

Independent Auditor's Report

***Rural Water, Sewer and Solid Waste Management -
District No. 2***

Grady County, Oklahoma

Year Ending October 31, 2013

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

Amber, Oklahoma

October 31, 2013

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the **Rural Water, Sewer and Solid Waste Management District No. 2**, Grady County, Oklahoma, as of and for the year ended October 31, 2013, 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 the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for 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 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 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 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.

Opinions

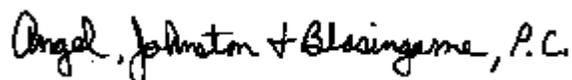
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position-modified cash basis of the Rural Water, Sewer and Solid Waste Management District No. 2, Grady County as of October 31, 2013, and the respective changes in financial position-modified cash basis and cash flows-modified cash basis, thereof for the year then ended in conformity 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 that matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 6, 2014, on our consideration of the District's internal control over financial reporting and on 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 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.



Angel, Johnston & Blasingame, P.C.

January 6, 2014

**RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT NO. 2, GRADY COUNTY, OKLAHOMA
Statement of Net Position
- Modified Cash Basis -
For the Year Ended October 31, 2013**

ASSETS

Current Assets

Cash and cash equivalents	\$ 60,874
Restricted cash and cash equivalents	32,372
Restricted investments	11,500
<i>Total Current Assets</i>	<u>104,746</u>

Non Current Assets

Automobiles	11,828
Building	40,835
Equipment	46,523
Land	131,528
Office Equipment	10,384
Waterlines, Wells, and Sewer Equipment	950,617
Water Tower	166,161
Bond Issue Cost (net of accumulated amortization)	2,126
<i>Total Non Current Assets</i>	<u>1,360,002</u>
Less: Accumulated Depreciation	(543,727)
<i>Total Non Current Assets, net of depreciation</i>	<u>816,275</u>
 <i>Total Assets</i>	 <u><u>921,021</u></u>

LIABILITIES

Current Liabilities

Meter Deposit Liability	12,450
Current Portion Long-Term Debt	16,207
<i>Total Current Liabilities</i>	<u>28,657</u>

Non Current Liabilities

Long-Term Debt	231,595
<i>Total Non Current Liabilities</i>	<u>231,595</u>
 <i>Total Liabilities</i>	 <u><u>260,252</u></u>

NET POSITION

Net Investment in Capital Assets	568,473
Restricted	31,422
Unrestricted	60,874
<i>Total Net Position</i>	<u><u>\$ 660,769</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 Position
- Modified Cash Basis -
For the Year Ended October 31, 2013**

Operating Revenue	
Water, Sewer, Garbage & Late Charges	169,408
Miscellaneous Income	3,574
Tax Refunds	10
<i>Total Operating Revenue</i>	<u>172,992</u>
Operating Expenses	
Auto Fuel & Service	2,787
Bank Charges	113
Dues, Fees and Permits	4,981
Employee Allowances	1,485
Insurance	8,382
Legal - Professional Fees	7,292
Maintenance & Repairs	5,677
Miscellaneous	1,041
Office Supplies	716
Payroll Taxes	7,326
Postage	1,022
Printing Services	127
Returned Checks	240
Salaries	45,560
Utilities	11,279
Utilities - Solid Waste	23,448
Water/Sewer Supplies	5,431
Depreciation Expense	30,099
Amortization Expense	464
<i>Total Operating Expenses</i>	<u>157,470</u>
<i>Operating Income (Loss)</i>	<u>15,522</u>
Non Operating Revenues (Expense)	
Interest Income	237
OWRB Grant Income	39,500
Contributions - Donated Assets	378,913
Interest Expense	(13,865)
<i>Total Non Operating Revenues (Expenses)</i>	<u>404,785</u>
<i>Income (Loss) Before Transfers</i>	420,307
Transfers In (Out)	<u>-</u>
<i>Change in Net Position</i>	420,307
<i>Net Position - Beginning of Year</i>	<u>240,462</u>
<i>Net Position - End of Year</i>	<u>\$ 660,769</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 -
For the Year Ended October 31, 2013**

