

RURAL WATER DISTRICT #1,
MURRAY COUNTY, OKLAHOMA

ANNUAL FINANCIAL STATEMENTS AND
ACCOMPANYING INDEPENDENT
AUDITOR'S REPORTS

FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2013

RURAL WATER DISTRICT #1, MURRAY COUNTY, OKLAHOMA

TABLE OF CONTENTS

For the fiscal year ended December 31, 2013

		<u>Page</u>
LIST OF PRINCIPAL OFFICIALS		1
INDEPENDENT AUDITOR'S REPORT		2-3
BASIC FINANCIAL STATEMENTS:	<u>Statement</u>	
Statement of Assets, Liabilities and Net Assets – Modified Cash Basis	1	4
Statement of Revenues, Expenses and Changes in Net Assets – Modified Cash Basis	2	5
Statement of Cash Flows – Modified Cash Basis	3	6
Notes to Basic Financial Statements		7-14
INTERNAL CONTROL AND COMPLIANCE:		
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed In Accordance with <i>Government Auditing Standards</i>		15-16

RURAL WATER DISTRICT #1, MURRAY COUNTY, OKLAHOMA
LIST OF PRINCIPAL OFFICIALS
For the fiscal year ended December 31, 2013

Board of Directors

Chairman – Tim Cowen

Vice Chairman – Randy Farmer

Secretary/Treasurer – Walter Allen

Member- L.A. Payne

Member – Bruce Reynolds

Member – Clifford Hughes

Member – Jimmy Britt

Member- Rick Buchanan

Member- Larry Keenan

Operator – Randy Mitchell

Asst. Operator – Glenn Woods

Bookkeeper/Manager – Jodi Crawford



KRISTI L. DOBBINS

Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT

To The Board of Directors
Rural Water District #1, Murray County, Oklahoma

Report on the Financial Statements

I have audited the accompanying modified cash basis financial statements and related notes to the financial statement of Rural Water District #1, Murray County, as of December 31, 2013, and for the year then ended 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 accounting principles generally accepted in the United States of America. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I express no such an 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of Rural Water District #1, Murray County as of December 31, 2013; the changes in financial position; and, cash flows thereof, for the year then ended in conformity with the accounting principles generally accepted in the United States of America.

Basis of Accounting

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

Other Matters**Required Supplementary Information**

Rural Water District #1, Murray County has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. My opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued a report dated February 16, 2014 on my consideration of the Rural Water District #1, Murray County's internal control over financial reporting and on my 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 my 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 read in conjunction with this report in considering the results of my audit.



Pauls Valley, Oklahoma
February 16, 2014

RURAL WATER DISTRICT #1, MURRAY COUNTY
STATEMENT ASSETS, LIABILITIES AND NET ASSETS - MODIFIED CASH BASIS
December 31, 2013

ASSETS

Cash and cash equivalents, unrestricted	\$967,224
Investments, unrestricted	127,426
Investments, restricted	5,904
Capital assets, net of depreciation	2,330,116
Deposit with insurance pool	2,000
Total Assets	<u>3,432,669</u>

LIABILITIES

Payroll taxes payable	4,867
Note payable, current	2,525
Note payable, noncurrent	66,189
Total Liabilities	<u>73,581</u>

NET ASSETS

Invested in capital assets, net of related debt	2,261,402
Restricted for debt service	5,904
Unrestricted	1,091,782
Total Net Assets	<u>\$3,359,088</u>

See accompanying notes to the basic financial statements.

Statement 2

RURAL WATER DISTRICT #1, MURRAY COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - MODIFIED CASH BASIS
December 31, 2013

Operating Revenues:	
Water	497,839
Late charges	11,938
Benefit units	20,504
Reading charges	61,666
Miscellaneous	20,807
Reconnect fees	9,644
Total Operating Revenues	<u>622,398</u>
Operating Expenses:	
Salaries	178,838
Payroll tax expense	14,943
Employee benefits	36,264
Truck expense	13,954
Professional fees	5,115
Dues, licenses and fees	4,708
Utilities	47,038
Insurance	25,806
Materials and supplies	25,022
Repairs and maintenance	9,927
Miscellaneous	3,430
Office expense	15,952
Telephone	2,915
Water wells and storage	3,800
Depreciation	143,245
Total Operating Expenses	<u>530,957</u>
Net Operating Income(Loss)	91,440
Non-Operating Revenues (Expenses):	
Interest income	16,395
Interest expense	(3,501)
Primrose Project Reimbursement	355,375
Primrose Project Expense	(355,375)
Contributed Capital	355,375
Net Income(Loss)	<u>459,709</u>
Net assets-beginning of year	2,899,379
Net assets-end of year	<u><u>3,359,088</u></u>

See accompanying notes to the basic financial statements.

