

*Independent Auditor's Report*

***Grady County Rural Water District No. 6***

***Amber, Oklahoma***

*June 30, 2014*

**GRADY COUNTY RURAL WATER DISTRICT NO. 6**  
**AMBER, OKLAHOMA**  
June 30, 2014

**Table of Contents**

	<b>Page</b>
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
Summary of Prior Year Audit Findings	F – 1
Schedule of Insurance Coverage	G – 1

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Grady County Rural Water District No. 6  
Amber, Oklahoma 73004

Board Members:

We have audited the accompanying modified cash basis financial statements of the Grady County Rural Water District Number 6, Amber, Oklahoma, as of and for the year ended June 30, 2014, 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 Authority'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 Authority'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**

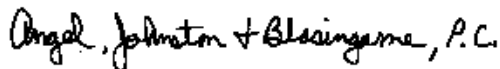
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position-modified cash basis of the Grady County Rural Water District No. 6, as of June 30, 2014, and the respective changes in financial position-modified cash basis and cash 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, December 1, 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 Authority's internal control over financial reporting and compliance.



Angel, Johnston & Blasingame, P.C.  
Chickasha, Oklahoma  
December 1, 2014

**GRADY COUNTY RURAL WATER DISTRICT NO. 6**  
**AMBER, OKLAHOMA**  
**Statement of Net Position**  
**- Modified Cash Basis -**  
**For the Year Ended June 30, 2014**

**ASSETS**

**Current Assets**

Cash and cash equivalents	\$ 974,396
Restricted cash and cash equivalents	526,195
Investments	80,627
<i>Total Current Assets</i>	<u>1,581,218</u>

**Non Current Assets**

Land	388,633
Construction in Process	18,758
Buildings	73,923
Furniture & Fixtures	25,778
Machinery & Equipment	102,850
Vehicles	106,253
Water System	14,906,382
<i>Total Non Current Assets</i>	<u>15,622,577</u>
Less: Accumulated Depreciation	<u>(2,781,375)</u>
<i>Total Non Current Assets, net of depreciation</i>	<u>12,841,202</u>
 <i>Total Assets</i>	 <u><u>14,422,420</u></u>

**LIABILITIES**

**Current Liabilities**

Cogar Well Project Membership	52,000
Customer Deposit Liability	65,602
Prepaid Membership	1,442
Current Portion Long-Term Debt	191,845
Payroll Tax Payable	4,793
Payroll Deductions Payable	241
<i>Total Current Liabilities</i>	<u>315,924</u>

**Non Current Liabilities**

Long-Term Debt	12,467,496
<i>Total Non Current Liabilities</i>	<u>12,467,496</u>
 <i>Total Liabilities</i>	 <u><u>12,783,419</u></u>

**NET POSITION**

Net Investment in Capital Assets	181,861
Restricted	526,195
Unrestricted	932,589
 <i>Total Net Position</i>	 <u><u>\$ 1,640,645</u></u>

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

**GRADY COUNTY RURAL WATER DISTRICT NO. 6**  
**AMBER, OKLAHOMA**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**- Modified Cash Basis -**  
**For the Year Ended June 30, 2014**

**Operating Revenue**

Water Revenue	1,505,363
Late Payment Fees	26,863
Memberships and Meter Installations	131,773
Miscellaneous Fees	8,569
Other Revenue	23,503
Reimbursements	22,861
Water Line Repair/Other	7,500
Construction	7,800
Patronage Dividends	1,216
<i>Total Operating Revenue</i>	<u>1,735,447</u>

**Operating Expenses**

Accounting and Legal	10,036
Backhoe Work	18,510
Contract Labor	19,114
Insurance and Bonds	66,903
Maintenance and Operations	165,926
Miscellaneous	3,033
Office Expense and Postage	12,955
Payroll Taxes	12,415
Professional Fees - Engineering	20,160
Professional Fees - Other	9,586
Lab Fees	6,498
Retirement Expense	9,843
Salaries and Wages	174,733
Truck and Auto	32,120
Utilities and Telephone	56,979
Utilities - Water Purchased	157,539
Depreciation Expense	318,728
<i>Total Operating Expenses</i>	<u>1,095,078</u>

