

*Independent Auditor's Report*

***Rural Water, Sewer and Solid Waste Management***

***District No. 2, Grady County, Oklahoma***

*Year Ending October 31, 2011*

**RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT  
DISTRICT NO. 2, GRADY COUNTY, OKLAHOMA**  
October 31, 2011

**Table of Contents**

	<b>Page</b>
Independent Auditor's Report	A – 1

**Basic Financial Statements**

Statement of Net Assets – Modified Cash Basis – Proprietary Fund Type	B – 1
Statement of Revenues, Expenses, and Changes in Net Assets – Modified Cash Basis - Proprietary Fund Types	B – 2
Statement of Cash Flows – Modified Cash Basis – Proprietary Fund Type	B – 3
Notes to Financial Statements	C – 1

**Other Supplementary Information**

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 <i>Government Auditing Standards</i>	D – 1
Schedule of Findings and Recommendations	E – 1
Disposition of Prior Year Audit Exceptions	F – 1

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Rural Water, Sewer and Solid Waste Management  
District No. 2, Grady County  
Amber, Oklahoma 73004

We have audited the accompanying financial statements of the business-type activities and major fund of the **Rural Water, Sewer and Solid Waste Management District No. 2**, Grady County, Oklahoma, as of and for the year ended October 31, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 the 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

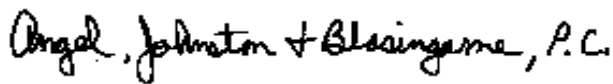
As discussed in Note 1, the District prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position-modified cash basis of the business-type activities and major fund of the District as of October 31, 2011, and the respective changes in financial position-modified cash basis and cash flows, thereof for the year then ended in conformity with the modified cash basis of accounting described in Note 1.

Rural Water, Sewer and Solid Waste Management  
District No. 2, Grady County  
January 19, 2012

In accordance with *Government Auditing Standards*, we have also issued a report dated January 19, 2012 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 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 considered in assessing the results of our audit.

The District has not presented the Management's Discussion and Analysis and budgetary information which the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be a part of the basic financial statements.

A handwritten signature in black ink that reads "Angel, Johnston & Blasingame, P.C." The signature is written in a cursive, flowing style.

Angel, Johnston & Blasingame, P.C.  
Certified Public Accountants

Chickasha, Oklahoma  
January 19, 2012

**RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT  
DISTRICT NO. 2, GRADY COUNTY, OKLAHOMA  
STATEMENT OF NET ASSETS  
-Modified Cash Basis-  
Proprietary Fund Types  
For the Year Ended October 31, 2011**

<u><b>ASSETS</b></u>	<u><b>October 31, 2011</b></u>
<b>Current Assets</b>	
Checking Accounts	\$ 83,110
Certificate of Deposit	11,500
<i>Total Current Assets</i>	<u>\$ 94,610</u>
<b>Fixed Assets</b>	
Automobiles	\$ 11,828
Building	30,565
Construction in Progress	716
Equipment	43,308
Land	131,528
Office Equipment	10,384
Waterlines, Wells, Water and Sewer Equipment	519,850
Water Tower	166,161
Bond Issue Cost (net of accumulated amortization)	3,054
<i>Total</i>	<u>\$ 917,394</u>
Less Accumulated Depreciation	(489,446)
<i>Total Fixed Assets</i>	<u>\$ 427,948</u>
<i>Total Assets</i>	<u><u>\$ 522,558</u></u>
 <b><u>LIABILITIES</u></b>	
<b>Current Liabilities</b>	
Meter Deposit Liability	\$ 11,650
Current Portion Long-Term Debt	15,009
<i>Total Current Liabilities</i>	<u>\$ 26,659</u>
<b>Non Current Liabilities</b>	
Long-Term Debt	263,396
<i>Total Liabilities</i>	<u>\$ 290,055</u>
 <b><u>NET ASSETS</u></b>	
Invested in Capital Assets, Net of Related Debt	149,543
Restricted	41,061
Unrestricted	41,899
<i>Total Net Assets</i>	<u><u>\$ 232,503</u></u>

