

Independent Auditor's Report

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

Grady County, Oklahoma

Year Ending October 31, 2015

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

Amber, Oklahoma

October 31, 2015

Table of Contents

	Page
Independent Auditor's Report	A – 1

BASIC FINANCIAL STATEMENTS

Statement of Net Position – Modified Cash Basis	B – 1
Statement of Revenues, Expenses, and Changes in Net Position – Modified Cash Basis	B – 2
Statement of Cash Flows – Modified Cash Basis	B – 3
Notes to Financial Statements	C – 1

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 <i>Government Auditing Standards</i>	D – 1
Schedule of Findings and Responses	E – 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

Board Members:

We have audited the accompanying modified cash basis financial statements of the business-type activities of the **Rural Water, Sewer, Gas and Solid Waste Management District No. 2**, Grady County, Oklahoma, as of and for the year ended October 31, 2015, 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 opinions.

Opinions

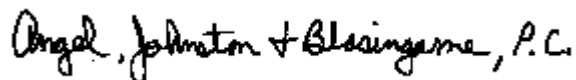
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the business-type activities of the District as of October 31, 2015, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which 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 opinions are not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2017 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.
Chickasha, Oklahoma
January 18, 2017

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT NO. 2, GRADY COUNTY, OKLAHOMA
Statement of Net Position
- Modified Cash Basis -
October 31, 2015

ASSETS

Current Assets

Cash and cash equivalents	\$ 47,949
Restricted cash and cash equivalents	38,383
Restricted investments	11,488
<i>Total Current Assets</i>	<u>97,820</u>

Non Current Assets

Automobiles	11,828
Building	48,624
Equipment	47,544
Land	131,528
Office Equipment	12,319
Waterlines, Wells, and Sewer Equipment	950,617
Water Tower	166,161
Bond Issue Cost (net of accumulated amortization)	1,198
<i>Total Non Current Assets</i>	<u>1,369,819</u>
Less: Accumulated Depreciation	<u>(582,415)</u>
<i>Total Non Current Assets, net of depreciation</i>	<u>787,403</u>
 <i>Total Assets</i>	 <u><u>885,224</u></u>

LIABILITIES

Current Liabilities

Meter Deposit Liability	11,725
Current Portion Long-Term Debt	36,849
<i>Total Current Liabilities</i>	<u>48,574</u>

Long-Term Liabilities

Long-Term Debt	198,878
<i>Total Long-Term Liabilities</i>	<u>198,878</u>
 <i>Total Liabilities</i>	 <u><u>247,451</u></u>

NET POSITION

Net Investment in Capital Assets	
Restricted	38,147
Unrestricted	599,625
 <i>Total Net Position</i>	 <u><u>\$ 637,772</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, 2015

Operating Revenues

Water, Sewer, Garbage & Late Charges	166,733
Miscellaneous Income	7,168
Tax Refunds	-
<i>Total Operating Revenues</i>	<u>173,901</u>

Operating Expenses

Auto Fuel & Service	3,081
Bank Charges	401
Deposit Refund	5,260
Dues, Fees and Permits	10,585
Employee Allowances	952
Insurance	7,052
Legal - Professional Fees	4,641
Maintenance & Repairs	52,851
Miscellaneous	1,527
Office Supplies	4,039
Payroll Taxes	7,431
Postage	805
Printing Services	876
Salaries	40,838
Utilities	38,179
Utilities - Solid Waste	-
Water/Sewer Supplies	526
Depreciation Expense	33,310
Amortization Expense	464
<i>Total Operating Expenses</i>	<u>212,818</u>

<i>Operating Income (Loss)</i>	<u>(38,917)</u>
--------------------------------	-----------------

Non Operating Revenues (Expenses)

Interest Income	184
OWRB Grant Income	32,000
Sale of Truck	5,625
Interest Expense	(11,986)
<i>Total Non Operating Revenues (Expenses)</i>	<u>25,823</u>

<i>Income (Loss) Before Transfers</i>	(13,094)
<i>Transfers In (Out)</i>	<u>-</u>

<i>Change in Net Position</i>	(13,094)
-------------------------------	----------

<i>Net Position - Beginning of Year</i>	<u>650,866</u>
---	----------------

<i>Net Position - End of Year</i>	<u><u>\$ 637,772</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 Cash Flows
- Modified Cash Basis -
For the Year Ended October 31, 2015

