

**INDEPENDENT
ACCOUNTANT'S AUDIT REPORT**

**RUSH SPRINGS
MUNICIPAL IMPROVEMENT
AUTHORITY**

JUNE 30, 2013

BY



Rush Springs Municipal Improvement Authority

Rush Springs, Oklahoma

For the Fiscal Year Ended June 30, 2013

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Rush Springs Municipal Improvement Authority
Rush Springs, Oklahoma

We have audited the accompanying financial statements of Rush Springs Municipal Improvement Authority (a component unit of Town of Rush Springs, Oklahoma) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority'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 the 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 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 from 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 entity'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 entity'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 financial position—modified cash basis of the Rush Springs Municipal Authority, as of June 30, 2013, and the change in financial position—modified cash basis, and the cash flows—modified cash basis, thereof for the year then ended in accordance with the basis of accounting as 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 comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Rush Springs Municipal Authority and do not purport to, and do not present fairly, the financial position of the City of Rush Springs, State of Oklahoma, as of June 30, 2013, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2014, on our consideration of the Authority'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.

Furrh & Associates, PC

FURRH & ASSOCIATES, PC

Lawton, Oklahoma

December 5, 2014

Rush Springs Municipal Improvement Authority

Statement of Net Assets (Modified Cash Basis) Year Ended June 30, 2013

Assets

Current Assets:

Cash and Cash Equivalents	\$	46,219	
Restricted Cash and Cash Equivalents		73,548	
Restricted Investments		33,000	
Total Current Assets			\$ 152,767

Noncurrent Assets:

Land		10,000	
Vehicles		137,550	
Building Improvements		39,783	
Machinery and Equipment		51,000	
Water and Sewer System		3,988,606	
Accumulated Depreciation		(2,976,255)	
Total Noncurrent Assets			1,250,684
Total Assets			\$ 1,403,451

Liabilities

Current Liabilities:

Refundable Meter Deposits	\$	81,144	
Notes Payable- Current Portion		68,104	
Total Current Liabilities			\$ 149,248

Noncurrent Liabilities:

Due to Rush Springs Economic Development		10,000	
Notes Payable		468,723	
Total Noncurrent Liabilities			478,723
Total Liabilities			627,971

Net Assets

Invested in Capital Assets, Net of Related Debt		713,857	
Restricted for Debt Service		30,634	
Unrestricted		30,989	
Total Net Assets			775,480
Total Net Assets and Liabilities			\$ 1,403,451

Please see accompanying notes to the financial statements.

Rush Springs Municipal Improvement Authority
Statement of Revenues, Expenses, and Changes in Net Assets
(Modified Cash Basis)
Year Ended June 30, 2013

Operating Revenue:

Water	\$ 192,558	
Sanitation	192,489	
Sewer	72,617	
Miscellaneous	7,409	
Total Operating Revenue		\$ 465,073

Operating Expense:

Depreciation	166,620	
Salaries and Benefits	156,635	
Sanitation Services	132,089	
Administration	44,488	
Maintenance and Operations	29,274	
Total Operating Expense		529,106

Net Operating Loss (64,033)

Nonoperating Revenue (Expense):

Transfer In	19,000	
Transfers Out	(10,005)	
Interest Income	360	
Interest Expense	(15,204)	
Net Nonoperating Revenue (Expense)		(5,849)

Net Change in Net Assets (69,882)

Total Net Assets, June 30, 2012 845,362

Total Net Assets, June 30, 2013 \$ 775,480

Please see accompanying notes to the financial statements.

Rush Springs Municipal Improvement Authority

Statement of Cash Flows (Modified Cash Basis) For Year Ended June 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES

Operating Revenues Received	\$ 463,359	
Vendors and Others Paid	(362,486)	
Net Cash Provided By Operating Activities		\$ 100,873

CASH FLOWS FROM INVESTING ACTIVITIES

Interest Income	360	
Interest Expense	(15,204)	
Net Cash Used By Investing Activities		(14,844)

CASH FLOWS FROM FINANCING ACTIVITIES

Payment of Debt	(78,151)	
Purchase of Fixed Assets	(25,150)	
Transfers, Net	8,995	
Net Cash Used By Financing Activities		(94,306)

Net Decrease in Cash and Cash Equivalents (8,277)

Cash and Cash Equivalents, July 1, 2012 161,044

Cash and Cash Equivalents, June 30, 2013 \$ 152,767

As shown on Statement of Net Assets - Modified Cash Basis

Cash and Cash Equivalents	46,219
Restricted Cash and Cash Equivalents	73,548
Restricted Investments	33,000
	\$ 152,767

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

Operating Income	(64,033)
Adjustments:	
Depreciation	166,620
Decrease in Payroll Liabilities	(1,148)
Decrease in Customer Deposits	(566)
Net Cash Provided by Operating Activities	\$ 100,873

Please see accompanying notes to the financial statements.

