

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

Audit Report
for the year ended October 31, 2015

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Independent Auditor's Report

To the Board of Directors
Rural Water, Sewer, Solid Waste Management - District #3 Dewey County
PO Box 118
Mutual, Oklahoma 73853-0118

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, 2015, 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 as of October 31, 2015, 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

In accordance with *Government Auditing Standards*, I have also issued my reported dated February 15, 2016 , 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* and should be considered in assessing the results of my audit.

The Rural Water, Sewer, Solid Waste Management - District #3 Dewey County has not presented a 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 part of, the basic financial statement.

Linda S. Woodruff, CPA, P.C.

Linda S. Woodruff CPA, PC
Oklahoma City, Oklahoma

February 15, 2016

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

Basic Financial Statements
for the year ended October 31, 2015

Rural Water, Sewer, Solid Waste Management - District #3 Dewey County
Statement of Net Position
October 31, 2015

	Enterprise Funds	
	Operating	Total
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 69,522	\$ 69,522
Investments	31,264	31,264
Accounts Receivable, Net	15,679	15,679
Deferred Charges	-	-
Other Receivables	-	-
Inventories	-	-
Prepaid Expenses	5,648	5,648
Total Current Assets	122,113	122,113
Non-Current Assets		
Capital Assets		
Land and Improvements	34,344	34,344
Water System	1,036,359	1,036,359
Vehicles	48,527	48,527
Equipment and Furniture	126,848	126,848
Less Accumulated Depreciation	(977,545)	(977,545)
Total Non-Current Assets	268,533	268,533
Total Assets	390,646	390,646
Deferred Outflows of Resources		
Total Deferred Outflows	-	-
Liabilities		
Current Liabilities		
Accounts Payable	3,462	3,462
Salaries Payable	-	-
Accrued Interest Payable	-	-
Other Accrued Expenses	1,477	1,477
Bonds, Notes, and Loans Payable	-	-
Total Current Liabilities	4,939	4,939
Non-Current Liabilities		
Compensated Absences	-	-
Water Deposits Payable	4,453	4,453
Bonds, Notes, and Loans Payable	-	-
Total Non-Current Liabilities	4,453	4,453
Total Liabilities	9,392	9,392
Deferred Inflows of Resources		
Total Deferred Inflows	-	-
Net Position		
Invested in Capital Assets, Net of Related Debt	268,533	268,533
Unrestricted	112,721	112,721
Total Net Position	\$ 381,254	\$ 381,254

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 Net Position
Year Ended October 31, 2015

	<u>Enterprise Funds</u>	
	<u>Operating</u>	<u>Total</u>
Revenues		
Charges for Services	\$ 203,963	\$ 203,963
Patronage Dividends	1,144	1,144
Total Revenues	<u>205,107</u>	<u>205,107</u>
Expenses		
Personal Services	87,384	87,384
Contractual Services	-	-
Utilities	28,849	28,849
Repairs and Maintenance	37,348	37,348
Other Supplies and Expenses	17,257	17,257
Insurance Claims and Expenses	12,839	12,839
Total Operating Expenses	<u>183,677</u>	<u>183,677</u>
Operating Income (Loss)	21,430	21,430
Non-Operating Revenues (Expenses)		
Interest and Investment Revenue	701	701
Depreciation	(23,220)	(23,220)
Operating Grants and Contributions	-	-
Interest Expense	-	-
Miscellaneous Expenses	-	-
Total Non-Operating Revenues (Expenses)	<u>(22,519)</u>	<u>(22,519)</u>
Income (Loss) Before Contributions and Transfers	(1,089)	(1,089)
Transfers in	-	-
Transfers out	-	-
Gain (loss) on sale of equipment	3,000	3,000
Change in Net Position	1,911	1,911
Prior Period Adjustment	(15,751)	(15,751)
Total Net Position - Beginning	<u>395,094</u>	<u>395,094</u>
Total Net Position - Ending	<u>\$ 381,254</u>	<u>\$ 381,254</u>

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, 2015

Cash Flow from Operating Activities	
Cash Payments for Services	\$ 205,107
Cash Payments to Suppliers for Goods and Contractors and Other Services	(186,399)
Net Cash Provided by Operating Activities	18,708
Cash Flows from Capital and Related Financing Activities	
Acquisition & Construction of Capital Assets	(4,707)
Member Benefits Received	-
Gain on Sale of Equipment	3,000
Prior Period Adjustment	(15,751)
Net Cash Used in Capital and Financial Activities	(17,458)
Cash flows from investing activities	
Interest Income	701
Net Cash Provided by Investing Activities	701
Net Increase (Decrease) in Cash	1,951
Cash and Cash Equivalents - Beginning	98,835
Cash and Equivalents - End	100,786
Reconciliation of Operation Income to Net Cash Provided by Operating Activities	
Operating Income (Loss)	(1,790)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities	
Depreciation	23,220
Changes in Assets & Liabilities:	
(Increase) Decrease in Accounts Receivable	(2,544)
(Increase) Decrease in Prepaid Expenses	(356)
Increase (Decrease) in Deposit Payable	4,453
Increase (Decrease) in Payroll Taxes Payable	290
Increase (Decrease) in Accounts Payable	(4,565)
Total Adjustments	20,498
Net Cash Provided by Operating Activities	\$ 18,708

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

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

**Notes to the Basic Financial Statements
October 31, 2015**

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.

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, 2015**

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, 2014	Additions	Deletions	Balance October 31, 2015
Water System	\$ 704,116	\$ -	\$ -	\$ 704,116
Wells & Pumps	113,449	4,706	-	118,155
Storage & Supply Tanks	135,931	-	-	135,931
Engineering & Intangibles	78,158	-	-	78,158
Equipment	198,125	-	22,750	175,375
Building	34,344	-	-	34,344
Total	1,264,123	4,706	22,750	1,246,079
Less Accumulated Depreciation	977,076	23,220	22,750	977,546
Net	\$ 287,047	\$ (18,514)	\$ -	\$ 268,533

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 officials 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.

Note 5 – Subsequent Events

Management has evaluated subsequent events through the date of the audit report, which is the date the financial statements were available to be issued and has determined that no additional information needs to be added to 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 Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Rural Water, Sewer, Solid Waste Management -District #3 Dewey County
PO Box 118
Mutual, Oklahoma 73853-0118

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, 2015, 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 February 15, 2016.

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 2015-01.

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 S. Woodruff, CPA, P.C.

Linda S Woodruff CPA, PC
Oklahoma City, Oklahoma

February 15, 2016

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

**Schedule of Findings and Responses
for the year ended October 31, 2015**

2015-01. 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.