

RURAL WATER AND SOLID WASTE
MANAGEMENT DISTRICT #2
LEEDEY, OKLAHOMA
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
YEARS ENDED DECEMBER 31, 2014 AND 2013

**RURAL WATER AND SOLID WASTE MANAGEMENT DISTRICT #2
LEEDEY, OKLAHOMA
DECEMBER 31, 2014**

TABLE OF CONTENTS

Board of Directors

Independent Auditor's Report

Management's Discussion and Analysis

Financial Statements

Statement of Net Position	Schedule 1-00
Statement of Revenues, Expenses and Changes in Net Position	Schedule 2-00
Statement of Cash Flows	Schedule 3-00

Notes to Financial Statements

SUPPORTING SCHEDULES

Schedule of Insurance Coverage and Prepaid Premiums

Report on Internal Control and on Compliance

Independent Auditor's Report on Internal Control
Over Financial Reporting and on Compliance
and other Matters Based on an Audit of Financial
Statements Performed in Accordance with
Government Auditing Standards

**RURAL WATER AND SOLID WASTE MANAGEMENT DISTRICT #2
LEEDEY, OKLAHOMA
BOARD OF DIRECTORS
DECEMBER 31, 2014**

BOARD OF DIRECTORS

Chairman..... Wayne Barber (resigned 10-14-14)
Vice Chairman Billy Rounds
Secretary Richard Allen
Treasurer Gary Switzer
Member Roger Ommen
Member Robin Kauk Harrel
Member Freddie Harden
Member Bruce Barber

MANAGER

John Britton

OFFICE

Darla Britton



BRITTON, KUYKENDALL, & MILLER
CERTIFIED PUBLIC ACCOUNTANTS

JAMES M. KUYKENDALL
RICK D. MILLER

204 E. FRANKLIN - P.O. BOX 507
WEATHERFORD, OK 73096
580-772-3596
FAX 580-772-3085

BRANCH OFFICE:
106 N. COLLEGE - P.O. BOX 266
CORDELL, OK 73632
580-832-5313
FAX 580-832-5314

INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Directors
Rural Water and Solid Waste Management District #2
Leedey, Oklahoma

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of Rural Water and Solid Waste Management District #2, Roger Mills County, Oklahoma, as of and for the year ended December 31, 2014, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of Rural Water and Solid Waste Management District #2, Roger Mills County, Oklahoma's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, and the aggregate remaining fund information of Rural Water and Solid Waste Management District #2, Roger Mills County, Oklahoma, as of December 31, 2014, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2015, on our consideration of Rural Water and Solid Waste Management District #2, Roger Mills County, Oklahoma'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 the internal control over financial reporting or on compliance. That report is an

integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Rural Water and Solid Waste Management District #2, Roger Mills County, Oklahoma's basic financial statements. The introductory section and the accompanying Schedule of Insurance Coverage and Prepaid Premiums as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Insurance Coverage and Prepaid Premiums as listed in the accompanying table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements referred to above and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Britton, Kuykendall & Miller

BRITTON, KUYKENDALL & MILLER
Certified Public Accountants

Weatherford, Oklahoma
February 4, 2015

RED STAR RURAL WATER
Management's Discussion and Analysis
February 19, 2015

Spring is on the way again! I always look forward to the warmer days and hopefully more rain! The Water District has quite a lot going on. There seems to always be a leak somewhere or something else to repair, new taps to be installed, line extensions, and locates to take care of. Every day is a new challenge and hopefully we will always be ready to meet any challenge.

Our total revenue for the year is up about 5.1% over last year. Water sales to the District make up 70.1% of that, with Roll Bulk water sales making up 19.5%, and Benefit units and other revenue making up the balance.

We have lost another board member, Enos Kauk, this past year. We will miss him very much. The District has a very good Board of Directors who take a big interest in the welfare of the District and are always striving to improve it and to protect our water source.

We have added a new employee this year and feel this will help in doing better in all aspects of the job. We appreciate very much you the customer in helping in finding water leaks as water loss is always a problem.

You have a very good water district and are looking forward to another good year!