Rush Springs Municipal Improvement Authority

Notes to Financial Statements

Year Ended June 30, 2013

Note 1 – Summary of Significant Accounting Policies

These financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from generally accepted accounting principles in the United States of America. Generally accepted accounting principles include all relevant Governmental Accounting Standards Board pronouncements. The modified cash basis of accounting is an acceptable method of accounting under the budgetary laws of the State of Oklahoma.

A. Reporting Entity

The Rush Springs Municipal Improvement Authority was created pursuant to a Trust Indenture as authorized by Title 60, Oklahoma Statutes 1984, section 176-180.3, inclusive and the Oklahoma Trust Act. The governing body of the Authority is the Board of Trustees comprised of five elected members. The Authority is a component unit of its beneficiary, the Town of Rush Springs. Rush Springs Municipal Improvement Authority (RSMIA), is a proprietary fund that accounts for activities related to the provision of water and sewer services to businesses and residents. It operates the water and sewer treatment plants, water distribution system, sewer collections systems and pump stations.

B. Basis of Accounting

Proprietary funds are accounted for using the cash basis of accounting modified as follows:

- Capital assets are recorded as assets when purchased and related depreciation is recorded.
- Long-term debt is recorded when incurred.
- Employee withholding taxes that have not been deposited with the IRS but relate to compensation paid and retirement contributions not remitted are recorded as liabilities.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Rush Springs Municipal Improvement Authority's are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Rush Springs Municipal Improvement Authority

Notes to Financial Statements

Year Ended June 30, 2013

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

The Authority is not legally required to adopt a budget for the general fund. Therefore, budget comparison information is not included in the Authority's financial statements.

C. Assets, liabilities, and net assets or equity

Deposits and investments

For purposes of the statement of cash flows, the Authority considers short-term investments with original maturities of three months or less from the date of acquisition to be cash equivalents. Public trusts created under Oklahoma Statutes Title 60 are not subject to investment limitations and are primarily governed by any restrictions in their trust or note indenture.

Restricted assets

Resources required to be set aside for repayment of debt are classified as restricted assets on the balance sheet because their use is limited by applicable loan covenants. Amounts held for customer utility deposits are also reported as restricted assets.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., water and sewer systems). Capital assets are defined by the government as assets with an initial individual cost of more than \$500 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Water System	25
Vehicles	5
Machinery and equipment	10

Long-term obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Rush Springs Municipal Improvement Authority

Notes to Financial Statements

Year Ended June 30, 2013

Net assets

Net assets are divided into three components:

- *Invested in Capital Assets, net of related debt* – consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
- *Restricted Net Assets* – consist of net assets that are restricted by creditors through debt covenants or customer utility deposits.
- *Unrestricted Net Assets* – all other net assets are reported in this category.

Subsequent Events

Management has evaluated subsequent events through December 5, 2014, the date which the financial statements were available and issued.

Note 2 – Deposits, Investments, and Collateral

Deposit Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Authority policy regarding custodial credit risk requires collateral for all deposits in excess of Federal Deposit Insurance. At June 30, 2013, the bank balance was \$146,613. This entire amount was insured and collateralized. The below accounts are covered by F.D.I.C. insurance or collateral pledge.

Unrestricted cash and cash equivalents include the following accounts:

First National Bank & Trust - Chickasha, OK	
Municipal Improvement Authority	\$ 35,994 *
Certificate of Deposits	10,225 *
Total	<u>\$ 46,219</u>

* Interest Bearing Accounts

The Authority has investments in Certificates of Deposit totaling \$43,225 with interest rates of .55%.

