

**RURAL WATER DISTRICT NO. 3,  
GRADY COUNTY, OKLAHOMA**

**ANNUAL FINANCIAL STATEMENTS**

**YEAR ENDED OCTOBER 31, 2013**

RURAL WATER DISTRICT NO. 3,  
GRADY COUNTY, OKLAHOMA  
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YEAR ENDED OCTOBER 31, 2013

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# Kimberlye R. Mayer, CPA, P.C.

735 West Doolin

Blackwell, OK 74631

(580) 363-1453  
Fax (580) 363-0068

## Independent Auditor's Report

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

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

We have audited the accompanying modified cash basis financial statements of the Rural Water District No. 3, Grady County, Oklahoma, as of and for the year ended October 31, 2013, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the 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 whether the financial statements are free of 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 District'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 District's internal control. Accordingly, we express no such an opinion. An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements referred to above, present fairly, in all material respects, the modified cash basis financial position of the Rural Water District No. 3, Grady County, Oklahoma as of October 31, 2013, and the changes in its modified cash basis financial position and its cash flows for the year then ended in accordance with the basis of accounting described in Note 1.

## Basis of Accounting

We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated February 6, 2014 on our consideration of the Rural Water District No. 3, Grady County, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.



Kimberlye R. Mayer, CPA, P.C.  
Blackwell, Oklahoma  
February 6, 2014

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  
Rural Water District No. 3, Grady County, Oklahoma

We have audited the financial statements of Rural Water District No. 3, Grady County, Oklahoma as of and for the year ended October 31, 2013 and have issued our report thereon dated February 6, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements were prepared on the modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Rural Water District No. 3, Grady County, Oklahoma'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 Rural Water District No. 3, Grady County, Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of the Rural Water District No. 3, Grady County, Oklahoma'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 combination of control deficiencies, in internal control that there is reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

## **Compliance and Other Matters**

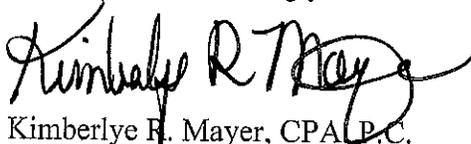
As part of obtaining reasonable assurance about whether Rural Water District No. 3, Grady County, Oklahoma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Response to Findings**

Rural Water District No. 3, Grady County, Oklahoma's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Rural Water District No. 3, Grady County, Oklahoma's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Kimberlye R. Mayer, CPA, P.C.  
Blackwell, Oklahoma  
February 6, 2014

RURAL WATER DISTRICT NO. 3, GRADY COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED OCTOBER 31, 2013

**Material Weakness in Internal Control Over Financial Reporting: Inadequate Segregation of Duties:**

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

Condition: Presently, the same individual is responsible for water service billings and receiving payments; making and recording deposits; maintaining billing registers; and reconciling the monthly bank statements. Only limited oversight is provided over this individual in the conduct of their daily functions.

Cause: The entity's limited size has made it difficult for management to fully segregate the duties.

Effect or Potential Effect: Without sufficient segregation of duties, the risk significantly increases that errors and/or fraud related to the sales and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: The board should evaluate the risks associated with the lack of segregation of duties and consider implementing controls that could mitigate these risks.

Board's Response: The board has concluded that due to the limited number of personnel, an adequate segregation of duties is not achievable and that the cost of correcting the weakness would exceed the benefits that would be derived from it.

FINANCIAL STATEMENTS

AND

NOTES

RURAL WATER DISTRICT NO. 3, GRADY COUNTY  
STATEMENT OF ASSETS, LIABILITIES AND NET POSITION  
MODIFIED CASH BASIS  
OCTOBER 31, 2013

ASSETS

Current Assets:

Operating accounts	\$ 8,125
Savings account	10,067
REAP account	
Reserve account	6,924
Total Cash and Cash Equivalents (Note 1)	25,116
Waterline system (net of accumulated depreciation (Note 2))	282,921
Work in progress	
Total Assets	\$ 308,037

LIABILITIES AND NET POSITION

Liabilities:

Current Liabilities:

Meter deposits	\$ 1,670
Notes Payable (Note 3)	2,663
Total current liabilities	4,333

Net Position:

Net investment in capital assets	280,258
Restricted	
Unrestricted	23,446
Total Net Position	303,704
Total Liabilities and Net Position	\$ 308,037

The accompanying report and notes are an integral part of these financial statements.

RURAL WATER DISTRICT NO. 3, GRADY COUNTY  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
MODIFIED CASH BASIS  
YEAR ENDED OCTOBER 31, 2013

Operating Revenues:	
Water sales	\$ 50,699
Operating Expenses:	
Wages	13,376
Payroll taxes	1,993
Repairs and maintenance	7,004
Water costs	11,841
Depreciation expense	9,293
Insurance	2,996
Professional fees	715
Licenses, fees and memberships	3,042
Office expense and postage	989
Telephone and utilities	3,745
Other expenses	487
Total Operating Expenses	55,481
Operating Income (Loss)	(4,782)
<hr/>	
Non-operating Revenues (Expenses):	
Interest income	47
Grants	229,000
Interest expense	(144)
Total Non-operating Revenue (Expense)	228,903
Changes in Net Position	224,121
Net Position, beginning of year	79,583
Net Position, end of year	\$ 303,704

The accompanying report and notes are an integral part of these financial statements.