<i>Operating Income (Loss)</i>	<u>640,370</u>
--------------------------------	----------------

**Non Operating Revenues (Expense)**

Interest Income	1,054
Interest Expense	(622,642)
Gain (Loss) on Sale of Assets	432
<i>Total Non Operating Revenues (Expenses)</i>	<u>(621,156)</u>

<i>Income (Loss) Before Transfers</i>	19,214
<i>Transfers In (Out)</i>	<u>-</u>

<i>Change in Net Position</i>	19,214
-------------------------------	--------

<i>Net Position - Beginning of Year</i>	<u>1,621,431</u>
---	------------------

<i>Net Position - End of Year</i>	<u><u>\$ 1,640,645</u></u>
-----------------------------------	----------------------------

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

**GRADY COUNTY RURAL WATER DISTRICT NO. 6**  
**AMBER, OKLAHOMA**  
**Statement of Cash Flows**  
**- Modified Cash Basis -**  
**For the Year Ended June 30, 2014**

**Cash flows from operating activities**

Receipts from customers	\$ 1,687,868
Receipts from suppliers	47,579
Payments to employees	(196,990)
Payments to suppliers	(579,359)
Other receipts (payments)	7,496
<i>Net cash provided by (used for) operating activities</i>	<u>966,594</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**

Loan Proceeds	2,383,260
Interest Expense	(622,642)
Principal paid on capital debt	(495,297)
Disposal of capital assets	144,945
Purchase of capital assets	(1,873,619)
<i>Net cash provided by (used for) capital and related financing activities</i>	<u>(463,352)</u>

**Cash flows from investing activities**

Gain on sale of assets	432
Increase in investments	(80,628)
Interest received	1,054
<i>Net cash provided by (used for) investing activities</i>	<u>(79,142)</u>

<i>Net increase (decrease) in cash and cash equivalents</i>	424,099
<i>Cash and cash equivalents at beginning of year</i>	1,076,491
<i>Cash and cash equivalents at end of year</i>	<u><u>\$ 1,500,590</u></u>

**Reconciliation of operating income (loss) to net cash provided (used) by operating activities**

Operating income (loss)	640,369
Adjustment to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	318,728
Change in payroll taxes payable	1,829
Change in customer deposits - Meter	8,900
Change in due from	(2,950)
Change in prepaid memberships	(282)
<i>Net cash provided by (used for) operating activities</i>	<u><u>\$ 966,594</u></u>

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

**GRADY COUNTY RURAL WATER DISTRICT NO. 6**  
**AMBER, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014

**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**

Grady County Rural Water District No. 6, (the “District”), was incorporated under the laws of the State of Oklahoma in accordance with O.S. 82, as a subdivision of the State of Oklahoma. The District operates and maintains a water treatment and distribution system within Grady County, Oklahoma, and provides potable water services to members of the District. The governing board consists of five trustees with one acting as the Chairman. The District retains title to all assets which are acquired or constructed with District debt or other District generated resources.

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 has three accounts within the District’s enterprise fund:

Gross Revenue – Collects the revenue generated by the water service provided by the District. Transfers funds as required to the Maintenance and Operations fund and the Reserve Fund.

Maintenance and Operations – Maintained to pay the operating expenses of the District.

Reserve Fund – Required by loan agreement to be maintained to guarantee uninterrupted payments of outstanding loans.



**GRADY COUNTY RURAL WATER DISTRICT NO. 6**  
**AMBER, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014

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

**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.
- Payroll taxes due are recorded as liabilities.

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.

**GRADY COUNTY RURAL WATER DISTRICT NO. 6**  
**AMBER, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014

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

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

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 \$2,000 is used to report capital assets.

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:

Buildings	25 – 30 Years
Water and Sewer System	30 – 40 Years
Machinery and Equipment	3 – 10 Years
Furniture and Fixtures	3 – 10 Years
Vehicles	5 Years

Accumulated depreciation is reported on the statement of net position.

