

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

Financial Statements and
Independent Auditor's Report

September 30, 2011

STEPHENS COUNTY RURAL WATER, SEWER AND
SOLID WASTE MANAGEMENT DISTRICT NO. 3
September 30, 2011

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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, 2011

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, 2011. Please read this in conjunction with our financial statements which begin on page five.

Using the Audited Financial Statements

The financial statements consist of a series of financial statements. The Statement of Net Assets and the Statement of Activities 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 Assets and the Statement of Activities

The Statement of Net Assets and the Statement of Activities 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 assets and changes in them that occurred during the year. The difference in assets and liabilities is net assets, which is a measure of equity, or financial position. The increase in net assets that occurs over time is reported in the Statement of Activities, and is a measure of whether the financial position improved or deteriorated over time.

Management's Discussion and Analysis, Continued:

Current, Prior Year and Budget Comparisons

As noted in the following comparative summary of the Statements of Net Assets, the increase in total assets during the year was approximately twenty thousand dollars, while the decrease in liabilities was also approximately twenty thousand dollars.

	2010	2011
Current assets	\$ 262,709	\$ 343,262
Property and equipment	798,193	747,142
Other assets	66,253	56,431
Total Assets	1,127,155	1,146,835
Liabilities	340,994	321,213
Net Assets	786,161	825,622
Total Liabilities and Net Assets	\$ 1,127,155	\$ 1,146,835

Following is a summary of the District's 2011 revenues and expenses compared to the 2011 budget and prior year 2010:

	2010 Actual	2011 Budget	2011 Actual
<u>Revenues</u>			
Water & sewer	\$ 272,998	\$ 272,500	\$ 315,586
Interest income	3,121	2,500	1,923
	<u>276,119</u>	<u>275,000</u>	<u>317,509</u>
<u>Expenses</u>			
Personnel	103,261	96,769	104,807
Depreciation	53,249	54,000	53,128
Interest	15,320	15,000	14,203
Other Operating	107,641	110,000	108,005
	<u>279,471</u>	<u>275,769</u>	<u>280,143</u>
Net Income (Loss)	<u>\$ (3,352)</u>	<u>\$ (769)</u>	<u>\$ 37,366</u>

Management's Discussion and Analysis, Continued:

Analysis of Financial Position and Results of Operation

2011 was a good year financially.

There were no major repairs or breaks in service.

We were able to pay off one loan with Rural Development and are continuing paying off the remaining long term debt.

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

We have audited the accompanying statement of net assets of Stephens County Rural Water, Sewer and Solid Waste Management District No. 3 as of September 30, 2011 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on the 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 financial statements referred to above present fairly, in all material respects, the financial position of Stephens County Rural Water, Sewer and Solid Waste Management District No. 3 as of September 30, 2011 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2011 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages one through three be presented to supplement the 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 for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the 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.

Jayna Vaughn, PC

Jayna Vaughn, P.C.
December 9, 2011

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

Statement of Net Assets

September 30, 2011

Assets	<u>2011</u>	<u>2010 (Memo only)</u>
Current assets		
Cash and cash equivalents	\$ 302,203	\$ 230,315
Accounts receivable	32,666	24,259
Interest receivable	138	186
Prepaid insurance	8,255	7,949
	<u>343,262</u>	<u>262,709</u>
Restricted cash		
Rural Development reserve	26,472	36,158
Meter deposits reserve	28,959	29,095
	<u>55,431</u>	<u>65,253</u>
Property, plant and equipment, net	747,142	798,193
Other assets		
Refundable deposits	<u>1,000</u>	<u>1,000</u>
Total assets	<u>\$ 1,146,835</u>	<u>\$ 1,127,155</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 4,916	\$ 3,992
Accrued compensated absences & payroll	12,107	12,113
Accrued interest payable	674	728
Notes payable - current portion	13,002	20,511
	<u>30,699</u>	<u>37,344</u>
Long-term liabilities		
Meter deposits	28,959	29,095
Notes payable-Rural Development	274,557	295,066
Less: current portion	(13,002)	(20,511)
	<u>290,514</u>	<u>303,650</u>
Net Assets		
Invested in capital assets, net of related debt	472,585	503,127
Restricted, nonexpendable	26,472	36,158
Unrestricted	326,565	246,876
	<u>825,622</u>	<u>786,161</u>
Total liabilities and net assets	<u>\$ 1,146,835</u>	<u>\$ 1,127,155</u>

