

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

Financial Statements and
Independent Auditor's Report

December 31, 2023

**STEPHENS COUNTY RURAL WATER, SEWER AND
SOLID WASTE MANAGEMENT DISTRICT NO. 3
December 31, 2023**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Stephens County Rural Water, Sewer and
Solid Waste Management District No. 3

Opinion

We have audited the accompanying financial statements of Stephens County Rural Water, Sewer and Solid Waste Management District No. 3 as of and for the year ended December 31, 2023, and the related notes to the financial statements, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Stephens County Rural Water, Sewer and Solid Waste Management District No. 3 as of December 31, 2023, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Stephens County Rural Water, Sewer and Solid Waste Management District No. 3, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Stephens County Rural Water, Sewer and Solid Waste Management District No. 3's ability to continue as a going concern for twelve 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

Our objectives are to obtain reasonable assurance about 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 our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a 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 involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually

or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- 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 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 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 Stephens County Rural Water, Sewer and Solid Waste Management District No. 3'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 our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Stephens County Rural Water, Sewer and Solid Waste Management District No. 3'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 certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 5, 2024, 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 effectiveness of the Stephens County Rural Water, Sewer and Solid Waste Management District No. 3's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Stephens County Rural Water, Sewer and Solid Waste Management District No. 3's internal control over financial reporting and compliance.

Jayna Johnson, PC

Duncan, Oklahoma
August 5, 2024

**STEPHENS COUNTY RURAL WATER, SEWER AND
SOLID WASTE MANAGEMENT DISTRICT NO. 3
Statement of Net Position
December 31, 2023**

Assets	2023	12/31/2022 (Memo only)
Current assets		
Cash and cash equivalents	\$ 76,117	\$ 144,530
Accounts receivable	23,971	31,199
Unbilled revenue	12,430	11,800
Prepaid insurance	8,126	7,674
Current assets	120,645	195,204
Certificate of Deposit		
Pledged to secure note payable	-	61,000
Reserve for customer deposits	44,194	41,859
Unrestricted	60,932	973
	105,126	103,832
Property, plant and equipment, net	507,104	423,605
Other assets		
Refundable deposits	1,000	1,000
Total assets	\$ 733,875	\$ 723,641
Liabilities and Net Position		
Current Liabilities		
Accounts payable	\$ 8,478	\$ 6,832
Accrued salaries	3,387	2,584
Accrued compensated absences	5,407	3,308
Accrued interest payable	-	444
Insurance proceeds payable	6,500	-
Note payable	-	61,000
Current liabilities	23,773	74,168
Other liabilities		
Customer deposits	44,194	41,859
	44,194	41,859
Net Position		
Investment in capital assets	507,104	423,605
Restricted	-	-
Unrestricted	158,804	184,009
	665,908	607,614
Total liabilities and net position	\$ 733,875	\$ 723,641

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 December 31, 2023

	<u>2023</u>	<u>12/31/2022 (Memo only)</u>
Operating Revenues		
Water and sewer revenue	\$ 459,067	\$ 465,272
Grants	61,000	-
	<u>520,067</u>	<u>465,272</u>
Operating Expenses		
Water purchased	1,560	15,972
Water Testing	13,936	13,413
Supplies	39,291	35,288
Contract labor	1,344	1,056
Office expense	10,564	11,688
Dues, fees & license	4,713	5,232
Insurance & bonds	17,353	15,812
Professional fees	20,175	16,750
Truck expenses	14,342	8,808
Depreciation	62,920	56,662
Interest expense	934	444
Utilities & telephone	22,126	29,078
Repairs & maintenance	55,467	81,707
Salaries & wages	134,083	116,065
Employee benefits	24,605	22,052
Payroll taxes	10,834	9,840
Bad debts	4,391	3,020
Bank & credit card fees	3,711	3,439
Board member honorarium	6,700	6,500
Miscellaneous other	9,932	5,724
	<u>458,980</u>	<u>458,551</u>
Net Income (Loss) from Operations	61,088	6,721
Other Revenues (Expenses)		
Gain/Loss on asset disposition	(5,577)	-
Interest income	2,784	1,294
	<u>58,294</u>	<u>8,015</u>
Net Income (Loss)	58,294	8,015
Capital Contributions, member investments	-	-
Change in Net position	58,294	8,015
Net Position - Beginning of year	<u>607,614</u>	<u>599,599</u>
Net Position - End of year	<u>\$ 665,908</u>	<u>\$ 607,614</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 December 31, 2023**

	2023	12/31/2022 (Memo only)
Cash Flows from Operating Activities		
Cash receipts from customers	\$ 465,665	\$ 440,574
Grants	61,000	-
Cash payments to employees for services	(131,181)	(113,782)
Cash payments to suppliers of goods or services	(199,938)	(222,918)
Cash payments for other operating expenses	(59,926)	(61,941)
Net cash provided (used) by operating activities	135,620	41,934
Cash Flows from Capital and Related Financing Activities		
Proceeds from bank loans	-	61,000
Repayment of bank loan	(61,000)	
Proceeds insurance claim	13,000	
Property replacement from insurance claim	(6,500)	
Proceeds sale of asset	4,000	
Interest paid on loans	(1,378)	0
Customer meter deposits increase	2,335	3,204
Purchase of property and equipment	(155,997)	(14,013)
Net cash provided (used) by financing activities	(205,540)	50,191
Cash Flows from Investing Activities		
CD's (Increased) Redeemed	(1,277)	(1,277)
Interest income	2,784	1,294
Net cash provided (used) by investing activities	1,507	17
Net increase (decrease) in cash and cash equivalents	(68,414)	92,142
Cash and Cash Equivalents - Beginning of year	144,530	52,389
Cash and Cash Equivalents - End of year	76,117	144,530
Reconciliation of operating income to net cash provided (used) by operating activities:		
Net income (loss) from operations	\$ 61,088	\$ 6,721
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	62,920	56,662
Interest expense	934	444
(Increase) decrease in accounts receivable	6,598	(24,698)
Increase (decrease) in accounts payable and accrued expenses	4,548	3,130
(Increase) decrease in other current assets	(468)	(326)
Net cash provided (used) by operating activities	\$ 135,620	\$ 41,934

**STEPHENS COUNTY RURAL WATER, SEWER AND
SOLID WASTE MANAGEMENT DISTRICT NO. 3
Notes to Financial Statements
December 31, 2023**

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 consist of interest on deposits and occasional other items such as gain or loss on disposition of assets.

