

INDEPENDENT AUDITOR'S REPORT

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

Adverse Opinion:

I have audited the accompanying financial statements of the business-type activities of the Stephens County Rural Water and Sewer District No. 1 ("District") as of October 31, 2022, and the related notes to the financial statements, which collectively comprise the Stephens County Rural Water and Sewer District No. 1's financial statements.

In my opinion, because of the significance of the matter discussed the Basis for Adverse Opinion section of my report, the financial statements referred to above do not present fairly, in all material respects, the respective fund net position of the Stephens County Rural Water and Sewer District No. 1 as of October 31, 2022, and the respective changes in fund net position and, where applicable, cash flows thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Adverse Opinion

I conducted my audit in accordance with the with auditing standards generally accepted in the United States of America and the *Governmental Auditing Standards*. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of the Stephens County Rural Water District No. 1, and to meet my ethical responsibilities, in accordance with the relevant ethical requirements related to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide for my adverse opinion.

Matter Giving Rise to Adverse Opinion on Business-Type Activities

The District's financial statements do not disclose that during the fiscal year ended October 31, 2022, the District had related party transactions, which cannot be substantiated as to whether accounts receivable transactions were consummated on terms equivalent to those that would prevail in at arm's length transactions. It is possible that the terms of such accounts receivable transactions are not the same as those that would result from transactions among unrelated parties. Those transactions cannot be reasonably determined by the information provided to this auditor. In my opinion, disclosure of that information is required to conform with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that related party transactions should be accounted for and disclosed in the Notes to the financial statements, which would increase assets, net position and cash flows of the business-type activity. The amount by which this departure would affect assets, net position and cash flows of the business type activity has not been determined.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation,

and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve (12) 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

My objectives are to obtain reasonable assurance as to 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 my opinion. Reasonable assurance is a high-level assurance but is not absolute assurance and therefore is no guarantee that an audit conducted in accordance with generally accepted auditing standards and Government 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 include collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Misstatements are considered material there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment of a reasonable user made based on the financial statements.

In performing an audit in accordance with the generally accepted auditing standards, I:

- 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 audit 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 the 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 District'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 my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District'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 other internal control-related matters for a reasonable period of time.

Other Matters

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

Other Information

In accordance with *Government Auditing Standards*, I have also issued a report dated March 23, 2023, on my consideration of Stephens County Rural Water and Sewer District No. 1's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of this is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.



Patti J. Clift, CPA

Marlow, Oklahoma
March 23, 2023

Statement of Fund Net Position
October 31, 2022

ASSETS

CURRENT ASSETS

Cash	\$	37,414
Cash Equivalent - Certificate of Deposit		395,410
Accounts Receivable - Net		29,433
Prepaid Insurance		8,775
Total Current Assets	\$	471,033

PROPERTY PLANT AND EQUIPMENT

Land and Building	\$	37,788
Office Equipment		8,611
Water Distribution System		1,456,127
Irrigation System		26,533
Sewer System Costs		307,307
Transportation System		89,968
		<u>1,926,335</u>
Less Accumulated Depreciation		(1,483,973)
Total Property Plant & Equipment	\$	442,362

OTHER ASSETS

Deposits -

RESTRICTED CASH

Cash Restricted for Meter Deposits	\$	8,529
Cash Equivalent - Certificate of Deposit - Meter Deposits		22,800
Total Other Assets	\$	31,329

TOTAL ASSETS	\$	944,724
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See the Accompanying Notes to the Financial Statements

STEPHENS COUNTY RURAL WATER AND SEWER DISTRICT NO. 1

Statement of Fund Net Position October 31, 2022

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	\$	13,866
Water Meter Deposits		30,825
Total Current Liabilities	\$	44,691
Total Liabilities	\$	44,691

NET POSITION

Net Position - invested in capital assets	\$	442,362
Net Position - unallocated		457,322
TOTAL NET POSITION	\$	899,685

See the Notes to the Accompanying Financial Statements

STEPHENS COUNTY RURAL WATER DISTRICT NO. 1

Statement of Revenues, Expenses and Changes in Fund Net Position Compared to Budget For the Year Ended October 31, 2022

	ACTUAL	BUDGET
SUPPORT AND REVENUE		
Water Revenues	\$ 317,182	\$ 300,000
Other Operating Income	2,000	1,000
Total Revenues	319,182	301,000
 OPERATING EXPENSES		
Personnel - Salaries, Taxes and Benefits	150,057	-
Repairs & Maintenance	44,744	-
Supplies	14,685	-
Depreciation Expense	45,270	-
Electricity - Pumps	38,577	-
Office Expense	17,104	-
Mowing	11,010	-
Insurance Expense	8,385	-
Professional Fees	7,404	-
Utilities	5,449	-
Phone Expense	2,179	-
Water Rights Lease	1,800	-
Dues and Memberships	677	-
Combined Costs	-	280,000
Total Operating Expenses	347,341	280,000
Income From Operations	(28,159)	21,000
 NON-OPERATING REVENUE		
Interest Income	6,586	4,000
Rental Income	3,600	3,600
Total Non-Operating Income	10,186	7,600
CHANGE IN NET POSITION	(17,974)	28,600
BEGINNING NET POSITION	987,303	114,422
	\$ 969,329	\$ 143,022