John Britton, Manager

FINANCIAL STATEMENTS
OF
RURAL WATER AND SOLID WASTE MANAGEMENT DISTRICT #2
LEEDEY, OKLAHOMA

RURAL WATER AND SOLID WASTE MANAGEMENT DISTRICT #2
 STATEMENT OF NET POSITION
 As of December 31, 2014 and 2013

ASSETS	<u>12-31-14</u>	<u>12-31-13</u>
Current Assets		
Cash and Equivalents	\$ 144,047.26	\$ 33,996.30
Cash in Bank - Reserve Fund (Restricted Asset)	11,311.72	11,272.20
Certificates of Deposit	<u>1,000.00</u>	<u>1,000.00</u>
Accounts Receivable - Note 1	51,213.24	56,573.05
Allowance for Doubtful Accounts	(1,000.00)	(1,000.00)
Other Receivables	10.68	10.74
Inventory	22,629.71	23,969.89
Prepaid Insurance	<u>7,740.22</u>	<u>7,452.47</u>
TOTAL CURRENT ASSETS	<u>236,952.83</u>	<u>133,274.65</u>
Fixed Assets - Note 1		
Property, Plant and Equipment	1,176,018.83	1,220,406.89
Construction in Progress	7,500.00	7,500.00
Water Rights	<u>44,179.07</u>	<u>44,179.07</u>
Total Fixed Assets	<u>1,227,697.90</u>	<u>1,272,085.96</u>
TOTAL ASSETS	<u>\$ 1,464,650.73</u>	<u>\$ 1,405,360.61</u>

See accompanying notes to financial statements.

RURAL WATER AND SOLID WASTE MANAGEMENT DISTRICT #2
 STATEMENT OF NET POSITION - CONTINUED
 As of December 31, 2014 and 2013

LIABILITIES	<u>12-31-14</u>	<u>12-31-13</u>
Current Liabilities		
Accounts Payable	\$ 4,161.79	\$ 18,114.92
Customer Deposits	240.00	320.00
Current Portion of Long-Term Debt	0.00	0.00
Accrued Payables	<u>6,411.84</u>	<u>2,727.08</u>
TOTAL CURRENT LIABILITIES - Note 2	<u>10,813.63</u>	<u>21,162.00</u>
Long-Term Debt - Note 2	<u>0.00</u>	<u>1.00</u>
TOTAL LIABILITIES	<u>10,813.63</u>	<u>21,163.00</u>
NET POSITION		
Invested in Capital Assets - Net of Related Debt	1,227,697.90	1,272,084.96
Unrestricted	<u>226,139.20</u>	<u>112,112.65</u>
TOTAL NET POSITION	<u>1,453,837.10</u>	<u>1,384,197.61</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 1,464,650.73</u>	<u>\$ 1,405,360.61</u>

See accompanying notes to financial statements.

RURAL WATER AND SOLID WASTE MANAGEMENT DISTRICT #2
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
For Years Ended December 31, 2014 and 2013

	<u>12-31-14</u>	<u>12-31-13</u>
Revenue from Operations:		
Water Sales - Domestic	\$ 166,426.36	\$ 152,012.64
Water Sales - Pasture	63,762.20	53,907.04
Water Sales - Leedey	60,729.10	50,393.10
Water Sales - Commercial	11,751.55	13,128.70
Water Sales - Coin Machine	1,822.75	1,929.25
Roll Bulk Water Sales	84,843.06	107,296.45
Benefit Unit Sales	12,000.00	12,700.00
Connection Charges	75.00	250.00
Late Charges	1,843.25	1,425.41
Sale of Materials	9,590.08	5,170.93
Other Income	<u>21,510.98</u>	<u>15,000.57</u>
 TOTAL REVENUE FROM OPERATIONS	 <u>434,354.33</u>	 <u>413,214.09</u>
 Expenses from Maintenance and Operation:		
Salaries	103,586.83	91,249.47
Utilities	42,190.43	36,874.87
Operating Expense	31,661.48	38,990.59
Repairs and Maintenance	17,308.62	26,386.14
Insurance	14,581.04	14,284.42
Employee Benefits	26,461.09	23,056.86
Membership & Dues Expense	695.85	488.00
Monitoring Fees	3,259.56	5,203.82
Payroll Taxes	8,552.70	7,566.11
Professional Fee	6,162.50	8,097.50
Depreciation & Amortization	78,631.56	76,515.22
Truck/Backhoe Expenses	13,822.86	14,112.84
Postage	931.19	1,194.94
Meeting & Training Expense	657.02	639.03
Cost of Materials Sold	15,277.35	1,351.17
Bad debt Expenses	495.24	2,583.00
Office Expense	<u>588.58</u>	<u>670.92</u>
 TOTAL EXPENSES FROM OPERATIONS	 <u>364,863.90</u>	 <u>349,264.90</u>