Restricted Cash and Cash Equivalents include the following:

Rush Springs Municipal Improvement Authority

Notes to Financial Statements

Year Ended June 30, 2013

First National Bank & Trust - Chickasha, OK	
MIA Debt Services Account	\$ 5,452
Meter Deposit Account	33,729
Waste/Wastewater Emergency Account	3,733
Meter Deposit CD	33,000
Bank of Oklahoma	
Debt Service Reserve Account	30,634
Total	<u>\$ 106,548</u>

Note 3 – Fixed Assets

Capital asset activity for the year ended June 30, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Capital Assets, not being depreciated:				
Land	\$ 10,000	0	0	\$ 10,000
Capital assets, being depreciated:				
Vehicles	112,400	25,150	0	137,550
Machinery and Equipment	90,783	0	0	90,783
Water and Sewer System	3,988,606	0	0	3,988,606
Total	<u>4,191,789</u>	<u>25,150</u>	<u>0</u>	<u>4,216,939</u>
Less Accumulated Depreciation	<u>(2,809,635)</u>	<u>(166,620)</u>	<u>0</u>	<u>(2,976,255)</u>
Total Capital Assets, net of Depreciation	<u>\$ 1,392,154</u>	<u>\$ (141,470)</u>	<u>0</u>	<u>\$ 1,250,684</u>

Total depreciation expense for the year of \$166,620 was charged to current operations.

Note 4 – Insurance and Bond Coverage of Contingencies

The Authority carries the following insurance coverage as protection against possible loss contingencies:

Workers Compensation and Employer Liability
Commercial Property & Equipment Breakdown
Comprehensive Auto Liability
Automobile Physical Damage
Building and Contents Physical Damage
Employee Bond – Clerk/Treasurer, Billing Clerk & Mayor

Rush Springs Municipal Improvement Authority

Notes to Financial Statements

Year Ended June 30, 2013

Note 5 – Supplemental Disclosure of Cash Flow Information

Interest expense paid by the Authority for the year ended June 30, 2013, was \$15,204, which was charged to current operations.

Note 6 – Long Term Debt

Oklahoma Water Resources Board Notes Payable

The Rush Springs Municipal Improvement Authority has entered into a note payable with Oklahoma Water Resources Board dated December 1995 in the amount of \$320,000, for the construction of a water tower. Principal payments are due in February and August. The effective interest rate is 1.54%. The required Debt Service Reserve Fund was fully funded in the amount of \$30,634.

The following is a schedule of principal and interest requirements at June 30, 2013:

	<u>Total</u>	<u>Interest</u>	<u>Principal</u>
06/30/14	\$ 16,799	\$ 2,549	\$ 14,250
06/30/15	17,666	2,266	15,400
06/30/16	18,676	2,026	16,650
06/30/17	19,817	1,767	18,050
06/30/18	21,086	1,486	19,600
2019-2023	<u>88,654</u>	<u>2,654</u>	<u>86,000</u>
Total	<u>\$ 182,698</u>	<u>\$ 12,748</u>	<u>\$ 169,950</u>

The Rush Springs Municipal Improvement Authority has entered into a note payable with Oklahoma Water Resources Board dated August 1996 in the amount of \$605,150, for water and sewer improvements. Semi-annual payments are due in March and September. The effective interest rate is 2.98%, and administration fee of 0.5%.

The following is a schedule of principal and interest requirements at June 30, 2013:

	<u>Total</u>	<u>Interest</u>	<u>Principal</u>
06/30/14	\$ 39,005	\$ 4,708	\$ 34,297
06/30/15	39,179	3,662	35,517
06/30/16	39,360	2,586	36,774
06/30/17	39,550	1,459	38,091
06/30/18	<u>19,847</u>	<u>297</u>	<u>19,550</u>
Total	<u>\$ 176,941</u>	<u>\$ 12,712</u>	<u>\$ 164,229</u>

Rush Springs Municipal Improvement Authority

Notes to Financial Statements

Year Ended June 30, 2013

The Rush Springs Municipal Improvement Authority has entered into a note payable with Oklahoma Water Resources Board dated June 2004 in the amount of \$380,000, for water improvements. Payments are due semi-annually in March and September. As of June 30, 2013, total principal drawn down on the loan is \$322,014.70. The effective interest rate is 3.01% plus administration fees of 0.5%

The following is a schedule of principal and interest requirements at June 30, 2013:

	<u>Total</u>	<u>Interest</u>	<u>Principal</u>
06/30/14	\$ 20,192	\$ 4,735	\$ 15,457
06/30/15	20,153	5,383	14,770
06/30/16	20,219	4,936	15,283
06/30/17	21,320	4,474	16,846
06/30/18	20,377	3,964	16,413
2019-2023	104,201	11,898	92,303
2024-2025	28,258	782	27,476
Total	<u>\$ 234,720</u>	<u>\$ 36,172</u>	<u>\$ 198,548</u>

Provisions for the Oklahoma Water Resources Board which are pertinent to the financial statements are as follows:

The notes are secured by the fixed assets and service revenues of the Authority.

