

**Rural Water, Sewer, Solid Waste Management –
District #3 Dewey County
Mutual, Oklahoma**

Audit Report
for the year ended October 31, 2017

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Independent Auditor's Report

Board of Directors
Rural Water, Sewer, Solid Waste Management –
District #3 Dewey County
PO Box 118
Mutual, Oklahoma 73853

I have audited the accompanying financial statements of the business-type activities of Rural Water, Sewer, Solid Waste Management – District #3 Dewey County as of and for the year ended October 31, 2017, 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

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Rural Water, Sewer, Solid Waste Management – District #3 Dewey County, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States.

Other Matters

Required Supplementary Information

The District has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires 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 (GASB), 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. My 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*, I have also issued my report dated April 30, 2018, on my consideration of the District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of this report is to describe the scope of my 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 the District's internal control over financial reporting and compliance.



Linda S. Woodruff CPA, PC

Oklahoma City, Oklahoma
April 30, 2018

**Rural Water, Sewer, Solid Waste Management -
District #3 Dewey County
Mutual, Oklahoma**

Basic Financial Statements
for the year ended October 31, 2017

RURAL WATER, SEWER, SOLID WASTE MANAGEMENT - DISTRICT #3 DEWEY COUNTY
STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
October 31, 2017

	Business-type Activities - Enterprise Funds	
	Operating	Totals
Assets:		
Current assets:		
Cash and cash equivalents:		
Cash & cash equivalents	\$ 146,264.38	146,264.38
Cash on hand	50.00	50.00
Accounts receivables (net of allowance for uncollectibles)	17,163.24	17,163.24
Prepaid insurance	5,953.72	5,953.72
Grants receivable	-	-
Due from others	-	-
Accrued interest receivable	-	-
Capital assets:		
Depreciable buildings, property and equipment, net of depreciation	304,080.86	304,080.86
Total assets	\$ 473,512.20	473,512.20
Liabilities:		
Current liabilities:		
Accounts payable	1,934.24	1,934.24
Sales tax payable	-	-
Payroll liabilities	1,202.89	1,202.89
Security deposits	11,181.59	11,181.59
Accrued compensated absences payable	-	-
Payable from restricted assets:		
Interest payable	-	-
Notes payable	-	-
Non-current liabilities:		
Notes payable	-	-
	-	-
Total liabilities	14,318.72	14,318.72
Net position:		
Net investment in capital assets	304,080.86	304,080.86
Unrestricted	155,112.62	155,112.62
Total net position	\$ 459,193.48	459,193.48

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

RURAL WATER, SEWER, SOLID WASTE MANAGEMENT, DISTRICT #3 DEWEY COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
Year Ended October 31, 2017

	Business-type Activities - Enterprise Funds	
	Operating Account (Major)	Totals
Revenues:		
Water revenue	251,877.51	251,877.51
Grant revenue	-	-
Reimbursed revenue	-	-
Sale of surplus property	-	-
Total revenues	251,877.51	251,877.51
Operating expenses:		
Personal services	101,058.25	101,058.25
Contractual services	3,454.76	3,454.76
Utilities	31,437.93	31,437.93
Repairs and maintenance	50,792.14	50,792.14
Insurance	5,258.53	5,258.53
Reimursed expense	-	-
Other supplies and expenses	17,472.48	17,472.48
Depreciation expense	39,271.67	39,271.67
Total operating expenses	248,745.76	248,745.76
Income before non-operating revenues, expenses & transfers	3,131.75	3,131.75
Non-operating revenues (expenses):		
Interest revenue	477.38	477.38
Interest expense	-	-
	477.38	477.38
Income (loss) before operating transfers	3,609.13	3,609.13
Transfers in (out)	-	-
Change in net position	3,609.13	3,609.13
Prior Year Adjustment	(18,062.68)	(18,062.68)
Net position at beginning of year	473,647.03	473,647.03
Net position at end of year	459,193.48	\$ 459,193.48

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

Rural Water, Sewer, Solid Waste Management - District #3 Dewey County

**Statement of Cash Flow
Year Ended October 31, 2017**

Cash Flow from Operating Activities	
Cash Payments for Services	\$ 245,507.63
Cash Payments to Suppliers for Goods and Contractors and Other Services	<u>(205,201.01)</u>
Net Cash Provided by Operating Activities	40,306.62
 Cash Flows from Capital and Related Financing Activities	
Acquisition & Construction of Capital Assets	(1,256.10)
Prior Year Adjustment	<u>(18,062.52)</u>
Net Cash Used in Capital and Financial Activities	(19,318.62)
 Cash flows from investing activities	
Interest Income	<u>477.38</u>
Net Cash Provided by Investing Activities	477.38
 Net Increase (Decrease) in Cash	21,465.38
 Cash and Cash Equivalents - Beginning	<u>124,849.16</u>
 Cash and Equivalents - End	<u><u>\$ 146,314.38</u></u>
 Reconciliation of Operation Income to Net Cash Provided by Operating Activities	
Operating Income (Loss)	3,131.75
 Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities	
Depreciation	39,271.67
Changes in Assets & Liabilities:	
(Increase) Decrease in Accounts Receivable	(6,368.88)
(Increase) Decrease in Interest Receivable	-
(Increase) Decrease in Prepaid Expenses	56.63
Increase (Decrease) in Deposit Payable	6,187.94
Increase (Decrease) in Payroll Taxes Payable	(474.85)
Increase (Decrease) in Accounts Payable	<u>(1,497.64)</u>
Total Adjustments	37,174.87
 Net Cash Provided by Operating Activities	<u><u>\$ 40,306.62</u></u>

