

**INDEPENDENT
ACCOUNTANT'S AUDIT REPORT**

**RUSH SPRINGS
MUNICIPAL IMPROVEMENT
AUTHORITY**

JUNE 30, 2015

BY



Rush Springs Municipal Improvement Authority
Rush Springs, Oklahoma
For the Fiscal Year Ended June 30, 2015

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying modified cash basis financial statements of the Rush Springs Municipal Improvement Authority of the Town of Rush Springs, Oklahoma, as of and for the year ended June 30, 2015, and the related notes to the 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 opinions 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the Rush Springs Municipal Improvement Authority of the Town of Rush Springs, Oklahoma, as of June 30, 2015, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Rush Springs Municipal Improvement Authority and do not purport to, and do not present fairly the financial position of the Town of Rush Springs, Oklahoma, as of June 30, 2015, 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 January 14, 2016, 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

January 14, 2016

Rush Springs Municipal Improvement Authority

Rush Springs, Oklahoma

Statement of Net Position

(Modified Cash Basis)

For Year Ended June 30, 2015

ASSETS

Current Assets

Cash and Cash Equivalents	\$	23,023	
Restricted Cash and Cash Equivalents		119,661	
Due from Others		10,562	
Total Current Assets			\$ 153,246

Fixed Assets

Land		10,000	
Building Improvements		39,783	
Machinery and Equipment		51,000	
Vehicles		149,050	
Water and Sewer System		3,988,606	
Accumulated Depreciation		(3,311,116)	
Net Fixed Assets			927,323
Total Assets			\$ 1,080,569

LIABILITIES AND NET POSITION

Current Liabilities

Payroll Related Payables	\$	11,422	
Refundable Meter Deposits		98,595	
Notes Payable - Current Portion		72,707	
Total Current Liabilities			\$ 182,724

Long-Term Liabilities

Due to General Fund		23,265	
Due to Rush Springs Economic Development		10,000	
Notes Payable		331,927	
Total Long Term Liabilities			365,192
Total Liabilities			547,916

Net Position

Invested in Capital Assets, Net of Related Debt		522,689	
Restricted for Debt Service		42,782	
Unrestricted		(32,818)	
Total Net Position			532,653
Total Liabilities and Net Position			\$ 1,080,569

Please see accompanying notes to financial statements.

Rush Springs Municipal Improvement Authority

Rush Springs, Oklahoma

Statement of Revenue, Expenses, and Changes in Net Position

(Modified Cash Basis)

Year Ended June 30, 2015

Operating Revenue

Water Revenue	\$	212,964	
Sanitation Revenue		203,176	
Sewer Revenue		78,509	
Miscellaneous Revenue		21,585	
Total Operating Revenue			\$ 516,234

Operating Expense

Salaries and Benefits		189,953	
Depreciation		168,240	
Sanitation Services		135,872	
Administration		67,807	
Maintenance and Operations		44,178	
Total Operating Expense			<u>606,050</u>

Net Operating Revenue (89,816)

Nonoperating Revenue (Expense)

Interest Income		254	
Interest Expense		(6,846)	
Total Nonoperating Revenue (Expense)			<u>(6,592)</u>

Change in Net Position (96,408)

Net Position, June 30, 2014 629,061

Net Position, June 30, 2015 \$ 532,653

Please see accompanying notes to financial statements.

Rush Springs Municipal Improvement Authority

Rush Springs, Oklahoma

Statement of Cash Flows

(Modified Cash Basis)

Year Ended June 30, 2015

Cash Flows from Operating Activities

Cash Received from Customers	\$	516,234	
Cash Paid for Sanitation Services		(135,872)	
Cash Paid for Operating Expenses		(278,130)	
Net Cash Provided by Operating Activities	\$		102,232

Cash Flows from Investing Activities

Interest Income		254	
Interest Expense		(6,846)	
Net Cash Used by Investing Activities			(6,592)

Cash Flows from Financing Activities

Payment of Debt		(64,089)	
Due to General Fund		23,265	
Due from Others		(10,562)	
Purchase of Fixed Assets		(11,500)	
Net Cash Provided by Financing Activities			(62,886)

Net Increase in Cash and Cash Equivalents 32,754

Cash and Cash Equivalents, June 30, 2014 109,930

Cash and Cash Equivalents, June 30, 2015 \$ 142,684

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

Net Operating Revenue \$ (89,816)

Adjustments:

Depreciation \$ 168,240

Increase Payroll Liabilities 8,231

Increase in Customer Deposits 15,577

Total Adjustments 192,048

Net Cash Provided by Operating Activities \$ 102,232

Please see accompanying notes to financial statements.