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

**RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT  
DISTRICT NO. 2, GRADY COUNTY, OKLAHOMA  
Statement of Revenues, Expenses, and Changes in Net Assets  
- Modified Cash Basis -  
Proprietary Fund Types  
For the Year Ended October 31, 2011**

	<u>October 31, 2011</u>
<b>Operating Revenue</b>	
Water, Sewer, Garbage & Late Charges	169,607
<i>Total Operating Revenue</i>	<u>\$ 169,607</u>
<b>Cost of Goods Sold</b>	
Cost of Goods Sold	23,448
<i>Total Gross Income</i>	<u>146,159</u>
<b>Operating Expenses</b>	
Bank Charges	1,325
Dues/Fees/Permits	2,912
Employee Allowances	2,521
Fuel & Auto Service	2,729
Insurance	6,859
Licenses	35
Maintenance & Repairs	1,720
Miscellaneous	579
Office Supplies	1,087
Payroll Taxes	10,078
Postage	777
Printing Services	75
Professional Fees	10,640
Rent	230
Returned Checks	635
Salaries	41,802
Utilities	10,612
Water/Sewer Supplies	2,184
Depreciation Expense	24,092
Amortization Expense	464
<i>Total Operating Expenses</i>	<u>\$ 121,356</u>
<i>Net Operating Income (Loss)</i>	\$ 24,803
<b>Non-Operating Revenue (Expense)</b>	
Interest Income	467
Miscellaneous Income	2,515
Interest Expense on Loan	(14,771)
Deposits (Refunds)	(1,377)
<i>Total Non-Operating Revenue (Expense)</i>	<u>\$ (13,166)</u>
<i>Net Income (Loss)</i>	\$ 11,637
<i>Net Assets - Beginning of Year</i>	220,866
<i>Net Assets - End of Year</i>	<u>\$ 232,503</u>

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

**RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT  
DISTRICT NO. 2, GRADY COUNTY, OKLAHOMA  
Statement of Cash Flows  
- Modified Cash Basis -  
Proprietary Funds  
For the Year Ended October 31, 2011**

	<u>October 31, 2011</u>
<b>Cash flows from operating activities</b>	
Cash received from customers	\$ 169,730
Cash paid to employees	(54,401)
Cash paid to vendors	<u>(65,847)</u>
<i>Net cash provided (used) by operating activities</i>	49,482
 <b>Cash flows from capital and related financing activities</b>	
Proceeds from issuance of long-term debt	100,000
Interest Expense	(14,771)
Purchase of capital assets	(126,243)
Principal paid on capital debt	<u>(13,180)</u>
<i>Net cash provided (used) for capital and related financing activities</i>	(54,194)
 <b>Cash flows from investing activities</b>	
Interest Income	467
Other Income	<u>2,515</u>
<i>Net cash provided (used) by investing activities</i>	2,982
 <i>Net increase (decrease) in cash and cash equivalents</i>	(1,730)
<i>Cash and cash equivalents at beginning of year</i>	96,340
<i>Cash and cash equivalents at end of year</i>	<u><u>\$ 94,610</u></u>
 <b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>	
Operating income (loss)	24,803
Adjustment to reconcile operating income to net cash provided	
Meter Deposits	123
Depreciation and Amortization Expense	24,556
<i>Net cash provided (used) by operating activities</i>	<u><u>\$ 49,482</u></u>

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

**RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT**  
**DISTRICT NO. 2, GRADY COUNTY, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
October 31, 2011

**Note 1 – Summary of Significant Accounting Policies**

The Grady County Rural Water District No. 2 complies with the accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units with a change for the modified cash basis. Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent that they are applicable, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this note.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the Statement include the following:

1. For the first time the financial statements should include:
  - a. Management Discussion and Analysis (MD&A) section providing an analysis of the Authority’s overall financial position and results of operations.
  - b. Financial statements prepared using a full accrual accounting.
2. A change in the fund financial statements to focus on major funds.

