

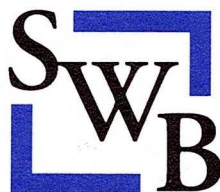
**STEPHENS CO. RURAL WATER AND SEWER DISTRICT NO. 1**

**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, 2019



**Steve Beebe, CPA\PFS, Inc.**

A PROFESSIONAL CORPORATION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Stephens County Rural Water and Sewer District No. 1  
Velma, OK 73491

We have audited the financial statements of Stephens County Water Rural District No. 1, as of and for the year ended October 31, 2019, and the related notes which collectively comprise the financial statements of Stephens County Rural Water District No. 1 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 the 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 made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

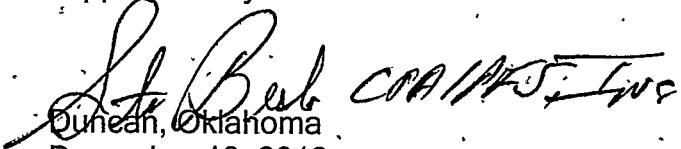
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Stephens County Water Rural District No. 1, as of October 31, 2019, and the changes in financial position and cash flows thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

#### Other Reporting Required by Government Auditing Standards

In accordance with *Governmental Auditing Standards*, we have also issued our report dated December 10, 2019, on our consideration of Stephens County Rural Water and Sewer District No. 1 internal control over financial reporting and on 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 *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

#### Emphasis of Matter

The District has adopted the new financial reporting model required by GASB 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.

  
St. Barb  
December 10, 2019

STEPHENS CO. RURAL WATER AND SEWER DISTRICT NO. 1

Statement of Fund Net Position

October 31, 2019

ASSETS

CURRENT ASSETS

Cash	\$ 114,490
Investments	452,197
Accounts receivable - Net	28,312
Prepaid insurance	6,371
Total Current Assets	<u>601,370</u>

PROPERTY, PLANT AND EQUIPMENT

Equipment	1,698,400
Land and Buildings	37,788
Less: Accumulated Depreciation	<u>(1,347,474)</u>
Total Property, Plant and Equip.	<u>388,714</u>

OTHER ASSETS

Deposits	599
Restricted investments	24,608
Total Other Assets	<u>25,207</u>

TOTAL ASSETS	<u>1,015,291</u>
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LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Customer's meter deposits	24,608
Trade accounts payable	3,380
Total Current Liabilities	<u>27,988</u>

NET POSITION

Net position - invested in capital assets	388,714
Net position - unallocated	598,589
TOTAL NET POSITION	<u>\$ 987,303</u>

See accompanying notes to financial statements.

**STEPHENS CO. RURAL WATER AND SEWER DISTRICT NO. 1**

Statements of Revenues, Expense and  
Changes in Net Position Compared to Budget  
For the year ended October 31, 2019

	ACTUAL	BUDGET
REVENUE		
Water revenue	\$ 278,977	\$ 282,000
Other operating income	1,000	1,030
	<hr/>	<hr/>
Total Revenue	279,977	283,030
	<hr/>	<hr/>
OPERATING EXPENSES		
Personnel costs	130,799	
Depreciation	46,166	
Utilities purchased	32,113	
Other operating costs	31,254	
Insurance purchased	29,899	
Office expense and supplies	19,016	
Professional services	5,200	
Combined costs		258,000
	<hr/>	<hr/>
Total Expenses	294,447	258,000
	<hr/>	<hr/>
Income From Operations	(14,470)	25,030
	<hr/>	<hr/>
OTHER INCOME AND EXPENSE		
Interest income	10,656	5,000
Rent income	3,600	3,600
	<hr/>	<hr/>
Total Other Income and Expense	14,256	8,600
	<hr/>	<hr/>
NET INCOME (LOSS)	(214)	33,630
	<hr/>	<hr/>
BEGINNING NET POSITION	987,517	987,517
	<hr/>	<hr/>
ENDING NET POSITION	\$ 987,303	\$ 1,021,147
	<hr/>	<hr/>

See accompanying notes to financial statements.

