

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

Financial Statements and  
Independent Auditor's Report

September 30, 2019

**STEPHENS COUNTY RURAL WATER, SEWER AND  
SOLID WASTE MANAGEMENT DISTRICT NO. 3  
September 30, 2019**

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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, 2019**

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, 2019. 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 or decrease 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 \$26,544 and the increase in liabilities was \$11,335

	<u>2019</u>	<u>2018</u>
Current assets	\$ 179,441	\$ 229,447
Property and equipment	572,135	578,302
Other assets	<u>62,487</u>	<u>32,858</u>
Total Assets	<u>814,063</u>	<u>840,607</u>
Liabilities	77,169	65,834
Net Position-Capital assets net of related debt	539,032	560,648
Net Position-Unrestricted	<u>197,862</u>	<u>214,125</u>
Total Liabilities and Net Position	<u>\$ 814,063</u>	<u>\$ 840,607</u>

Following is a condensed summary of the District's 2019 revenues and expenses compared to the prior year 2018:

	<u>2019</u>	<u>2018</u>
<u>Revenues</u>		
Water & sewer	\$ 274,776	\$ 286,674
Interest & other	<u>1,610</u>	<u>1,625</u>
	276,386	288,299
<u>Expenses</u>		
Personnel	120,437	128,430
Depreciation	47,719	44,200
Interest	683	678
Other Operating	<u>145,426</u>	<u>121,905</u>
	314,265	295,213
Net Income (Loss)	<u>\$ (37,879)</u>	<u>\$ (6,914)</u>

## **Management's Discussion and Analysis, Continued:**

### **Analysis of Financial Position and Results of Operation**

We have continued to pay off short-term debt. We made improvements to billing and accounting software. We have added a website that allows the customer to pay online. We have also continued maintenance on all well sites, booster pump station, sewer lagoon system, and all properties of the District.

### **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. The public may also visit our website at [www.stephenswater3.com](http://www.stephenswater3.com).

## 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, 2019, 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 financial position of Stephens County Rural Water, Sewer and Solid Waste Management District No. 3 as of September 30, 2019 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 13, 2020, 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.



Duncan, Oklahoma  
January 13, 2020

**STEPHENS COUNTY RURAL WATER, SEWER AND  
SOLID WASTE MANAGEMENT DISTRICT NO. 3  
Statement of Net Position  
September 30, 2019**

<b>Assets</b>	<u>2019</u>	<u>2018 (Memo only)</u>
<b>Current assets</b>		
Cash and cash equivalents	\$ 101,246	\$ 87,009
Certificates of deposit	47,755	114,758
Accounts receivable	21,757	20,201
Interest receivable	-	229
Prepaid insurance	8,684	7,250
	<u>179,441</u>	<u>229,447</u>
<b>Restricted certificates of deposit</b>		
Pledged to secure notes payable	33,103	
Meter deposits reserve	28,384	31,858
	<u>61,487</u>	<u>31,858</u>
<b>Property, plant and equipment, net</b>	572,135	578,302
<b>Other assets</b>		
Refundable deposits	<u>1,000</u>	<u>1,000</u>
Total assets	<u>\$ 814,063</u>	<u>\$ 840,607</u>
<b>Liabilities and Net Position</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 10,149	\$ 6,032
Accrued salaries	2,756	2,025
Accrued compensated absences	2,716	8,241
Accrued interest payable	61	24
Notes payable	33,103	17,654
	<u>48,785</u>	<u>33,976</u>
<b>Long-term liabilities</b>		
Meter deposits	<u>28,384</u>	<u>31,858</u>
	28,384	31,858
<b>Net Position</b>		
Invested in capital assets, net of related debt	539,032	560,648
Restricted	-	-
Unrestricted	197,862	214,125
	<u>736,894</u>	<u>774,773</u>
Total liabilities and net position	<u>\$ 814,062</u>	<u>\$ 840,607</u>

The accompanying notes are an integral part of the financial statements.



**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, 2019**

	<u>2019</u>	<u>2018 (Memo only)</u>
<b>Operating Revenues</b>		
Water and sewer revenue	\$ 274,776	\$ 286,674
<b>Operating Expenses</b>		
Water purchased	5,867	9,020
Supplies	16,233	8,917
Contract labor	9,205	6,375
Office expense	9,407	11,840
Dues, fees & license	15,647	7,066
Insurance & bonds	13,993	10,419
Professional fees	6,200	6,000
Truck expenses	5,458	2,272
Depreciation	47,719	44,200
Interest expense	683	678
Utilities & telephone	23,465	23,324
Repairs & maintenance	20,313	19,693
Salaries & wages	100,028	99,828
Employee benefits	11,728	19,757
Payroll taxes	8,681	8,845
Bad debts	159	5,188
Bank & credit card fees	3,025	2,887
Board member honorarium	7,800	7,200
Miscellaneous other	8,655	1,704
	<u>314,265</u>	<u>295,213</u>
Total expenses		
Net Income (Loss) from Operations	(39,489)	(8,539)
<b>Other Revenues (Expenses)</b>		
Interest income	<u>1,610</u>	<u>1,625</u>
Net Income (Loss)	(37,879)	(6,914)
Capital Contributions, member investments	<u>-</u>	<u>-</u>
Change in Net position	(37,879)	(6,914)
<b>Net Position - Beginning of year</b>	<u>774,773</u>	<u>781,687</u>
<b>Net Position - End of year</b>	\$ <u><u>736,894</u></u>	\$ <u><u>774,773</u></u>

