

CUSTER COUNTY RURAL WATER  
DISTRICT NO. 3

FINANCIAL STATEMENTS  
AND AUDITOR'S REPORT

JUNE 30, 2014 AND 2013

**CUSTER COUNTY RURAL WATER  
DISTRICT NO. 3**

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## **INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Custer County Rural Water District No. 3  
Custer, Oklahoma

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Custer County Rural Water District No. 3 as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District'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 risk 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 principles 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 Custer County Rural Water District No. 3 as of June 30, 2014 and 2013, and the respective changes in financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### **Required Supplementary Information**

The District 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 a report dated September 8, 2014, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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

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 the District's internal control over financial reporting and compliance.

*McCulley & McCulley*

Weatherford, Oklahoma

September 8, 2014

**CUSTER COUNTY RURAL WATER DISTRICT NO. 3**  
**BALANCE SHEETS**

<b>ASSETS</b>	<b>June 30,</b>	
	<b>2014</b>	<b>2013</b>
<b>Current Assets</b>		
Petty Cash	\$ 50	\$ 50
Cash in Bank	199,455	187,373
Certificates of Deposit	139,694	138,792
Accounts Receivable, Net	75,905	23,813
Prepaid Expenses	8,939	9,204
<b>Total Current Assets</b>	<u>424,043</u>	<u>359,232</u>
<b>Restricted Assets</b>		
Accounts Receivable, Net	200	
Cash - Meter Deposits	21,100	20,600
<b>Total Restricted Assets</b>	<u>21,300</u>	<u>20,600</u>
<b>Inventory</b>	6,571	8,402
<b>Other Assets</b>	<u>1,115</u>	<u>1,115</u>
<b>Capital Assets, Net of Accumulated Depreciation</b>	<u>850,975</u>	<u>881,849</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 1,304,004</u></u>	<u><u>\$ 1,271,198</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Accounts Payable	\$ 1,700	\$ 481
Accrued Compensated Absences	2,091	1,740
Customer Meter Deposits	21,300	20,600
Deferred Revenue	11,502	10,950
<b>Total Current Liabilities</b>	<u>36,593</u>	<u>33,771</u>
<b>Long-Term Liabilities</b>	<u>0</u>	<u>0</u>
<b>Total Liabilities</b>	<u>36,593</u>	<u>33,771</u>
<b>Net Assets</b>		
Net Investment in Capital Assets	850,975	881,849
Unrestricted and Designated	416,436	355,578
<b>Total Net Assets</b>	<u>1,267,411</u>	<u>1,237,427</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 1,304,004</u></u>	<u><u>\$ 1,271,198</u></u>

The accompanying notes are an integral part of these statements.

**CUSTER COUNTY RURAL WATER DISTRICT NO. 3**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

	<b>June 30,</b>	
	<b>2014</b>	<b>2013</b>
<b>Operating Revenues</b>		
Water Sales	\$ 314,073	\$ 288,445
Membership Income	7,000	13,000
Installation & Connection Charges	2,160	3,114
Late Charges	4,034	3,649
Other Revenue	3,127	2,629
<b>Total Operating Revenues</b>	<u>330,394</u>	<u>310,837</u>
<b>Operating Expenses</b>		
Cost of Water	55,576	50,886
Salaries and Wages	88,129	81,815
Pension Plan	12,405	10,952
Payroll Taxes	7,254	6,780
Depreciation	46,706	47,123
Repairs and Maintenance	14,210	11,197
Insurance	12,950	12,225
Transportation	11,020	12,580
Utilities	13,677	11,413
Operating Supplies	23,371	37,124
Telephone	5,435	4,881
Office Supplies	5,984	5,559
Professional Services	1,800	1,450
Licenses, Dues, and Subscriptions	1,842	1,844
Director Fees	1,750	1,775
Miscellaneous Expense	968	1,288
<b>Total Operating Expenses</b>	<u>303,077</u>	<u>298,892</u>
<b>Operating Income Before</b>		
<b>Nonoperating Revenues (Expenses)</b>	27,317	11,945
<b>Nonoperating Revenues (Expenses)</b>		
Interest Income	1,167	1,513
Sales of Assets	1,500	
<b>Increase in Net Assets</b>	<u><u>\$ 29,984</u></u>	<u><u>\$ 13,458</u></u>

The accompanying notes are an integral part of these statements.

