

**Financial Statements and Reports of
Independent Certified Public Accountant
Rural Water District No. 2
Rogers County, Oklahoma
June 30, 2014**

**TURNER & ASSOCIATES, PLC
Certified Public Accountants
P.O. Box 378
Vinita, OK 74301
918-256-6788**

**Rural Water District No. 2
Rogers County, Oklahoma
Water District Officials
June 30, 2014**

Board of Directors

Lonnie Shere	Chairman
Brett Battenfield	Vice-Chairman
Joanne Green	Secretary/Treasurer
Dennis Peters	Member
Brad Foster	Member

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Rogers County, Oklahoma
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Rogers County Rural Water District No. 2

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Rogers County Rural Water District No. 2, of the County of Rogers, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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. 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the special revenue fund activities of the Rogers County Rural Water District No. 2, as of June 30, 2014, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note I, the financial statements present only the Rogers County Rural Water District No. 2 and do not purport to, and do not present fairly the financial position of the County of Rogers, Oklahoma, as of June 30, 2014, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis and budgetary comparison information 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. Our opinion on the basic financial statements is not affected by this missing information.

TURNER & Associates, PLLC

Vinita, Oklahoma

January 20, 2015



**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 Directors
Rural Water District No. 2

We have audited, 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, the financial statements of the business-type activities of the Rogers County Rural Water District No. 2, County of Rogers, Oklahoma, as of and for the year ended June 30, 2014, and the related notes to the financial statements which collectively comprise the Rogers County Rural Water District No. 2's financial statements, and have issued our report thereon dated January 20, 2015. The Rogers County Rural Water District No. 2 did not present the Management's Discussion that accounting principles generally accepted in the United States of America require to supplement, although not to be part of, the basic financial statements.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Rogers County Rural Water District No. 2'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 Rogers County Rural Water District No. 2's internal control. Accordingly, we do not express an opinion on the effectiveness of Rogers County Rural Water District No. 2's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting 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 over financial reporting, describe in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency, 2014-01, described in the accompanying schedule of findings and responses to be a material weakness.

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.

Compliance and Other Matters

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

Rogers County Rural Water District No. 2 Response to Findings

The Rogers County Rural Water District No. 2's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Rogers County Rural Water District No. 2's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

TURNER & ASSOCIATES, PLLC

Vinita, Oklahoma
January 20, 2015

**Rural Water District No. 2
Rogers County, Oklahoma
Statement of Net Position
June 30, 2014**

	June 30, 2014	June 30, 2013 (Memo Only)
ASSETS		
Current Assets		
Cash and Equivalents	\$ 441,643.33	\$ 386,037.44
Investments	200,003.83	350,255.84
Accounts Receivable	42,516.53	48,070.94
Other Accrued Receivables	-	863.00
Inventory	51,799.61	34,130.74
Prepaid Expenses	9,461.93	7,098.99
Total Current Assets	<u>745,425.23</u>	<u>826,456.95</u>
Non-current Assets		
Capital Assets		
Property, Plant and Equipment, net	1,046,422.12	980,683.83
Construction in Progress	101,072.56	9,820.56
Land	24,142.25	24,142.25
Total Non-Current Assets	<u>1,171,636.93</u>	<u>1,014,646.64</u>
TOTAL ASSETS	<u>1,917,062.16</u>	<u>1,841,103.59</u>
LIABILITIES		
Current Liabilities		
Accounts Payable	44,882.88	28,580.17
Accrued Payables	10,216.07	8,922.24
Total Current Liabilities	<u>55,098.95</u>	<u>37,502.41</u>
NET POSITION		
Net Investment in Capital Assets	1,171,636.93	1,014,646.64
Unrestricted	690,326.28	788,954.54
Total Net Position	<u>\$ 1,861,963.21</u>	<u>\$ 1,803,601.18</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Rural Water District No. 2
Rogers County, Oklahoma
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2014