RURAL WATER DISTRICT #1, MURRAY COUNTY
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
For the fiscal year ended December 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$622,398
Payments to suppliers	(193,931)
Payments to employees	(193,055)
Net Cash Provided by Operating Activities	<u>235,412</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

(Purchase) of capital assets	(172,947)
Principal paid on capital debt	(2,403)
Interest paid on capital debt	(3,501)
Net Cash Used by Capital and Related Financing Activities	<u>(178,851)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment income	16,395
Net Cash Provided by Investing Activities	<u>16,395</u>
Net Increase in Cash and Investments	72,955
Balance - beginning of the year	<u>1,027,598</u>
Balance - end of the year	<u><u>\$1,100,553</u></u>

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

Operating income(loss)	\$91,440
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	143,245
Change in assets and liabilities:	
Payroll taxes payable	<u>726</u>
Net cash provided by operating activities	<u><u>\$235,412</u></u>

See accompanying notes to the basic financial statements.

RURAL WATER DISTRICT #1, MURRY COUNTY, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
For the fiscal year ended December 31, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. FINANCIAL REPORTING ENTITY
- B. BASIS OF PRESENTATION
- C. ASSETS, LIABILITIES AND EQUITY
- D. REVENUES AND EXPENSES
- E. USE OF ESTIMATES
- F. DIFFERENCES FROM GAAP

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

- A. DEPOSITS AND INVESTMENT LAWS AND REGULATIONS
- B. DEBT RESTRICTIONS AND COVENANTS

NOTE 3. DETAIL NOTES - TRANSACTION CLASSES/ACCOUNTS

- A. CASH AND CASH EQUIVALENTS
- B. RESTRICTED ASSETS
- C. CAPITAL ASSETS
- D. LONG-TERM DEBT

NOTE 4. OTHER NOTES

- A. RISK MANAGEMENT
- B. EMPLOYEE PENSION AND OTHER BENEFITS
- C. COMMITMENTS AND CONTINGENCIES
- D. SUBSEQUENT EVENTS

RURAL WATER DISTRICT #1, MURRY COUNTY, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
For the fiscal year ended December 31, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.A. FINANCIAL REPORTING ENTITY

Rural Water District #1, Murray County, Oklahoma was established pursuant to Title 82 of Oklahoma State Law in June 1965. The purpose of the District is to provide a water distribution system for its members in the Sulphur, Oklahoma area. Members are owners of property located within the area who have subscribed to one or more Benefit Units. Each member represents one vote of the governing body of the District without any direct ownership in its assets.

The accompanying financial statements include all functions and activities over which the District exercises financial accountability. The District is considered a primary government as defined by the Governmental Accounting Standards Board (GASB) and has no other component units within its reporting entity.

1.B. BASIS OF PRESENTATION

The District utilizes the modified cash basis of accounting, which is comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under the modified cash basis of accounting assets, liabilities and related revenues and expenses are recorded when they result from cash transactions with an adjustment for depreciation.

If the District utilized the basis of accounting recognized as generally accepted, as a proprietary type fund, they would use the accrual basis of accounting. In other words, revenues would be recognized when earned and expenses (including depreciation) would be recorded when the liability is incurred or economic asset used.

1.C. ASSETS, LIABILITIES AND EQUITY

Cash and Cash Equivalents

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three-months or less.

Investments

Investments consist of certificates of deposit whose original maturity term exceeds three months and are carried at cost.

Accounts Receivable

As a result of the use of the modified cash basis of accounting, accounts receivable and other revenue related receivables are not reported in the financial statements.

Capital Assets

Facilities purchased, constructed, or donated are recorded at cost and include improvements that significantly add to the productive capacity or extend the useful life of the asset. The District has determined that assets with a cost of more than \$1,000 will be capitalized. Costs of maintenance and repairs are charged to expense. Upon retirement or disposal of assets, the cost and related accumulated depreciation are removed from the accounts, and gain or loss, if any, is reflected in earnings for that period. Depreciation is provided on a straight-line method over the estimated useful lives of the assets, generally forty years for the water system and five years for office furniture and equipment.

RURAL WATER DISTRICT #1, MURRY COUNTY, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
For the fiscal year ended December 31, 2013

Long-Term Debt

Long-term debt to be repaid from District resources are reported as liabilities in the balance sheet. As of December 31, 2013 long-term debt is comprised of one note payable.