**CUSTER COUNTY RURAL WATER DISTRICT NO. 3**  
**STATEMENTS OF CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

	<u>June 30,</u>	
	<u>2014</u>	<u>2013</u>
<b>Net Assets</b>		
Beginning of Year	\$ 1,237,427	\$ 1,223,969
Increase in Net Assets For the Year Then Ended	<u>29,984</u>	<u>13,458</u>
End of Year	<u>\$ 1,267,411</u>	<u>\$ 1,237,427</u>

The accompanying notes are an integral part of these statements.



**CUSTER COUNTY RURAL WATER DISTRICT NO. 3**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

	<b>June 30,</b>	
	<b>2014</b>	<b>2013</b>
<b>Cash Flows from Operating Activities</b>		
Cash Received from Customers	\$ 331,912	\$ 313,265
Cash Paid for Goods and Services	(199,657)	(157,904)
Cash Paid to Employees	(107,437)	(99,259)
<b>Net Cash Provided by Operating Activities</b>	<u>24,818</u>	<u>56,102</u>
<b>Cash Flows from Noncapital Financing Activities</b>		
<b>Cash Flows From Investing Activities</b>		
Purchase of Capital Assets	(14,001)	(39,903)
Sales of Assets	1,500	
Interest Received on Cash and Cash Equivalents	1,167	1,513
<b>Net Cash (Used for) Investing Activities</b>	<u>(11,334)</u>	<u>(38,390)</u>
<b>Cash Flows from Financing Activities</b>		
<b>Net Cash (Used for) Financing Activities</b>	<u>0</u>	<u>0</u>
<b>Net Increase in Cash and Cash Equivalents</b>	13,484	17,712
<b>Cash and Cash Equivalents</b>		
Beginning of Year	<u>346,815</u>	<u>329,103</u>
End of Year	<u>\$ 360,299</u>	<u>\$ 346,815</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>		
Operating Income	\$ <u>27,317</u>	\$ <u>11,945</u>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	46,706	47,123
Changes in Assets & Liabilities:		
(Increase) in Accounts Receivable	(52,758)	(4,962)
Increase (Decrease) in Allowance for Loss	466	(222)
(Increase) Decrease in Prepaid Expenses	265	(278)
Increase (Decrease) in Accounts Payable	1,219	(442)
Increase in Accrued Compensated Absences	351	288
Increase in Deferred Revenue	552	150
Increase in Customer Meter Deposits	700	2,500
<b>Total Adjustments</b>	<u>(2,499)</u>	<u>44,157</u>
<b>Net Cash Provided By Operating Activities</b>	<u>\$ 24,818</u>	<u>\$ 56,102</u>

Note: Inventory of \$1,831 was placed in service and moved to capital assets.

The accompanying notes are an integral part of these statements.

**CUSTER COUNTY RURAL WATER DISTRICT NO. 3**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDING JUNE 30, 2014 AND 2013**

**Note 1 - Significant Accounting Policies.**

The accounting policies of the Custer County Rural Water District No. 3 (the District) conform to accounting principles generally accepted in the United States of America applicable to government organizations. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of 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. The following is a summary of the more significant policies.

**A. The Reporting Entity.**

The District provides water to its members within its geographic boundaries. The District is governed by a seven member Board of Directors who are elected by the participating members. These financial statements include all of the funds under the control of the Board of Directors relevant to the operations of the District.

**B. Basis of Presentation.**

The accounts of governmental entities are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund have a separate set of accounts which are comprised of each fund's assets, liabilities, fund equity, revenues and expenses. The activities of the District are organized into a single fund, an enterprise fund (proprietary fund type).

Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, accountability, or other purposes.

**CUSTER COUNTY RURAL WATER DISTRICT NO. 3**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDING JUNE 30, 2014 AND 2013**

**Note 1 - Significant Accounting Policies (continued).**

**C. 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 measurement focus applied.

Enterprise funds use the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the obligation is incurred.

**D. Allowance for Losses.**

Allowance for losses on receivables are recorded when management believes a receivable is uncollectible. Management periodically reviews its receivables to determine what is collectible. At June 30, 2014 and 2013, management has set an allowance for loss of \$466 for 2014 and none for 2013.

**E. Inventory.**

Inventory consists of items purchased and held by the District for use to construct a line extension. It is valued at cost. The line extension has not been installed as of June 30, 2014.