**STEPHENS COUNTY RURAL WATER, SEWER AND
SOLID WASTE MANAGEMENT DISTRICT NO. 3
Statement of Activities
For the Year ended September 30, 2011**

	<u>2011</u>	<u>2010 (Memo only)</u>
Operating Revenues		
Water and sewer revenue	\$ 315,586	\$ 272,998
Expenses		
Water purchased	20,307	8,295
Supplies	10,141	10,941
Contract labor	2,700	2,550
Office expense	4,993	6,537
Dues, fees & license	3,082	8,376
Insurance & bonds	11,123	10,769
Professional fees	9,093	8,155
Truck expenses	2,383	4,423
Depreciation	53,128	53,249
Interest expense	14,203	15,320
Utilities & telephone	24,613	23,671
Repairs & maintenance	15,108	18,083
Salaries & wages	81,976	81,589
Employee benefits	16,036	15,411
Payroll taxes	6,795	6,261
Bad debts	899	1,190
Well development	535	
Miscellaneous other	3,028	4,651
	<u>280,143</u>	<u>279,471</u>
Total expenses		
Net Income (Loss) from Operations	35,443	(6,473)
Other Revenues		
Interest income	<u>1,923</u>	<u>3,121</u>
Net Income (Loss)	37,366	(3,352)
Capital Contributions, member investments	<u>2,095</u>	<u>575</u>
Change in Net assets	39,461	(2,777)
Net Assets - Beginning of year	<u>786,161</u>	<u>788,938</u>
Net Assets - End of year	<u>\$ 825,622</u>	<u>\$ 786,161</u>

**STEPHENS COUNTY RURAL WATER, SEWER AND
SOLID WASTE MANAGEMENT DISTRICT NO. 3
Statement of Cash Flows
For the Year ended September 30, 2011**

	2011	2010 (Memo only)
Cash Flows from Operating Activities		
Cash receipts from customers	\$ 308,176	\$ 271,544
Cash payments to employees for services	(83,821)	(79,647)
Cash payments to suppliers of goods or services	(93,561)	(91,031)
Cash payments for other operating expenses	(35,953)	(38,735)
Net cash provided by operating activities	94,841	62,131
Cash Flows from Capital and Related Financing Activities		
Principal repayment on notes payable	(20,509)	(20,838)
Proceeds from members investment	2,095	575
Interest paid on notes payable	(14,256)	(15,320)
Change in restricted cash	9,822	(1,163)
Net cash used by financing activities	(22,848)	(36,746)
Cash Flows from Investing Activities		
Purchase of property & equipment	(2,076)	(1,820)
Interest income received	1,971	3,289
Net cash provided (used) by investing activities	(105)	1,469
Net increase (decrease) in cash and cash equivalents	71,888	26,854
Cash and Cash Equivalents - Beginning of year	230,315	203,461
Cash and Cash Equivalents - End of year	302,203	230,315
Reconciliation of operating income to net cash provided by operating activities:		
Net income from operations	\$ 35,443	\$ (6,473)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	53,128	53,249
Interest expense	14,203	15,320
(Increase) decrease in accounts receivable	(8,407)	(1,454)
Increase (decrease) in accounts payable and accrued expenses	728	3,243
(Increase) decrease in other current assets	(254)	(1,754)
Net cash provided by operating activities	\$ 94,841	\$ 62,131

**STEPHENS COUNTY RURAL WATER, SEWER AND
SOLID WASTE MANAGEMENT DISTRICT NO. 3**
Notes to Financial Statements
September 30, 2011

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 area 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. Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the fund financial statements for the proprietary fund, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

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 assets, 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 assets.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits and certificates of deposit in financial institutions, less and except those amounts set aside as reserve funds pursuant to loan covenants with USDA Rural Development and 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, 2011

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, 2010 from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events through December 9, 2011, the date the financial statements were available to be issued.

Note B: Cash Deposits in Financial Institutions

Cash deposits in financial institutions is presented in the statement of net assets as follows:

Cash and Cash Equivalents	\$302,203
Rural Development Cash Reserve	26,472
Meter Deposit Cash Reserve	28,959
Total Cash Deposits	<u>\$357,634</u>

Cash deposits at September 30, 2011 include certificates of deposit, which total \$161,468. The certificates bear interest from .25 to 1.05 percent per annum, and mature within fourteen months of the year ended September 30, 2011.