Equity Classification

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvements of those assets.
- b. Restricted net assets - Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

It is the District's policy to first use restricted net assets prior to the use of unrestricted net assets when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

1.D. REVENUES AND EXPENSES

For purposes of the operating statement, revenues and expenses are classified by Operating and Non-Operating. The District reports expenses relating to use of economic resources including depreciation.

Benefit Unit Fees

Benefit unit fees represent a membership/connection fee required of each District member at the time they request service. This nonrefundable fee is designed to cover the estimated cost of connection, tap and related hook-up costs to the District's system. As such, the fees are recorded as operating revenue.

1.E. USE OF ESTIMATES

The preparation of financial statements in conformity with the other comprehensive basis of accounting used by the District requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

1.F. DIFFERENCES FROM GAAP

Basis of Accounting

As discussed in Note 1.B., the District reports its financial statements on a modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

RURAL WATER DISTRICT #1, MURRY COUNTY, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
For the fiscal year ended December 31, 2013

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

By its nature as a local government unit, the District is subject to various federal, state and local laws and contractual regulations. An analysis of the District's compliance with significant laws and regulations and demonstration of its stewardship over District resources follows:

2.A. DEPOSITS AND INVESTMENT LAWS AND REGULATIONS

In accordance with State law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State of Oklahoma or political subdivision debt obligations, surety bonds and certain letters of credit. As required by 12 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the District must have a written collateral agreement approved by the board of directors or loan committee. For the year ended December 31, 2013, the District's deposits were fully collateralized.

2.B. DEBT RESTRICTIONS AND COVENANTS

In accordance with the requirements set by Rural Development, the District is required to set aside funds for the purpose of major catastrophic repair or extensions and improvements. The funding amounts required are equal to one year's worth of payments, with the provision the District has ten years to fully fund the reserve. At December 31, 2013, the amount of reserve funds required is \$5,904. The reserve was fully funded at December 31, 2013.

NOTE 3. DETAIL NOTES-TRANSACTION CLASSES/ACCOUNTS

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues and expenditures/expenses.

3.A. CASH AND CASH EQUIVALENTS

Custodial Credit Risk

At December 31, 2013, the District held deposits of approximately \$1,100,553 at financial institutions. The District's cash deposits, including the interest-bearing certificates of deposit, are entirely covered by the Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name. See Note 2.A. above for details.

Investment Interest Rate Risk

The District does not have a formal investment policy that limits the investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

RURAL WATER DISTRICT #1, MURRY COUNTY, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
For the fiscal year ended December 31, 2013

Investment Credit Risk

The District has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bonds or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality, or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligation of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

The investments held at December 31, 2013 are as follows:

Type	Weighted Average Maturity (Months)	Credit Rating	Market Value	Cost
Investments				
Certificates of deposit	10	N/A	\$133,329	\$133,329
Total Investments			<u>\$133,329</u>	<u>\$133,329</u>

3.B. RESTRICTED ASSETS

The amount reported as restricted assets of the District on the Statement of Net Assets is comprised of amounts held by the District for cash held as debt service reserves on the Rural Development note payable. The restricted asset as of December 31, 2013 was as follows:

Investments: Debt service	\$ <u>5,904</u>
---------------------------	-----------------

RURAL WATER DISTRICT #1, MURRY COUNTY, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
For the fiscal year ended December 31, 2013

3.C. CAPITAL ASSETS

Capital assets activity resulting from modified cash basis transactions for the fiscal year ended December 31, 2013, was as follows:

	Balance at January 1, 2013	Additions	Disposals	Balance at December 31, 2013
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 17,416	-	-	\$ 17,416
CIP	5,987	-	5,987	-
Easement	1,300	-	-	1,300
Total capital assets not being depreciated	24,703	-	5,987	18,716
Other capital assets:				
Building	100,562	-	-	100,562
Office equipment	34,723	-	-	34,723
Machinery and equipment	170,915	27,693	-	198,608
Utility property and improvements	4,601,877	506,616	-	5,108,493
Total other capital assets at historical cost	4,908,077	534,309	-	5,442,386
Less accumulated depreciation for:				
Building	53,259	2,444	-	55,703
Office equipment	29,577	892	-	30,469
Machinery and equipment	123,830	13,561	-	137,391
Utility property and improvements	2,781,075	126,348	-	2,907,423
Total accumulated depreciation	2,987,741	143,245	-	3,130,986
Capital assets, net	\$ 1,945,039	\$391,064	\$5,987	2,330,116

