

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

ANNUAL FINANCIAL STATEMENTS

YEAR ENDED OCTOBER 31, 2015

RURAL WATER DISTRICT NO. 3,
GRADY COUNTY, OKLAHOMA
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YEAR ENDED OCTOBER 31, 2015

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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 statement of assets, liabilities and net position of the Rural Water District No. 3, Grady County, Oklahoma, as of October 31, 2015, and the related statements of revenues, expenses and changes in net position and of cash flows as of the year then ended, 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 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

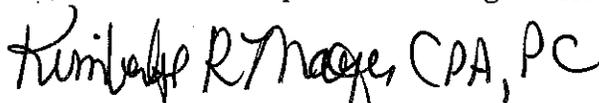
In our opinion, the financial statements referred to above, present fairly, in all material respects, the modified cash basis financial position of the Rural Water District No. 3, Grady County, Oklahoma as of October 31, 2015, and the changes in its modified cash basis financial position and its cash 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 January 18, 2016 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
January 18, 2016

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, 2015 and have issued our report thereon dated January 18, 2016. 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 weaknesses.

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 weaknesses.

Compliance and Other Matters

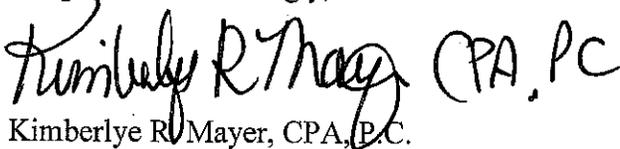
As part of obtaining reasonable assurance about whether Rural Water District No. 3, Grady County, Oklahoma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could 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 finding 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

January 18, 2016

RURAL WATER DISTRICT NO. 3, GRADY COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED OCTOBER 31, 2015

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, 2015

ASSETS

Current Assets:	
Operating accounts	\$ 7,187
Savings account	6,909
Reserve account	10,200
Total Cash and Cash Equivalents (Note 1)	24,296
Waterline system (net of accumulated depreciation (Note 2))	257,554
Work in progress	
Total Assets	\$ 281,850

LIABILITIES AND NET POSITION

Liabilities:	
Current Liabilities:	
Meter deposits	\$ 1,670
Net Position:	
Net investment in capital assets	257,554
Restricted	
Unrestricted	22,626
Total Net Position	280,180
Total Liabilities and Net Position	\$ 281,850

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, 2015

Operating Revenues:	
Water sales	\$ 45,700
Operating Expenses:	
Payroll	14,575
Payroll taxes	1,207
Repairs and maintenance	6,895
Water costs	11,255
Depreciation expense	12,584
Insurance	2,434
Professional fees	3,584
Licenses, fees and memberships	2,572
Office expense and postage	694
Telephone and utilities	4,334
Other expenses	
Total Operating Expenses	60,134
Operating Income (Loss)	(14,434)
Non-operating Revenues (Expenses):	
Interest income	27
Interest expense	(1)
Total Non-operating Revenue (Expense)	26
Changes in Net Position	(14,408)
Net Position, beginning of year	294,588
Net Position, end of year	\$ 280,180

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, 2015

Cash Flows From Operating Activities:	
Cash received from customers	\$ 45,700
Cash payments to employees	(14,575)
Cash payments to suppliers for goods and services	<u>(32,975)</u>
Net cash provided (used) by operating activities	(1,850)
Cash flows from capital and related financing activities:	
Interest paid on notes	(1)
Principle payments	(947)
Acquisition and construction of capital assets	
Grant income	
Net cash provided (used) by financing activities	<u>(948)</u>
Cash flows from investing activities:	
Interest income	<u>27</u>
Net cash provided (used) by investing activities	<u>27</u>
Net increase (decrease) in cash and cash equivalents	(2,771)
Beginning cash and cash equivalents	<u>27,067</u>
Ending cash and cash equivalents	<u><u>\$ 24,296</u></u>

Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (14,434)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	12,584
Net cash provided (used) by operating activities	<u><u>\$ (1,850)</u></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, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

Rural Water District No. 3, Grady County was created under the Rural Water District Act, Title 82, as amended, of the laws of the State of Oklahoma. The District is exempt from Federal and State income taxes of the United States Internal Revenue Code. The purpose of the District is to provide water and limited sewer services to the owners and occupants of land located within the District, and others as authorized by law.

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, 2015

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, 2015 was \$12,584. The balances for depreciable assets by major category at October 31, 2015 are as follows:

	Balance 10/31/14	(Additions)	Balance 10/31/15
Waterline system	\$ 400,824	\$	\$ 400,824
Buildings and equipment	30,097		30,097
Accumulated depreciation	(160,783)	(12,584)	(173,367)
Totals	\$ 270,138	\$ (12,584)	\$ 257,554

NOTE 3 – 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.

NOTE 4 – 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, 2015.

NOTE 5 – CONTINGENCIES:

As of October 31, 2015, 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.

RURAL WATER DISTRICT NO. 3, GRADY COUNTY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED OCTOBER 31, 2015

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 – FAIR VALUES OF FINANCIAL INSTRUMENTS:

The definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosure about the use of fair value measurements in an effort to make the measurement of fair value more consistent and comparable.

Level 1: Quoted prices in active markets for identical securities.

Level 2: Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment spread and credit risk).

Level 3: Significant unobservable inputs (including the District's own assumptions in determining the fair value of investments).

The District's financial instruments include cash and cash equivalents. The District's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying statement of net position. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

NOTE 8 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through January 18, 2016, the date which the financial statements were available to be issued.