Rush Springs Municipal Improvement Authority
Rush Springs, Oklahoma
Notes to Financial Statements
Year Ended June 30, 2015

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 budgetary laws of the State of Oklahoma.

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 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.

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, retirement contributions not remitted, and unpaid employee health insurance 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 are charges to customers for sales and services. Operating expenses for enterprises 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.

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.

Rush Springs Municipal Improvement Authority

Rush Springs, Oklahoma Notes to Financial Statements Year Ended June 30, 2015

Assets, liabilities, and net position

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 (i.e., water and sewer systems). Capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at 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.

Water and Sewer System	25 years
Machinery and Equipment	10 years
Vehicles	5 years

Long term obligations

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

Net position

Net position is 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 Asset* – consists 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.

Rush Springs Municipal Improvement Authority
Rush Springs, Oklahoma
Notes to Financial Statements
Year Ended June 30, 2015

Subsequent Events

Management has evaluated subsequent events through 14, 2016, 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, 2015, the bank balance was \$142,684. This entire amount was insured and collateralized.

At year end, the Authority's investments were held as certificates of deposits totaling \$33,000 with interest rates of 0.40 %.

Unrestricted cash and cash equivalents include the following accounts:

First National Bank & Trust - Chickasha, OK	
Municipal Improvement Authority	\$ 23,023 *
Total	\$ 23,023

* Interest Bearing Accounts

Restricted cash and cash equivalents include the following accounts:

First National Bank & Trust - Chickasha, OK	
MIA Debt Services Account	\$ 5,516 *
Meter Deposit Account	40,131 *
Waste/Wastewater Emergency Account	3,748 *
Meter Deposit CD	33,000 *
Bank of Oklahoma	
Debt Service Reserve Account	37,266 *
Total	\$ 119,661

* Interest Bearing Accounts

Rush Springs Municipal Improvement Authority
Rush Springs, Oklahoma
Notes to Financial Statements
Year Ended June 30, 2015

Note 3 – Fixed Assets

Current year changes to fixed assets were as follows:

	Balance 06/30/2014	Additions	Disposals	Balance 06/30/2015
<u>Assets</u>				
Capital Assets not being depreciated:				
Land	\$ 10,000	\$ 0	\$ 0	\$ 10,000
Capital Assets being depreciated:				
Vehicles	137,550	11,500	0	149,050
Building Improvements	39,783	0	0	39,783
Machinery & Equipment	51,000	0	0	51,000
Water and Sewer System	3,988,606	0	0	3,988,606
Total	4,226,939	11,500	0	4,238,439
Less Accumulated Depreciation	(3,142,876)	(168,240)	0	(3,311,116)
Total	<u>\$ 1,084,063</u>			<u>\$ 927,323</u>

Total depreciation expense for the current year was \$168,240, which was charged against current operations.

Note 4 – Insurance Against Loss Contingencies

The Authority maintains the following insurance coverage for protection against possible loss contingencies:

- Workers Compensation & Employers Liability
- Commercial Property & Equipment Breakdown
- Comprehensive Auto Liability
- Automobile Physical Damage
- Building and Contents Physical Damage
- Employee Bonds

The Authority 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.