	June 30, 2014	June 30, 2013 (Memo Only)
Operating Revenues		
Water Revenues	\$ 553,946.51	\$ 579,193.07
Penalties and Fees	5,337.00	6,810.00
Other Operating Revenues	2,136.50	2,426.55
Total Operating Revenues	<u>561,420.01</u>	<u>588,429.62</u>
Operating Expenses		
Bad Debts	429.95	1,052.83
Depreciation	50,433.71	48,313.67
Employee Benefits	20,441.01	13,131.52
Insurance	11,275.24	12,478.06
Miscellaneous	4,502.52	1,668.71
Office Expense	24,712.31	15,617.57
Operating Supplies	22,465.73	24,966.30
Payroll Taxes	8,600.85	8,190.92
Professional Fees	9,471.73	7,041.59
Repairs and Maintenance	40,699.78	118,404.84
Salaries	105,710.82	101,039.41
Telephone	3,413.41	2,878.25
Testing	4,918.07	4,514.00
Utilities	13,185.83	13,619.64
Vehicle Maintenance	8,199.34	8,164.76
Water Purchases	198,269.52	172,138.20
Total Operating Expenses	<u>526,729.82</u>	<u>553,220.27</u>
Operating Income (Loss)	34,690.19	35,209.35
Non-Operating Revenues (Expenses)		
Interest Income	2,671.84	3,804.51
Capital Contributions		
Membership Fees	<u>21,000.00</u>	<u>45,000.00</u>
Net Income (Loss)	58,362.03	84,013.86
Net Position, Beginning of Year	1,803,601.18	1,719,587.32
Net Position, End of Year	<u>\$ 1,861,963.21</u>	<u>\$ 1,803,601.18</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

**Rural Water District No. 2
Rogers County, Oklahoma
Statement of Cash Flows
For the Year Ended June 30, 2014**

Cash Flows from Operating Activities

Cash Inflows:

Payments Received from Customers	\$	567,837.42
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Cash Outflows:

Payments to Suppliers for Goods and Services		(345,272.53)
Payments for Salaries and Benefits		(133,458.85)
Net Cash Provided (Used) by Operating Activities		89,106.04

Cash Flows from Capital and Related Financing Activities

Purchase of Capital Assets		(207,424.00)
Membership Fees Received		21,000.00
Net Cash Provided (Used) by Capital and Related Financing Activities		(186,424.00)

Cash Flows from Investing Activities

Interest Received		2,671.84
Cashed in CD		150,252.01
Net Cash Provided (Used) by Investing Activities		152,923.85

Net Cash Inflow (Outflow) from All Activities		55,605.89
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Cash and Cash Equivalents at Beginning of Year		386,037.44
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Cash and Cash Equivalents at End of Year	\$	441,643.33
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Reconciliation of Operating Income (Loss) to Net Cash

Provided by Operating Activities:

Operating Income (Loss)	\$	34,690.19
Depreciation		50,433.71
(Increase) Decrease in:		
Accounts Receivable		6,417.41
Inventory		(17,668.87)
Prepaid Expenses		(2,362.94)
Increase (Decrease) in:		
Accrued Payables		1,293.83
Accounts Payable		16,302.71
Net Cash Provided (Used) by Operating Activities	\$	89,106.04

The accompanying Notes to the Financial Statements are an integral part of this statement.

**Rural Water District No. 2
Rogers County, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2014**

The following notes to the financial statements are an integral part of Rural Water District No. 2's financial statements.

I. Summary of Significant Accounting Policies

Rural Water District No. 2, Rogers County, Oklahoma (the "District") was created under the provisions of Title 82, O.S. 1981, Sections 1324.1-1324.26 inclusive, for the purpose of providing water to the members of the District it serves. Membership in the water district consists of water users who have paid the required membership and connection fees. The District is exempt from federal and state income taxes.

The membership consists of approximately 1,038 users, each entitled one vote. The Board of Directors consists of 5 members serving one to three-year terms. The vacant Board seats are elected at the annual meeting, and following, the Board of Directors meet and elect a chairman, vice-chairman and secretary/treasurer. All Board members serve without pay.

The accounting policies of the District conform to generally accepted accounting principles applicable to governmental units. The District complies with generally accepted accounting principles and applies all relevant Government Accounting Standards Board (GASB) pronouncements. As permitted by generally accepted accounting principles, the District has elected to apply only applicable FASB Statements and Interpretations issued on or before November 30, 1989 that do not contradict GASB pronouncements in its accounting and reporting practices for its proprietary operations.