See the Accompanying Notes to the Financial Statements

STEPHENS COUNTY RURAL WATER AND SEWER DISTRICT NO. 1

Statement of Cash Flows October 31, 2022

	ACTUAL
Cash Flow from Operating Activities	
Cash Received from Customers	\$ 317,206
Other Operating Receipts	2,000
Cash Received from Rental Receipts	3,600
Cash Paid to Lessors for Water Rights Lease	(1,800)
Cash Paid to Suppliers for Services	(148,154)
Cash Paid for Personnel Services	(150,057)
Net Cash provided (used) by Operating Activities	<u>\$ 22,796</u>
Cash Flow from Investing Activities	
Cash Payments for the purchase of property	(178,180)
Interest Income Received	6,586
Net Cash provided (used) by Investing Activities	<u>(171,594)</u>
Cash Flow from Financing Activities	
Net Cash provided (used) by Financing Activities	<u>-</u>
Net Increase (Decrease) in cash and cash equivalents	<u>\$ (148,798)</u>
Cash and Cash Equivalents, Beginning of Year	<u>\$ 581,622</u>
Cash and Cash Equivalents, End of Year	<u>\$ 432,824</u>

See the Accompanying Notes to the Financial Statements

STEPHENS COUNTY RURAL WATER AND SEWER DISTRICT NO. 1

Statement of Cash Flows October 31, 2022

Reconciliation of Net Income to Net Cash Provided by Operating Activities

Net Income	<u>\$ (17,974)</u>
Adjustments to reconcile Net Income to net Cash Provided by Operating Activities	
Depreciation and Amortization	45,270
(Increase) Decrease in Accounts Receivable	373
(Increase) Decrease in Prepaid Insurance	(2,723)
Increase (Decrease) in Accounts Payable	4,862
Increase (Decrease) in Meter Deposit Liability	(427)
Non-Operating Interest Received	<u>(6,586)</u>
	<u>40,770</u>
Net Cash Provided (used) by Operating Activities	<u>\$ 22,796</u>

See the Accompanying Notes to the Financial Statements

STEPHENS COUNTY RURAL WATER AND SEWER DISTRICT NO. 1

Notes to the Financial Statements October 31, 2022

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Business Activities

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

Property and Equipment

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

Basis of Accounting

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

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

Income Taxes

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

Cash Equivalents

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

Pronouncements of the FASB

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

STEPHENS COUNTY RURAL WATER AND SEWER DISTRICT NO. 1

Notes to the Financial Statements October 31, 2022

Operating Revenue

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

NOTE 2 - CASH AND INVESTMENTS

The Stephens County Rural Water and Sewer District No. 1 has not entered into any reverse repurchase agreements during the fiscal year ended October 31, 2022.

As of October 31, 2022, the District had unrestricted cash in banks totaling \$37,414.20 and Certificates of Deposit totaling \$464,153.31, totaling cash and cash equivalents of \$432,823.91. The District's cash and cash equivalents in all banking institutions are 100% insured by FDIC insurance of \$250,000 maintained by the financial institution

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

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

STEPHENS COUNTY RURAL WATER AND SEWER DISTRICT NO. 1

Notes to the Financial Statements October 31, 2022

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

NOTE 3 - RESTRICTED CASH AND INVESTMENTS

Restricted cash and investments include amounts owed customers for utility deposits. The amount of restricted cash in banks totaled \$8,529.40 and a Certificate of Deposit of \$22,800 for a total of \$31,329.40. Restricted assets are not available for any of any other purpose except utility deposits.

NOTE 4 - RETIREMENT PLAN

The Stephens Co. Rural Water and Sewer District No. I participates in a retirement plan, the Rural Municipal Plan, which is a money purchase defined contribution pension plan. Benefits are based upon the total amount of contributions, plus or minus investment returns. The contributions and benefits are not tied to the profitability of the District in any way. The employer contribution is 7% of the employees' gross pay. The employer contribution amounted to \$6,619.06 for the year ended October 31, 2022.

NOTE 5 - ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Allowance for Doubtful Accounts for Accounts Receivable was \$1,981.89 as of October 31, 2020. The allowance is maintained to estimate uncollectible utility accounts in excess of the customers utility deposit. The allowance is based upon the past due receivables and historical provisions.

NOTE 6 - COMPENSATED ABSENCES

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

STEPHENS COUNTY RURAL WATER AND SEWER DISTRICT NO. 1

Notes to the Financial Statements October 31, 2022

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 reasonably be estimated.