**F. Capital Assets.**

All capital assets are valued at historical cost. Capital assets with a historical cost > \$500 are depreciated on the straight-line basis over the estimated useful life of the asset. A summary of the capital assets and the service lives by type of asset at June 30, 2014 and 2013, are as follows:

<u>Estimated Useful Life</u>	
Wells, Lines and Buildings	10 - 65 yrs.
Vehicles	5 yrs.
Furniture and Fixtures	3 - 5 yrs.
Pumps and Equipment	3 - 5 yrs.

**CUSTER COUNTY RURAL WATER DISTRICT NO. 3**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDING JUNE 30, 2014 AND 2013**

**Note 1 - Significant Accounting Policies (continued).**

**G. Accrued Compensated Absences.**

The District has established a compensated absences policy which gives all full time employees compensation for vacation leave. This policy gives two weeks vacation leave for those with one year of continuous employment and three weeks for those with ten years or more. Vacation leave will be paid whether taken or not at the end of the calendar year. Employees may also earn one calendar day per month sick leave which can accumulate to 36 days, along with 3 personal days each year that cannot be accumulated. Unused sick leave or personal days will not be paid to the employee. These financial statements accrue only for the unused vacation leave.

**H. Net Assets.**

Net assets are classified into three components:

1. Net investment in capital assets - Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any debt attributable to these assets.
2. Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional revisions or enabling legislation.
3. Unrestricted net assets - All other net assets that do not meet the definition of the other two above. These include amounts designated by management for a particular purpose.

**I. Operating Revenues and Expenses.**

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from nonexchange transactions or ancillary activities.

**CUSTER COUNTY RURAL WATER DISTRICT NO. 3**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDING JUNE 30, 2014 AND 2013**

**Note 2 - Cash in Bank and Certificates of Deposit.**

Cash in bank includes the District's demand deposits and savings accounts. The District's certificates of deposit are recorded at cost, which approximates market value. Certificates of deposit are authorized investments for the District. The District uses the state statutes as a deposit policy for custodial credit risk. The District has custodial credit risk which is defined as the risk that in the event of a bank failure, the District's deposits may not be returned to it. The Federal Government has increased the federal deposit insurance to \$250,000. All of the District's deposits at June 30, 2014 and 2013, are secured by federal deposit insurance.

	JUNE 30	
	2014	2013
Carrying Balance	\$360,249	\$346,765
Bank Balance	378,138	365,243
Insured	378,138	365,243

For the purpose of the Statement of Cash Flows, the District considers cash and cash equivalents to be petty cash, cash in bank, certificates of deposit, and restricted assets.

**Note 3 - Accounts Receivable, Net.**

Accounts receivable consists of the amounts owed to the District by customers for water sales, late fees, memberships and supplies paid by the District for the benefit of the customer and to be reimbursed by them, net of any allowance for loss. At June 30, 2014, an allowance for loss has been established of \$466. None was established for 2013.

**Note 4 - Restricted Assets.**

Restricted assets consist of cash and accounts receivable restricted for customer deposits and which are offset by a related liability payable.

**CUSTER COUNTY RURAL WATER DISTRICT NO. 3**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDING JUNE 30, 2014 AND 2013**

**Note 5 - Capital Assets.**

Capital assets and its changes consist of the following:

	June 30, 2013	Additions	Deletions	June 30, 2014
Tank Sites - Land *	\$ 5,000	\$	\$	\$ 5,000
Office Building - Land *	2,154			2,154
Wells, Lines & Buildings	1,708,151	13,331		1,721,482
Vehicles	47,203		(15,918)	31,285
Furniture and Fixtures	12,119	670		12,789
Pumps and Equipment	51,103	1,831		52,934
Total Capital Assets	<u>1,825,730</u>	<u>15,832</u>	<u>(15,918)</u>	<u>1,825,644</u>
Less Accumulated Depreciation for:				
Wells, Lines & Buildings	(862,906)	(38,308)		(901,214)
Vehicles	(30,077)	(4,259)	15,918	(18,418)
Furniture and Fixtures	(11,820)	( 354)		(12,174)
Pumps and Equipment	(39,078)	(3,785)		(42,863)
Total Accumulated Depr.	<u>(943,881)</u>	<u>(46,706)</u>	<u>15,918</u>	<u>(974,669)</u>
Net Capital Assets	<u>\$ 881,849</u>	<u>\$ (30,874)</u>	<u>\$ ( -0- )</u>	<u>\$ 850,975</u>

  