See accompanying notes to financial statements.

RURAL WATER AND SOLID WASTE MANAGEMENT DISTRICT #2
 STATEMENT OF REVENUES, EXPENSES
 AND CHANGES IN NET POSITION - CONTINUED
 For Years Ended December 31, 2014 and 2013

	<u>12-31-14</u>	<u>12-31-13</u>
Operating Income	\$ 69,490.43	\$ 63,949.19
Other Income (Expenses)		
Interest Earnings	150.09	103.83
Interest Expense	<u>(1.03)</u>	<u>(2,155.55)</u>
TOTAL OTHER INCOME (EXPENSES)	<u>149.06</u>	<u>(2,051.72)</u>
Net Income (Loss)	69,639.49	61,897.47
Net Position, Beginning of Year	<u>1,384,197.61</u>	<u>1,322,300.14</u>
Net Position, End of Year	<u>\$ 1,453,837.10</u>	<u>\$ 1,384,197.61</u>

See accompanying notes to financial statements.

RURAL WATER AND SOLID WASTE MANAGEMENT DISTRICT #2
STATEMENT OF CASH FLOWS
For Years Ended December 31, 2014 and 2013

	<u>12-31-14</u>	<u>12-31-13</u>
Cash Flows From Operating Activities:		
Cash Received From Customers	\$ 439,634.20	\$ 407,226.45
Cash Paid to Employees	(138,600.62)	(121,872.44)
Cash Payments for Goods and Services	<u>(156,848.66)</u>	<u>(137,004.46)</u>
Net Cash Provided (Used) by Operating Activities	<u>144,184.92</u>	<u>148,349.55</u>
Cash Flows From Investing Activities:		
Interest Income	150.09	103.83
Proceeds of Certificates of Deposits	<u>(39.52)</u>	<u>(42.00)</u>
Net Cash Provided (Used) by Investing Activities	<u>110.57</u>	<u>61.83</u>
Cash Flows From Financing Activities:		
Proceeds from Long-Term Debt	0.00	76,442.12
Principal Paid on Long-Term Debt	0.00	(82,408.23)
Payments of Interest on Long-Term Debt	(1.03)	(2,155.55)
Acquisition and Constuction of Capital Assets	<u>(34,243.50)</u>	<u>(126,288.53)</u>
Net Cash Provided (Used) by Financing Activities	<u>(34,244.53)</u>	<u>(134,410.19)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	110,050.96	14,001.19
Cash and Cash Equivalents, Beginning of Year	<u>33,996.30</u>	<u>19,995.11</u>
Cash and Cash Equivalents, End of Year	<u>\$ 144,047.26</u>	<u>\$ 33,996.30</u>

See accompanying notes to financial statements.

RURAL WATER AND SOLID WASTE MANAGEMENT DISTRICT #2
 STATEMENT OF CASH FLOWS
 For Years Ended December 31, 2014 and 2013

	<u>12-31-14</u>	<u>12-31-13</u>
Adjustments to Reconcile Net Income to Net Cash Provided From Operating Activities:		
Net Income (Loss)	\$ 69,490.43	\$ 63,949.19
Depreciation	78,631.56	76,515.22
(Increase) Decrease in Receivables	5,359.87	(5,867.64)
(Increase) Decrease in Inventory	1,340.18	1,607.22
(Increase) decrease in Prepaid Expenses	(287.75)	(192.25)
Increase (Decrease) in Customer Deposits	(80.00)	(120.00)
Increase (Decrease) in Accounts & Accrued Payables	<u>(10,268.37)</u>	<u>12,457.81</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 144,185.92</u>	<u>\$ 148,349.55</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

