

Town of Rush Springs, Oklahoma
Agreed-Upon Procedures Report
Year-End June 30, 2011

RHJ

TOWN OF RUSH SPRINGS, OKLAHOMA
Index

Agreed Upon Procedures	1
Exhibit A	6
Exhibit B	7
Exhibit B-1	8
Exhibit C	9



Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Specified Users of the Report:

Town Council, Town of Rush Springs
Rush Springs, Oklahoma

Board of Trustees, Rush Springs Economic Development Authority
Rush Springs, Oklahoma

Oklahoma Office of State Auditor and Inspector
Oklahoma City, Oklahoma

We have compiled the accompanying Summary of Changes in Fund Balances – Cash Basis, of the Town of Rush Springs, Oklahoma and the Rush Springs Economic Development Authority, as of June 30, 2011, and the Budgetary Comparison Schedule of General Fund – Cash Basis and EMS Fund – Cash Basis, for the fiscal year ended June 30, 2011 and the accompanying supplementary information contained in Exhibit C, which is presented only for supplementary analysis purposes, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with cash basis accounting and for designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

100 E Street S.W., Suite 200 | Ardmore, OK 73401

Telephone (580) 223-6454 | FAX 1-800-858-9329

The accompanying statements were prepared for the purpose of complying with financial accountability requirements as prescribed by Oklahoma Statutes Title 11 – 17(105-107) and 60 – 180.1-.3. This is not intended to be a complete presentation of the Town’s assets and liabilities.

Additionally, we have performed the procedures enumerated below which were agreed to by the Town Council of the Town of Rush Springs, and as defined within the applicable state laws of the State of Oklahoma solely to assist the Town in meeting its financial accountability requirements as prescribed by Oklahoma Statutes Title 11 – 17 (105-107) and 60 – 180.1-.3 and to evaluate compliance with specified legal or contractual requirements for the fiscal year ended June 30, 2011. Management of the Town of Rush Springs is responsible for the Town’s financial accountability and its compliance with those legal and contractual requirements. This agreed upon procedures engagement was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Procedures and Findings

As to the Town of Rush Springs as of and for the fiscal year ended June 30, 2011:

1. ***Procedures Performed:*** From the Town’s and trial balances, we prepared a schedule of changes in fund balances for each fund (see accompanying Exhibit A) and compared the schedule results to the statutory prohibition of creating fund balance deficits to report any noted instances of noncompliance.

Findings: No exceptions were found as a result of applying the procedure.

2. ***Procedures Performed:*** From the Town’s trial balances, we prepared a budget and actual financial schedule for the General Fund and EMS Fund (see accompanying Exhibit B and Exhibit B-1) and compared the actual expenditures of encumbrances reported to the authorized appropriations to report any noted instances of noncompliance with the appropriation limitations.

Findings: The following departments exceeded their budgets within the General Fund: Clerk - \$2,283, Fire - \$16,415, Cemetery - \$4,847, Legal and Judicial - \$1,695, and General Government - \$81,865.

3. **Procedures Performed:** We agreed the Town's bank account balances to bank statements and traced the timely clearance to report any reconciling items that have not cleared.

Findings: No exceptions were found as a result of applying the procedure.

4. **Procedures Performed:** We compared the Town's uninsured deposits to fair value of pledged collateral to report any amounts of uninsured and uncollateralized deposits.

Finding: No exceptions were found as a result of applying the procedure.

5. **Procedures Performed:** We compared use of restricted revenues and resources to their restrictions to report any noted instances of noncompliance.

Finding: We found grant revenues noted in the detailed general ledger within certain categories of the General Fund, however we were unable to obtain grant documents and records needed to disclose grant information on Exhibit C or test expenditures for compliance.

6. **Procedures Performed:** We compared the accounting for the Town's activities by fund to the legal and contractual requirements for separate funds to report any noted instances of noncompliance.

Findings: Currently grant revenues and expenditures are mingled with other revenues and expenditures within the General Fund and Library Fund.

Individual grants should either have their own fund or a single grant fund could be established reflecting a revenue account number for each grant received and a corresponding expense account number for each specific grant.

7. **Procedures Performed:** We determined if there were requirements to maintain reserve accounts or debt service coverage requirements in bond indentures. We determined compliance with the requirements.