	June 30, 2012	Additions	Deletions	June 30, 2013
Tank Sites - Land *	\$ 5,000	\$	\$	\$ 5,000
Office Building - Land *	2,154			2,154
Wells, Lines & Buildings	1,690,442	17,709		1,708,151
Vehicles	27,903	19,300		47,203
Furniture and Fixtures	12,119			12,119
Pumps and Equipment	48,209	2,894		51,103
Total Capital Assets	<u>1,785,827</u>	<u>39,903</u>		<u>1,825,730</u>
Less Accumulated Depreciation for:				
Wells, Lines & Buildings	(824,805)	(38,101)		(862,906)
Vehicles	(25,107)	(4,970)		(30,077)
Furniture and Fixtures	(10,964)	( 856)		(11,820)
Pumps and Equipment	(35,882)	(3,196)		(39,078)
Total Accumulated Depr.	<u>(896,758)</u>	<u>(47,123)</u>		<u>(943,881)</u>
Net Capital Assets	<u>\$ 889,069</u>	<u>\$ ( 7,220)</u>	<u>\$ -0-</u>	<u>\$ 881,849</u>

\* non-depreciable assets

**CUSTER COUNTY RURAL WATER DISTRICT NO. 3**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDING JUNE 30, 2014 AND 2013**

**Note 6 - Other Assets.**

Other assets consists of a reserve certificate issued by the Oklahoma Rural Water Association Assurance Group. It earns a variable rate of interest and can be redeemed by the District upon written demand (providing the net assets of the Oklahoma Rural Water Association Assurance Group equal or exceed \$125,000). The total amount of this reserve certificate is \$1,000. The balance of other assets is utility deposits paid.

**Note 7 - Deferred Revenue.**

Pasture Meters are billed on an annual basis in advance. The amount in the financial statements for deferred revenue represents the unearned portion of these prepaid meters as of June 30, 2014 and 2013.

**Note 8 - Related Party Transactions.**

The District has an agreement to rent the backhoe owned by one of their employees on a hourly rate. This is done whenever it is needed to repair or replace a water line. Payments to the employee for the year ended June 30, 2014 and 2013, totaled \$7,350 and \$7,388, respectively.

**Note 9 - Pension Plan.**

On August 4, 1992, the Board of Directors approved a Simplified Employee Pension plan for any full-time employee. The District has established a monthly contribution of 15% to comply with Internal Revenue Service regulations. The employees length of service requirement to be eligible for this plan is six months. Employees are not required to contribute to this plan. For the fiscal year ending June 30, 2014 and 2013, the total employer contributions amounted to \$12,405 and \$10,942, respectively. Covered salaries for fiscal year 2014 and 2013 totaled \$82,100 and \$72,877, respectively. Total salaries for fiscal year 2014 and 2013 were \$87,777 and \$81,527, respectively.

**Note 10 - Risk Management.**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters. The District purchases commercial insurance to reduce their risk of loss. This insurance has a \$1,000 deductible for capital assets (except for the generators), personal injuries, and errors & omissions. The generators have a \$250 deductible.

**CUSTER COUNTY RURAL WATER DISTRICT NO. 3**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDING JUNE 30, 2014 AND 2013**

**Note 11 - Net Assets - Designated or Restricted.**

On November 4, 1997, the District's Board of Directors designated the District's savings accounts and certificate of deposits to be used for system improvements, expansions, and emergencies. Designated net assets totaled \$156,951 and \$154,215 for the year ending June 30, 2014 and 2013, respectively.





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**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**

Board of Directors  
Custer County Rural Water District No. 3  
Custer, Oklahoma

We have audited, 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, the financial statements of the Custer County Rural Water District No. 3 as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 8, 2014. The District has not presented the management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be, a part of the basic financial statements.

**Internal Control Over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore,

there can be no assurance that all material weaknesses or significant deficiencies have been identified. However, as discussed in the Schedule of Findings and Responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We considered the deficiencies described in the accompanying Schedule of Findings and Responses as item 1 and 2 to be material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, 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 the 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.

#### District Response to Findings

The District's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit the District's response, 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.

*McCulley & McCulley*

Weatherford, Oklahoma

September 8, 2014

**CUSTER COUNTY RURAL WATER DISTRICT NO. 3**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**JUNE 30, 2014**

**1. Lack of Segregation of Duties.**

**CONDITION AND EFFECT** - The District does not have adequate segregation of duties since it only has one office employee. Material errors or fraud could occur and not be found in a timely manner.

**RECOMMENDATION** - The District should segregate the duties to the extent possible should new employees be hired.

**RESPONSE** - The District has surety bond insurance to reduce any risk of loss. The District believes the cost of hiring additional employees is not economically feasible.