**STEPHENS COUNTY RURAL WATER, SEWER AND
SOLID WASTE MANAGEMENT DISTRICT NO. 3**
Notes to Financial Statements
September 30, 2011

At September 30, 2011, the carrying amount of the District's cash and certificates of deposit in financial institutions was \$357,634 and the bank balances were \$365,149. The entire amount was insured by the Federal Deposit Insurance Corporation (FDIC). 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.

Based on these three levels of risk, the District's cash deposits are classified as follows:

Category 1	Insured or collateralized	\$357,634
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Note C: Accounts Receivable

Accounts receivable, stated at \$32,666, consists of amounts receivable for water and sewer charges in the amount of \$32,945 less \$1,672 allowance for doubtful accounts, plus \$1,393 due from Rural Development as a result of a refundable overpayment.

Note D: Restricted Cash

The Rural Development reserve in the amount of \$26,472 represents cash deposits set aside pursuant to loan covenants with Rural Development. The reserve requirement is one year's debt service for principal and interest on Rural Development notes payable.

The Meter Deposits reserve in the amount of \$28,959 represents cash 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, 2011**

Note E: Property, Plant and Equipment

Property, plant and equipment consists of the following at September 30, 2010 and 2011, respectively:

	2010	2011
Water and sewer distribution systems	\$ 1,620,507	\$ 1,620,507
Wells and pumps	27,768	29,844
Equipment and vehicle	76,753	76,753
Buildings	99,423	99,423
Land	145,624	145,624
	<u>1,970,075</u>	<u>1,972,151</u>
Less: Accumulated Depreciation	(1,171,882)	(1,225,009)
Total property, plant and equipment	<u>\$ 798,193</u>	<u>\$ 747,142</u>

Note F: Notes Payable to Rural Development

Notes payable of \$274,557 consist of two mortgage loans in favor of United States Department of Agriculture (USDA) through Rural Development (formerly Farmers Home Administration). All loans have an initial term of forty years and bear interest at five percent per annum. Following is a summary of the notes payable at September 30, 2011:

Note Number	Date	Annual Debt Service	2010 Balance	2011 Balance
9205	11/5/1992	\$ 13,500	\$ 177,159	\$ 172,408
9104	2/24/1983	12,972	109,805	102,149

The combined debt service requirements on the above loans are as follows:

Due Fiscal Year Ending Sept. 30	Principal	Interest	Total
2012	\$ 13,002	\$ 13,470	\$ 26,472
2013	13,705	12,767	26,472
2014	14,406	12,066	26,472
2015	15,143	11,329	26,472
2016	15,888	10,584	26,472
2017-2021	92,639	39,721	132,360
2022-2026	45,942	22,000	67,942
2027-2031	58,401	9,099	67,500
2032	5,431	122	5,553
	<u>\$ 274,557</u>	<u>\$ 131,158</u>	<u>\$ 405,715</u>

All Rural Development loans are secured by all property, plant and equipment of the District (except vehicles), in addition to revenues generated by the water and sewer systems.

**STEPHENS COUNTY RURAL WATER, SEWER AND
SOLID WASTE MANAGEMENT DISTRICT NO. 3
Notes to Financial Statements
September 30, 2011**

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, 2012:

General liability, aggregate	\$1,000,000
Buildings and personal property	995,875
Automobile, comprehensive and collision	18,595
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 \$4,140 to employee SEP accounts during the year ended September 30, 2011.

**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 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, 2011, and have issued our report thereon dated December 9, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Stephens County Rural Water, Sewer and Solid Waste Management District No. 3'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 Stephens County Rural Water, Sewer and Solid Waste Management District No. 3's internal control over financial reporting. 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 over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting. 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.

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 of 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*.

Stephens County Rural Water, Sewer and Solid Waste Management District No. 3's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Stephens County Rural Water, Sewer and Solid Waste Management District No. 3's response and, accordingly, we express no opinion on it.

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

Jayna Vaughn, PC

Jayna Vaughn, P.C
December 9, 2011

**STEPHEN'S COUNTY RURAL WATER, SEWER AND
SOLID WASTE MANAGEMENT DISTRICT NO. 3
Schedule of Findings and Responses
Year ended September 30, 2011**

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, we utilize the services of an outside accountant to compile financial statements; additionally, our Board is very active in performing oversight functions and making management decisions.