Findings: This procedure was not performed. The Town of Rush Springs has no debt service or reserve account requirements.

As to the **Rush Springs Economic Development Authority** as of and for the fiscal year ended June 30, 2011:

1. ***Procedures Performed:*** From the Authority's trial balances, we prepared a schedule of revenues, expenses and changes in fund balances for each fund (see accompanying Exhibit A) and compared the schedule results to the applicable trust prohibitions for creating fund balance deficits to report any noted instances of noncompliance.

Findings: No exceptions were noted as a result of applying the procedure.

2. ***Procedures Performed:*** We agreed all of the Authority's bank account balances to bank statements and traced the timely clearance of all reconciling items to report any instances of reconciling items over one year old that have not cleared.

Findings: No exceptions were noted as a result of applying the procedure.

3. ***Procedures Performed:*** We compared the Authority's uninsured deposits to fair value of pledged collateral to report any amounts of uninsured and uncollateralized deposits.

Findings: No exceptions were noted as a result of applying the procedure.

4. ***Procedures Performed:*** We selected cash disbursements greater than \$500 for grants and restricted revenue sources. We examined invoices to determine that use of the resources complied with the fund's restriction or the grant purposes. We compared the receipts and disbursements to grant agreements and supporting information.

Findings: This procedure was not performed. Rush Springs Economic Development Authority did not receive grants during 2010-11.

5. ***Procedures Performed:*** We compared the accounting for the Authority's activities by fund to the legal and contractual requirements for separate funds to report any noted instances of noncompliance.

Findings: No exceptions were noted as a result of applying the procedure.

6. ***Procedures Performed:*** We determined if there were requirements to maintain reserve accounts or debt service coverage requirements in debt contracts. We determined compliance with the requirements.

Findings: This procedure was not performed. Rush Springs Economic Authority does not have any requirements for reserve accounts or debt service coverage.

As to the **Town of Rush Springs** and **Rush Springs Economic Authority** as of and for the fiscal year ended June 30, 2011:

1. ***Procedures Performed:*** From the Town's and Authority's trial balances, we compiled the Annual Survey of City and City Finances (SA&I 2643) as described in Oklahoma Statutes 11-17-105.1.

Findings: Form SA&I 2643 with copies of the agreed upon procedures should have been filed by December 31, 2011. Due to delay in being able to perform the agreed upon procedures and obtain needed documentation to file the required reports with the State Auditor and Inspector's office before the final deadline of June 30, 2013, the gasoline excise has been put at risk or lost.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified users, as identified above, and is not intended to be and should not be used by anyone other than those specified parties.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the accounting records. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified users, as identified above, and is not intended to be and should not be used by anyone other than those specified parties.

December 3, 2013
Ardmore, Oklahoma

Rahel Henderson Johnson, PLLC

TOWN OF RUSH SPRINGS
Summary of Changes in Fund Balances – Cash Basis
For the Year Ended June 30, 2011

EXHIBIT A

TOWN:	FUND BALANCE	INFLOWS	OUTFLOWS	CASH BALANCE
GENERAL FUND	\$ 7,099	\$ 647,167	\$ 637,865	\$ 16,401
STREET AND ALLEY	27,422	11,807	21,526	17,703
EMS	106,356	263,792	201,841	168,307
LIBRARY	12,281	10,459	9,887	12,853
FIRE DEPARTMENT EQUIPMENT	4,666	9,834	12,825	1,675
CLEET	3,415	8,422	10,723	1,114
CEMETERY CARE	10,344	6,636	-	16,980
HAMPTON HOUSE	1,687	25		1,712
PARK IMPROVEMENT	106	0	0	106
POLICE EQUIPMENT		12,060	1,770	10,290
TOWN TOTALS	<u>\$ 173,376</u>	<u>\$ 958,142</u>	<u>\$ 896,437</u>	<u>\$ 236,851</u>
ECONOMIC DEVELOPMENT AUTH	<u>2,827</u>	<u>22,047</u>	<u>0</u>	<u>24,874</u>
OVERALL TOTALS	<u><u>\$ 176,203</u></u>	<u><u>\$ 980,189</u></u>	<u><u>\$ 896,437</u></u>	<u><u>\$ 261,725</u></u>