NOTE 7 - FIXED ASSETS

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

A summary of changes in Fixed Assets for the year ended October 31, 2022, is as follows:

	Balance 10/31/2021	Additions	Disposals	Balance 10/31/2022
<u>Enterprise Fund Assets</u>				
Equipment	\$ 1,710,367	\$ 178,180	\$ -	\$ 1,888,547
Land and Buildings	37,788	-	-	37,788
Total	\$ 1,748,155	\$ 178,180	\$ -	\$ 1,926,335
<u>Accumulated Depreciation</u>				
Equipment	\$ (1,405,518)	\$ (45,104)	\$ -	\$ (1,450,622)
Land and Buildings	(33,184)	(166)	-	(33,350)
Total	\$ (1,438,702)	\$ (45,270)	\$ -	\$ (1,483,972)
Net Enterprise Fund Assets	\$ 309,453	\$ 223,450	\$ -	\$ 442,363

Depreciation expense for the year ended October 31, 2022, was \$45,269.97.

STEPHENS COUNTY RURAL WATER AND SEWER DISTRICT NO. 1

Notes to the Financial Statements October 31, 2022

NOTE 6 - BUSINESS RISKS

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

GOVERNMENTAL AUDITING STANDARDS REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING, COMPLIANCE, AND OTHER MATTERS --WITH MATERIAL WEAKNESSES AND REPORTABLE INSTANCES OF NONCOMPLIANCE, AND OTHER MATTERS IDENTIFIED

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

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by Comptroller General of the United States, the financial statements of the business type activities of the Stephens County Rural Water and Sewer District No. 1 (“District”) as of and for the year ended October 31, 2022, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued my report thereon dated March 23, 2023.

Report on Internal Control over Financial Reporting

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

My consideration for internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 material misstatements of the entity's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiencies described in the accompanying schedule of findings and questioned costs as items: 2022-001, to be material weaknesses.

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. Given those limitations, during my audit I did not identify any significant deficiencies that I consider significant deficiencies. However, significant deficiencies may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned cost as item: 2022-001.

District's Response to Findings

Governmental Auditing Standards requires the auditor to perform initial limited procedures on the District's response to the findings identified in my audit and described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, I express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Marlow, Oklahoma
March 23, 2023

SCHEDULE OF FINDINGS AND RESPONSES:

STEPHENS COUNTY RURAL WATER DISTRICT NO. 1, OKLAHOMA

OCTOBER 31, 2022

Findings Required to be Reported by *Governmental Auditing Standards*

FINDING 2002-001

Criteria: The District should maintain a system of internal controls that ensures financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) in a timely manner and that ensures the District complies with applicable laws, regulations, contracts, and grant agreements.

Condition: Numerous and significant audit adjustments were necessary to correct numerous material misstatements contained in the District’s accounting records and the District has been unable to produce financial statements for the year ended October 31, 2022, in accordance with U.S. GAAP in a timely manner.

Cause: There is an overall lack of internal controls and proper management oversight to ensure the District’s accounting records accurately reflect all transactions that have occurred.

Effect: The District’s overall lack of internal controls and proper management oversight had the following significant effects:

The District did not perform a proper evaluation of its water receivable balances, which could be understated. Of the 500 meters in service on October 31, 2022, 56 of these water meters were still manual read meters. Electronically read water meters were installed in 2016 and 2017 for a total of approximately 450 water meters.

The District as of February 28, 2023, had approximately 500 active accounts. With regard to the 56 manual read water meters, customers included board members with the exception of one Board Member and employees with the exception of one employee. Furthermore, with regard to the 56 manual read water meters, as of February 28, 2023, 14 had a reading of 2,000 gallons and were billed the minimum charge of \$25.00; 10 of the manual read meters had a reading in excess of 2,000 gallons, however, they were billed the minimum charge of \$25.00; and 12 of the manual read meters had no reading at all and were billed the minimum charge of \$25.00.

The District failed to comply with Title 61 Oklahoma Statutes Sections 101-136, the Competitive Bidding Act in the Agreement with New Water Enterprises for the Sand Filter Plant in the amount of \$127,300.

The District failed to provide segregation of duties over cash receipts received by the employees within their official duties.

SCHEDULE OF FINDINGS AND RESPONSES: (continued)

STEPHENS COUNTY RURAL WATER DISTRICT NO. 1, OKLAHOMA

OCTOBER 31, 2022

Findings Required to be Reported by *Governmental Auditing Standards*

FINDING 2002-001 (continued)

An adjustment in the approximate amount of \$180,000 was needed to in order to properly reflect the correct Statement of Net Fund Position of the District and the Statement of Net Revenues, Expenses and Changes in Fund Net Position Compared to Budget for the year ended October 31, 2022.

Numerous and significant audit adjustments were necessary to correct the financial statements from the cash basis of accounting to the accrual basis of accounting (U.S. GAAP).

The District was unable to issue its audited financial statements for the year ended October 31, 2022, until May 8, 2022. This makes the audited financial statements of not being of value to decision makers at their annual meeting held in January 2022.