Cash flows from operating activities	
Receipts from customers	\$ 173,901
Receipts from suppliers	
Payments to employees	(41,790)
Payments to suppliers	(137,254)
Other receipts (payments)	(500)
<i>Net cash provided by (used for) operating activities</i>	<u>(5,643)</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	32,000
Sale of capital assets	5,625
Interest Expense	(11,986)
Principal paid on capital debt	(23,604)
Loan Proceeds	27,737
Purchase of capital assets	(32,795)
<i>Net cash provided by (used for) capital and related financing activities</i>	<u>(3,022)</u>
Cash flows from investing activities	
Interest received	184
<i>Net cash provided by (used for) investing activities</i>	<u>184</u>
 <i>Net increase (decrease) in cash and cash equivalents</i>	 (8,481)
<i>Cash and cash equivalents at beginning of year</i>	<u>106,301</u>
<i>Cash and cash equivalents at end of year</i>	<u><u>\$ 97,820</u></u>
 Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income (loss)	\$ (38,917)
Adjustment to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	33,774
Change in refundable deposits	(500)
<i>Net cash provided by (used for) operating activities</i>	<u><u>\$ (5,643)</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, 2015

Note 1 – Summary of Significant Accounting Policies

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.

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.

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.

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT NO. 2, GRADY COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
October 31, 2015

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

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.

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.

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.

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

October 31, 2015

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

D. Assets, Liabilities and Equity, (continued)

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.

Meter Deposit Liability – 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.

Long-Term Liabilities - 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.”

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.

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.

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

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT NO. 2, GRADY COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
October 31, 2015

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

F. Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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, 2015 the District’s bank balances of \$88,190 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.

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

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT NO. 2, GRADY COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
October 31, 2015

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

B. Debt Restrictions and Covenants, (continued)

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 \$11,488. 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, 2015 were as follows:

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT NO. 2, GRADY COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
October 31, 2015

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

A. Restricted Assets, (continued)

Restricted cash and cash equivalents

Customers Utility Deposits	\$11,725
Rural Development Reserve	8,184
CRG Reserve	6,549
Principal & Interest Account	<u>11,925</u>
<i>Total Restricted cash and cash equivalents</i>	\$38,383

Restricted investments

Reserve Account for Utility System Revenue Bonds, Series 1997	<u>\$11,488</u>
<i>Total Restricted investments</i>	\$11,488

B. Capital Assets

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

	Balance 10/31/14	Additions	Disposals	Balance 10/31/15
Non-depreciable assets:				
Construction in Progress	0			-
Land	<u>131,528</u>	-	-	<u>131,528</u>
Total non-depreciable assets	<u>131,528</u>	-		<u>131,528</u>
Depreciable assets:				
Automobiles	11,828	-	-	11,828
Buildings	43,566	5,058	-	48,624
Equipment	46,523	27,737	26,716	47,544
Office Equipment	12,319	-	-	12,319
Sewer Plant	723,246	-	-	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>1,231,014</u>		-	<u>1,237,093</u>
Less accumulated depreciation:	<u>575,820</u>	<u>33,310</u>	<u>26,716</u>	<u>582,414</u>
Net depreciable assets	<u>655,194</u>		-	<u>645,679</u>
Net Capital Assets	<u>\$ 786,722</u>	<u>\$</u>	<u>\$</u>	<u>\$ 786,207</u>

Depreciation expense for the year was \$33,310 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, 2015

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, 2015 was \$11,725.

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 10-31-15, the balance on the note is \$30,000.

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 10-31-15, the \$145,000 note has a remaining balance of \$120,736.

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 10-31-15, the \$100,000 note has a remaining balance of \$59,037.

Note payable to Kubota Credit in monthly installments of \$480.73 per month beginning July 19, 2015. The note carries a 1.55% interest rate and has a final maturity date of June 19, 2020. The note is secured by all presently existing and hereafter revenues. As of 10-31-15, the \$27,737 note has a remaining balance of \$25,954.