See Accompanying Accountants' Report

TOWN OF RUSH SPRINGS
Budgetary Comparison Schedule – Cash Basis
General Fund
For the Year Ended June 30, 2011

EXHIBIT B

GENERAL FUND	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Beginning Budgetary Fund Balance:	\$ (40,100)	\$ (40,100)	\$ 16,402	\$ 56,502
Resources (Inflows):				
Taxes	267,600	267,600	324,717	57,117
Franchise Fees	0	0	0	-
Licenses and Permits	2,100	2,100	1,162	(938)
Charges for Services	250,800	250,800	248,316	(2,484)
Miscellaneous Revenues	79,900	79,900	24,617	(55,283)
Grants	10,500	10,500	52,976	42,476
Total Inflows	610,900	610,900	651,788	40,888
Charges to Appropriations (Outflows):				
Clerk	78,500	78,500	80,783	(2,283)
Police	247,700	247,700	224,189	23,511
Fire	79,000	79,000	95,415	(16,415)
Library	30,200	30,200	33,150	(2,950)
Parks and Pool	68,400	68,400	46,020	22,380
Cemetery	1,500	1,500	6,347	(4,847)
Legal and Judicial	9,500	9,500	11,195	(1,695)
General Government	58,900	58,900	140,765	(81,865)
Total Outflows	573,700	573,700	637,864	(64,164)
Excess(Deficit) of Inflows over Outflows before Other Financing Sources (Uses)	37,200	37,200	13,924	(23,276)
Other Financing Sources (Uses)				
Transfers In	20,000	20,000	5,000	(15,000)
Transfers Out	40,000	40,000	34,214	5,786
Ending Budgetary Fund Balance:	<u>\$ (22,900)</u>	<u>\$ (22,900)</u>	<u>\$ 1,112</u>	<u>\$ 24,012</u>

See Accompanying Accountants' Report

TOWN OF RUSH SPRINGS
 Budgetary Comparison Schedule – Cash Basis
 EMS Fund
 For the Year Ended June 30, 2011

EMS FUND	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
Beginning Budgetary Fund Balance:	\$ -		\$ 106,356	\$ 106,356
Resources (Inflows):				
Charges for Services	164,000	164,000	134,287	(29,713)
County 522 Taxes	58,800	58,800	124,952	66,152
Interest Income	700	700	573	(127)
Miscellaneous Income	23,900	23,900	3,980	(19,920)
Total Inflows	247,400	247,400	263,792	16,392
Charges to Appropriations (Outflows):				
Ambulance	223,600	223,600	201,841	21,759
Total Outflows	223,600	223,600	201,841	21,759
Excess of Inflows over Outflows before Other Financing Sources (Uses)				
Transfers In	12,000	12,000		(12,000)
Transfers Out	(12,000)	(12,000)		12,000
Ending Budgetary Fund Balance:	<u>\$ 23,800</u>	<u>\$ 23,800</u>	<u>\$ 168,307</u>	<u>\$ 144,507</u>

See Accompanying Accountants' Report

TOWN OF RUSH SPRINGS
Schedule of Grant Activity
Cash Basis
For the Year Ended June 30, 2011

<u>PER GENERAL LEDGER NOTATIONS</u>	<u>Grant #</u>	<u>Amount Received</u>
Grants:		
Oklahoma Department of Agriculture, Food & Forestry	Operating Grant	\$ 4,398
FEMA		\$ 48,131
Police Grant		\$ 3,000
Various Library Grants		<u>\$ 8,551</u>
		<u><u>\$ 64,080</u></u>

See Accompanying Accountants' Report



Rush Springs Municipal Improvement Authority

Financial Statements

For the Fiscal Year Ended June 30, 2011

RHJ

Rush Springs Municipal Improvement Authority
Table of Contents
For the Fiscal Year Ended June 30, 2011

Page

FINANCIAL SECTION

Independent Auditor's Report.....	1
<i>Basic Financial Statements:</i>	
Fund Financial Statements:	
Statement of Net Assets – Modified Cash Basis	3
Statement of Revenues, Expenses, and Changes in Net Assets – Modified Cash Basis.....	4
Statement of Cash Flows – Modified Cash Basis	5
Notes to the Financial Statements.....	6
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	15
Schedule of Findings and Responses	17
Prior Year Audit Comments	23



INDEPENDENT AUDITORS' REPORT

Trustees of the Rush Springs Municipal Improvement Authority
Rush Springs, Oklahoma 73082

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, 2011, which collectively comprise the basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on those 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.