Cash flows from operating activities	
Receipts from customers	\$ 172,982
Receipts from suppliers	\$ 10
Payments to employees	(47,046)
Payments to suppliers	(79,861)
Other receipts (payments)	(75)
<i>Net cash provided by (used for) operating activities</i>	<u>46,010</u>
 Cash flows from noncapital financing activities	
Transfers to other funds	-
Transfers from other funds	-
<i>Net cash provided by (used for) noncapital financing activities</i>	<u>-</u>
 Cash flows from capital and related financing activities	
Grant Proceeds	39,500
Interest Expense	(13,865)
Principal paid on capital debt	(15,595)
Purchase of capital assets	(57,315)
<i>Net cash provided by (used for) capital and related financing activities</i>	<u>(47,275)</u>
 Cash flows from investing activities	
Interest received	237
<i>Net cash provided by (used for) investing activities</i>	<u>237</u>
 <i>Net increase (decrease) in cash and cash equivalents</i>	
	(1,028)
<i>Cash and cash equivalents at beginning of year</i>	105,774
<i>Cash and cash equivalents at end of year</i>	<u>\$ 104,746</u>
 Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income (loss)	15,522
Adjustment to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	30,563
Change in refundable deposits	(75)
<i>Net cash provided by (used for) operating activities</i>	<u>\$ 46,010</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, 2013**

Note 1 – Summary of Significant Accounting Policies

As discussed further in Note 1.C., these financial statements are presented on the modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this note.

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.

B. Basis of Presentation

The District's fund is an enterprise fund. Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity only has one general operating fund that comprises the District's enterprise funds.

C. Measurement Focus and Basis of Accounting

Measurement focus refers to how transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recognized and recorded in the financial statements regardless of the measurement focus applied.

The District's financial statements use the economic resources measurement focus and are presented on the modified cash basis of accounting. Revenues are recognized when they are received and expenses are recorded when paid with the following modifications:

- Capital assets are recorded when purchased and related depreciation is recorded.
- Long-term debt is recorded when incurred.

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT NO. 2, GRADY COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
October 31, 2013

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

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

This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

If the District utilized the basis of accounting recognized as generally accepted, the financial statements would use the accrual basis of accounting. 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 & Cash Equivalents - For the purposes of the statement of cash flows, the District considers all cash on hand, demand deposits, interest bearing checking accounts and time deposit accounts including certificates of deposit with an original maturity of three months or less to be cash and cash equivalents.

Investments – Investments consist of certificates of deposit maturing beyond three months. Investments are stated at cost, which approximates market value.

Restricted Assets – Restricted assets include assets that are legally restricted as to their use. The primary restricted assets are related to utility customer deposits and debt restrictions and covenants.

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.

Capital Assets – Capital assets acquired are capitalized and stated at historical cost or estimated historical cost, if actual historical cost is not available.

Donated capital assets, if any, are recorded at their fair market values as of the date received. Interest incurred, if any, during the construction phase of capital assets is reflected in the capitalization value of the asset constructed.

A capitalization threshold of \$1,500 is used to report capital assets.

Available detailed capital 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 capital assets which are still in service.

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT NO. 2, GRADY COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
October 31, 2013

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

D. Assets, Liabilities and Equity, (continued)

Depreciation of exhaustible capital assets is recorded as an expense over the estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is generally as follows:

Water and Sewer Systems and Improvements	40	Years
Buildings and Improvements	10-30	Years
Equipment and Vehicles	5-10	Years

Accumulated depreciation is reported on the statement of net position, although no detail records exist to support these amounts.

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.

Current Liabilities – Current liabilities of the District included refundable security deposits and the current portion of long-term debt. Refundable security deposits represent the funds received from customers for their utility deposits. These deposits are refunded or credited to the customer account upon termination of the utility service and payment of all charges due and connected with the service.

Non Current Liabilities - Long-Term debt to be repaid from District resources are reported as non current liabilities in the statement of net position. The long-term debt is presently comprised of three notes. See Note 3-C.

Net Position - Net position is divided into three components:

- a. *Net Investment in Capital Assets* – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributed to the acquisition, construction, or improvements of those assets.
- b. *Restricted net position* – Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c. *Unrestricted net position* – All other net assets that do not meet the definition of “restricted” or “net investment in capital assets.”

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT NO. 2, GRADY COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
October 31, 2013

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

D. Assets, Liabilities and Equity, (continued)

It is the District's policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

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. Revenues and Expenses

Operating and Non-operating Revenues – Operating revenues are considered those whose cash flows are related to operating activities, while revenues related to financing, capital and investing activities are reported as non-operating.

