

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

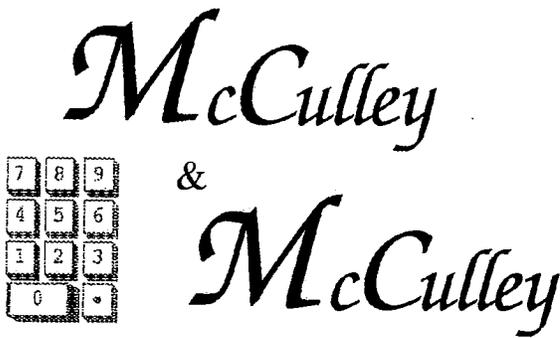
**FINANCIAL STATEMENTS
AND AUDITOR'S REPORT**

JUNE 30, 2013 AND 2012

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

TABLE OF CONTENTS

	<u>Page Number</u>
INDEPENDENT AUDITOR'S REPORT	1 - 3
 BASIC FINANCIAL STATEMENTS	
Balance Sheets	4
Statements of Activities	5
Statements of Changes in Net Assets	6
Statements of Cash Flows	7
Notes to the Financial Statements	8 - 14
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 <u>Government Auditing Standards</u>	15 - 16
Schedule of Findings and Responses	17 - 18
Update on Prior Year Schedule of Findings and Responses	19



Certified Public Accountants

Glenn L. McCulley
Roselind C. McCulley

204 North Caddo
Post Office Box 1626
Weatherford, Oklahoma 73096

Voice (580) 772-8820
Fax (580) 772-0672

<http://prep.1040.com/mcculleycpas>
email: mmcpas@cebridge.net

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, 2013 and 2012, 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, 2013 and 2012, 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 August 31, 2013, 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

August 31, 2013

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

	June 30,	
ASSETS	2013	2012
Current Assets		
Petty Cash	\$ 50	\$ 50
Cash in Bank	187,373	173,409
Certificates of Deposit	138,792	137,544
Accounts Receivable, Net	23,813	18,629
Prepaid Expenses	9,204	8,926
Total Current Assets	359,232	338,558
Restricted Assets		
Cash - Meter Deposits	20,600	18,100
Total Restricted Assets	20,600	18,100
Inventory	8,402	8,402
Other Assets	1,115	1,115
Capital Assets, Net of Accumulated Depreciation	881,849	889,069
TOTAL ASSETS	\$ 1,271,198	\$ 1,255,244
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable	\$ 481	\$ 923
Accrued Compensated Absences	1,740	1,452
Customer Meter Deposits	20,600	18,100
Deferred Revenue	10,950	10,800
Total Current Liabilities	33,771	31,275
Long-Term Liabilities	0	0
Total Liabilities	33,771	31,275
Net Assets		
Invested in Capital Assets, Net of Related Debt	881,849	889,069
Unrestricted and Designated	355,578	334,900
Total Net Assets	1,237,427	1,223,969
TOTAL LIABILITIES AND NET ASSETS	\$ 1,271,198	\$ 1,255,244

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, 2013 AND 2012

	June 30,	
	2013	2012
Operating Revenues		
Water Sales	\$ 288,445	\$ 275,450
Membership Income	13,000	16,000
Installation & Connection Charges	3,114	3,057
Late Charges	3,649	2,830
Other Revenue	2,629	2,768
Total Operating Revenues	310,837	300,105
Operating Expenses		
Cost of Water	50,886	41,026
Salaries and Wages	81,815	76,421
Pension Plan	10,952	8,500
Payroll Taxes	6,780	6,406
Depreciation	47,123	43,304
Repairs and Maintenance	11,197	7,725
Insurance	12,225	11,910
Transportation	12,580	12,296
Utilities	11,413	11,910
Operating Supplies	37,124	31,699
Telephone	4,881	4,524
Office Supplies	5,559	3,038
Professional Services	1,450	1,531
Licenses, Dues, and Subscriptions	1,844	940
Director Fees	1,775	1,800
Miscellaneous Expense	1,288	668
Total Operating Expenses	298,892	263,698
Operating Income Before		
Nonoperating Revenues (Expenses)	11,945	36,407
Nonoperating Revenues (Expenses)		
Interest Income	1,513	2,041
Sales of Assets		1,107
Increase in Net Assets	\$ 13,458	\$ 39,555

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, 2013 AND 2012**

	June 30,	
	2013	2012
Net Assets		
Beginning of Year	\$ 1,223,969	\$ 1,184,414
Increase in Net Assets For the Year Then Ended	13,458	39,555
End of Year	\$ 1,237,427	\$ 1,223,969