As discussed in Note II(G), the Rush Springs Municipal Improvement Authority adopted a policy to prepare its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

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 Improvement Authority, as of June 30, 2011, and the change in financial position – modified cash basis and cash flows – modified cash basis, thereof for the year then ended in conformity with the basis of accounting described in Note II(G).

In accordance with *Government Auditing Standards*, we have issued our report dated December 3, 2013, on our consideration of Rush Springs Municipal Improvement 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 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.

Rahhel Henderson Johnson, PLLC

Ardmore, Oklahoma
December 3, 2013

Rush Springs Municipal Improvement Authority
Statement of Net Assets – Modified Cash Basis
June 30, 2011

			Rush Springs
			Municipal
			<u>Authority</u>
ASSETS			
Current Assets			
	Cash and Cash Equivalent	\$	31,965
	Restricted Cash and Cash Equivalent		66,883
	Restricted Investments		33,000
	Due from Others		<u>47,644</u>
	Total Current Assets		179,492
Noncurrent Assets			
	Land		10,000
	Vehicles		112,400
	Building Improvements		39,783
	Machinery and Equipment		50,000
	Water and Sewer System		3,977,577
	Accumulated Depreciation		<u>(2,648,044)</u>
	Total Noncurrent Assets		<u>1,541,716</u>
Total Assets			<u>\$ 1,721,208</u>
LIABILITIES AND EQUITY			
Current Liabilities			
	Refundable Meter Deposits		71,774
	Notes Payable - Current		<u>58,284</u>
	Total Current Liabilities		130,058
Noncurrent Liabilities			
	Due to Rush Springs Economic Development		10,000
	Notes Payable		<u>619,628</u>
	Total Noncurrent Liabilities		629,628
Total Liabilities			<u>759,686</u>
Net Assets			
	Invested in Capital Assets		863,804
	Restricted for Debt Service		28,804
	Unrestricted		<u>68,914</u>
	Total Net Assets	\$	<u>961,522</u>
			-

The notes to the financial statements are an integral part of this statement.

Rush Springs Municipal Improvement Authority
Statement of Revenues, Expenses and Changes in Net Assets – Modified Cash Basis
For the Year Ended June 30, 2011

		Rush Springs
		Municipal
		<u>Authority</u>
	Operating Revenues:	
	Water	\$ 195,081
	Sewer	72,008
	Sanitation	184,275
	Grant Income	26,607
	Miscellaneous	<u>12,972</u>
	Total Operating Revenue	490,943
	Operating Expenses:	
	Salaries and Benefits	150,412
	Sanitation Services	151,199
	Maintenance and Operations	33,015
	Administration	46,644
	Depreciation	<u>161,049</u>
	Total Operating Expenses	542,319
	Operating Loss	(51,376)
	Nonoperating Revenues (Expenses):	
	Transfer In	38,714
	Transfers Out	(10,544)
	Interest Income	726
	Interest Expense	<u>(17,745)</u>
	Total Nonoperating Expenses	<u>11,151</u>
	Net Change in Net Assets	(40,225)
	Total Net Assets - Beginning	<u>1,001,747</u>
	Total Net Assets - Ending	<u><u>\$ 961,522</u></u>

The notes to the financial statements are an integral part of this statement.

Rush Springs Municipal Improvement Authority
Statement of Cash Flows – Modified Cash Basis
For the Year Ended June 30, 2011