However, the District only has a proprietary fund.

**A. Financial Reporting Entity**

Rural Water, Sewer and Solid Waste Management District No. 2, Grady County, Oklahoma was established pursuant to Title 82 of Oklahoma State Law in August 1966. The purpose of the District is to provide a water distribution system for its members in the Amber, Oklahoma area. Members are owners of land located within the District who have subscribed to one or more Benefit Units, provided payments of charges are current on at least one of the Benefit Units. Each member represents one vote of the governing body of the District without any direct ownership in its assets.

The accompanying financial statements include all functions and activities over which the District exercises financial accountability. The District is considered a primary government as defined by the Governmental Accounting Standards Board (GASB) and has no other component units within its reporting entity.



**RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT**  
**DISTRICT NO. 2, GRADY COUNTY, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
October 31, 2011

**Note 1 – Summary of Significant Accounting Policies (continued)**

**B. Basis of Presentation**

Government Wide Financial Statements

The Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. All the activities of the District are business-type activities. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts, which are comprised of each fund's assets, liabilities, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements. The funds of the financial reporting entity are described below:

Enterprise Funds – These funds are established to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

**C. Basis of Accounting and Measurement Focus**

Basis of accounting refers to when revenues and expenditures/expenses are recognized and reported in the financial statements. This relates to the timing of the revenues, expenditures/expenses regardless of the measurement focus applied. Measurement focus identifies which transactions and events should be recorded.

The fund financial statements are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues and expenditures when they result from cash transactions with a provision for depreciation. This basis is a comprehensive basis of accounting other than accounting principals generally accepted in the United States of America.

If the District used the basis of accounting required by generally accepted accounting principles, the financial statements would use the accrual basis of accounting. Under the modified accrual basis of accounting, revenues would be recognized when susceptible to

**RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT**  
**DISTRICT NO. 2, GRADY COUNTY, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
October 31, 2011

**Note 1 – Summary of Significant Accounting Policies, (continued)**

**C. Basis of Accounting and Measurement Focus (continued)**

accrual (i.e. both measurable and available) and expenditures would be recorded when the current liability is incurred. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred.

**D. Assets, Liabilities and Equity**

Cash

For the purposes of the statement of cash flows, the District considers all cash on hand, demand deposits and highly liquid investments, with an original maturity of three months or less when purchased, to be cash and cash equivalents.

Accounts Receivable

As a result of the use of the modified cash basis of accounting, accounts receivable and other revenue related receivables are not reported in the financial statements.

Fixed Assets

Available detailed fixed asset records do not contain a complete detail of all property and equipment still in service and annual physical inventories are not performed to ensure all additions and deletions are properly recorded. Therefore, the amount of property, plant and equipment reported in the financial statements does not represent the historical cost of all fixed assets which are still in service.

Recorded fixed assets are stated at historical cost or estimated historical cost if actual historical cost is not available. Depreciation of exhaustible fixed assets is charged as an expense against their operations. Accumulated depreciation is reported on the balance sheet, although no detail records exist to support these amounts. Depreciation has been provided over the estimated lives using the straight-line method. The estimated lives are forty years for the water and sewer systems and seven years for the office equipment.

Bond Issue Costs

Bond issue costs, with an original cost of \$9,271, is an intangible asset. Amortization has been provided over the life of the bonds, which is twenty years, using the straight-line method.

Long-Term Debt

Long-Term debt to be repaid from District resources are reported as liabilities in the balance sheet. The long-term debt is presently comprised of three notes. See Note 3-C.

**RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT**  
**DISTRICT NO. 2, GRADY COUNTY, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
October 31, 2011

**Note 1 – Summary of Significant Accounting Policies, (continued)**

**D. Assets, Liabilities and Equity (continued)**

Inventories

The District does not maintain inventories. Inventory items are expenses in the year purchased. This method of accounting is not in accordance with generally accepted accounting principles which require inventories to be established and expenses to be incurred only when an inventory item is used.