RURAL WATER, SEWER, SOLID WASTE MANAGEMENT DISTRICT #3 DEWEY COUNTY

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ending October 31, 2017**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Program or Award Amount</u>	<u>Revenue Collected</u>	<u>Federal Expenditures</u>
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FEDERAL AWARDS:

None

PASSED THROUGH STATE AGENCIES: (No Federal Funding)

None

Note A - Basis of Presentation - The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the District under programs of the federal government for the year ended October 31 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only selected portion of the operations of the District, it is not intended and does not present the financial position, changes in net assets, or cash flows of the District.

Note B - Summary of Significant Accounting Policies - Expenditures reported on the Schedule are reported using accounting principles generally accepted in the United States of America. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The District has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

**Rural Water, Sewer, Solid Waste Management - District #3 Dewey County
Mutual, Oklahoma**

**Notes to the Basic Financial Statements
October 31, 2017**

Organization

Rural Water, Sewer, Solid Waste Management – District #3 Dewey County , Mutual, Oklahoma, (the District) was created as a result of the merger between Mutual Water Corporation and the Northwest Dewey Water Corporation on May 23, 1974, for the purpose of providing water to the members it serves. Membership in the water district consists of delivering water to users who have paid the required membership and connection fees. The District is exempt from federal and state income taxes.

The Board of Directors consists of five (5) members serving three-year (3-year) terms. The vacant Board seats are elected at the annual meeting. Following the annual meeting, the Board of Directors meets and elects a chairman, vice-chairman, and secretary-treasurer. All board members serve without pay.

Rural Water, Sewer, Solid Waste Management – District #3 Dewey County is an independent, self-contained, reporting entity with no associated component units. It is operated in a manner similar to a private business enterprise where the cost (expenses, including depreciation) of providing water services is financed through user charges.

Note 1 – Summary of Significant Accounting Principals

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with *Generally Accepted Accounting Principles* (GAAP) promulgated in the United States of America. The accounting and financial reporting treatment is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation are included on the statement of net assets. The operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Depreciation expense provides for capital assets based upon estimated useful lives.

Cash Equivalents and Investments

1. *Deposits and Investments* – Oklahoma Statutes authorize the District to invest in certificates of deposits, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the District can invest in direct debt securities of the United States unless such an investment is expressly prohibited by law. All the bank deposits are held at one financial institution and are carried at cost. For purposes of statements of cash flow, the District considers cash and all highly liquid investments with an initial maturity of three months or less to be cash equivalents. The District's cash deposits, including interest bearing savings account, are entirely covered by Federal Depository Insurance Corporation (FDIC).
2. *Fair Value of Financial Instruments* – The District's financial instruments include cash and cash equivalents, and accounts receivable. The District's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of financial condition. The carrying amounts of these financial instruments, approximates fair value because of the short maturity of these investments.
3. *Estimates* – The preparation of financial statement in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets of liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

**Rural Water, Sewer, Solid Waste Management - District #3 Dewey County
Mutual, Oklahoma**

**Notes to the Basic Financial Statements
October 31, 2017**

Note 1 – Summary of Significant Accounting Principles (Continued)

4. *Inventories* – Inventories consist primarily of water stored in lines for use in the distribution process. Inventory is expensed when purchased.
5. *Capital Assets* – Additions to the water storage delivery system and other equipment are recorded at cost or, if contributed property, at their estimated fair value at the time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. The district does not currently have a capitalization policy in place.

Depreciation has been calculated on each class of depreciable property using the straight-line method.

Water System	40 years
Equipment	7 years
Office Equipment	7 years

Note 2 – Capital Assets

The following is a summary of changes in property, plant, and equipment

	Balance October 31, 2016	Additions	Deletions	Balance October 31, 2017
Water System	\$ 802,712	\$ -	\$ -	\$ 802,712
Wells & Pumps	118,155	1,256	-	119,411
Storage & Supply Tanks	135,931	-	-	135,931
Engineering & Intangibles	78,158	-	-	78,158
Equipment	175,375	-	-	175,375
Building	34,344	-	-	34,344
Total	1,344,675	1,256	-	1,345,931
Less Accumulated Depreciation	1,002,579	39,272	-	1,041,851
Net	\$ 342,096	\$ (38,016)	\$ -	\$ 304,080

Note 3 – Risk Management

Rural Water, Sewer, Solid Waste Management – District #3 Dewey County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District continues to carry commercial insurance for those risks, including general and auto liability, property damage, and public official’s liability. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

Note 4 – Compensated Absences

District employees are entitled to vacation and sick pay but must use annually. No leave is accumulated; therefore, no liability has been recorded for benefits payable upon termination in the financial statements.