		Rush Springs Municipal Authority
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating Revenues Received	\$	503,394
Vendors and Others Paid		(382,246)
Net Cash Provided by Operating Activities		121,148
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers, net		28,170
Net Cash Provided by Noncapital Financing Activities		28,170
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Payment of Debt		(27,981)
Purchase of Fixed Assets		(74,156)
Net Cash Used by Capital Financing Activities		(102,137)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income		726
Interest Expense		(17,745)
Net Cash Used by Investing Activities		(17,019)
Net Decrease in Cash and Cash Equivalents		30,162
Cash and Cash Equivalents, July 1, 2010		68,686
Cash and Cash Equivalents, June 30, 2011	\$	98,848
As shown on the Statement of New Assets - Modified Cash Basis		
Cash and Cash Equivalent	\$	31,965
Restricted Cash and Cash Equivalent		66,883
	\$	98,848
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income	\$	(51,376)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation		161,049
Increase in Customer Deposits		12,451
Decrease in Due from Others		(976)
Total Adjustments		172,524
Net Cash Provided by Operating Activities	\$	121,148
Additional Disclosure:		
Interest Expense	\$	17,745

The notes to the financial statements are an integral part of this statement.

Rush Springs Municipal Improvement Authority
Notes to the Financial Statements
June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The 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.

B. Measurement focus, basis of accounting, and financial statement presentation

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.

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.

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
Notes to the Financial Statements
June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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, is depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Water System	25
Vehicles	5
Machinery and equipment	10

Rush Springs Municipal Improvement Authority
Notes to the Financial Statements
June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

C. Assets, liabilities, and net assets or equity - continued

Long-term obligations

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

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 Asset* – consist of net assets that are restricted by creditors through debt covenants.
- *Unrestricted Net Assets* – all other net assets are reported in this category.

Subsequent Events

Management has evaluated subsequent events through December 3, 2013, the date which the financial statements were available and issued.

II. Detailed notes on all funds

A. Deposits

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, 2011, the bank balance was \$121,702. This entire amount was insured and collateralized.

At year end, the Authority's investments were held as certificates of deposits.

Rush Springs Municipal Improvement Authority
Notes to the Financial Statements
June 30, 2011

II. Detailed notes on all funds - continued

B. Capital assets

Capital asset activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Additions	Dispositions	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 10,000	\$ -	\$ -	\$ 10,000
Capital assets, being depreciated:				
Vehicles	112,400	-	-	112,400
Machinery and Equipment	51,500	38,283	-	89,783
Water and Sewer System	3,941,704	35,873	-	3,977,577
Total Capital assets, being depreciated	4,105,604	74,156	-	4,179,760
Less Accumulated Depreciation	(2,486,995)	(161,049)	-	(2,648,044)
Total Capital assets, being depreciated, net	1,618,609	(86,893)	-	1,531,716
Total Capital Assets, net	\$ 1,628,609	\$ (86,893)	\$ -	\$ 1,541,716

Depreciation expense was charged to functions/programs as follows:

Water and Sewer	<u>\$ 161,049</u>

C. Long-term debt

Notes Payable

Oklahoma Water Resources Board

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 \$28,804.

Rush Springs Municipal Improvement Authority
Notes to the Financial Statements
June 30, 2011

II. Detailed notes on all funds - continued

C. Long-term debt

The following is a schedule of principal and interest requirements at June 30, 2011:

Year Ending June 30,	Principal	Interest
2012	\$ 9,050	\$ 1,327
2013	12,900	1,253
2014	14,000	1,162
2015	15,100	1,089
2016	16,300	959
2017-2021	104,400	2,706
2022-2025	<u>23,600</u>	<u>118</u>
	<u>\$ 195,350</u>	<u>\$ 8,614</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, 2011:

Year Ending June 30,	Principal	Interest
2012	\$ 31,960	\$ 6,709
2013	33,118	5,757
2014	34,297	4,708
2015	35,517	3,662
2016	36,774	2,586
2017-2021	<u>57,639</u>	<u>1,757</u>
	<u>\$ 229,305</u>	<u>\$ 25,179</u>

Rush Springs Municipal Improvement Authority
Notes to the Financial Statements
June 30, 2011

II. Detailed notes on all funds - continued

C. Long-term debt

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, 2011, 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, 2011:

Year Ending June 30,	Principal	Interest
2012	\$ 13,270	\$ 6,781
2013	13,767	6,355
2014	14,260	5,933
2015	14,770	5,495
2016	15,283	5,056
2017-2021	85,101	20,369
2022-2025	<u>69,134</u>	<u>6,808</u>
	<u>\$ 225,585</u>	<u>\$ 56,797</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, 2011.

