

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

Financial Statements and
Independent Auditor's Report

September 30, 2016

**STEPHENS COUNTY RURAL WATER, SEWER AND
SOLID WASTE MANAGEMENT DISTRICT NO. 3
September 30, 2016**

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**STEPHENS COUNTY RURAL WATER, SEWER AND
SOLID WASTE MANAGEMENT DISTRICT NO.3
Management's Discussion and Analysis
Year ended September 30, 2016**

Our discussion and analysis of Stephens County Rural Water, Sewer and Solid Waste Management District No. 3's (District) financial performance provide an overview of the District's financial activities for the year ended September 30, 2016. Please read this in conjunction with our financial statements which begin on page six.

Using the Audited Financial Statements

The financial statements consist of a series of financial statements. The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position provide information about the activities of the District as a whole and present an overview of the District's finances, while the Statement of Cash Flows presents the sources and uses of cash and cash equivalents for the year.

The purpose of the Stephens County Rural Water, Sewer and Solid Waste Management District No. 3 is to provide rural water and sewer services to residential and commercial users located within the District. Because all of the District's activities are directed toward this purpose, individual fund accounts and fund financial statements are not utilized.

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the District as a whole and provide information in a way that helps users understand whether or not the District's financial condition improved or deteriorated during the period. These statements include all assets and liabilities of the District and are prepared using the accrual method of accounting. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

These two statements report the District's net position and changes in it that occurred during the year. The difference in assets and liabilities is net position, which is a measure of equity, or financial position. The increase in net position that occurs over time is reported in the Statement of Revenues, Expenses and Changes in Net Position, and is a measure of whether the financial position improved or deteriorated over time.

Management's Discussion and Analysis, Continued:

Current and Prior Year Comparisons

As noted in the following comparative summary of the Statements of Net Position, the decrease in total assets during the year was \$120,875 and the decrease in liabilities was approximately \$120,000. During 2016, the District retired notes payable to Rural Development in the amount of \$110,557 and reduced the bank note payable by \$8,163.

	<u>2016</u>	<u>2015</u>
Current assets	\$ 202,567	\$ 240,732
Property and equipment	643,234	699,857
Other assets	<u>32,447</u>	<u>58,534</u>
Total Assets	<u>878,248</u>	<u>999,123</u>
Liabilities	88,113	207,992
Net Position	<u>790,135</u>	<u>791,131</u>
Total Liabilities and Net Position	<u>\$ 878,248</u>	<u>\$ 999,123</u>

Following is a condensed summary of the District's 2016 revenues and expenses compared to the prior year 2015:

	<u>2016</u>	<u>2015</u>
<u>Revenues</u>		
Water & sewer	\$ 267,222	\$ 251,471
Interest & other	<u>1,531</u>	<u>1,538</u>
	268,753	253,009
<u>Expenses</u>		
Personnel	119,144	110,555
Depreciation	58,473	59,033
Interest	6,512	6,345
Other Operating	<u>85,620</u>	<u>103,534</u>
	269,749	279,467
Net Income (Loss)	<u>\$ (996)</u>	<u>\$ (26,458)</u>

Management's Discussion and Analysis, Continued:

Analysis of Financial Position and Results of Operation

In 2016 we lowered our short term debt and paid our long term debt in full. We hired two part-time employees to assist in office and field operations. Maintenance expenditures were lowered which improved our "bottom line". 2016 was another productive year for Stephens County RWS and SWM Dist. 3.

Contacting the District's Management

If you have questions about this report or need additional information, contact the District Manager at the District Office by mail at P.O. Box 276, Comanche, Oklahoma, 73529, or by telephone at (580) 439-5931.

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 year ended September 30, 2016, 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 respective financial position of Stephens County Rural Water, Sewer and Solid Waste Management District No. 3 as of September 30, 2016 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages one through three be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2017, 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.

Jayna Vaughn, PC

Duncan, Oklahoma
January 9, 2017

**STEPHENS COUNTY RURAL WATER, SEWER AND
SOLID WASTE MANAGEMENT DISTRICT NO. 3
Statement of Net Position
September 30, 2016**