RURAL WATER DISTRICT NO. 3, GRADY COUNTY  
STATEMENT OF CASH FLOWS  
MODIFIED CASH BASIS  
YEAR ENDED OCTOBER 31, 2013

Cash Flows From Operating Activities:	
Cash received from customers	\$ 50,699
Cash payments to employees	(13,376)
Cash payments to suppliers for goods and services	(32,812)
Net cash provided (used) by operating activities	<u>4,511</u>
Cash flows from capital and related financing activities:	
Interest paid on notes	(144)
Principle payments	(1,656)
Acquisition and construction of capital assets	(238,113)
Grant income	229,000
Net cash provided (used) by financing activities	<u>(10,913)</u>
Cash flows from investing activities:	
Interest income	47
Net cash provided (used) by investing activities	<u>47</u>
Net increase (decrease) in cash and cash equivalents	(6,355)
Beginning cash and cash equivalents	31,471
Ending cash and cash equivalents	<u>\$ 25,116</u>

Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (4,782)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	9,293
Net cash provided (used) by operating activities	<u>\$ 4,511</u>

The accompanying report and notes are an integral part of these financial statements.

RURAL WATER DISTRICT NO. 3, GRADY COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED OCTOBER 31, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

Quinlan Community Water, Inc. was organized on April 2, 1968 under the Nonprofit Corporation Act of 1968. During the year ended October 31, 2007 this corporation was reorganized into a rural water district under the Rural Water, Sewer, Gas and Solid Waste Management District Act, Title 82, 1324.3 et seq. of the laws of the State of Oklahoma. During their reorganization, all assets and liabilities were transferred from Quinlan Community Water, Inc. to Rural Water District No. 3, Grady County, Oklahoma. The District is exempt from federal and state income taxes. The purpose of the District is to acquire water and water rights; to build and acquire waterlines and other facilities; and to operate the same for the purpose of furnishing water to serve the needs of owners and occupants of land located within the District, and others as authorized by the by-laws.

The District is a governed entity by a Board of Directors that acts as the authoritative and legislative body of the entity. The Board of Directors is comprised of elected board members.

Basis of Accounting

The District is classified as an Enterprise Fund. The costs of providing the water services to the public are financed mainly through user charges. The financial statements of the District have been prepared using the modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

Cash and Deposits

Cash is maintained in financial institutions, which provide coverage to depositors through the Federal Deposit Insurance Corporation.

The State of Oklahoma allows government entities to invest in the following: direct obligations of the United States Government, its agencies or instrumentalities; collateralized or insured certificates of deposit; insured savings accounts or savings certificates; or county, municipal or school district direct debt.

RURAL WATER DISTRICT NO. 3, GRADY COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 YEAR ENDED OCTOBER 31, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Statement of Cash Flows

For the purpose of the Statement of Cash Flows, the District considers all checking and savings accounts (excluding grant accounts) and deposits with a maturity of three months or less to be cash equivalents.

NOTE 2 – WATERLINE SYSTEM:

The original waterline system was recorded at cost. Waterline extensions and additions are capitalized and depreciated over their estimated useful lives. Annual depreciation is calculated on a straight-line basis. Total depreciation for the year ended October 31, 2013 was \$9,294. The balances for depreciable assets by major category at October 31, 2013 are as follows:

	Balance 10/31/12	(Additions)	Balance 10/31/13
Waterline system	\$ 155,034	\$ 245,790	\$ 400,824
Machinery and equipment	30,097		30,097
Accumulated depreciation	(138,706)	(9,294)	(148,000)
Totals	\$ 46,425	\$ 236,496	\$ 282,921

NOTE 3 – NOTES PAYABLE:

During the year ended October 31, 2011 the District borrowed \$7,250 from a financial institution for waterline engineering services. The deposit accounts are security for the note. The note is due on demand or in the absence of demand on December 17, 2013. The note carries a fixed interest rate of 4.00%. Payments of \$1,800 were made during the year ending October 31, 2013. The following is a summary of the Districts future debt requirements and the balance at October 31, 2013:

Year Ending	Payment Due
10/31/2013	\$ 2,769
Less interest	(106)
Net	\$ 2,663

NOTE 4 – NET POSITION:

Net position presents the difference between assets and liabilities in the statement of net position. Net investment in capital assets is reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are legal limitations imposed on their use by District legislation or external restrictions by creditors, grantors, laws or regulations of other governments.

RURAL WATER DISTRICT NO. 3, GRADY COUNTY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED OCTOBER 31, 2013

NOTE 5 – RISK MANAGEMENT:

The District is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District manages this risk through the purchase of commercial insurance policies. Claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. There were no claims during the year ended October 31, 2013.

NOTE 6 – ESTIMATES:

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and 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.

NOTE 7 – CONTINGENCIES:

As of October 31, 2013, the District did not have any pending litigation or potential non-disclosed liabilities that management believes would have a material effect on the financial statements.

NOTE 8 - FAIR VALUE OF INSTRUMENTS:

The District's financial instruments include cash and cash equivalents, and notes payable. 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 net position. The carrying amount of these financial statements approximates fair value because of the short maturity of these instruments.

NOTE 9 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through February 6, 2014, the date which the financial statements were available to be issued.