STEPHENS CO. RURAL WATER AND SEWER DISTRICT NO.1

Statement of Cash Flows  
October 31, 2019

Cash flow from operating activities:	
Cash received from customers	\$ 278,780
Other operating receipts	1,000
Cash paid to employees	(130,799)
Cash payments to suppliers	(117,335)
Rent income received	3,600
Net cash provided (used) by operating activities	<u>35,246</u>
Cash flow from investing activities:	
Cash payments for the purchase of property	(12,147)
Interest income received	(10,656)
Net cash provided (used) by investing activities	<u>(22,803)</u>
Cash flow from non-cash transfer activities:	
Net cash provided (used) by non-cash transfer activities	<u>0</u>
Net increase (decrease) in cash and equivalents	<u>12,443</u>
Cash and equivalents, beginning of year	<u>532,930</u>
Cash and equivalents, end of year	<u>\$ 545,373</u>

See accompanying notes to financial statements

STEPHENS CO. RURAL WATER AND SEWER DISTRICT NO.1

Statement of Cash Flows  
October 31, 2019

Reconciliation of net income to net cash  
provided by operating activities

Net Income	\$	<u>(212)</u>
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization		46,166
(Increase) decrease in accounts receivable		(197)
(Increase) decrease in prepaid expenses		131
Increase (decrease) in accounts payable		16
Nonoperating interest		<u>(10,658)</u>
Total adjustments		<u>35,458</u>
Net cash provided (used) by operating activities	\$	<u><u>35,246</u></u>

See accompanying notes to financial statements



# STEPHENS CO. RURAL WATER AND SEWER DISTRICT NO. 1

Notes to Financial Statements  
October 31, 2019

## 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 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.

### 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

# STEPHENS CO. RURAL WATER AND SEWER DISTRICT NO. 1

Notes to Financial Statements  
October 31, 2019

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, 2019.

Cash accounts totaled \$116,298 as of October 31, 2019. Investments in certificates of deposit totaled \$474,996 as of October 31, 2019. Both include restricted cash and investments. The cash and investments at the Bank of Commerce exceeded FDIC insurance by \$30,873 which was not covered by other securities. Cash and investments in other banking institutions were covered by FDIC insurance.

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 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.

# STEPHENS CO. RURAL WATER AND SEWER DISTRICT NO. 1

Notes to Financial Statements

October 31, 2019

## NOTE 3 - RESTRICTED CASH AND INVESTMENTS

Restricted cash and investments include amounts owed customers for utility deposits. The amount restricted was \$24,608 as of October 31, 2019. 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 \$6,089 for the year ended October 31, 2019.

## NOTE 5 - ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Allowance for Doubtful Accounts for Accounts Receivable was \$500 as of October 31, 2019. 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. No additional provision was made during the year.

## 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.

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 \$1,000.00 or more. Assets purchased with grant program funds are recorded for control purposes, but depreciation is not

**STEPHENS CO. RURAL WATER AND SEWER DISTRICT NO. 1**

Notes to Financial Statements  
October 31, 2019

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, 2019, is as follows:

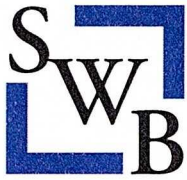
	<u>Balance</u> <u>10/31/18</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>10/31/19</u>
<b><u>General Fund Assets</u></b>				
Equipment	\$1,686,253	12,147		\$1,698,400
Land and Buildings	37,788			37,788
<b>Total</b>	<b>\$1,724,041</b>	<b>12,147</b>		<b>\$1,736,188</b>
<b><u>Accum. Depreciation</u></b>				
Equipment	\$1,268,789	46,000		\$1,314,789
Land and Buildings	32,519	166		32,685
<b>Total</b>	<b>\$1,301,308</b>	<b>46,166</b>		<b>\$1,347,474</b>

Depreciation expense is charged to indirect costs. For the current year this expense was \$46,166.

**NOTE 8 – SUBSEQUENT EVENTS**

The District has plans and is in the process of purchasing water meters which can be read by handheld radio reading devices. The plans are to purchase and install these meters over time. The final investment has not been determined.

Subsequent events have been evaluated through December 10, 2019 and the report is expected to be finalized January 13, 2020.



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT STANDARDS.

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

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 Controller General of the United States, the financial statements of Stephens County Rural Water District No. 1, Velma, Oklahoma (District), as of and for the year ended October 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dates December 10, 2019.

#### Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we 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 our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 material misstatements 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 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, 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 the District's financial statements are free from material misstatement, we 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 and 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 showed 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 and opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

  
Duncan, Oklahoma  
December 10, 2019