

*Independent Auditor's Report*

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

***District #6, Grady County***

***Amber, Oklahoma***

*June 30, 2015*

**RURAL WATER, SEWER, AND SOLID WASTE  
MANAGEMENT DISTRICT #6, GRADY COUNTY  
AMBER, OKLAHOMA  
June 30, 2015**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Rural Water, Sewer and Solid Waste  
Management District #6, Grady County  
Amber, Oklahoma

### 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 #6, Grady County, Amber, Oklahoma, as of and for the year ended June 30, 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 opinion.

### **Opinion**

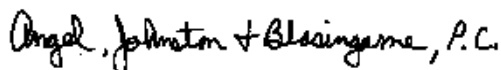
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position-modified cash basis of the business type activities of the Rural Water, Sewer and Solid Waste Management District #6, Grady County as of June 30, 2015, and the respective changes in financial position-modified cash basis and cash flows-modified cash basis, 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 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, March 7, 2016, 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  
March 7, 2016

**Rural Water, Sewer and Solid Waste Management District #6, Grady County**  
**AMBER, OKLAHOMA**  
**Statement of Net Position**  
**- Modified Cash Basis -**  
**June 30, 2015**

**ASSETS**

**Current Assets**

Cash and cash equivalents	\$ 1,167,043
Restricted cash and cash equivalents	798,148
Investments	-
<i>Total Current Assets</i>	<u>1,965,191</u>

**Non Current Assets**

Land	388,633
Construction in Process	478,392
Buildings	73,923
Furniture & Fixtures	30,315
Machinery & Equipment	106,617
Vehicles	106,253
Water System	14,933,819
<i>Total Non Current Assets</i>	<u>16,117,952</u>
Less: Accumulated Depreciation	<u>(3,134,966)</u>
<i>Total Non Current Assets, net of depreciation</i>	<u>12,982,986</u>
 <i>Total Assets</i>	 <u><u>14,948,177</u></u>

**LIABILITIES**

**Current Liabilities**

Cogar Well Project Membership	52,000
Customer Deposit Liability	71,068
Prepaid Membership	1,442
Current Portion Long-Term Debt	189,532
<b>Miscellaneous Payable</b>	220
Payroll Tax Payable	5,496
Payroll Deductions Payable	367
<i>Total Current Liabilities</i>	<u>320,125</u>

**Non Current Liabilities**

Long-Term Debt	12,696,027
<i>Total Non Current Liabilities</i>	<u>12,696,027</u>
 <i>Total Liabilities</i>	 <u><u>13,016,152</u></u>

**NET POSITION**

Net Investment in Capital Assets	97,427
Restricted	727,080
Unrestricted	<u>1,107,518</u>
 <i>Total Net Position</i>	 <u><u>\$ 1,932,025</u></u>

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

**ural Water, Sewer and Solid Waste Management District #6, Grady County**  
**AMBER, OKLAHOMA**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**- Modified Cash Basis -**  
**For the Year Ended June 30, 2015**

**Operating Revenue**

Water Revenue	1,539,252
Late Payment Fees	32,298
Memberships and Meter Installations	68,901
Miscellaneous Fees	13,737
Other Revenue	10,796
Reimbursements	36,734
Water Line Repair/Other	13,003
Construction	3,700
Patronage Dividends	1,332
<i>Total Operating Revenue</i>	<u>1,719,753</u>

**Operating Expenses**

Accounting and Legal	22,128
Backhoe Work	9,250
Contract Labor	23,241
Insurance and Bonds	50,992
Maintenance and Operations	108,303
Miscellaneous	7,047
Office Expense and Postage	16,982
Payroll Taxes	18,464
Professional Fees - Engineering	14,260
Professional Fees - Other	1,670
Lab Fees	8,798
Retirement Expense	9,387
Salaries and Wages	226,359
Truck and Auto	33,263
Utilities and Telephone	55,662
Utilities - Water Purchased	14,419
Depreciation Expense	357,741
<i>Total Operating Expenses</i>	<u>977,966</u>

<i>Operating Income (Loss)</i>	<u>741,787</u>
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**Non Operating Revenues (Expense)**

Interest Income	1,570
Interest Expense	(451,977)
Gain (Loss) on Sale of Assets	
<i>Total Non Operating Revenues (Expenses)</i>	<u>(450,407)</u>

<i>Income (Loss) Before Transfers</i>	291,380
Transfers In (Out)	<u>-</u>

<i>Change in Net Position</i>	291,380
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<i>Net Position - Beginning of Year</i>	<u>1,640,645</u>
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<i>Net Position - End of Year</i>	<u><u>\$ 1,932,025</u></u>
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The accompanying notes are an integral part of the financial statements.