The accompanying notes are an integral part of the financial statements.

**STEPHENS COUNTY RURAL WATER, SEWER AND  
SOLID WASTE MANAGEMENT DISTRICT NO. 3  
Statement of Cash Flows  
Year ended September 30, 2019**

	2019	2018 (Memo only)
<b>Cash Flows from Operating Activities</b>		
Cash receipts from customers	\$ 273,220	\$ 288,733
Cash payments to employees for services	(104,823)	(108,546)
Cash payments to suppliers of goods or services	(110,967)	(122,003)
Cash payments for other operating expenses	(52,185)	(26,429)
Net cash provided by operating activities	5,246	31,755
<b>Cash Flows from Capital and Related Financing Activities</b>		
Principal repayment on loans	(10,552)	(9,092)
Proceeds from bank loans	26,000	
Interest paid on loans	(646)	(693)
Customer meter deposits returned	(3,474)	
Purchase of property and equipment	(41,551)	(21,662)
Net cash used by financing activities	(30,223)	(31,447)
<b>Cash Flows from Investing Activities</b>		
CD's redeemed	37,375	(1,521)
Interest income	1,840	1,625
Net cash provided by investing activities	39,215	104
<b>Net increase (decrease) in cash and cash equivalents</b>	14,238	412
<b>Cash and Cash Equivalents - Beginning of year</b>	87,009	86,597
<b>Cash and Cash Equivalents - End of year</b>	101,246	87,009
Reconciliation of operating income to net cash provided by operating activities:		
Net income (loss) from operations	\$ (39,489)	\$ (8,539)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	47,719	44,200
Interest expense	683	678
(Increase) decrease in accounts receivable	(1,556)	2,059
Increase (decrease) in accounts payable and accrued expenses	(677)	(6,475)
(Increase) decrease in other current assets	(1,434)	(168)
Net cash provided by operating activities	\$ 5,246	\$ 31,755

**STEPHENS COUNTY RURAL WATER, SEWER AND  
SOLID WASTE MANAGEMENT DISTRICT NO. 3**  
**Notes to Financial Statements**  
**September 30, 2019**

**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. Operating revenues are defined as those revenues derived in the ordinary course of providing water and sewer services to users. Nonoperating revenues consists of interest on deposits.

**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 \$2,500.

**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, 2019**

**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, 2018 from which the summarized information was derived.

**Subsequent Events**

Management has evaluated subsequent events through December 2, 2019, 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	\$ 101,246
Certificates of Deposit – Unrestricted	47,755
Certificates of Deposit – Restricted	61,487
Total Deposits	<u>\$ 210,488</u>

Deposits at September 30, 2019 include certificates of deposit, which total \$109,242. The certificates bear interest from .80 to 1.30 percent per annum, and mature within two years after the year ended September 30, 2019. 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, 2019**

At September 30, 2019, the carrying amount of the District's cash and certificates of deposit in financial institutions was \$210,488 and the bank balances were \$212,065. 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, 2019 were covered by FDIC insurance and are therefore classified as Category 1.

**Note C:      Accounts Receivable**

Accounts receivable, stated at \$20,698, consists of amounts receivable for water and sewer charges in the amount of \$21,787 less \$1,089 allowance for doubtful accounts.

**Note D:      Restricted Deposits**

The Meter Deposits reserve in the amount of \$28,384 represents deposits set aside to satisfy the liability for meter deposits collected from customers.

Certificate of Deposit is pledged to secure bank loans for the notes payable balance of \$33,103.