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 amounts restricted for any purpose.

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).

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.

**STEPHENS COUNTY RURAL WATER, SEWER AND
SOLID WASTE MANAGEMENT DISTRICT NO. 3
Notes to Financial Statements
December 31, 2023**

Allowance for Doubtful Accounts

The District has established an allowance for doubtful accounts which represents approximately fourteen percent of the total accounts receivable from users at the financial statement date.

Comparative Data

The financial statements include certain prior period 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 December 31, 2022 from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events through August 5, 2024, 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 position as follows:

Cash and Cash Equivalents	\$ 76,117
Certificate of Deposit	105,126
Total Deposits	\$ 181,243

The certificate of deposit bears interest at 1.24 percent per annum, and matures July 15, 2025. 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.

At December 31, 2023, the carrying amount of the District's cash and certificates of deposit in financial institutions was \$181,243 and the bank balances were \$184,673. 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 December 31, 2023 were covered by FDIC insurance and are therefore classified as Category 1.

**STEPHENS COUNTY RURAL WATER, SEWER AND
SOLID WASTE MANAGEMENT DISTRICT NO. 3
Notes to Financial Statements
December 31, 2023**

Note C: Accounts Receivable

Accounts receivable, stated at \$23,971 consists of amounts receivable for water and sewer charges net of the \$3,857 allowance for doubtful accounts. In addition to the accounts receivable, management has estimated \$12,430 in Unbilled Revenue for services delivered and not yet billed in December. This estimate is based on the subsequent month's actual billed revenue allocated based on number of days.

Note D: Restricted Deposits

The reserve for customer deposits in the amount of \$44,194 represents deposits set aside to satisfy the liability for meter deposits collected from customers.

Note E: Subsequent Events and Commitments

On June 20, 2024, the District received formal Notice of American Rescue Plan Act (ARPA) Grant Approval and Commitment of Funds from Oklahoma Water Resources Board in the amount of \$190,889. Approval of the request is based on total proposed project cost of \$381,777 for improvement to District sewer systems.

Related to the above sewer improvement project, District has committed up to \$33,679 for engineering services as part of the overall project cost.

Note F: Revenue and Revenue Recognition

The District recognizes revenue from sales of water and sewer services every month when the performance obligation of transferring product and providing services are met. Sales and service volume is measured by meter readings collected on or around the 25th of every month. Charges are billed to users based on the approved standard rates chart and invoices are mailed on or near the end of each calendar month. Charges for water and sewer are due by the fifteenth of the following month. If not paid by the end of following month, services are disconnected and additional fees are required to reconnect.

Note G: Property, Plant and Equipment

Property, plant and equipment consists of the following at December 31, 2022 and 2023, respectively:

	12/31/2022	Additions	Dispositions	12/31/2023
Water and sewer systems	\$ 1,753,051	\$ 16,550	\$ (110,052)	\$ 1,659,549
Wells and pumps	61,022		(18,035)	42,987
Equipment and vehicle	95,805	55,459	(32,093)	119,171
Buildings	124,669		(5,860)	118,809
Land	145,624	83,988		229,612
	2,180,171	155,997	(166,039)	2,170,129
Accumulated Depreciation	(1,756,566)	(62,920)	156,462	(1,663,024)
Total	<u>\$ 423,605</u>	<u>\$ 93,077</u>	<u>\$ (9,577)</u>	<u>\$ 507,104</u>

**STEPHENS COUNTY RURAL WATER, SEWER AND
SOLID WASTE MANAGEMENT DISTRICT NO. 3
Notes to Financial Statements
December 31, 2023**

Note H: Notes Payable

The District retired the outstanding bank note payable of \$61,000 in May 2023.

Following is a summary of debt activity during the term from January 1, 2023 to December 31, 2023:

	Beginning Balance	New Borrowing	Repayment	Ending Balance
Bank loan	61,000	0	(61,000)	0

Note I: 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, 2024:

General liability, aggregate	\$1,000,000
Buildings and personal property	1,993,823
Automobile, comprehensive and collision	100,489
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 J: 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 \$6,423 to employee SEP accounts during the year ended December 31, 2023.



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 December 31, 2023, 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 August 5, 2024.

Report on 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 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. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item 19-001 that we consider to be a significant deficiency.

Report on 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 statements. 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 the response.

Purpose of This Report

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

Jayna Johnson, PC

Duncan, Oklahoma
August 5, 2024

**STEPHEN'S COUNTY RURAL WATER, SEWER AND
SOLID WASTE MANAGEMENT DISTRICT NO. 3
Schedule of Findings and Responses
Year ended December 31, 2023**

19-001 Segregation of Duties

Criteria: A good system of internal control requires a proper segregation of duties to prevent one individual from being in a position to execute, authorize and record the same transaction.

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

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 a breach of internal controls could occur and not be detected in the normal course of operations.

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. Some compensating controls are in place that require Board signature on checks. The Board should continue to be actively involved in the operations of the organization.

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. The Board will continue to be actively involved in District operations.