Expenditures/Expenses – The District reports expenses relating to the use of economic resources.

Note 2 – Stewardship, Compliance and Accountability

A. Deposits, Investments, and Collateral

Deposits and Investments – The District's investment policy is governed by the board of trustees and any restrictions in the trust indenture. Investments are usually in bank Certificates of Deposit.

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a written deposit policy for custodial credit risk, but *Oklahoma Statutes* requires collateral for all uninsured deposits of public trust funds in financial institutions. As of October 31, 2013 the District's bank balances of \$92,991 were under the \$250,000 FDIC insurance level and were not exposed to custodial credit risk.

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, 2013

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 on Transaction Classes/Accounts

A. Restricted Assets

The amounts reported as restricted assets of the District on the statement of net position 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, 2013 were as follows:

**RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT NO. 2, GRADY COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
October 31, 2013**

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

A. Restricted Assets, (continued)

Restricted cash and cash equivalents

Customers Utility Deposits	\$12,450
Rural Development Reserve	8,184
CRG Reserve	3,880
Principal & Interest Account	<u>7,858</u>
<i>Total Restricted cash and cash equivalents</i>	\$32,372

Restricted investments

Reserve Account for Utility System Revenue Bonds, Series 1997	<u>\$11,500</u>
<i>Total Restricted investments</i>	\$11,500

B. Capital Assets

Capital asset activity for the fiscal year ended October 31, 2013 was as follows:

	Balance 10/31/12	Additions	Disposals	Balance 10/31/13
Non-depreciable assets:				
Construction in Progress	3,016		3,016	-
Land	<u>131,528</u>	-	-	<u>131,528</u>
Total non-depreciable assets	<u>134,544</u>	-	<u>3,016</u>	<u>131,528</u>
Depreciable assets:				
Automobiles	11,828	-	-	11,828
Buildings	30,565	10,270	-	40,835
Equipment	46,523	-	-	46,523
Office Equipment	10,384	-	-	10,384
Sewer Plant	294,273	428,973	-	723,246
Water Plant	214,901	-	-	214,901
Water Sewer Project	12,469	-	-	12,469
Water Tower Construction	<u>166,162</u>	-	-	<u>166,162</u>
Total depreciable assets	<u>787,105</u>	<u>439,243</u>	-	<u>1,226,348</u>
Less accumulated depreciation:	<u>513,628</u>	<u>30,099</u>	-	<u>543,727</u>
Net depreciable assets	<u>273,477</u>	<u>409,144</u>	-	<u>682,621</u>
Net Capital Assets	<u>\$ 408,021</u>	<u>\$ 409,144</u>	<u>\$ 3,016</u>	<u>\$ 814,149</u>

Depreciation expense for the year was \$30,099.47 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, 2013**

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

C. Liabilities

Meter Deposits – The District collects deposits from customers which are to be refunded or credited to customers when they discontinue using the District’s services and their account is current. Meter deposit liability at October 31, 2013 was \$12,450.

D. 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 1st and December 1st, including principal and interest at a variable interest rate, final payment due December 1, 2017. As of 10-31-13, the balance on the note is \$45,000.

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 10-31-13, the \$145,000 note has a remaining balance of \$125,362.88.

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 10-31-13, the \$100,000 note has a remaining balance of \$77,438.86.

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 October 31</u>	<u>Loan Payments</u>	<u>Principal Payments</u>	<u>Interest Payments</u>
2014	7,699	5,000	2,699
2015	12,223	10,000	2,223
2016	11,588	10,000	1,588
2017	10,953	10,000	953
2018	<u>10,318</u>	<u>10,000</u>	<u>318</u>
Totals	<u>52,781</u>	<u>45,000</u>	<u>7,781</u>

**RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT NO. 2, GRADY COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
October 31, 2013**

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

D. 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>
2014	8,184	2,277	5,907
2015	8,184	2,387	5,797
2016	8,184	2,503	5,681
2017	8,184	2,625	5,559
2018-2022	40,920	15,163	25,757
2023-2027	40,920	19,218	21,702
2028-2032	40,920	24,359	16,561
2033-2037	40,920	30,875	10,045
2037-2041	<u>28,232</u>	<u>25,956</u>	<u>2,276</u>
Totals	<u>224,648</u>	<u>125,363</u>	<u>99,285</u>