**E. Differences from GAAP**

For purposes of the operating statement, revenues and expenses are classified by Operating expenses. The District reports expenses relating to use of economic resources including depreciation.

**F. Differences from GAAP**

Basis of Accounting

As discussed in Note 1.B., the District uses the modified cash basis of accounting, which is a comprehensive basis of accounting other than GAAP.

Management Discussion and Analysis

The District has not presented the Management's Discussion and Analysis which the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be a part of the basic financial statements.

**NOTE 2 – Stewardship, Compliance and Accountability**

**A. Deposits and Investment Laws and Regulations**

In accordance with O. S. Title 62, Section 516.3, all uninsured deposits of municipal funds and other political subdivisions in financial institutions must be secured with acceptable collateral valued at the lower of market or par. The Districts deposits were properly insured by FDIC Insurance carried by the depository bank due to total deposits being less than \$250,000.

**B. Debt Restrictions and Covenants**

The note indenture relating to the \$115,000, Utility System Revenue Bonds Series 1997, Bank of Oklahoma promissory note of the District contains a number of restrictions or covenants.

**RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT**  
**DISTRICT NO. 2, GRADY COUNTY, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
October 31, 2011

**Note 2 – Stewardship, Compliance and Accountability (continued)**

**B. Debt Restrictions and Covenants (continued)**

The covenants require the creation of five separate accounts to be held in the name of the District, and to be known respectively as the:

- a. Utility System Operation and Maintenance Account
- b. Principal and Interest Account for Utility System Revenue Bond
- c. Reserve Account for Utility System Revenue Bond
- d. Utility System Depreciation and Replacement Account
- e. Utility System Surplus Account

The covenant requires that monthly deposits be made into the Principal and Interest Account in an amount to cover the principal and interest payments due. The District transfers \$839.17 each month from the Operation and Maintenance account to cover the principal and interest payments. The District has also established a Reserve account in the amount of \$11,500. These funds are held in a certificate of deposit. A Surplus account has not been established for any excess.

The note indenture relating to the \$145,000 Rural Development note of the District contains a loan resolution that requires monthly deposits be made into the RD Reserve Account in an amount to cover the principal and interest payments due. The account is to be funded at a rate of 10% of the monthly payments each year. This reserve account is considered fully funded when the account balance reaches \$8,184.

The note indenture relating to the \$100,000 Community Resource Group note of the District contains a loan resolution that requires deposits be made into the CRG Reserve Account at a rate if not less than \$110.50 per month. The District transfers \$110.50 each month from the Operation and Maintenance account to satisfy this requirement. This reserve account is considered fully funded when the account balance reaches \$13,260.

**Note 3 – Detail Notes-Transaction Classes/Accounts**

**A. Restricted Assets**

The amounts reported as restricted assets of the District on the balance sheet are comprised of amounts held by the District for utility deposits (refunded upon termination of service or applied to final bill) and amounts relating to debt restrictions as listed in Note 2.B. The restricted assets as of October 31, 2011 were as follows:

**RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT**  
**DISTRICT NO. 2, GRADY COUNTY, OKLAHOMA**  
NOTES TO FINANCIAL STATEMENTS  
October 31, 2011

**Note 3 – Detail Notes-Transaction Classes/Accounts (continued)**

**A. Restricted Assets, (continued)**

**Type of Restricted Asset**

	<u>10-31-2011</u>
Customers Utility Deposits	\$11,650
Rural Development Reserve	7,885
CRG Reserve	1,217
Principal & Interest Account	8,810
Reserve Account for Utility System Revenue Bonds, Series 1997	<u>11,500</u>
Total	<u>\$41,062</u>

**B. Property, Plant and Equipment**

Fixed assets of the District were comprised of the following:

	<u>Beginning</u>	<u>Net Additions</u>	<u>Ending</u>
Auto	\$ 11,828	\$ 0	\$ 11,828
Building	27,565	3,000	30,565
Construction in Progress	0	716	716
Equipment	43,308	0	43,308
Land	9,000	122,528	131,528
Office Equipment	10,384	0	10,384
Sewer Plant	292,480	0	292,480
Water Plant	214,901	0	214,901
Water Sewer Project	12,469	0	12,469
Water Tower Construction	<u>166,162</u>	<u>0</u>	<u>166,162</u>
Total Capital Assets	<u>\$ 788,097</u>	<u>\$ 126,244</u>	<u>\$ 914,341</u>
Less:			
Accumulated Depreciation			\$ 489,446
Net Total Capital Assets			<u>\$ 424,895</u>

Depreciation expense for the year was \$24,092.21 and all was charged to the enterprise fund.

**RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT**  
**DISTRICT NO. 2, GRADY COUNTY, OKLAHOMA**  
NOTES TO FINANCIAL STATEMENTS  
October 31, 2011

**Note 3 – Detail Notes-Transaction Classes/Accounts (continued)**

**C. Long Term Debt**

The District had the following long-term debt outstanding:

Note payable to the Bank of Oklahoma payable in semi-annual installments of variable amounts on June 1<sup>st</sup> and December 1<sup>st</sup>, including principal and interest at a variable interest rate, final payment due December 1, 2017. As of 10-31-11, the balance on the note is \$55,000.

Note payable to Rural Utilities Service payable in monthly installments of \$682.00 per month beginning on June 28, 2002. The note carries a 4.75% interest rate and has a final maturity date of May 30, 2041. The note is secured by real estate, well sites and water rights owned by the district. As of 10-31-11, the \$145,000 note has a remaining balance of \$129,608.25.

Note payable to Community Resource Group, Inc. (CRG) in monthly installments of \$1,105.00 per month beginning January 14, 2011. The note carries a 5.90% interest rate and has a final maturity date of December 14, 2020. The note is secured by all presently existing and hereafter Revenues. As of 10-31-11, the \$100,000 note has a remaining balance of \$93,796.32

Annual Debt Service Requirements

The annual debt service requirements to maturity, including principal and interest, for the Bank of Oklahoma note payable is as follows:

<u>Year Ending</u> <u>October 31</u>	<u>Loan</u> <u>Payments</u>	<u>Principal</u> <u>Payments</u>	<u>Interest</u> <u>Payments</u>
2012	8,334	5,000	3,334
2013	8,016	5,000	3,016
2014	7,699	5,000	2,699
2015	12,223	10,000	2,223
2016 - 2018	<u>32,857</u>	<u>30,000</u>	<u>2,857</u>
<b>Totals</b>	<b><u>69,129</u></b>	<b><u>55,000</u></b>	<b><u>14,129</u></b>

**RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT**  
**DISTRICT NO. 2, GRADY COUNTY, OKLAHOMA**  
NOTES TO FINANCIAL STATEMENTS  
October 31, 2011

**Note 3 – Detail Notes-Transaction Classes/Accounts, (continued)**

**C. Long Term Debt, (continued)**

The annual debt service requirements to maturity, including principal and interest, for the Rural Development note payable is as follows:

<u>Year Ending</u> <u>October 31</u>	<u>Loan</u> <u>Payments</u>	<u>Principal</u> <u>Payments</u>	<u>Interest</u> <u>Payments</u>
2012	8,184	2,071	6,113
2013	8,184	2,171	6,013
2014	8,184	2,277	5,907
2015	8,184	2,387	5,797
2016-2020	40,920	13,791	27,129
2021-2025	40,920	17,480	23,440
2026-2030	40,920	22,155	18,765
2031-2035	40,920	28,082	12,838
2036-2040	40,920	35,593	5,327
2041	<u>3,680</u>	<u>3,601</u>	<u>79</u>
<b>Totals</b>	<b><u>241,016</u></b>	<b><u>129,608</u></b>	<b><u>111,408</u></b>