Rush Springs Municipal Improvement Authority
Notes to the Financial Statements
June 30, 2011

II. Detailed notes on all funds - continued

C. Long-term debt

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 General Fund will transfer funds to the Municipal Authority for repayment of the debt.

The following is a schedule of principal and interest requirements at June 30, 2011:

Year Ending June 30,	Principal	Interest
2012	\$ 4,004	\$ 1,500
2013	4,715	1,289
2014	5,006	999
2015	5,315	690
2016	5,642	362
2017-2021	<u>2,990</u>	<u>52</u>
	<u>\$ 27,672</u>	<u>\$ 4,892</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.

Changes in long-term liabilities

Notes Payable	<u>\$ 705,892</u>	<u>\$ 27,671</u>	<u>\$ 55,651</u>	<u>\$ 677,912</u>	<u>\$ 58,284</u>
Total Long Term Liabilities	<u>\$ 705,892</u>	<u>\$ 27,671</u>	<u>\$ 55,651</u>	<u>\$ 677,912</u>	<u>\$ 58,284</u>

Rush Springs Municipal Improvement Authority
Notes to the Financial Statements
June 30, 2011

D. Debt Service Coverage Requirement

The Oklahoma Water Resources Board requires that net revenues available Debt Service must equal at least 125% of maximum annual debt service. Actual coverage was as follows:

Net Revenues Available for Debt Service:	
Operating Revenue	\$ 490,943
Less Sanitation Revenue	<u>(184,275)</u>
Total Operating Revenue	306,668
Operating Expenses	542,319
Less Sanitation Expenses	(151,199)
Less Depreciation Expense	<u>(161,049)</u>
Total Operating Expenses	230,071
Interest Revenue	<u>726</u>
Net Revenues Available for Debt Service	<u>\$ 77,323</u>
Maximum Annual Debt Service Requirement @ 125%:	
FAP-94-0031-L	\$ 28,463
ORF-03-0004-DW	28,699
ORF-96-0004-CW	<u>50,416</u>
	<u>\$ 107,578</u>
Coverage	72%
Coverage Requirement	125%

E. Restricted Assets

Balances of restricted assets are as follows:

Customer Deposits	66,924
OWRB Debt Service	28,804
OWRB Debt Service	<u>442</u>
	<u>\$ 99,883</u>

Rush Springs Municipal Improvement Authority
Notes to the Financial Statements
June 30, 2011

II. Detailed notes on all funds - continued

F. Risk Management

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.



**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, Oklahoma 73082

We have audited the financial statements of Rush Springs Municipal Improvement Authority as of and for the year ended June 30, 2011, and have issued our report thereon dated December 3, 2013. Our report was modified because the Authority prepared its financial statements on the modified cash basis. 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

Management of Rush Springs Municipal Improvement Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we consider Rush Springs Municipal Improvement Authority'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 Rush Springs Municipal Improvement Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Rush Springs Municipal Improvement Authority'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, as described in the accompanying schedule of findings and responses we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

100 E Street S.W., Suite 200 | Ardmore, OK 73401

Telephone (580) 223-6454 | FAX 1-800-858-9329

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 11-1 and 11-4 described in the accompanying schedule of findings and responses 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 deficiency 11-2, described in the accompanying schedule of findings and responses, to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rush Springs Municipal Improvement Authority'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 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, 11-6 and 11-11.

Rush Springs Municipal Improvement Authority's response to findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Authority's responses and, accordingly, we express no opinion on them.

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.

This report is intended solely for the information and use of the Board of Trustees, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Rahhel Henderson Johnson, PLLC

Ardmore, Oklahoma
December 3, 2013

Rush Springs Municipal Improvement Authority
Schedule of Findings and Responses
June 30, 2011

11-1 Financial Reporting

Condition – The internal control structure of the Authority has focused primarily on operations. As part of the audit, management has engaged the auditors to assist in the preparation of the financial statements. However, the Authority does not currently have a control system in place to detect and correct misstatements in the financial statements or for determining the appropriate financial statement disclosures.