Revenues generated from the operation of the system will be used monthly, first to provide debt service on any indebtedness payable from such revenues. Second, to pay operation and maintenance expenses of the system, and third, to make payments, if required, to replenish any amount drawn from any OWRB debt service reserve fund.

The Authority will maintain, at all times, schedules of rates or charges for services rendered through the mortgage property sufficient to provide net revenues available for debt service equal to at least 125% of the maximum annual amount required for debt service on all obligations.

The Authority was not in compliance with the debt coverage ratio at June 30, 2013. See following calculations:

Rush Springs Municipal Improvement Authority
Notes to Financial Statements
Year Ended June 30, 2013

Net Revenues Available for Debt Service:

Operating Revenue	\$ 465,073
Less Sanitation Revenue	<u>(192,489)</u>
Total Operating Revenue	272,584

Operating Expenses	529,106
Less Sanitation Expenses	(132,089)
Less Depreciation Expense	<u>(166,620)</u>
Total Operating Expenses	230,397

Interest Revenue	<u>360</u>
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Net Revenues Available for Debt Service	<u><u>\$ 42,547</u></u>
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Maximum Annual Debt Service Requirement @ 125%

Year 16-17	\$ 95,499
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Coverage	45%
Coverage Requirement	125%

Other Notes Payable

The Rush Springs Municipal Improvement Authority has entered into a note payable with First National Bank in the amount of \$29,000, for purchase of City Hall. Monthly payments of \$500 and interest rate of 6.50%. The Town of Rush Springs will transfer funds to the Municipal Authority for repayment of the debt.

	<u>Total</u>	<u>Interest</u>	<u>Principal</u>
06/30/14	\$ 4,124	\$ 24	\$ 4,100
Total	<u>\$ 4,124</u>	<u>\$ 24</u>	<u>\$ 4,100</u>

During 2009-2010 the Rush Springs Municipal Improvement Authority received \$10,000 in a transfer from Rush Springs Economic Development Authority (RSEDA), which is recorded as Due To RSEDA.

Rush Springs Municipal Improvement Authority
Notes to Financial Statements
Year Ended June 30, 2013

Changes in long-term liabilities

	Beginning			Ending	Due Within
	Balance	Additions	Dispositions	Balance	One Year
Notes Payable	\$ 614,978	\$ -	\$ 78,151	\$ 536,827	\$ 68,104
Long Term Liabilities	\$ 614,978	\$ -	\$ 78,151	\$ 536,827	\$ 68,104

Note 7 - Compensated Absences

The amount of earned unpaid vacation time for Authority employees at June 30, 2013 was approximately \$2,934, and was not accrued since the entity is on modified cash basis. Sick leave is not paid upon termination, so it was not calculated.



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

Board of Trustees
Rush Springs Municipal Improvement Authority
Rush Springs, OK 73082

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Rush Springs Municipal Improvement Authority, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Rush Springs Municipal Improvement Authority's basic financial statements, and have issued our report thereon dated December 5, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Rush Springs Municipal Improvement Authority'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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Rush Springs Municipal Improvement Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material 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 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 a combination of deficiencies, in internal control such that there is a reasonable

possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider deficiencies 11-2 and 13-3 to be material weaknesses.

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 deficiencies 12-3, 13-1 and 13-2 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rush Springs Municipal Improvement Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 11-3, 12-1 and 13-4.

Rush Springs Municipal Improvement Authority's Response to Findings

Rush Springs Municipal Improvement Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Rush Springs Municipal Improvement Authority'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 *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The logo for Furrh & Associates is written in a stylized, cursive script. The word "Furrh" is larger and more prominent, with "Associates" written in a smaller, similar script to its right.

Furrh & Associates, PC
Lawton, Oklahoma
December 5, 2014

Rush Springs Municipal Improvement Authority
Schedule of Findings and Responses
Year Ended June 30, 2013

Reportable Conditions of Internal Control, Compliance and Other Matters

Uncorrected Prior Year Audit Findings:

11-2 Condition – The Authority lacks segregation of accounting duties.

Criteria – Segregation of duties is necessary to ensure internal accounting controls. A) The cashier should not open the mail. B) The Accounts Payable Clerk should not have access to signature stamps. C) The cashier should not post adjustments to customer accounts.

Cause and Effect – Small number of employees results in a lack of segregation of duties that can cause internal controls to be compromised.

Recommendation – The Authority should consider ways to segregate accounting functions to establish adequate controls.

Management response – Procedures will be implemented to achieve segregation of duties.