The annual debt service requirements to maturity, including principal and interest, for the CRG note payable is as follows:

<u>Year Ending</u> <u>October 31</u>	<u>Loan</u> <u>Payments</u>	<u>Principal</u> <u>Payments</u>	<u>Interest</u> <u>Payments</u>
2012	13,260	7,938	5,322
2013	13,260	8,420	4,840
2014	13,260	8,930	4,330
2015	13,260	9,471	3,789
2016-2020	66,300	56,698	9,602
2021	<u>2,356</u>	<u>2,339</u>	<u>17</u>
<b>Totals</b>	<b><u>121,696</u></b>	<b><u>93,796</u></b>	<b><u>27,900</u></b>

**RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT  
DISTRICT NO. 2, GRADY COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
October 31, 2011**

**Note 3 – Detail Notes-Transaction Classes/Accounts (continued)**

**D. Fund Equity**

Net Assets

Net Asset restricted at October 31, 2011 relate to meter deposits and to promissory note reserve accounts. Balances at October 31, 2011 are as follows:

Restricted Account for	
Customer Utility Deposits	\$11,650
Principal & Interest Account	8,810
Reserve Account for	
Rural Development Reserve Account	7,885
CRG Reserve Account	1,217
Utility System Revenue Bonds, Series 1997 (CD)	<u>11,500</u>
	<u>\$41,062</u>

**Note 4 – Other Notes**

**A. Risk Management**

The District is exposed to various risks of loss related to torts, theft or damage to, and destruction of assets, errors and omissions; and natural disasters. The District manages these various risks of loss as follows:

<u>Type of Loss</u>	<u>Method Managed</u>	<u>Risk of Loss Retained</u>
a. Torts, errors and omissions & vehicle	Participation in ORWAAG risk entity pool	\$1,000 deductible per occurrence
b. Injuries to employees (workers comp)	Participation in State Insurance Fund	None
c. Physical property loss and natural disasters	Participation in ORWAAG risk entity pool	None

Management believes such coverage is sufficient to preclude any significant uninsured losses to the District.

**B. Employee Pension and Other Benefits**

The District provides no pension, deferred compensation or other post-employment benefits to employees of the District.



**RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT**  
**DISTRICT NO. 2, GRADY COUNTY, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
October 31, 2011

**Note 4 – Other Notes (continued)**

**C. Commitments and Contingencies**

The District is not involved with any legal proceedings, which normally occur in the course of governmental operations at this time. Therefore, the financial statements do not include accruals or provisions for loss contingencies. While legal proceedings cannot be foreseen, the District feels that any settlement or judgment not covered by insurance would not have a material effect on the financial condition of the District.

The District has received a Consent Order dated July 25, 2008 from the Oklahoma Department of Environmental Quality, Environmental Complaints and Local Services Division. The Consent Order was issued to resolve certain environmental compliance issues regarding the District's operation of the total retention lagoon facility. The Consent Order was amended on May 19, 2009. Noncompliance with the code and associated rules of the consent order can result in a penalty of up to \$5,000. Pursuant to the original Consent Order, the District agreed to pay the \$5,000 penalty. The Department of Environmental Quality (DEQ) agreed to waive \$1,250 of the penalty for each task timely completed. As of May 19, 2009, the DEQ has waived a total of \$2,500. Management is working to comply with the consent order.

**D. Use of Estimates**

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 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. Actual results could differ from those estimates.

**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, Sewer and Solid Waste Management  
District No. 2, Grady County  
Amber, Oklahoma 73004

We have audited the accompanying modified cash basis financial statements of the business-type activities and major fund of **Rural Water, Sewer and Solid Waste Management District No. 2**, Grady County, Oklahoma, as of and for the year ended October 31, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 19, 2012. The report was a special report on the District's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The Management Discussion and Analysis is not presented as required by the Governmental Accounting Standards Board. 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.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered Rural Water, Sewer and Solid Waste Management District No. 2, Grady County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, and 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.