**STEPHENS COUNTY RURAL WATER, SEWER AND  
SOLID WASTE MANAGEMENT DISTRICT NO. 3  
Notes to Financial Statements  
September 30, 2019**

**Note E: Property, Plant and Equipment**

Property, plant and equipment consists of the following at September 30, 2018 and 2019, respectively:

	2018	Additions	Dispositions	2019
Water and sewer distribution systems	\$ 1,753,051	\$	\$	\$ 1,753,051
Wells and pumps	32,987	8,656		41,643
Equipment and vehicle	64,754	32,896		97,650
Buildings	121,269			121,269
Land	145,624			145,624
	<u>2,117,685</u>	<u>41,552</u>	<u>-</u>	<u>2,159,237</u>
Less: Accumulated Depreciation	(1,539,383)	(47,719)		(1,587,102)
Total property, plant and equipment	<u>\$ 578,302</u>	<u>\$ (6,167)</u>	<u>\$ -</u>	<u>\$ 572,135</u>

**Note F: Notes Payable**

\$8,308 is the remaining balance on a bank loan originated July, 2015 for \$45,000 to finance 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 August , 2020.

\$24,795 is the remaining balance on a bank loan for \$26,000 originated June, 2019 to finance the purchase of a vehicle. The promissory note, secured by a bank certificate of deposit, provides for twelve monthly payments of \$471.30, including interest at 3.29%, beginning July 15, 2019. the note matures July 15, 2020.

Debt service requirements on the bank loans:

Due Fiscal Year Ending Sept. 30	Principal	Interest	Total
2020	33,103	760	33,863

Following is a summary of debt activity during the year:

	Beginning Balance	New Borrowing	Repayment	Ending Balance
Bank loan 2015	\$ 17,654	\$	\$ (9,346)	\$ 8,308
Bank loan 2019		26,000	(1,205)	24,795
	<u>17,654</u>	<u>26,000</u>	<u>(10,551)</u>	<u>33,103</u>

**STEPHENS COUNTY RURAL WATER, SEWER AND  
SOLID WASTE MANAGEMENT DISTRICT NO. 3**  
**Notes to Financial Statements**  
**September 30, 2019**

**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, 2020:

General liability, aggregate	\$1,000,000
Buildings and personal property	1,327,530
Automobile, comprehensive and collision	64,980
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. The District may elect to contribute between five and fifteen percent of employee compensation to the plan annually; contributions during the current year were made at five percent. Contributions vest immediately and are not subject to forfeiture. Employees are eligible for participation upon reaching age 21 and having performed services for the District for at least six months of the most recent five year period. The District contributed a total of \$3,198 to employee SEP accounts during the year ended September 30, 2019.

**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, 2019, 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 13, 2020.

**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 and therefore, material weaknesses or significant deficiencies may exist and not be identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 19-001 and 19-002 that we consider to be significant deficiencies.



## **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*.

## **Stephens County Rural Water, Sewer and Solid Waste Management District No. 3 Response to Findings**

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. The Stephens County Rural Water, Sewer and Solid Waste Management District No. 3's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **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.



Duncan, Oklahoma  
January 13, 2020

**STEPHEN'S COUNTY RURAL WATER, SEWER AND  
SOLID WASTE MANAGEMENT DISTRICT NO. 3  
Schedule of Findings and Responses  
Year ended September 30, 2019**

**19-001**

Criteria: The segregation of duties and responsibilities between different individuals is an important control activity needed to adequately protect the District's assets and ensure accurate financial reporting.

Condition: The same individual is responsible for customer billings and receiving payments, making and recording deposits, reconciling bank accounts, maintaining billing registers and preparing financial statements with little oversight provided.

Cause and Effect: The limited staffing of the District makes it difficult to segregate duties appropriately. Without sufficient segregation of duties, the risk significantly increases that errors and/or fraud related to sales and collection of funds, including misappropriation of assets, could occur and not be detected in a timely manner.

Recommendation: The District should evaluate the risks associated with the lack of segregation of duties and consider implementing controls that would help mitigate those risks.

Management's Response: Due to the District size and limited number of personnel, it is not feasible to segregate duties for optimal internal control; the cost of correcting the weakness would be prohibitive, however the District will investigate the possibility of other compensating controls.

**19-002**

Criteria: Persons responsible for financial reporting within the organization should be adequately trained and supervised in fulfilling their responsibilities. Documented policies and procedures are also helpful in communicating the expectations of management in this regard.

Condition: Personnel changes occurred during the year and new personnel assumed the financial reporting responsibilities without prior experience or other support systems conducive to preparing complete and accurate financial statements. As a result, bank accounts were not reconciled and multiple adjustments were necessary to prepare complete and correct financial statements at year end.

Cause and Effect: Without adequate training and support systems, errors or misstatements in financial reporting are more likely to occur and go undetected; therefore, financial statement users are not assured of having access to reliable financial data.

Recommendation: The District should provide training needed for personnel to perform their duties according to management's expectations. Written policies and procedures would be beneficial in communicating those expectations. Additional oversight or supervision in the financial reporting process would also be beneficial.

Management's Response: The District has invested in new software for financial reporting that is integrated with the customer billing system. Our package includes support and training that has already begun and is ongoing. We believe this has enhanced our financial reporting and will reduce the opportunity for errors in the future.