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>
2016	11,588	10,000	1,588
2017	10,953	10,000	953
2018	10,318	10,000	318
Totals	<u>32,859</u>	<u>30,000</u>	<u>2,859</u>

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT NO. 2, GRADY COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
October 31, 2015

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>
2016	8,184	2,503	5,797
2017	8,184	2,625	5,681
2018	8,184	2,752	5,559
2019	8,184	2,886	5,432
2020	8,184	3,026	5,158
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	4,829
2041	<u>3,680</u>	<u>3,635</u>	<u>45</u>
Totals	<u>208,280</u>	<u>120,736</u>	<u>87,544</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>
2016	13,260	10,046	3,214
2017	13,260	10,655	2,605
2018	13,260	11,300	1,960
2019	13,260	11,986	1,274
2020	13,260	12,712	548
2021	<u>2,356</u>	<u>2,339</u>	<u>18</u>
Totals	<u>68,656</u>	<u>59,037</u>	<u>9,619</u>

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT NO. 2, GRADY COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
October 31, 2015

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

The annual debt service requirements to maturity, including principal and interest, for the Kubota 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>
2016	5,769	5,405	3,214
2017	5,769	5,489	2,605
2018	5,769	5,575	1,960
2019	5,769	5,661	1,274
2020	3,846	3,824	548
Totals	<u>26,921</u>	<u>25,953</u>	<u>968</u>

E. Fund Equity

Net Position - Net Position restricted at October 31, 2015 relate to promissory note reserve accounts. Balances at October 31, 2015 are as follows:

Principal & Interest Account	11,925
Rural Development Reserve Account	8,184
CRG Reserve Account	6,549
Utility System Revenue Bonds, Series 1997 (CD)	<u>11,488</u>
<i>Total Restricted Net Position</i>	<u><u>\$ 38,146</u></u>

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.

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT NO. 2, GRADY COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
October 31, 2015

Note 4 – Other Notes (continued)

A. Risk Management (continued)

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.

D. Subsequent Events

Management has evaluated subsequent events through the date of the audit report, which is the date the financial statements were available to be issued and has determined that no additional information needs to be added to the financial statements.

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**

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

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 financial statements of the business-type activities of the Rural Water, Sewer and Solid Waste Management District No. 2, Grady County, as of and for the year ended October 31, 2015, 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 18, 2017. Our report on the financial statements disclosed, that, as described in Note 1 to the financial statements, the District prepares its financial statements on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

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

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 weakness 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 and significant deficiencies.

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 Authority's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness. 15-01.

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 significant deficiencies. 15-02, 15-03.

Compliance and Other Matters

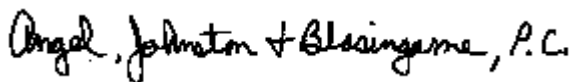
As part of obtaining reasonable assurance about whether Rural Water, Sewer and Solid Waste Management District No. 2, Grady County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 District No. 2'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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



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

Chickasha, Oklahoma
January 18, 2017

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT NO. 2, GRADY COUNTY, OKLAHOMA
Schedule of Findings & Responses
October 31, 2015

15-01 *Condition* – Presently the same individual performs most accounting functions; receives cash, writes checks, reconciles the monthly bank statements and prepares financial summaries. The segregation of duties and responsibilities between different individuals for custody of assets, record keeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

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

Cause – The entity's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

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

Recommendation – While it may not be cost effective to hire the additional administrative staff that would be necessary in order to adequately segregate the responsibilities, the Board should consider a formal evaluation of their risks associated with this lack of segregation of duties. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with lack of segregation of duties. This is a reoccurring finding.

Management response – Management agrees.

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT NO. 2, GRADY COUNTY, OKLAHOMA
Schedule of Findings & Responses
October 31, 2015

- 15-02 *Condition* – District employees are not maintaining time sheets for the number of hours worked.

Criteria – The fair labor standards act require time sheets to be maintained for all employees for the number of hours worked.

Cause – The District has not required time sheets to be kept by its employees.

Effect or Potential Effect – Employees may not be working the required amount of hours. Also, employees may be entitled to overtime pay, but since no time records are kept, it is not possible to determine.

Recommendation – Time sheets must be maintained and approved by a supervisor on all District employees. The time sheets should be signed by both the supervisor and the employee documenting hours worked.

Management response – Management agrees.

- 15-03 *Condition* – During our audit it was noted the District's Office Manager was not reconciling the bank accounts on a monthly basis.

Criteria – Bank statements need to be reconciled on a monthly basis.

Cause – The District's Office Manager was not reconciling the bank statements on a monthly basis. Lack of reconciliation could lead to a greater risk of misappropriation of assets.

Effect or Potential Effect – Without current financial information, the District will not have adequate information for decision making.

Recommendation – Bank statements should be reconciled to the District's accounting records on a monthly basis.

Management response – Management agrees.