Assets	<u>2016</u>	<u>2015 (Memo only)</u>
Current assets		
Cash and cash equivalents	\$ 61,374	\$ 127,545
Certificates of deposit	112,257	84,816
Accounts receivable	22,185	21,501
Interest receivable	229	229
Prepaid insurance	6,522	6,641
	<u>202,567</u>	<u>240,732</u>
Restricted certificates of deposit		
Rural Development reserve	0	26,472
Meter deposits reserve	31,447	31,062
	<u>31,447</u>	<u>57,534</u>
Property, plant and equipment, net	643,234	699,857
Other assets		
Refundable deposits	1,000	1,000
	<u>1,000</u>	<u>1,000</u>
Total assets	<u>\$ 878,248</u>	<u>\$ 999,123</u>
Liabilities and Net Position		
Current Liabilities		
Accounts payable	\$ 4,550	\$ 6,367
Accrued compensated absences	16,617	16,126
Accrued interest payable	48	266
Notes payable - current portion	8,749	29,897
	<u>29,964</u>	<u>52,656</u>
Long-term liabilities		
Meter deposits	31,447	31,062
Notes payable	35,451	154,171
Less: current portion	(8,749)	(29,897)
	<u>58,149</u>	<u>155,336</u>
Net Position		
Invested in capital assets, net of related debt	607,783	545,686
Restricted, nonexpendable	0	26,472
Unrestricted	182,352	218,973
	<u>790,135</u>	<u>791,131</u>
Total liabilities and net position	<u>\$ 878,248</u>	<u>\$ 999,123</u>

**STEPHENS COUNTY RURAL WATER, SEWER AND
SOLID WASTE MANAGEMENT DISTRICT NO. 3
Statement of Revenues, Expenses and Changes in Net Position
Year ended September 30, 2016**

	<u>2016</u>	<u>2015</u> (Memo only)
Operating Revenues		
Water and sewer revenue	\$ 267,222	\$ 249,323
Operating Expenses		
Water purchased	321	162
Supplies	5,071	15,238
Contract labor	3,450	3,100
Office expense	5,009	8,115
Dues, fees & license	5,569	5,831
Insurance & bonds	10,372	10,289
Professional fees	6,903	10,150
Truck expenses	1,455	1,660
Depreciation	58,473	59,033
Interest expense	6,512	6,345
Utilities & telephone	20,958	21,498
Repairs & maintenance	14,904	15,730
Salaries & wages	93,611	86,417
Employee benefits	17,986	17,293
Payroll taxes	7,547	6,845
Bad debts	627	146
Bank & credit card fees	1,673	1,468
Board member honorarium	7,300	7,300
Miscellaneous other	2,008	699
	<u>269,749</u>	<u>277,319</u>
Total expenses		
Net Income (Loss) from Operations	(2,527)	(27,996)
Other Revenues (Expenses)		
Interest income	<u>1,531</u>	<u>1,538</u>
Net Income (Loss)	(996)	(26,458)
Capital Contributions, member investments	<u>0</u>	<u>0</u>
Change in Net position	(996)	(26,458)
Net Position - Beginning of year	<u>791,131</u>	<u>817,589</u>
Net Position - End of year	<u>\$ 790,135</u>	<u>\$ 791,131</u>

**STEPHENS COUNTY RURAL WATER, SEWER AND
SOLID WASTE MANAGEMENT DISTRICT NO. 3
Statement of Cash Flows
Year ended September 30, 2016**

	<u>2016</u>	<u>2015</u> (Memo only)
Cash Flows from Operating Activities		
Cash receipts from customers	\$ 266,538	\$ 250,597
Cash payments to employees for services	(93,120)	(85,015)
Cash payments to suppliers of goods or services	(100,221)	(112,683)
Cash payments for other operating expenses	<u>(12,245)</u>	<u>(10,735)</u>
Net cash from operating activities	60,952	42,164
Cash Flows from Capital and Related Financing Activities		
Proceeds from bank loan		45,000
Principal repayment on notes payable	(118,720)	(21,776)
Interest paid on notes payable	(6,730)	(6,328)
Purchase of equipment	<u>(1,850)</u>	<u>(153,919)</u>
Net cash used by financing activities	(127,300)	(137,023)
Cash Flows from Investing Activities		
Additions to CD's	(1,354)	(1,204)
Interest income	<u>1,531</u>	<u>1,538</u>
Net cash from investing activities	177	334
Net increase (decrease) in cash and cash equivalents	<u>(66,171)</u>	<u>(94,525)</u>
Cash and Cash Equivalents - Beginning of year	<u>127,545</u>	<u>222,070</u>
Cash and Cash Equivalents - End of year	<u><u>61,374</u></u>	<u><u>127,545</u></u>
Reconciliation of operating income to net cash provided by operating activities:		
Net income (loss) from operations	\$ (2,527)	\$ (27,996)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	58,473	59,033
Interest expense	6,512	6,345
(Increase) decrease in accounts receivable	(684)	(874)
Increase (decrease) in accounts payable and accrued expenses	(941)	2,867
(Increase) decrease in other current assets	<u>119</u>	<u>2,789</u>
Net cash provided by operating activities	<u><u>\$ 60,952</u></u>	<u><u>\$ 42,164</u></u>

**STEPHENS COUNTY RURAL WATER, SEWER AND
SOLID WASTE MANAGEMENT DISTRICT NO. 3**
Notes to Financial Statements
September 30, 2016

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.