OF

RURAL WATER AND SOLID WASTE MANAGEMENT DISTRICT #2
LEEDEY, OKLAHOMA

RURAL WATER AND SOLID WASTE MANAGEMENT DISTRICT #2
LEEDEY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

1. Significant Accounting Policies

Organization

Rural Water and Solid Waste Management District #2 (Red Star) was organized and operates as a rural water-supply source for its members in Roger Mills County, Oklahoma as well as those in Custer, Dewey counties in western Oklahoma.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Basis of Accounting

The accrual basis of accounting is followed for all accounts. Revenues are recorded when earned and accrued liabilities are recognized when incurred. This policy is in accordance with accounting principles generally accepted in the United States of America.

Major Funds

The new reporting model as defined in GASB Statement No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues, or expenditures/expenses, of either fund category or the governmental and enterprise combined) for the determination of major funds. The District's major fund is the General Fund.

Cash and Investments

For purposes of the Statement of Net Assets, "cash and cash equivalents" includes all demand, savings accounts, and certificates of deposits with a maturity of three (3) months or less when purchased to be cash equivalents.

RURAL WATER AND SOLID WASTE MANAGEMENT DISTRICT #2
LEEDEY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

Significant Accounting Policies, (Continued)

Accounts Receivable

Billings for accounts receivable at December 31, 2014 and 2013, are \$51,213.24 and \$56,573.05, respectively. An allowance for doubtful accounts was based on management's analysis of possible uncollectibles.

Inventory

Inventory is valued at cost. Inventory consists of supplies necessary for the maintenance and operation of the water system.

Fixed Assets

Fixed assets are valued at cost. Depreciation is computed by use of the straight-line method. The estimated useful lives of these assets are as follows:

Furniture, Fixtures and Equipment	5-10 years
Pumps and Wells	15 years
Transportation Equipment	5 years
Buildings, Lines and Storage	40 years

Amortization of water rights is recorded as an expense and is combined with depreciation in the Statement of Activities, with accumulated amortization reflected in the Statement of Net Assets. Amortization is provided over the assets' estimated useful lives using the straight-line method. The estimated useful lives for all water rights are 40 years.

Federal Income Tax

The District is exempt from federal and state income taxes.

Collateral Pledged

All funds were adequately insured by Federal Deposit Insurance Corporation as of December 31, 2014 and 2013.

The total interest paid on all debt for the years ended December 31, 2014 and 2013, was \$1.03 and \$2,155.55, respectively.

**RURAL WATER AND SOLID WASTE MANAGEMENT DISTRICT #2
LEEDEY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013**

Significant Accounting Policies, (Continued)

2. Other Details

Certificates of Deposit

Certificates of Deposit are deposited in local banks and have a maturity beyond three months. Total certificates of deposit at December 31, 2014 and 2013 were \$12,311.72, and \$12,272.20, respectively.

Property, Equipment and Water Rights

Capital asset activity for the year ended December 31, 2014, was as follows:

	Balance December 31, 2013	Additions	Retirements and Transfers	Balance December 31, 2014
Land	\$38,969.11	\$0.00	\$0.00	\$38,969.11
Buildings and Equipment	357,240.57	0.00	0.00	357,240.57
Water rights	130,391.77	0.00	0.00	130,391.77
Lines and wells	2,322,470.98	34,243.50	0.00	2,356,714.48
Construction In Progress	7,500.00	0.00	0.00	7,500.00
Totals	2,856,572.43	34,243.50	0.00	2,890,815.93
Less: Accumulated Depreciation/Amortization	1,584,486.47	78,631.56	0.00	1,663,118.03
Net Book Value	\$1,272,085.96	\$(44,388.06)	\$0.00	\$1,227,697.90

Accounts Payable

Accounts payable are composed of payables to vendors.

Long-Term Debt

Red Star had obtained a line of credit from a local bank in the amount of \$250,000.00. The outstanding loan balance at December 31, 2014 and 2013 was \$0.00 and \$1.00, respectively. The district's property and building were subject to security agreements securing the line of credit.