Criteria – Effective internal control over financial reporting includes the identification and analysis of the risk of material misstatements in the financial statements. Management of the Authority is responsible for designing a system to manage the risks over preparation of the financial statements. The responsibility for the financial statements remains with management even when the preparation of the financial statements is transferred to a service provider. A competent individual with sufficient awareness of or experience in accounting principles and disclosure requirements should be designated to oversee the preparation of the financial statements. The Board of Trustees must weigh the costs and benefits of having an individual available, whether internally or externally, to allow for an appropriately designed system.

Cause and Effect – Inadequate design of the financial reporting internal control system, results in material adjustments to the financial statements.

Recommendation – We recommend that the City evaluate the cost of engaging a third party or hiring an employee with sufficient awareness of or experience in accounting principles related to municipalities to allow for the design of an adequate financial reporting internal control system.

Management Response – Procedures have been implemented for internal review of certain accounts on a monthly basis, and engaging a third party with sufficient experience is being considered.

11-2 Segregation of Duties

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 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 internal controls.

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

Rush Springs Municipal Improvement Authority
Schedule of Findings and Responses
June 30, 2011

11-3 Loan Covenants

Condition – The Authority did not meet the required debt service coverage ratio of 1.25% of Net Revenue Available for Debt Service to Maximum Annual Debt Service Expense, 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 1.25% 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 provided the needed debt service coverage.

Management Response – Management agrees.

11-4 Material Adjustments to Financial Statements

Condition – The Authority does not record transactions that occur in the debt service accounts held by a trustee bank.

Criteria – Long term liability, restricted cash and debt service expenditure amounts were overstated.

Cause and Effect – Inadequate design of the financial reporting internal control system resulting in material adjustments needed to bring financial statements balances to actual amounts.

Recommendation – The Authority should record monthly transactions with the trustee bank and reconcile the accounts with statements provided by the trustee.

Management Response – Management agrees.

11-5 Utility Rates

Condition – Our testing noted outside city limit water, sewer and trash rates, as well as rates charged to apartment complexes were not approved by ordinance.

Criteria – All rates charged to customers should be approved by ordinance.

Cause and Effect – Lack of monitoring of rates and customer billing, could result in over or under billing of customers.

Recommendation – All rates should be approved by ordinance.

Management Response – Management agrees.

Rush Springs Municipal Improvement Authority
Schedule of Findings and Responses
June 30, 2011

11-6 Expenditures

Condition – Debt service payments were not sent timely to the Trustee Bank, retirement withholding and employer match checks were printed, but not sent to OMRF, and vendor checks were not paid timely.

Criteria – The Authority is required to make monthly debt service payments to a trustee bank for the repayment of Oklahoma Water Resources Board loans, retirement withholding and employer match should payments should be made timely after the payroll has been issued, and vendor checks need to be processed and paid timely.

Cause and Effect – The required monthly payments to the trustee were not made timely, resulting in the trustee bank having to use designated reserve fund for the required principal, interest and administration fees on the loans. Retirement and vendor checks were not paid timely, resulting in penalties and fees.

Recommendation – Debt service payments, retirement and vendor payments should be made timely.

Management Response – Management agrees.

11-7 Bank Reconciliations

Condition – Bank accounts are not reconciled to the general ledger monthly.

Criteria – Monthly bank reconciliations should be performed to ensure all items are accounted for properly.

Cause and Effect – Bank accounts were not reconciled timely. The June 30, 2011 operating account was not reconciled until February 2013. The Board of Trustee should receive financial statements tied to reconciled bank statements within 30 days of month end.

Recommendation – All bank accounts should be reconciled to the general ledger monthly, and reviewed by the board of trustees.

Management Response – Management agrees.

Rush Springs Municipal Improvement Authority
Schedule of Findings and Responses
June 30, 2011

11-8 Utility Adjustments

Condition – Our testing noted utility adjustments that were not properly approved.

Criteria – The internal controls surrounding utility adjustments require adjustments be approved prior to posting of customer accounts, and someone other than the cashier should post adjustments.

Cause and Effect – Lack of internal controls surrounding utility adjustments.

Recommendation – All utility adjustment should be properly approved.

Management Response – Management agrees.

11-9 Employee Accounts Receivable

Condition – Our testing showed four of thirty employee utility accounts were delinquent at June 30, 2011 and two of thirty employee accounts were not charged late fees on the delinquency.

Criteria – Accounting policies and procedures should specify the appropriate treatment for uncollectible accounts.