Current Liabilities – Current liabilities of the District included refundable meter deposits, prepaid memberships and the current portion of long-term debt. Refundable 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 seven (7) USDA notes. See Note 3-D.

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.

**GRADY COUNTY RURAL WATER DISTRICT NO. 6**  
**AMBER, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014

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

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

- 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.

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 June 30, 2014 the District’s bank balances of \$1,584,363 were adequately collateralized and were not exposed to custodial credit risk.

**GRADY COUNTY RURAL WATER DISTRICT NO. 6**  
**AMBER, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014

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

**B. Debt Restrictions and Covenants**

The note indenture relating to the seven (7) USDA Rural Development notes of the District contains a loan resolution that requires that certain sums be set aside each month in a Reserve Account. The balance in the reserve account at June 30, 2014 was \$87,344 for USDA notes 91-07, 91-08, 91-10 and 91-11. The total reserve amount required for these notes was \$70,344. Reserves for USDA loans 91-12 and 91-13 were not established as required. There is a debt reserve to be funded at \$4,915.30 per month until one annual installment is accumulated. There is also a depreciation reserve to be established and funded at \$4,211.08 per month for short lived assets. This reserve was also not established or funded.

**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), Cogar Well Service Membership Deposits and amounts relating to debt restrictions as listed in Note 2.B. The restricted assets as of June 30, 2014 were as follows:

<u>Restricted cash and cash equivalents</u>	
USDA Reserve	\$ 70,344
Construction Account	<u>455,851</u>
<i>Total Restricted cash and cash equivalents</i>	<i>\$526,195</i>

Cogar Well Membership Deposit

The District has started efforts to construct their own well located in Cogar, Oklahoma. The District has begun taking deposits from customers whom wish to acquire service from the District's Cogar well once the project is completed. Potential members are required to sign a membership agreement and pay the regular District membership fee of \$2,000 (\$1,500 prior to January 2011). A separate Construction bank account was set up to hold these funds until the project is completed with anticipation that the funds will be refunded to the customers if the project fails completion. Some of the funds have been used to pay for initial legal and professional fees associated with the project. The total Cogar Well Membership Deposit Liability as of June 30, 2014 is \$52,000. Of this amount, \$5,016 remains in the Construction bank account as restricted funds.

**GRADY COUNTY RURAL WATER DISTRICT NO. 6**  
**AMBER, OKLAHOMA**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014

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

**B. Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2014 was as follows:

	Balance 6/30/13	Additions	Disposals	Balance 6/30/14
Non-depreciable assets:				
Construction in Progress	10,006,347	1,554,118	11,541,707	18,758
Land	<u>222,221</u>	<u>166,412</u>	<u>0</u>	<u>388,633</u>
Total non-depreciable assets	<u>10,228,568</u>	<u>1,720,530</u>	<u>11,541,707</u>	<u>407,391</u>
Depreciable assets:				
Buildings	73,923	0	0	73,923
Furniture and Fixtures	25,778	0	0	25,778
Machinery and Equipment	102,850	0	0	102,850
Vehicles	99,753	6,500	0	106,253
Water System	<u>3,364,675</u>	<u>11,541,707</u>	<u>0</u>	<u>14,906,382</u>
Total depreciable assets	<u>3,666,979</u>	<u>11,548,207</u>	<u>0</u>	<u>15,215,186</u>
Less accumulated depreciation:	<u>2,462,647</u>	<u>318,728</u>	<u>0</u>	<u>2,781,375</u>
Net depreciable assets	<u>1,204,332</u>	<u>11,229,479</u>	<u>0</u>	<u>12,433,811</u>
Net Capital Assets	<u>\$11,432,900</u>	<u>\$12,950,009</u>	<u>\$11,541,707</u>	<u>\$12,841,202</u>

Depreciation expense for the year was \$318,728 and all was charged to the enterprise fund.

**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 June 30, 2014 was \$65,602.

**D. Long Term Debt**

The District has entered into seven notes payable with Rural Economic and Community Development/USDA (formerly FmHA). Activity for the year is included in the following table for the RECD/USDA notes payable.