**Rural Water, Sewer and Solid Waste Management District #6, Grady County**

**AMBER, OKLAHOMA**

**Statement of Cash Flows**

**- Modified Cash Basis -**

**For the Year Ended June 30, 2015**

**Cash flows from operating activities**

Receipts from customers	\$ 1,670,891
Receipts from suppliers	48,862
Payments to employees	(254,210)
Payments to suppliers	(366,015)
Other receipts (payments)	6,516
<i>Net cash provided by (used for) operating activities</i>	<u>1,106,044</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	438,203
Interest Expense	(451,977)
Principal paid on capital debt	(211,985)
Disposal of capital assets	-
Purchase of capital assets	(497,882)
<i>Net cash provided by (used for) capital and related financing activities</i>	<u>(723,641)</u>

**Cash flows from investing activities**

Gain on sale of assets	-
Decrease in investments	80,628
Interest received	1,570
<i>Net cash provided by (used for) investing activities</i>	<u>82,198</u>

*Net increase (decrease) in cash and cash equivalents*

464,601

*Cash and cash equivalents at beginning of year*

1,500,590

*Cash and cash equivalents at end of year*

\$ 1,965,191

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

Operating income (loss)	741,787
Adjustment to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	357,741
Change in payroll taxes payable & misce. Payable	1,050
Change in customer deposits - Meter	5,466
Change in prepaid memberships	-
<i>Net cash provided by (used for) operating activities</i>	<u>\$ 1,106,044</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, 2015

**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, 2015

**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, 2015

**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	5 – 10 Years
Furniture and Fixtures	5 – 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 six (6) 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, 2015

**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, 2015 the District’s bank balances of \$1,967,224 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, 2015

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

**B. Debt Restrictions and Covenants**

The note indenture relating to the six (6) 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, 2015 was \$642,778 for USDA notes 91-08, 91-10, 91-11, 91-12 and 91-13. The total reserve amount required for notes 91-08, 91-10 and 91-11 was \$58,560. Reserves for USDA loans 91-12 and 91-13 are to be 10% of monthly payments until a total reserve of \$589,836 is obtained. There is a debt reserve to be funded at \$5,898 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. The balance in the depreciation reserve account at June 30, 2015 was \$84,301.

**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, 2015 were as follows:

<u>Restricted cash and cash equivalents</u>	
USDA Reserve	\$ 642,778
Construction Account	1
Depreciation Account	84,301
Membership Deposits	<u>71,068</u>
<i>Total Restricted cash and cash equivalents</i>	<i>\$ 798,148</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, 2015 is \$52,000. Of this amount, \$1 remains in the Construction bank account as restricted funds.

**GRADY COUNTY RURAL WATER DISTRICT NO. 6**  
**AMBER, OKLAHOMA**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015

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

**B. Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2015 was as follows:

	Balance 6/30/14	Additions	Disposals	Balance 6/30/15
Non-depreciable assets:				
Construction in Progress	18,758	459,634	0	478,392
Land	<u>388,633</u>	<u>0</u>	<u>0</u>	<u>388,633</u>
Total non-depreciable assets	<u>407,391</u>	<u>459,634</u>	<u>0</u>	<u>867,025</u>
Depreciable assets:				
Buildings	73,923	0	0	73,923
Furniture and Fixtures	25,778	4,537	0	30,315
Machinery and Equipment	102,850	3,767	0	106,617
Vehicles	106,253	0	0	106,253
Water System	<u>14,906,382</u>	<u>27,437</u>	<u>0</u>	<u>14,933,819</u>
Total depreciable assets	<u>15,215,186</u>	<u>35,741</u>	<u>0</u>	<u>15,250,927</u>
Less accumulated depreciation:	<u>2,779,732</u>	<u>360,428</u>	<u>0</u>	<u>3,134,966</u>
Net depreciable assets	<u>12,435,454</u>	<u>(319,493)</u>	<u>0</u>	<u>12,115,961</u>
Net Capital Assets	<u>\$12,842,845</u>	<u>\$140,141</u>	<u>0</u>	<u>\$12,982,986</u>

Depreciation expense for the year was \$357,741 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, 2015 was \$71,068.