Cause and Effect – Inadequate design and implementation of policies resulted in no attempt to collect past due accounts.

Recommendation – We recommend that a utility aging report be provided monthly to the board for review.

Management Response – Management agrees.

Rush Springs Municipal Improvement Authority
Schedule of Findings and Responses
June 30, 2011

11-10 Capitalization Policy

Condition – Capital assets were not properly captured.

Criteria – The Authority should have a capitalization and useful lives policy for accounting for acquisition and recording capital assets. Capital asset depreciation charges should be calculated and the listing reconciled to the financial records.

Cause and Effect – The Authority has followed an informal policy for capturing asset additions. Material adjustments were necessary to properly record capital asset additions and depreciation.

Recommendation – A capitalization threshold amount should be set along with a definition for expenditures that should be capitalized versus those that should be expensed based on estimated useful life of the item acquired. A system should be developed for maintaining a capital asset listing to use for computing capital asset depreciation charges. The listing should be reviewed on a regular basis to determine completeness and that assets listed are still in use.

Management Response – Management agrees.

11-11 Conflict of Interest

Condition – Transactions occurred with Board Member's immediate family.

Criteria – Title 60, Section 178.8: "a conflict of interest shall be deemed to exist in any contractual relationship in which such trustee or member of his immediate family is an officer, partner, principal stockholder, shall directly or indirectly buy or sell goods or services to, or otherwise contract with such trust."

Cause and Effect – The Authority was not familiar with this requirement and policies do not exist to prevent conflict of interest transactions. Payments of \$6,423 were paid to a business owned by an immediate family member of a trustee.

Recommendation – We recommend that the Authority establish a policy that complies with state statutes related to conflict of interest.

Management Response – Management agrees

Rush Springs Municipal Improvement Authority
Schedule of Findings and Responses
June 30, 2011

11-12 Journal Entries

Condition – There is no approval for journal entries.

Criteria – Effective accounting procedures require approval for all journal entries.

Cause and Effect – Lack of oversight and no policy for approval of journal entries, results in the possibility of material misstatement to the financial statements through journal entries.

Recommendation – We recommend that the Board of Trustees reviews and approves all journal entries.

Management Response – Management agrees.

Rush Springs Municipal Improvement Authority
Prior Year Audit Comments
June 30, 2011

10-1 Financial Reporting

The Authority does not currently have a control system in place to detect and correct misstatements in the financial statements or for determining the appropriate financial statement disclosures

See Current Year Finding 11-1

10-2 Segregation of Duties

The Authority lacks segregation of accounting duties.

See Current Year Finding 11-2

10-3 Loan Covenants

The Authority did not meet the required debt service coverage ratio of 1.25% of Net Revenue Available for Debt Service to Maximum Annual Debt Service Expense, as required by the note payable agreements with Oklahoma Water Resources Board.

See Current Year Finding 11-3

10-4 Material Adjustments to Financial Statements

The Authority does not record transactions that occur in the debt service accounts held by a trustee bank.

See Current Year Finding 11-4

10-5 Utility Rates

All rates charged to customers should be approved by ordinance.

See Current Year Finding 11-5

10-6 Expenditures

Debt service payments were not sent timely to the Trustee Bank, retirement withholding and employer match checks were printed, but not sent to OMRP, and vendor checks were not paid timely.

See Current Year Finding 11-6

10-7 Bank Reconciliations

Bank accounts are not reconciled to the general ledger monthly.

See Current Year Finding 11-7

Rush Springs Municipal Improvement Authority
Prior Year Audit Comments
June 30, 2011

10-8 Utility Adjustments

Utility adjustments that were not properly approved.

See Current Year Finding 11-8

10-9 Employee Accounts Receivable

Employee utility accounts were delinquent.

See Current Year Finding 11-9

10-10 Capitalization Policy

Capital assets were not properly captured.

See Current Year Finding 11-10

10-11 Conflict of Interest

Transactions occurred with Board Member's immediate family.

See Current Year Finding 11-11

10-12 Journal Entries

There is no approval for journal entries.

See Current Year Finding 11-12

10-13 Loan Funds

The Rush Springs Economic Development Authority did not approve loan funds to go to the Rush Springs Municipal Authority.

Not a current year finding.