**GRADY COUNTY RURAL WATER DISTRICT NO. 6**  
**AMBER, OKLAHOMA**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014

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

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

<b>Loan Number</b>	<b>Balance 6/30/2013</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance 6/30/2014</b>	<b>Interest Expense</b>	<b>Interest %</b>	<b>Year of Maturity</b>
<b>91-03</b>	13,382.44	0.00	13,382.44	0.00	183.51	5.00	2015
<b>91-07</b>	26,168.88	0.00	10,718.50	15,450.38	1,065.50	5.00	2016
<b>91-08</b>	56,317.57	0.00	5,944.48	50,373.09	2,677.57	5.00	2023
<b>91-10</b>	137,573.30	0.00	11,047.54	126,525.76	6,628.46	5.00	2023
<b>91-11</b>	563,498.34	0.00	8,237.77	555,170.57	25,188.23	4.50	2045
<b>91-12</b>	8,000,000.00	0.00	81,448.43	7,918,551.57	435,886.09	3.50	2052
<b>91-13</b>	1,974,436.46	2,088,260.48	69,427.43	3,993,269.51	139,313.16	3.50	2052
<b>Totals</b>	<u>10,771,376.99</u>	<u>2,088,260.48</u>	<u>200,296.59</u>	<u>12,659,340.88</u>	<u>610,942.52</u>		

Annual Debt Service Requirements

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

<b>Year Ended June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2015	162,328	440,489	602,817
2016	168,101	434,716	602,817
2017	174,080	428,737	602,817
2018	180,272	422,545	602,817
2019	186,683	416,134	602,817
2020-2024	1,037,866	1,972,221	3,010,087
2025-2029	1,236,038	1,778,049	3,014,087
2030-2034	1,472,051	1,542,036	3,014,087
2035-2039	1,753,129	1,260,958	3,014,087
2040-2044	2,087,876	926,211	3,014,087
2045-2049	2,486,541	527,546	3,014,087
2050-2053	1,714,376	94,076	1,808,452
<b>Total</b>	<b>\$12,659,341</b>	<b>\$10,243,718</b>	<b>\$22,903,059</b>

**GRADY COUNTY RURAL WATER DISTRICT NO. 6**  
**AMBER, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014

**E. Fund Equity**

Net Position - Net Position restricted at June 30, 2014 relate to promissory note reserve accounts. Balances at June 30, 2014 are as follows:

RECD/USDA Reserve	70,344
Construction Account	<u>455,851</u>
<i>Total Restricted Net Position</i>	<i>\$ 526,195</i>

**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. Income Taxes**

The District as a governmental entity is exempt from income taxes under Section 501(C)(12) of the Internal Revenue Code

**GRADY COUNTY RURAL WATER DISTRICT NO. 6**  
**AMBER, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014

**C. Compensated Absences**

The District does not accrue liability for compensated absences. This is not in accordance with generally accepted accounting principles. However, because of the limited number of people employed by the organization, any liability for compensated absences at June 30, 2014 would not be material to the financial statements taken as a whole.

**D. Employee Pension and Other Benefits**

The District participates in The Capital Financial Group American Funds Plan, which is a defined contribution plan. Under this plan, the employer contributes 7% of eligible employees' gross wages. Employees vest after one-year service. The District's retirement fund contributions during the fiscal year 13-14 equaled \$8,213.

**E. Commitments and Contingencies**

As of June 30, 2014, 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 loans described in Note 3.D. contain a resolution that requires a debt service reserve account be established and a deposit equal to 10% of the monthly payments be deposited to the account until the District accumulates an annual installment. In addition, a depreciation reserve for short-lived assets must be established.

**F. Current Water Rates (Effective 7/01/2011)**

\$33.00 Base Rate  
\$8.75 per 1,000 gallons

**G. 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.



**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  
Grady County Rural Water District No. 6  
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 accompanying modified cash basis financial statements of the business-type activities of the Grady County Rural Water District No. 6, Amber, Oklahoma, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated, December 1, 2014.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Grady County Rural Water District No. 6'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 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. 14-01, 14-06, 14-07, and 14-08.