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 deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

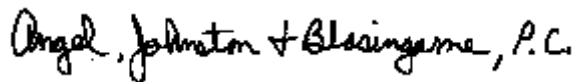
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and recommendations that we consider to be material weaknesses. 11-1. We also identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and recommendations that we consider to be significant deficiencies in internal control over financial reporting. 11-1 and 11-2. 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.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Rural Water, Sewer and Solid Waste Management District No. 2, Grady County'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 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*.

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and recommendations. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Angel, Johnston & Blasingame, P.C.  
Certified Public Accountants

Chickasha, Oklahoma  
January 19, 2012

**RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT**  
**DISTRICT NO. 2, GRADY COUNTY, OKLAHOMA**  
**Schedule of Findings & Recommendations**  
October 31, 2011

- 11 – 1 Criteria – A good system of internal control provides for a proper segregation of the accounting functions.

Condition – The District has a small number of employees that perform the duties that would normally be divided among a large number of employees.

Effect – This could result in more than a low risk that errors or irregularities may occur and not be detected within a timely period.

Recommendation – It may not be cost effective to hire the additional administrative staff that would be necessary in order to adequately segregate the responsibilities.

Management's Response – Management agrees.

- 11 – 2 Criteria – The check signatories approved during the January 15, 2009 board minutes were changed to require 2 (two) board members signatures.

Condition – The authorized signatories on the bank accounts were changed in the board minutes, however this change never took effect and the original signatories, 1 (one) board member and the office manager, still sign the checks. This does not coincide with what is stated in the board minutes.

Effect – Lack of internal control regarding board approved policies and procedures.

Recommendation – We recommend that the board approve the check signatories to reflect actual signatories.

Management's Response – Management agrees.

**RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT**  
**DISTRICT NO. 2, GRADY COUNTY, OKLAHOMA**  
**Disposition of Prior Year Audit Exceptions**  
October 31, 2011

- 10 – 1 **Finding** - A good system of internal control provides for a proper segregation of the accounting functions. The District has a small number of employees that perform the duties that would normally be divided among a large number of employees.

Recommendation – It may not be cost effective to hire the additional administrative staff that would be necessary in order to adequately segregate the responsibilities.

Disposition – *\*This continues to be a finding.*

- 10 – 2 **Finding** – The check signatories approved during the January 15, 2009 board minutes were changed to require 2 (two) board members signatures. The authorized signatories on the bank accounts were changed in the board minutes, however this change never took effect and the original signatories, 1 (one) board member and the office manager, still sign the checks. This does not coincide with what is stated in the board minutes.

Recommendation – We recommend that the board approve the check signatories to reflect actual signatories.

Disposition – *\*This continues to be a finding.*

- 10 – 3 **Finding** – Daily time sheets should be approved by a supervisor to indicate the timesheets are accurate. Employees that would not be considered exempt employees under the Fair Labor Standard Act should be paid time and one-half or comp time for any hours worked in excess of 40 hours per week. Employees are paid based on a monthly amount approved by the board. Employees keep timesheet, however they are not approved by anyone. We believe the employees would not be considered exempt employees under the Fair Labor Standard Act.

Recommendation – We recommend that the timesheets should contain detailed start and stop times as well as be signed by both the employee and supervisor. Any hours worked in excess of 40 hours per week should be paid at time and one-half.

Disposition – This appears to have been corrected and is no longer a finding.

**RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT**  
**DISTRICT NO. 2, GRADY COUNTY, OKLAHOMA**  
**Disposition of Prior Year Audit Exceptions**  
October 31, 2011

- 10 – 4 Finding – Any adjustment of a customer's bill should be reviewed by the Board. The Board should review an adjustments report at each Board meeting. Currently, adjustments to a client's bill can be made without the Board's knowledge.

Recommendation – An adjustment report reflecting adjustments upward or downward in a customer's bill should be reviewed by the Board on a monthly basis. This would allow the Board to question any changes.

Disposition – This appears to have been corrected and is no longer a finding.