3.D. LONG-TERM DEBT

At December 31, 2013, the District had the following long-term debt outstanding:

Note payable to RECD, payable in monthly installments of \$492, including principal and interest at 5%, final payment due November 19, 2031, secured by utility facilities.	<u>\$68,714</u>
Current portion	\$ 2,525
Noncurrent portion	<u>66,189</u>
Total Note Payable	<u>\$68,714</u>

RURAL WATER DISTRICT #1, MURRY COUNTY, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
For the fiscal year ended December 31, 2013

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended December 31, 2013:

	Balance January 1, 2013	Additions	Deductions	Balance December 31, 2013	Amounts Due Within One Year
Note Payable	\$ 71,117	\$ -	\$ 2,403	\$ 68,714	\$ 2,525
Total Debt	<u>\$ 71,117</u>	<u>\$ -</u>	<u>\$ 2,403</u>	<u>\$ 68,714</u>	<u>\$ 2,525</u>

Annual Debt Service Requirements

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of December 31, 2013 are as follows:

Year Ending December 31,	<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2014	2,525	3,379
2015	2,654	3,249
2016	2,782	3,122
2017	2,933	2,971
2018	3,083	2,821
2019-2023	17,939	11,581
2024-2028	23,023	6,497
2029-2031	<u>13,775</u>	<u>904</u>
Principal outstanding at December 31, 2013	<u>\$68,714</u>	<u>\$34,524</u>

NOTE 4. OTHER NOTES

4.A. RISK MANAGEMENT

Rural Water District No. 1 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 continues to carry commercial insurance for these risks, including general and auto liability, and property damage liability. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

4.B. EMPLOYEE PENSION AND OTHER BENEFITS

The District provides pension benefits through a Simplified Employee Pension Plan. As of December 31, 2013, the District provided a benefit to each employee in the amount of 7% of each employee's gross income excluding bonuses. The District provides no other deferred compensation or other post-employment benefits to employees of the District.

RURAL WATER DISTRICT #1, MURRY COUNTY, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
For the fiscal year ended December 31, 2013

4.C. COMMITMENTS AND CONTINGENCIES

Commitments

Rural Water District #1, Murray County, Oklahoma has a contract to sell water to Buckhorn Rural Water District #2, Murray County, Oklahoma and the Dougherty Public Water Works, which sets the cost of water purchased by the Water District. At December 31, 2013, the contract allowed a purchase rate of \$.90 per thousand gallons of water used. The contract with Buckhorn Rural Water District #2, Murray Co. extends through November 2046 and the contract with the Dougherty Public Water Works is renewed yearly.

Contingencies: Litigation

The District is not involved with any legal proceedings, which normally occur in the course of governmental operations at this time. Therefore, the financial statements do not include accruals or provisions for loss contingencies.

While legal proceedings cannot be foreseen, the District feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the District.

4.D. SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 25, 2013, 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.



KRISTI L. DOBBINS

Certified Public Accountant

**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**

February 16, 2014

Board of Directors
Rural Water District No. 1
Murray County, Oklahoma

I have audited the basic financial statements of Rural Water District #1, Murray County (the District) as of and for the year ended December 31, 2013, and have issued my report thereon dated February 16, 2014 which was a special report on the District's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United State of America. Except as noted in my report dated February 16, 2014, I conducted my audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The District did not present the Management's Discussion and Analysis that is required by the Governmental Accounting Standards Board to supplement, although, not be a part of the basic financial statements.

Internal Control over Financial Reporting

In planning and performing my audit, I considered the District's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Rural Water District #1, Murray County's internal control. Accordingly, I do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of control 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. 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 charges with governance.

My 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. Given these limitations, during my audit I consider the following to be a material weakness. Other material weaknesses may exist that have not been identified.

An adequate internal control structure does not exist because of the small size of the entity, nor is there adequate segregation of duties. A good internal control system would provide for separation of duties and responsibilities in financial matters between various employees. The individual receiving payments for utility billings would not be the same as the individual doing the billing, making the deposits and maintaining accounts receivable. The individual writing checks would not be the same as the individual recording those checks and reconciling bank accounts. However, because of the very limited number of administrative employees and the small size of the District budget, it is generally not financially efficient to have enough employees for proper segregation of duties. The best protection is to maintain sufficient bond on those handling cash to cover losses should they occur. This condition has been discussed with management, and management has concluded that the cost to correct this condition would exceed the benefit.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Kristi L. Dobbins, CPA