Adoption of Accounting Principles

Effective July 1, 2012, the District implemented the following financial accounting and reporting standards issued by GASB:

Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34* (GASB 61). This statement provides guidance on information presented about the financial reporting entity and its component units and amends the criteria for blending in certain circumstances. The adoption of GASB Statement No. 61 did not have a material effect on the financial statements in the current year and had no effect on previously issued financial statements.

Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63). This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The adoption of GASB Statement No. 61 did not have a material effect on the financial statements in the current year and had no effect on previously issued financial statements.

Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets or liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The City determined there were no deferred outflows or inflows during the current year.

**Rural Water District No. 2
Rogers County, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2014**

I. Summary of Significant Accounting Policies (continued)

A. Financial Reporting Entity

Rural Water District No. 2 is an independent, self-contained reporting entity with no associated component units. It is operated in a manner similar to a private business enterprise where the cost (expenses, including depreciation) of providing water services is financed through user charges.

B. Basis of Presentation

The District's fund is an enterprise fund. Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

C. Measurement Focus and Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with Generally Accepted Accounting Principles (GAAP) promulgated in the United States of America. The accounting and financial reporting treatment is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation are included on the statement of net position. The operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Depreciation expense is provided for capital assets based upon estimated useful lives.

Financial activity is accounted for on the flow of economic resources measurement focus using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. As permitted by Generally Accepted Accounting Principles (GAAP), the District has elected to apply only applicable FASB Statements and Interpretations issued on or before November 30, 1989 that do not contradict GASB pronouncements in its accounting and reporting practices for its proprietary operations.

Memorandum Only – Total Column

The total column on the financial statements is captioned "Memo Only" to indicate that it is present only to facilitate financial analysis. Data in this column does not present assets and liabilities, revenues collected and expenditures paid in conformity with the statutory basis of accounting. Neither is such data comparable to a consolidation. Inter-fund eliminations have not been made in the aggregation of this data.

**Rural Water District No. 2
Rogers County, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2014**

I. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Position

1. Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all cash on hand, demand deposits, and highly liquid investments, with an original maturity of three months or less when purchased, to be cash and cash equivalents.

2. Investments

Investments consist of a certificate of deposit maturing in the following fiscal year with interest paid monthly.

3. Fair Value of Financial Instruments

The District's financial statements include cash and investments. The District's estimates of the fair value of all financial instruments do not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying Statement of Net Position. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

4. Inventory of Supplies and Materials

Inventory is stated at cost using the first-in, first-out method. Inventories, which consist of materials and supplies used for repairs to the system, are recorded under the purchases method where materials and supplies are recorded as an expense immediately when purchased. Supplies Expense is adjusted at the end of the year when an actual count of inventory of materials and supplies on hand is made.

5. Accounts Receivable

Accounts receivable consists primarily of charges for water sales. Management considers the accounts to be fully collectible.

Other receivables consist of a reimbursement from the County to cover the cost of moving water lines due to a bridge being moved by the County.

6. Prepaid Expenses

Prepaid expenses represent the unexpired premiums on general liability and workman's compensation insurance policies.

**Rural Water District No. 2
Rogers County, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2014**

I. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Position (continued)

7. Capital Assets

Capital assets are carried at historical cost. Donated capital assets are reported at fair market value as of the date donated. District policy has set the capitalization threshold for reporting capital assets at \$500.

Additions and improvements that significantly extend the useful life of an asset are capitalized. The cost of normal maintenance and repairs are expensed as incurred.

All reported capital assets are depreciated on the straight-line basis over the estimated useful lives ranging from five to fifty years.

8. Annual Budget-to-Actual Comparison

The District is not legally required to prepare an annual budget. Therefore, an annual budget-to-actual comparison as required by GASB 34 is not presented.