Rush Springs Municipal Improvement Authority
Rush Springs, Oklahoma
Notes to Financial Statements
Year Ended June 30, 2015

Note 5 – 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 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 \$37,266

The following is a schedule of principal and interest requirements at June 30, 2015:

Year Ending:	Principal	Interest	Total
06/30/2016	\$ 20,650	\$ 2,571	\$ 23,221
06/30/2017	18,050	1,767	19,817
06/30/2018	19,600	1,486	21,086
06/30/2019	21,200	1,181	22,381
06/30/2020	22,850	852	23,702
2021-2025	41,950	622	42,572
Totals	<u>\$ 144,300</u>	<u>\$ 8,479</u>	<u>\$ 152,779</u>

The Rush Springs Municipal Improvement Authority has entered into a note payable with Oklahoma Water Resources Board dated August 1996 in amount of \$605,150, for water and sewer improvements. Principal 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, 2015:

Year Ending:	Principal	Interest	Total
06/30/2016	\$ 36,774	\$ 2,586	\$ 39,360
06/30/2017	38,091	1,459	39,550
06/30/2018	19,550	297	19,847
Totals	<u>\$ 94,415</u>	<u>\$ 4,342</u>	<u>\$ 98,757</u>

Rush Springs Municipal Improvement Authority
Rush Springs, Oklahoma
Notes to Financial Statements
Year Ended June 30, 2015

The Rush Springs Municipal Improvement Authority has entered into a note payable with Oklahoma Water Resources Board dated June 2004 in amount of \$380,000, for water improvements. Principal payments are due in March and September. The effective interest rate is 3.01%, and administration fee of 0.5%.

The following is a schedule of principal and interest requirements at June 30, 2015:

Year Ending:	Principal	Interest	Total
06/30/2016	\$ 15,283	\$ 3,692	\$ 18,975
06/30/2017	16,846	3,341	20,187
06/30/2018	16,413	2,954	19,367
06/30/2019	17,001	2,577	19,578
06/30/2020	18,600	2,175	20,775
2021-2025	81,776	4,517	86,293
Totals	<u>\$ 165,919</u>	<u>\$ 19,256</u>	<u>\$ 185,175</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, 2015. See the following calculations:

Rush Springs Municipal Improvement Authority

Rush Springs, Oklahoma Notes to Financial Statements Year Ended June 30, 2015

Net Revenues Available for Debt Service:

Operating Revenue	\$ 516,234
Less Sanitation Revenue	(203,176)
Total Water Revenue	<u>313,058</u>
Operating Expenses	606,050
Less Sanitation Expenses	(135,872)
Less Interest Expense	(6,846)
Less Depreciation	(168,240)
Total Water Expenses	<u>295,092</u>
Interest Revenue	<u>254</u>
Net Revenues Available for Debt Service	<u>\$ 18,220</u>

Maximum Annual Debt Service Requirement @ 125%

Year 16-17	<u>\$ 95,499</u>
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Coverage	19%
Coverage Requirement	125%

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

Note 6 – Supplemental Disclosure of Cash Flow Information

Interest expense paid by the Authority for the year ended June 30, 2015 was \$6,846, which was charged to current operations.

Note 7 – Compensated Absences

The amount of earned, unpaid vacation time for Authority employees at June 30, 2015 was approximately \$3,293 and was not accrued since the Authority is on modified cash basis. Sick leave is not paid upon termination, thus 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 Authority
Rush Springs, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Rush Springs Municipal Authority, Rush Springs, Oklahoma, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated January 14, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the 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 did not find any of the deficiencies 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 the deficiencies labeled as 13-2 and 15-2 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 questioned costs as items 11-3, 12-1, 13-4, 14-1, 15-1 and 15-3.

Rush Springs Municipal Authority's Response to Findings

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 Authority'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.

Furrh & Associates, PC

FURRH & ASSOCIATES, PC

Lawton, Oklahoma

January 14, 2016

Rush Springs Municipal Authority
Rush Springs, Oklahoma
Schedule of Findings and Responses
For Fiscal Year Ended June 30, 2015

Reportable Conditions of Internal Control, Compliance, and Other Matters

Uncorrected Prior Year Audit Findings:

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 6/30/2011, as required by the note payable agreements with the Oklahoma Water Resources Board.

Criteria – The Authority should maintain a rate schedule sufficient to cover the required debt service 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 the Authority conduct a rate analysis to determine a rate schedule that would provide the needed debt service ratio.