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>
2013	13,260	8,420	4,840
2014	13,260	8,930	4,330
2015	13,260	9,471	3,789
2016	13,260	10,046	3,214
2017	13,260	10,655	2,605
2017-2021	<u>42,136</u>	<u>38,337</u>	<u>3,799</u>
Totals	<u>95,176</u>	<u>77,439</u>	<u>17,737</u>

E. Fund Equity

Net Position - Net Position restricted at October 31, 2013 relate to promissory note reserve accounts. Balances at October 31, 2013 are as follows:

Principal & Interest Account	7,858
Rural Development Reserve Account	8,184
CRG Reserve Account	3,880
Utility System Revenue Bonds, Series 1997 (CD)	<u>11,500</u>
<i>Total Restricted Net Position</i>	<u>\$ 31,422</u>

**RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT NO. 2, GRADY COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
October 31, 2013**

Note 4 – Other Notes

A. Risk Management

The District is exposed to various risks of loss (torts, theft of, damage to, or destruction of assets, business interruptions, errors and omissions, job-related illnesses or injuries to employees, and acts of God) and has established a risk management strategy that attempts to minimize losses and the carrying cost of insurance. There have been no significant reductions in insurance coverage from the prior year and settlements have not exceeded coverage in the past three years.

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	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, vehicle and natural disasters	Participation in ORWAAG risk entity pool	\$0 to \$1,000 deductible per property

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.

Compensated vacation and sick leave absences are recorded as expenditures when they are paid. Up to one week of unused sick and/or vacation as of December is paid to the employee the following January at the employees normal rate and thus does not vest or accumulate.

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.

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT NO. 2, GRADY COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
October 31, 2013

Note 4 – Other Notes (continued)

C. Commitments and Contingencies, (continued)

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. Related Party Transactions/Nepotism

A District board member is also the spouse of a District employee. Per management, the District's attorney stated that because the board member was elected (not appointed) after the employee was already in place, this is not considered a nepotism issue.

E. Grants

The District received an OWRB REAP Grant from the State of Oklahoma Water Resources Board in the amount of \$39,500 to assist with the construction of a new secondary lagoon, a new lift station, pump replacement at the existing lift station and related appurtenances. As of October 31, 2013, the entire funding amount of \$39,500 had been fully expended.

F. 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 and Compliance

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying modified cash basis financial statements of the Rural Water, Sewer and Solid Waste Management District No. 2, Grady County, Oklahoma, as of and for the year ended October 31, 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, January 6, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Rural Water, Sewer and Solid Waste Management District No. 2, Grady County's control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of the 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 responses, we identified certain deficiencies in internal control 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 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. 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. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. 13-01

Compliance and Other Matters

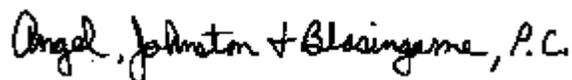
As part of obtaining reasonable assurance about whether Rural Water, Sewer and Solid Waste Management District No. 2, Grady County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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*.

Rural Water, Sewer and Solid Waste Management District No. 2, Grady County's Response to Findings

Rural Water, Sewer and Solid Waste Management District No. 2, Grady County's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The District'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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with the *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Angel, Johnston & Blasingame, P.C.
January 6, 2014

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT NO. 2, GRADY COUNTY, OKLAHOMA
Schedule of Findings & Responses
October 31, 2013

13-01 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.

**RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT NO. 2, GRADY COUNTY, OKLAHOMA
Summary of Prior Year Audit Findings
October 31, 2013**

12-01 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.*

**RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT NO. 2, GRADY COUNTY, OKLAHOMA
Schedule of Awards
October 31, 2013**

<u>Grantor/Program Title</u>	<u>State Project #</u>	<u>Award Amount</u>	<u>Award Beg. Balance</u>	<u>Current Year Awards Expended</u>
State Awards:				
State of Oklahoma Water Resources Board - OWRB REAP - Lagoon/Lift Station Construction	FAP-11--0010-R	\$ 39,500	\$ 39,500	\$ 39,500
TOTAL AWARDS:		<u>\$ 39,500</u>	<u>\$ 39,500</u>	<u>\$ 39,500</u>
TOTAL AWARDS ENDING BALANCE:		<u>\$ -</u>		