#### **Compliance and Other Matters**

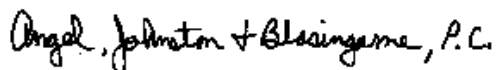
As part of obtaining reasonable assurance about whether Grady County Rural Water District No. 6's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and responses as items 14-02 through 14-05, 14-09 and 14-10.

#### **Grady County Rural Water District No. 6's Response to Findings**

Grady County Rural Water District No. 6'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.  
Certified Public Accountants  
Chickasha, Oklahoma  
December 1, 2014

**GRADY COUNTY RURAL WATER DISTRICT NO. 6**  
**AMBER, OKLAHOMA**  
**Schedule of Findings & Responses**  
June 30, 2014

14-01 Criteria – A good system of internal controls 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.

14-02 Criteria – A policy/procedure manual should be available with information detailing payroll, benefits, retirement contributions, sick/personal leave and vacation.

Condition – During payroll testing, we noted that the District does not have any type of documented policy/procedure manual relating to payroll & benefits with information regarding payroll procedures, retirement contributions, paid sick/personal leave and vacation.

Cause – A personnel policy has not been established by management.

Effect – Without a personnel policy, there is not a direct explanation of rules and/or restrictions for personnel regarding payroll, retirement, leave and vacation time. This provides a risk that the district could be introduced to unexpected liabilities.

Recommendation – The District should establish a personnel policy regarding rules and/or restrictions on payroll, retirement contributions, paid sick/personal leave and vacation.

Management's Response – Management agrees with this recommendation, however they have not had sufficient time to implement this recommendation.

**GRADY COUNTY RURAL WATER DISTRICT NO. 6**

**AMBER, OKLAHOMA**

**Schedule of Findings & Responses**

June 30, 2014

- 14-03 Criteria – The District should have a process in place to track and accumulate sick and personal leave time.

Condition – Through inquiry with management, we noted that paid sick/personal leave accrues from year to year. The District has the information available to arrive at the amount of accrued sick/personal leave; however, they do not have a running total for each employee or a centralized spreadsheet to track on an annual basis. Total time available is only figured upon request by an employee using the leave approval forms that have been submitted and retained on file.

Cause – Leave documentation forms are not periodically summarized on a centralized spreadsheet to provide a total of time remaining at year-end for paid sick/personal leave.

Effect – When paid/personal leave is not summarized from year to year, it could result in a liability in the future. There is also risk that leave documentation could be lost from year to year providing no grounds to research past time available.

Recommendation – We recommend that the District establish a centralized spreadsheet to adequately track sick/personal leave available and used during the year for all employees. Total time remaining should be documented at least yearly for all employees.

Management's Response – Management agrees with this recommendation.

- 14-04 Criteria – Detailed general ledger reports should be prepared and maintained including dates, payee name/source, check number and amounts to support revenues and expenditures reported on the financial statements.

Condition – The general ledger does not provide any detail to support the revenues and expenditures of the District.

Cause – Lack of appropriately designed reporting procedures.

Effect – There is more than a low risk that error or irregularities may occur and not be detected within a timely period.

Recommendation – We recommend that the District ensure that the general ledger is prepared with detailed information including dates, payee name/source, check number and amounts in order to support the revenue and expenditures reported on other financial statements.

Management's Response – Management agrees and is working with their accountant to remedy. Descriptions were being included on the general ledger beginning in January 2014.

**GRADY COUNTY RURAL WATER DISTRICT NO. 6**  
**AMBER, OKLAHOMA**  
**Schedule of Findings & Responses**  
June 30, 2014

14-05 Criteria – Utility accounts receivable should be reconciled on a monthly basis. The reconciled balance in the utility billing system should agree to the general ledger balance.

Condition – Our testing noted that utility accounts receivable are not being reconciled on a monthly basis to ensure all billings, collections and adjustments are properly accounted for within the utility billing accounting system.

Cause – Lack of procedures and controls.

Effect – There was a difference of \$643 between the general ledger balance and the utility billing system balance. Without sufficient reconciliation procedures in place, providing accurate reconciliations, the risk of errors or fraud significantly increases and may not be detected timely.