RURAL WATER AND SOLID WASTE MANAGEMENT DISTRICT #2
LEEDEY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

Significant Accounting Policies, (Continued)

3. Accumulated Unpaid Vacation and Sick Pay

At December 31, 2014 and 2013, no determination of the aggregate dollar value of vacation or sick pay had been made.

4. Related Party Transactions

As compensation for service as directors, board members receive up to 10,000 gallons of water usage each month free of charge. This amounts to \$34.00 per month for each director or \$2,848.00 each year for all directors combined.

5. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchases commercial insurance to cover these risks of loss, including general and auto liability, property damage, and director liability. Management believes such coverage is sufficient to preclude any significant uninsured losses to the District. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

6. Contingencies

The Rural Water and Solid Waste Management District #2, Roger Mills County, Oklahoma has hired an attorney to oppose a disposal well near their water wells.

7. Subsequent Events

Management has evaluated subsequent events through February 4, 2015, which is the date the financial statements were available to be issued and have determined that no additional information needs to be added to the financial statements.

SUPPORTING SCHEDULES
OF
RURAL WATER AND SOLID WASTE MANAGEMENT DISTRICT #2
LEEDEY, OKLAHOMA

RURAL WATER AND SOLID WASTE MANAGEMENT DISTRICT #2
 SCHEDULE OF INSURANCE COVERAGE AND PREPAID PREMIUMS
 For the Year Ended December 31, 2014

POLICY NUMBER	COMPANY	COVERAGE	AMOUNT	EXPIRATION DATE	ANNUAL PREMIUM	PREPAID PREMIUM
10168	ORWA Assurance Group	I. Liability Coverage A. Bodily Injury B. Property Damage C. Personal Injury D. Errors and Omissions II. Business Auto Coverage A. Bodily Injury B. Property Damage C. Auto Physical Damage III. Property Coverage A. Buildings and Personal Prop. IV. Blanket Bond Fidelity By Position Held	\$ 125,000 25,000 125,000 125,000 125,000 25,000 25,000 25,000 ACV 82,063	6/1/2015	\$ 11,161.08	\$ 4,650.45
360434	ORWA Assurance Group	Worker's Compensation		10/31/2015	3,707.71	3,089.76
					\$	<u>7,740.21</u>

REPORT ON INTERNAL CONTROL AND ON COMPLIANCE
OF
RURAL WATER AND SOLID WASTE MANAGEMENT DISTRICT #2
LEEDEY, OKLAHOMA



BRITTON, KUYKENDALL, & MILLER
CERTIFIED PUBLIC ACCOUNTANTS

JAMES M. KUYKENDALL
RICK D. MILLER

204 E. FRANKLIN - P.O. BOX 507
WEATHERFORD, OK 73096
580-772-3596
FAX 580-772-3085

BRANCH OFFICE:
106 N. COLLEGE - P.O. BOX 266
CORDELL, OK 73632
580-832-5313
FAX 580-832-5314

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*

The Honorable Board of Directors
Rural Water and Solid Waste Management District #2
Leedey, Oklahoma

We have audited the financial statements of the business-type activities, and the aggregate remaining fund information of Rural Water and Solid Waste Management District #2, Roger Mills County, Oklahoma, as of and for the years ended December 31, 2014 and 2013, which collectively comprise Rural Water and Solid Waste Management District #2, Roger Mills County, Oklahoma's basic financial statements and have issued our report thereon dated February 4, 2015. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Rural Water and Solid Waste Management District #2, Roger Mills County, Oklahoma's internal control over financial reporting as a basis for designing our auditing procedures 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 entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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 the deficiency described in number one below to be a material weakness.

1. The inherent limitations resulting from a small number of employees performing functions that would normally be divided among employees where there were a larger number available prevents a proper segregation of accounting functions, which is necessary to assure adequate internal accounting control.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water and Solid Waste Management District #2, Roger Mills County, Oklahoma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of directors and administrative employees, all applicable county, state and federal agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Britton, Kuykendall & Miller

BRITTON, KUYKENDALL AND MILLER
Certified Public Accountants

Weatherford, Oklahoma
February 4, 2015