**2. Accounting Records, Balancing, and Reconciliations.**

**CONDITION AND EFFECT** - The District completed its transition to computerized accounting records during the current fiscal year. These records indicate they were not posted on a monthly basis but were all done after the end of the year. Consequently, the bank reconciliations were also all done at the end of the year. They also did not reconcile the utility accounts receivable general ledger to the utility billing accounts receivable records, or the customer meter deposit liability general ledger account to the subsidiary records. The District posted only the cash payments from the billing program to the general ledger as revenue, but did not separate the type of revenue. All were posted as water revenue. The effect of not posting and balancing the accounting records in a timely manner could result in material errors or fraud occurring and not being detected in a timely manner.

**RECOMMENDATION** - Recommend the District post to the computer accounting system all the financial data monthly. These records should be used to complete the Board reports for the Board of Director meetings. All bank accounts, including the certificate of deposit, should be balanced to the bank statements monthly. The utility billing accounts receivable records should be posted to the accounts receivable general ledger monthly. The amounts billed would be posted as a debit to accounts receivable and credit would be to the respective revenue account. Adjustments made would be appropriately posted to the accounts receivable and revenue accounts. Payments received would be posted as a credit to accounts receivable versus to the revenue account. Utility accounts receivable general ledger account should be balanced to the utility billing accounts receivable records and the customer

CUSTER COUNTY RURAL WATER DISTRICT NO. 3  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2014

**2. Accounting Records, Balancing, and Reconciliations  
(continued).**

meter deposit liability general ledger account should be balanced to the meter deposit subsidiary records. These reconciliations should be performed monthly.

**RESPONSE** - The District will implement the recommendations and ensure all reconciliations are done timely.

**CUSTER COUNTY RURAL WATER DISTRICT NO. 3**  
**UPDATE ON PRIOR YEAR'S SCHEDULE OF FINDINGS AND RESPONSES**  
**JUNE 30, 2014**

**1. Lack of Segregation of Duties.**

**CONDITION AND EFFECT** - The District does not have adequate segregation of duties since it only has one office employee. Material errors or fraud could occur and not be found in a timely manner.

**RECOMMENDATION** - The District should segregate the duties to the extent possible should new employees be hired.

**RESPONSE** - The District has surety bond insurance to reduce any risk of loss. The District believes the cost of hiring additional employees is not economically feasible.

**UPDATED COMMENT** - Situation is the same. Comment repeated.

**2. Accounting Records, Balancing, and Reconciliations.**

**CONDITION AND EFFECT** - The District has kept manual accounting records during the current fiscal year but did not balance those accounting records. They also did not reconcile the bank general ledger accounts to the bank statements, the accounts receivable general ledger to the utility billing accounts receivable records, or the customer meter deposit liability general account to the subsidiary records. In September, 2012, the District purchased computer accounting software. The District only posted transactions for the checking, savings, and meter deposit bank accounts using this software. Bank reconciliations were performed on these accounts using the software program. Most of these postings and reconciliations were done in July 2013. The other asset and liability accounts the District has were not posted to the accounting software program. The effect of not balancing the manual accounting records could result in material errors or fraud occurring and not being detected in a timely manner. The effect of not posting all the transactions and accounts in the accounting software system resulted in changing the District from an accrual accounting system to a cash accounting system, which differ materially from each other and is inconsistent from prior financial reporting practices.

**RECOMMENDATION** - Recommend the District complete its transition to the computer accounting system. All of the general ledger accounts should be posted to the new system. All bank accounts, including the certificate of deposit, should be balanced to the bank statements. The accounts receivable general ledger should be balanced to the utility billing accounts receivable records and the customer meter deposit liability general ledger account should be balanced to the meter deposit subsidiary records. These reconciliations should be performed monthly.

**CUSTER COUNTY RURAL WATER DISTRICT NO. 3**  
**UPDATE ON PRIOR YEAR'S SCHEDULE OF FINDINGS AND RESPONSES**  
**JUNE 30, 2014**

**2. Accounting Records, Balancing, and Reconciliations**  
**(continued).**

**RESPONSE** - The District will implement the recommendations and ensure all reconciliations are done timely.

**UPDATED COMMENT** - Recommendation only partially implemented. The accounting system was done on the computer, but the records indicate it was all posted at the end of the year. Reconciliations for the bank accounts were not done timely. Reconciliations to the billing program were not done for account receivable and customer meter deposits. The District did include the other asset and liability accounts that were omitted last year. Comment revised.