Recommendation – The District should implement procedures for staff to reconcile beginning and ending accounts receivable on a monthly basis by using monthly billing reports, daily collection records, penalties, deposits applied, and adjustment authorization forms.

Management's Response – Management conducts daily reconciliations, but they are not sure why the monthly reconciliations do not agree.

14-06 Criteria – Good internal controls requires that checks only be prepared and signed when the expenditure is to be made.

Condition – We noted the operations and maintenance account check book contained blank pre-signed checks.

Cause – Management had check signers pre-sign checks so they would not have to travel to the District office every time a check needed written.

Effect – The signing of blank checks could lead to unauthorized expenditures.

Recommendation – Checks should only be completed and signed when the expenditure is ready for payment.

Management's Response – Management agrees.

**GRADY COUNTY RURAL WATER DISTRICT NO. 6**  
**AMBER, OKLAHOMA**  
**Schedule of Findings & Responses**  
June 30, 2014

14-07 Criteria – Certain USDA loans require a debt service reserve and a depreciation reserve to be in compliance with the loan agreement

Condition – During our audit, we noted the required reserve accounts had not been established or funded as required in the loan approval conditions letter. The reserve funding was to begin September 2013.

Cause – Management was not aware of these reserve requirements.

Effect – Not establishing and funding reserve requirements is a violation of the loan approval conditions letter.

Recommendation – Establish and fund the debt service reserve and depreciation reserve accounts to comply with the loan approval conditions letter.

Management's Response – Management agrees.

14-08 Criteria – Financial activity should be recorded in the accounting records.

Condition – During our audit, we noted the sale of capital assets. The money received from the sale and the payment of these proceeds to service debt were not recorded in the financial records.

Cause – Management did not ensure the activity was given to their accountant to subsequently enter into the accounting system.

Effect – By not recording the transactions, revenue was understated by \$150,000, liabilities were overstated \$287,462, and interest expense was understated by \$8,159.

Recommendation – Information on financial activity should be given to the District's accountant to enter into the accounting system.

Management's Response – Management agrees.

**GRADY COUNTY RURAL WATER DISTRICT NO. 6**  
**AMBER, OKLAHOMA**  
**Schedule of Findings & Responses**  
June 30, 2014

14-09 Criteria – Payments to vendors should be supported with an itemized invoice.

Condition – During our audit, we noted expenditures of \$2,700 paid without any supporting invoice for the charge.

Cause – Appears policy was circumvented by management and employees; payment was made from verbal request with no invoice.

Effect – There is an increased risk of future liabilities and there is a more than low risk that irregularities and errors may occur and not be detected.

Recommendation – No payments be made to vendors without a valid invoice.

Management's Response – Management agrees.

14-10 Criteria – The Internal Revenue Service has established Common Law Rules for determining if an individual is an independent contractor or an employee.

Condition – During our audit, we noted an independent contractor received a Christmas bonus and participated in the District's medical insurance plan.

Cause – The District is classifying the individual as an independent contractor, while allowing their participation in the insurance plan and paying them a bonus.

Effect – If the Internal Revenue Service determines the District misclassified the independent contractor, significant liabilities could be assessed to the District.

Recommendation – Review the relationship of the independent contractor, ensuring compliance with Internal Revenue Service rules and regulations.

Management's Response – Management will review.

**GRADY COUNTY RURAL WATER DISTRICT NO. 6**  
**AMBER, OKLAHOMA**  
**Summary of Prior Year Audit Findings**  
June 30, 2014

- 13-01 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.*

- 13-02 Finding – During payroll testing, we noted that the District does not have any type of documented policy/procedure manual relating to payroll & benefits with information regarding payroll procedures, retirement contributions, paid sick/personal leave and vacation.

Recommendation – The District should establish a personnel policy regarding rules and/or restrictions on payroll, retirement contributions, paid sick/personal leave and vacation.

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

- 13-03 Finding – Through inquiry with management, we noted that paid sick/personal leave accrues from year to year, however, it is not being regularly tracked by management. Total time available is only figured upon request by an employee using the leave approval forms that have been submitted and retained on file.