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 those amounts restricted as reserve funds for customer meter deposits liabilities.

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 \$1,600.

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
September 30, 2016**

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-year 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, 2015 from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events through January 9, 2017, 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	\$61,174
Certificates of Deposit – Unrestricted	112,257
Certificates of Deposit – Restricted meter deposits	31,447
Total Deposits	<u>\$204,878</u>

Deposits at September 30, 2016 include certificates of deposit, which total \$143,704. The certificates bear interest from .25 to 1.29 percent per annum, and mature within five years after the year ended September 30, 2016. 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
September 30, 2016**

At September 30, 2016, the carrying amount of the District's cash and certificates of deposit in financial institutions was \$204,878 and the bank balances were \$207,755. 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 September 30, 2016 were covered by FDIC insurance and are therefore classified as Category 1.

Note C: Accounts Receivable

Accounts receivable, stated at \$22,185, consists of amounts receivable for water and sewer charges in the amount of \$23,317 less \$1,132 allowance for doubtful accounts.

Note D: Restricted Deposits

The Meter Deposits reserve in the amount of \$31,447 represents deposits set aside to satisfy the liability for meter deposits collected from customers.

**STEPHENS COUNTY RURAL WATER, SEWER AND
SOLID WASTE MANAGEMENT DISTRICT NO. 3
Notes to Financial Statements
September 30, 2016**

Note E: Property, Plant and Equipment

Property, plant and equipment consists of the following at September 30, 2015 and 2016, respectively:

	2015	Additions	Dispositions	2016
Water and sewer distribution systems	\$ 1,748,339	\$ 1,850	\$	\$ 1,750,189
Wells and pumps	32,987			32,987
Equipment and vehicle	70,879		(415)	70,464
Buildings	98,459			98,459
Land	145,624			145,624
	<u>2,096,288</u>	<u>1,850</u>	<u>(415)</u>	<u>2,097,723</u>
Less: Accumulated Depreciation	(1,396,431)	(58,473)	415	(1,454,489)
Total property, plant and equipment	<u>\$ 699,857</u>	<u>\$ (56,623)</u>	<u>\$ 0</u>	<u>\$ 643,234</u>

Note F: Notes Payable

Notes payable as of September 30, 2015 included two mortgage loans in favor of United States Department of Agriculture (USDA) through Rural Development (formerly Farmers Home Administration). Rural Development loans were fully retired in September, 2016. Following is a summary of the Rural Development loans retired:

Note Number	Date	2015 Balance	2016 Balance
9205	11/5/1992	\$ 43,157	\$ 0
9104	2/24/1983	67,400	0

In July, 2015, the District borrowed \$45,000 from a bank to fund a portion of the electronic meters replacement project. The promissory note, secured by a bank certificate of deposit, provides for 60 monthly payments of \$815.32, including interest at 3.290% per annum; maturity is July 15, 2020.

Debt service requirements on the bank loan:

Due Fiscal Year Ending Sept. 30	Principal	Interest	Total
2017	\$ 8,749	\$ 1,035	\$ 9,784
2018	9,041	743	9,784
2019	9,343	441	9,784
2020	8,318	130	8,448
	<u>\$ 35,451</u>	<u>\$ 2,349</u>	<u>\$ 37,800</u>

Interest paid during the year ended September 30, 2016 was \$6,730.

**STEPHENS COUNTY RURAL WATER, SEWER AND
SOLID WASTE MANAGEMENT DISTRICT NO. 3
Notes to Financial Statements
September 30, 2016**

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, 2017:

General liability, aggregate	\$1,000,000
Buildings and personal property	1,235,874
Automobile, comprehensive and collision	19,950
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. Employees are eligible for participation upon reaching age 21 and having performed services for the District in at least two years of the most recent five year period. The District contributed a total of \$4,318 to employee SEP accounts during the year ended September 30, 2016.

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 September 30, 2016, 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 January 9, 2017.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we 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 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*.

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 Vaughn, PC

Duncan, Oklahoma
January 9, 2017

**STEPHEN'S COUNTY RURAL WATER, SEWER AND
SOLID WASTE MANAGEMENT DISTRICT NO. 3
Schedule of Findings and Responses
Year ended September 30, 2016**

Finding – Due to limited staff, the Organization does not have adequate segregation of financial duties to achieve optimal internal control. One person performs multiple functions that are normally separated for good internal control.

Response – Due to limited funding and budget considerations, it is not practical to hire additional staff at this time. To compensate for this deficiency, our Board actively participates in performing oversight functions and making management decisions.