**D. Long Term Debt**

The District has entered into six 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, 2015

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

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

<b>Loan Number</b>	<b>Balance 6/30/2014</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance 6/30/2015</b>	<b>Interest Expense</b>	<b>Interest %</b>	<b>Year of Maturity</b>
91-07	15,450.38	0.00	15,450.38	0.00	196.90	5.00	2016
91-08	50,373.09	0.00	4,961.74	45,411.35	2,406.26	5.00	2023
91-10	126,525.76	0.00	11,612.74	114,913.02	6,063.26	5.00	2023
91-11	555,170.57	0.00	8,710.34	546,460.23	24,805.66	4.50	2045
91-12	7,918,551.57	0.00	100,766.74	7,817,784.83	275,553.26	3.50	2052
91-13	3,993,269.51	438,202.92	70,483.00	4,360,989.43	143,033.00	3.50	2052
<b>Totals</b>	<u>12,659,340.88</u>	<u>438,202.92</u>	<u>211,984.94</u>	<u>12,885,558.86</u>	<u>452,058.34</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>
2016	189,531.97	458,864.03	648,396.00
2017	196,510.26	451,885.74	648,396.00
2018	203,749.58	444,646.42	648,396.00
2019	211,259.88	437,136.12	648,396.00
2020	219,051.50	429,344.50	648,396.00
2021-2025	1,168,905.41	2,020,760.26	3,189,665.67
2026-2030	1,313,185.75	1,803,574.25	3,116,760.00
2031-2035	1,564,088.33	1,552,671.67	3,116,760.00
2036-2040	1,863,173.85	1,253,586.15	3,116,760.00
2041-2045	2,219,754.42	897,005.58	3,116,760.00
2046-2050	2,464,035.37	487,187.04	2,951,222.41
2051-2055	1,272,312.54	79,560.71	1,351,873.24
<b>Total</b>	<b>\$12,885,558.86</b>	<b>\$10,316,222.47</b>	<b>\$23,201,781.33</b>

**GRADY COUNTY RURAL WATER DISTRICT NO. 6**  
**AMBER, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2015

**E. Fund Equity**

Net Position - Net Position restricted at June 30, 2015 relate to promissory note reserve accounts. Balances at June 30, 2015 are as follows:

RECD/USDA Reserve	642,778
Construction Account	1
Depreciation Account Reserve	<u>84,301</u>
<i>Total Restricted Net Position</i>	<i>\$ 727,080</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, 2015

**C. Compensated Absences**

As a result of the District's use of the modified cash basis of accounting, accrued liabilities related to compensated absences (accumulated but unused vacation leave, eligible sick leave buy out and compensatory time earned but unpaid at year-end, and any employer-related costs earned and unpaid) are not reflected in the financial statements. Accrued compensated absences are calculated to be \$61,363 as of June 30, 2015.

**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 14-15 equaled \$9,387. No contributions were made by the plan members for fiscal year 14-15.

**E. Commitments and Contingencies**

As of June 30, 2015, the District is not involved with any legal proceedings, which normally occur in the course of governmental operations at this time. 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



**GRADY COUNTY RURAL WATER DISTRICT NO. 6**  
**AMBER, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2015

**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.

**H. 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.

**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 Trustees  
Rural Water, Sewer and Solid Waste  
Management District #6, 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 accompanying modified cash basis financial statements of the Rural Water, Sewer and Solid Waste Management District #6, Grady County, as of and for the year ended June 30, 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, March 7, 2016. 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 #6, 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 first paragraph of this section 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 District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. 15-1. 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, 15-3, 15-4.