**Rural Water, Sewer, Solid Waste Management -
District #3 Dewey County
Mutual, Oklahoma**

Report Required by *Governmental Auditing Standards*

**Independent Auditor's Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters Base on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Board of Directors
Rural Water, Sewer, Solid Waste Management –
District #3 Dewey County
PO Box 118
Mutual, Oklahoma 73853

I 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 the business-type activities of Rural Water, Sewer, Solid Waste Management – District #3 Dewey County as of and for the year ended October 31, 2017, and the related notes to the financial statements, which collectively comprise Rural Water, Sewer, Solid Waste Management – District #3 Dewey County's basic financial statements and have issued my report thereon dated April 30, 2018. The District did not present the Management's Discussion and Analysis required by the Governmental Accounting Standards Board.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Rural Water, Sewer, Solid Waste Management – District #3 Dewey County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rural Water, Sewer, Solid Waste Management – District #3 Dewey County's internal control. Accordingly, I do not express an opinion on the effectiveness of Rural Water, Sewer, Solid Waste Management – District #3 Dewey County'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.

My 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 my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified. I did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses that I consider to be significant deficiencies 2017-01, 2017-02.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water, Sewer, Solid Waste Management – District #3 Dewey County’s financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Rural Water, Sewer, Solid Waste Management – District #3 Dewey County’s Response to Findings

Rural Water, Sewer, Solid Waste Management – District #3 Dewey County’s response to the findings identified in my audit is described in the accompanying Schedule of Findings and Responses. Rural Water, Sewer, Solid Waste Management – District #3 Dewey County’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my 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.

Linda A. Woodruff, CPA, P.C.

Oklahoma City, Oklahoma
April 30, 2018

**Rural Water, Sewer, Solid Waste Management - District #3 Dewey County
Mutual, Oklahoma**

Schedule of Findings and Responses

Year Ended October 31, 2017

2017-01 Internal Control – Segregation of Duties

Condition: An adequate internal control structure does not exist because of the small size of the entity nor is there adequate segregation of duties.

Criteria: Internal controls should be in place that provide reasonable assurance that any one individual does not have control over several of the financial functions of the District.

Effect: Because of the inadequate segregation of duties, an opportunity exists for an employee to alter record keeping.

Recommendation: I recommend that the District strive to implement more segregation of duties where possible and utilize compensating procedures where applicable.

Response: The District agrees with this recommendation, but costs will exceed the economic benefit.

2017-02 Internal Control – Material Adjusting Journal Entries

Condition: The District's trial balances for the year ended October 31, 2017, required several material adjusting journal entries in order for the financial statements to be prepared in accordance with GAAP.

Criteria: The District's management is responsible for internal controls over accounting and financial reporting. This responsibility include the design and implementation of controls over the fair and complete presentation of the District's annual financial statements in accordance with generally accepted accounting principles (GAAP) from trial balances derived from the District's accounting records. For trial balances to be both complete and accurate, the District must have effective internal controls over recording, processing, summarizing, and adjusting accounting data. As evidence of effective internal controls over accounting and financial reporting, there should generally be few, if any, material adjustments to the trial balances required that are detected and corrected solely as a result of the financial statement audit. In other words, District management should not rely on the external auditor to detect and correct material misstatements in the books and records as part of its internal controls, but rather should have its own procedures designed and in place that are independent of the external auditor to provide reasonable, although not absolute, assurance that material misstatements will be detected and corrected in its trial balances prior to audit.

Effect: As a result of this condition, without reliance on its external auditors, the District lacks the necessary internal controls over the completeness and accuracy of the trial balances that are used in the preparation of its financial statement in accordance with GAAP. This condition can result in undetected and uncorrected material misstatements in the financial statements that are not detected by management and may also not be detected by the financial statement audit. In addition, if management's intentions are to continue to rely on the external auditor to detect and correct material misstatements, this condition could place the auditor in a questionable position regarding auditor independence because of the auditor performing part of management's functions in regard to the trial balance.

**Rural Water, Sewer, Solid Waste Management - District #3 Dewey County
Mutual, Oklahoma**

Schedule of Findings and Responses

Response: The District agrees with the finding. The material adjustments resulted from the software interface not working for part of the year and the bookkeeper was unable to resolve the issue. The interface has now been updated and is correctly importing entries, therefore, management feels this finding has been resolved. The Board has also discussed hiring an outside firm to oversee the financial statement preparation for the next fiscal year to ensure compliance with accounting standards.