11-3. Condition – The Authority did not meet the required debt service coverage ratio of 125% of Net Revenue Available for Debt Service to Maximum Annual Debt Service Expense for fiscal year ending 06/30/2011, as required by the note payable agreements with Oklahoma Water Resources Board.

Criteria – The Authority should maintain a rate schedule sufficient to cover the required debt service coverage ratio.

Cause and Effect – The current rates charged are not sufficient to provide the 125% coverage needed; therefore, the Authority is not in compliance with their debt covenants.

Recommendation – We recommend that the Authority conduct a rate analysis to determine a rate schedule that would provide the needed debt service coverage.

Management response – Management agrees.

12-1. Condition – The Authority did not meet the required debt service coverage ratio of 125% of Net Revenue Available for Debt Service to Maximum Annual Debt Service Expense for fiscal year ending 06/30/2012, as required by the note payable agreements with Oklahoma Water Resources Board.

Criteria – The Authority should maintain a rate schedule sufficient to cover the required debt service coverage ratio.

Rush Springs Municipal Improvement Authority
Schedule of Findings and Responses
Year Ended June 30, 2013

Cause and Effect – The current rates charged are not sufficient to provide the 125% coverage needed; therefore, the Authority is not in compliance with their debt covenants.

Recommendation – We recommend that the Authority conduct a rate analysis to determine a rate schedule that would provide the needed debt service coverage.

Management response – Management agrees.

- 12-3. Condition – Our testing noted that two of the employee utility accounts were allowed to become delinquent and were not disconnected, nor charged the disconnect and reconnect fees associated with this procedure.

Criteria – According to City Ordinance No. 326, water payments shall be due by the 10th of the month and services disconnected if not paid by the 21st of the month.

Cause and Effect – Inadequate internal controls surrounding employee receivables for utility accounts.

Recommendation – We recommend that a utility aging report be provided monthly to the Board for review. This report should include all Authority employees.

Management response – Management agrees.

Current Year Audit Findings:

- 13-1 Condition – Our review of the Board meeting minutes found that none of the minutes were signed.

Criteria – According to Robert's Rules of Order, which is parliamentary procedures for meetings, the minutes should be signed by the secretary and may also be signed by the president.

Cause and Effect – Minutes that are not signed do not retain their original document authenticity and could possibly be changed after approval by the Board.

Recommendation – We recommend that all Board minutes be signed by the secretary and the president.

Management response – Minutes will be signed and recorded in permanent minute book for future dates.

Rush Springs Municipal Improvement Authority
Schedule of Findings and Responses
Year Ended June 30, 2013

- 13-2 Condition – The Authority did not have a fidelity bond or position coverage on the employee who receives payments at the front desk.

Criteria – According to the Oklahoma Water Resources Board debt covenants, the Authority is required to have fidelity bonds on each employee or position coverage who handles OWRB funds.

Cause and Effect – The Authority is not in compliance with the debt covenant.

Recommendation – We recommend that the Authority obtain position coverage for the front desk position.

Management response – A bond will be obtained for the front office cashier.

- 13-3 Condition – The Authority checks are being stamped with a signature stamp by the City Clerk rather than having original signatures.

Criteria – Internal control procedures should require the second signature to be an original signature or at the minimum a person other than the City Clerk should have possession of the signature stamp.

Cause and Effect – The internal controls are very weak and allow for unapproved purchases to occur.

Recommendation – We recommend that the Authority does not use signature stamps, and have the City Clerk and a Board Member signature on all checks.

Management response – There are no rubber stamps used for any signatures on payroll or reports as of May 2013. Also, Town Clerk does not sign checks at all anymore.

- 13-4 Condition – The Authority did not meet the required debt service coverage ratio of 125% of Net Revenue Available for Debt Service to Maximum Annual Debt Service Expense for fiscal year ending 06/30/2013, as required by the note payable agreements with Oklahoma Water Resources Board.

Criteria – The Authority should maintain a rate schedule sufficient to cover the required debt service coverage ratio.

Cause and Effect – The current rates charged are not sufficient to provide the 125% coverage needed; therefore, the Authority is not in compliance with their debt covenants.

Rush Springs Municipal Improvement Authority
Schedule of Findings and Responses
Year Ended June 30, 2013

Recommendation – We recommend that the Authority conduct a rate analysis to determine a rate schedule that would provide the needed debt service coverage.

Management response – Effective February 1, 2015, water rates will be increased to allow for the Authority to meet its debt covenant with the ORWB. Also, there is language which will allow for a 2% annual increase to keep the Authority from becoming behind again.