### **Compliance and Other Matters**

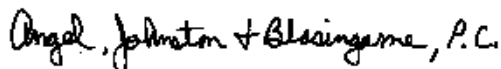
As part of obtaining reasonable assurance about whether Rural Water, Sewer and Solid Waste Management District #6, Grady County financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance 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 #6, Grady County's Response to Findings**

Rural Water, Sewer and Solid Waste Management District #6, Grady County's response to the finding 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Angel, Johnston & Blasingame, P.C.

Chickasha, Oklahoma

March 7, 2016

**GRADY COUNTY RURAL WATER DISTRICT NO. 6**  
**AMBER, OKLAHOMA**  
**Schedule of Findings & Responses**  
June 30, 2015

15-01 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.

15-02 Criteria – All expenditures should be approved monthly by the Board before payment is made.

Condition – During expenditure testing, we noted five (5) of thirty (30) purchases were not approved in the monthly Board meeting minutes.

Cause – Lack of implementation of purchasing procedure.

Effect – Increased risk that fraud or irregularities could occur during purchasing.

Recommendation – The District should be sure the Board approves all expenditures prior to payment.

Management's Response – Management agrees with this recommendation.

15-03 Criteria – Payments to vendors should be supported with an itemized invoice describing what good/service had been purchased. Also, invoices should be initialed or signed indicating receipt by the District for the good/service.

Condition – During our expenditure testing, we noted \$14,108.61 of expenditures that were paid without any supporting invoice or statement. We also noted several expenditures where the invoice had not been signed to indicate receipt of the good/service by the District prior to payment.

Cause – Appears there was a lack of implementation of the purchasing procedures.

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

**AMBER, OKLAHOMA**

**Schedule of Findings & Responses**

June 30, 2015

Effect – There is an increased risk of fraud and there is a more than low chance of irregularities and errors occurring and not being detected.

Recommendation – We recommend that supporting documentation be obtained and kept to support all purchases. We also recommend that all invoices be initialed or signed denoting that the good/service has been received.

Management's Response – Management agrees with this recommendation.

- 15-04 Criteria – The financial statements should reflect an accurate financial position of assets, liabilities, income and expenses of the District.

Condition – We noted several financial miscoding's that required adjustments to the financial statements. For example, \$67,376.38 of construction expenses was coded to USDA Note Payable. \$41,902.63 was coded as a debit to interest revenue and all interest paid was coded to the USDA Note Payable rather than to interest expense. We also noted that there was a USDA loan advance of \$59,752.80 that was not posted to the District's financial statements. There was also a disbursement of \$59,752.80 for construction that was not posted to the financial statements. Also, outstanding checks at June 30, 2015 were not posted to the District's books at year-end, thus overstating cash and understating expenditures on the financial statements.

Cause – The financial statements are not being reviewed and balances are not being tied to supporting documentation.

Effect – The miscoding's cause the financial statements to be inaccurate. The financial statements do not give a clear depiction of the District's financial position.

Recommendation – We recommend that the District review the financial statements on a monthly basis for accuracy. The District may also want to discuss the coding issues with their accountant to insure proper coding of transactions and that all outstanding checks are posted each month.

Management's Response – Management agrees and is working with their accountant to remedy.

**Rural Water, Sewer and Solid Waste Management District #6, Grady County**  
**Amber, Oklahoma**  
**Summary of Prior Year Audit Findings**  
June 30, 2015

- 14-01 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.*

- 14-02 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 has been corrected.*

- 14-03 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 appears to have been corrected.*

- 14-04 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 has been corrected.*

**Rural Water, Sewer and Solid Waste Management District #6, Grady County**  
**Amber, Oklahoma**  
**Summary of Prior Year Audit Findings**  
June 30, 2015

14-05 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 – *The District performs a monthly reconciliation of accounts receivable to their general ledger. There continues to be small discrepancies in the reconciliations each month.*

14-06 Finding – The operation and maintenance account checkbook contained pre-signed blank checks.

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

Disposition – *\*This has been corrected.*

14-07 Finding – 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.

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

Disposition – *This has been corrected.*

14-08 Finding – 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.

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

Disposition – *\*This has been corrected.*