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, 2013 AND 2012

	June 30,	
	2013	2012
Cash Flows from Operating Activities		
Cash Received from Customers	\$ 313,265	\$ 303,127
Cash Paid for Goods and Services	(157,904)	(119,339)
Cash Paid to Employees	(99,259)	(91,327)
	56,102	92,461
Cash Flows from Noncapital Financing Activities		
Cash Flows From Investing Activities		
Purchase of Capital Assets	(39,903)	(26,485)
Purchase of Inventory		(1,830)
Sales of Assets		1,107
Interest Received on Cash and Cash Equivalents	1,513	2,041
	(38,390)	(25,167)
Cash Flows from Financing Activities		
Net Cash (Used for) Financing Activities	0	0
Net Increase in Cash and Cash Equivalents	17,712	67,294
Cash and Cash Equivalents		
Beginning of Year	329,103	261,809
End of Year	\$ 346,815	\$ 329,103
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$ 11,945	\$ 36,407
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	47,123	43,304
Changes in Assets & Liabilities:		
Decrease (Increase) in Accounts Receivable	(4,962)	10,138
Increase (Decrease) in Allowance for Loss	(222)	222
(Increase) in Prepaid Expenses	(278)	(419)
Increase (Decrease) in Accounts Payable	(442)	9
Increase in Accrued Compensated Absences	288	
Increase in Deferred Revenue	150	300
Increase in Customer Meter Deposits	2,500	2,500
	44,157	56,054
Net Cash Provided By Operating Activities	\$ 56,102	\$ 92,461

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, 2013 AND 2012**

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, 2013 AND 2012**

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, 2013 and 2012, management has set an allowance for loss of \$222 for 2012 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, 2013.

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, 2013 and 2012, 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, 2013 AND 2012**

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. Invested in capital assets, net of related debt - 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, 2013 AND 2012**

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, 2013 and 2012, are secured by federal deposit insurance.

	JUNE 30	
	2013	2012
Carrying Balance	\$346,764	\$329,053
Bank Balance	365,243	340,110
Insured	365,243	340,110

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, 2012, an allowance for loss has been established of \$222. None was established for 2013.

Note 4 - Restricted Assets.

Restricted cash - meter deposits consist of cash 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, 2013 AND 2012**

Note 5 - Capital Assets.

Capital assets and its changes consist of the following:

	June 30, <u>2012</u>	<u>Additions</u>	<u>Deletions</u>	June 30, <u>2013</u>
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	<u>48,209</u>	<u>2,894</u>		<u>51,103</u>
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	<u>(35,882)</u>	<u>(3,196)</u>		<u>(39,078)</u>
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>
	June 30, <u>2011</u>	<u>Additions</u>	<u>Deletions</u>	June 30, <u>2012</u>
Tank Sites - Land *	\$ 5,000	\$	\$	\$ 5,000
Office Building - Land *	2,154			2,154
Wells, Lines & Buildings	1,664,999	26,485	(1,042)	1,690,442
Vehicles	27,903			27,903
Furniture and Fixtures	12,119			12,119
Pumps and Equipment	<u>54,891</u>		<u>(6,682)</u>	<u>48,209</u>
Total Capital Assets	<u>1,767,066</u>	<u>26,485</u>	<u>(7,724)</u>	<u>1,785,827</u>
Less Accumulated Depreciation for:				
Wells, Lines & Buildings	(790,401)	(34,404)		(824,805)
Vehicles	(22,710)	(2,397)		(25,107)
Furniture and Fixtures	(9,829)	(1,135)		(10,964)
Pumps and Equipment	<u>(37,196)</u>	<u>(5,368)</u>	<u>6,682</u>	<u>(35,882)</u>
Total Accumulated Depr.	<u>(860,136)</u>	<u>(43,304)</u>	<u>6,682</u>	<u>(896,758)</u>
Net Capital Assets	<u>\$ 906,930</u>	<u>\$(16,819)</u>	<u>\$ (1,042)</u>	<u>\$ 889,069</u>

* non-depreciable assets

CUSTER COUNTY RURAL WATER DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING JUNE 30, 2013 AND 2012

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, 2013 and 2012.

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, 2013 and 2012, totaled \$7,388 and \$7,725, 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, 2013 and 2012, the total employer contributions amounted to \$10,942 and \$ 8,500, respectively. Covered salaries for fiscal year 2013 and 2012 totaled \$72,877 and \$56,817, respectively. Total salaries for fiscal year 2013 and 2012 were \$81,527 and \$76,421, 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, 2013 AND 2012**

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 \$154,215 and \$151,136 for the year ending June 30, 2013 and 2012, respectively.



Certified Public Accountants

*Glenn L. McCulley
Roselind C. McCulley*

*204 North Caddo
Post Office Box 1626
Weatherford, Oklahoma 73096*

*Voice (580) 772-8820
Fax (580) 772-0672*

*<http://prep.1040.com/mcculleycpas>
email: mmcpas@cebridge.net*

**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 August 31, 2013. 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

August 31, 2013

**CUSTER COUNTY RURAL WATER DISTRICT NO. 3
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2013**

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 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
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2013

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

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, 2012

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.