920
Land and Buildings	29,958	745		30,703
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Total	\$1,041,344	38,279	0	\$1,079,623
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Depreciation expense is charged to indirect costs. For the current year this expense was \$38,279.



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 Co. Rural Water and Sewer District No. 1

We have audited the financial statements of the business type activities of the Stephens Co. Rural Water and Sewer District No. 1, as of and for the year ended October 31, 2012, and have issued our report thereon dated December 7, 2012. We conducted our audit in accordance with 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.

Internal Control Over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the district's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

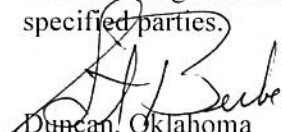
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matter

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with 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 that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the District in a separate letter dated December 7, 2012.

This report is intended solely for the information and use of the audit committee, management, and others within the organization and Directors and is not intended and should not be used by anyone other than these specified parties.


Duncan, Oklahoma
December 7, 2012