Management Response – Effective February 2015, rates were raised significantly to ensure that the covenant can be met. There is also a 2% rate increase each year to ensure the Town keeps up with cost of living increases, further assisting in maintaining the debt ratio required.

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 6/30/2012, as required by the note payable agreements with the Oklahoma Water Resources Board.

Criteria – The Authority should maintain a rate schedule sufficient to cover the required debt service 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 the Authority conduct a rate analysis to determine a rate schedule that would provide the needed debt service ratio.

Management Response – Effective February 2015, rates were raised significantly to ensure that the covenant can be met. There is also a 2% rate increase each year to ensure the Town keeps up with cost of living increases, further assisting in maintaining the debt ratio required.

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

Rush Springs Municipal Authority
Rush Springs, Oklahoma
Schedule of Findings and Responses
For Fiscal Year Ended June 30, 2015

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 the Authority obtain position coverage for the front desk position.

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

- 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 6/30/2013, as required by the note payable agreements with the Oklahoma Water Resources Board.

Criteria – The Authority should maintain a rate schedule sufficient to cover the required debt service 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 the Authority conduct a rate analysis to determine a rate schedule that would provide the needed debt service ratio.

Management Response – Effective February 2015, rates were raised significantly to ensure that the covenant can be met. There is also a 2% rate increase each year to ensure the Town keeps up with cost of living increases, further assisting in maintaining the debt ratio required.

- 14-1 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 6/30/2014, as required by the note payable agreements with the Oklahoma Water Resources Board.

Criteria – The Authority should maintain a rate schedule sufficient to cover the required debt service 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 Authority
Rush Springs, Oklahoma
Schedule of Findings and Responses
For Fiscal Year Ended June 30, 2015

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

Management Response – Effective February 2015, rates were raised significantly to ensure that the covenant can be met. There is also a 2% rate increase each year to ensure the Town keeps up with cost of living increases, further assisting in maintaining the debt ratio required.

Current Year Audit Findings:

15-1 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 6/30/2015, as required by the note payable agreements with the Oklahoma Water Resources Board.

Criteria – The Authority should maintain a rate schedule sufficient to cover the required debt service 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 the Authority conduct a rate analysis to determine a rate schedule that would provide the needed debt service ratio.

Management Response – Effective February 2015, rates were raised significantly to ensure that the covenant can be met. However, for this audit period most of the time in questions was under old pricing, therefore the shortfall. There is also a 2% rate increase each year to ensure the Town keeps up with cost of living increases, further assisting in maintaining the debt ratio required.

15-2 Condition – Our testing noted that one former employee's utility account was allowed to become past due and was not charged the appropriate late fee.

Criteria – According to city ordinance, past due utility accounts will be assessed a late fee if not paid by the specified date.

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

Recommendation – We recommend that employees do not process their own utility payments.

Management Response – The employee is no longer employed by the Town and there are internal controls in place to prevent this from occurring in the future.

Rush Springs Municipal Authority
Rush Springs, Oklahoma
Schedule of Findings and Responses
For Fiscal Year Ended June 30, 2015

15-3 Condition – The Authority did not report and pay the 4th quarter of 2014 federal payroll taxes timely. At the time of audit field work, it still had not been filed.

Criteria – According to IRS regulations, the quarterly 941 report should be filed by the last day of the month following the quarter end. Federal payroll taxes should be paid in to the IRS either on a semiweekly or monthly schedule.

Cause and Effect – Inadequate internal controls surrounding the responsible employee to be sure that reports were all filed timely and payments made according to the appropriate schedule. The Authority has underpaid federal payroll taxes and will be assessed penalties and interest.

Recommendation – We recommend the responsible employee file all payroll reports and pay all payroll taxes on a timely basis.

Management Response – Prior clerk responsible for the taxes being filed and paid in a timely manner has been removed from office and all subsequent tax periods have been paid or are currently being paid in a timely manner and the Town feels the issue has been remedied. We have set in place a second set of eyes to make sure that timely filings and payments occur. Now, both the Clerk/Treasurer and Office Manager are both responsible for making sure the reports and payments are being done on a timely basis.