Recommendation – We recommend that the District establish a procedure to adequately track sick/personal leave available and used during the year for all employees. Total time remaining should be documented at least yearly for all employees.

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

- 13-04 Finding - 7 of the 13 board meeting minutes available for the year were not signed for approval by any of the board members.

Recommendation – The board members should sign the board minutes when they are approved at the subsequent meeting to indicate that they are accurate and true.

Disposition - *\*This has been corrected.*



**GRADY COUNTY RURAL WATER DISTRICT NO. 6**  
**AMBER, OKLAHOMA**  
**Summary of Prior Year Audit Findings**  
June 30, 2014

13-05 Finding – The general ledger does not provide any detail to support the revenues and expenditures of the District.

Recommendation – We recommend that the District ensure that the general ledger is prepared with detailed information including dates, payee name/source, check number and amounts in order to support the revenue and expenditures reported on other financial statements.

Disposition - *\*This continues to be a finding, but has improved.*

13-06 Finding – Per the Fair Labor Standards Act, all state or local government employees may receive compensatory time at a rate of not less than one & one half hours for each overtime hour worked instead of cash overtime pay.

Recommendation – We recommend employees that are not exempt, be compensated at one and one half times overtime hours worked. Management should also familiarize themselves with the FLSA standards.

Disposition - *\*This has been corrected.*

13-07 Finding – During expenditure testing, we noted 13 of 20 invoices tested were not signed to indicate receipt of the goods/services by the District prior to payment being made.

Recommendation – We recommend a signature of the purchasing officer be obtained on all invoices to indicate that satisfactory receipt of the goods/services prior to payment being issued.

Disposition - *\*This has been corrected.*

13-08 Finding – Utility accounts receivable are not being reconciled monthly to ensure all billings, collections and adjustments are properly accounted for in the utility billing accounting system.

Recommendation – We recommend procedures be implemented to reconcile beginning and ending accounts receivable on a monthly basis.

Disposition – *This continues to be a finding.*

**GRADY COUNTY RURAL WATER DISTRICT NO. 6**  
**AMBER, OKLAHOMA**  
**Summary of Prior Year Audit Findings**  
June 30, 2014

13-09 Finding – A check written for \$2,065 was not entered into the accounting system. It did not appear on the general ledger or the outstanding check list. The check clear over a year after it had been written.

Recommendation – We recommend the District review bookkeeping requirements with the District's accountant, to ensure there is detail adequate enough so management can review financial activity.

Disposition – *This continues to be a finding, but has improved.*

13-10 Finding – Employee pay rates were not being approved by the Board

Recommendation – We recommend the District approve pay rates and document in the Board minutes.

Disposition – *\*This has been corrected.*

13-11 Finding – The construction account checkbook contained signed blank checks.

Recommendation – We recommend checks only be signed after completed and ready for payment.

Disposition – *\*This continued to be a finding in the Operations and Maintenance checkbook.*

13-12 Finding – Certain employee payments were not run through payroll and appropriate payroll taxes were not paid.

Recommendation – We recommend additional payments to employees be considered payroll and appropriate taxes be withheld.

Disposition – *\*This has been corrected.*

**GRADY COUNTY RURAL WATER DISTRICT NO. 6**  
**Amber, Oklahoma**  
**Schedule of Insurance Coverage**  
**For the Year Ended June 30, 2014**

<u><b>Company</b></u>	<u><b>Coverage</b></u>	<u><b>Amount</b></u>	<u><b>Policy Number</b></u>	<u><b>Expiration Date</b></u>
Oklahoma Rural Water Assurance Group	General Liability	\$1,000,000 (Aggregate)	101-70	6/1/2015
	Building and Personal Property	2,336,343		
	Automobile - Bodily Injury and Property Damage	Limited by Law to 1,000,000		
	Directors and Officers Liability	*****		
	BONDS:			
	Blanket	10,000		
	Employee Dishonsety	708,552 each		
	Crime	10,000		
CompSource Oklahoma	Worker's Compensation	*****	360434	11/1/2014