9. Recent Accounting Pronouncements

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*. This Statement improves financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards governing accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. The City is evaluating the impact of this pronouncement on its financial statements.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*. This Statement improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local government employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards governing accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement will be effective for the City in fiscal year 2015. The City is in the process of evaluating the impact of this pronouncement on its financial statements.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The objective of GASB 71 is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to

**Rural Water District No. 2
Rogers County, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2014**

I. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Position (continued)

9. Recent Accounting Pronouncements (continued)

a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This Statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability.

The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68.

10. Equity Classifications

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

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

11. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. Detailed Notes Concerning the Funds

A. Deposits and Investments

Custodial Credit Risk – Deposits: Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's cash deposits, including interest-bearing certificates of deposit, are maintained in financial institutions. The District does not have a deposit policy for custodial credit risk. As of June 30, 2014, none of the District's investments were exposed to custodial credit risk because they were uninsured or uncollateralized.

Rural Water District No. 2
Rogers County, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2014

II. Detailed Notes Concerning the Funds (continued)

A. Deposits and Investments (continued)

Interest rate risk: This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

B. Changes in Capital Assets

Capital asset activity for the year was as follows:

	June 30, 2013	Additions	Deletions	June 30, 2014
Capital assets not being depreciated:				
Land	\$ 24,142.25	\$ -	\$ -	\$ 24,142.25
Construction in Progress	9,820.56	91,252.00	-	101,072.56
Total capital assets not being depreciated	33,962.81	91,252.00	-	125,214.81
Other capital assets:				
Water Distribution System	1,705,452.07	115,575.00	-	1,821,027.07
Building	64,320.20	-	-	64,320.20
Office Furniture	13,115.50	-	-	13,115.50
Equipment and Tools	35,741.31	597.00	-	36,338.31
Total other capital assets	1,818,629.08	116,172.00	-	1,934,801.08
Less accumulated depreciation for:				
Water Distribution System	(751,761.92)	(43,269.10)	-	(795,031.02)
Building	(57,924.85)	(595.94)	-	(58,520.79)
Office Furniture	(8,514.22)	(1,303.95)	-	(9,818.17)
Equipment and Tools	(19,744.26)	(5,264.72)	-	(25,008.98)
Total accumulated depreciation	(837,945.25)	(50,433.71)	-	(888,378.96)
Other capital assets, net	980,683.83	65,738.29	-	1,046,422.12
Total capital assets	\$ 1,014,646.64	\$ 156,990.29	\$ -	\$ 1,171,636.93

III. Other Information

A. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District purchases commercial insurance to cover these risks, including general and auto liability, property damage, and public officials liability. There were no significant reductions in insurance coverage from the prior year. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**Rural Water District No. 2
Rogers County, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2014**

III. Other Information (continued)

B. Rates and Fees

Current rates include a \$15.00 residential minimum charge and a \$75.00 commercial minimum charge, and then \$4.75 per 1,000 gallons used (or \$4.15 per 1,000 for the school) with an additional \$0.10 escalation after 5,000 gallons used. At 16,000 gallons and up, the rate is \$5.05 per 1,000 gallons used. Tap fees are \$1,500.00.

C. Retirement

After three years continuous employment, employees are eligible to participate in the District's Simplified Employee Pension Plan. Employees may contribute by deferring a portion of their wages. The Board of Directors decides annually how much the District will match or contribute within guidelines prescribed by the plan.

The District's contributions to the plan for the years ended June 30, 2014, 2013 and 2012 were \$3,010, \$2,924 and \$2,357, respectively which are equal to the required contributions for each year.

D. Contingent Liabilities

The governing board of the District is not aware of any pending or threatened legal actions against it. However, any such actions would probably be covered by insurance.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

E. Subsequent Events

Management has evaluated subsequent events through January 20, 2015, which is the date the financial statements were available to be issued.

**Rural Water District No. 2
Rogers County, Oklahoma
Schedule of Findings and Responses
For the Year Ended June 30, 2014**

FINDINGS - FINANCIAL STATEMENT AUDIT

2014-1 Material Adjusting Journal Entries

Criteria:

The government's management is responsible for internal controls over accounting and financial reporting. This responsibility includes the design and implementation of controls over the fair and complete presentation of the government's annual financial statements in accordance with generally accepted accounting principles (GAAP) from trial balances derived from the government's accounting records. For trial balances to be both complete and accurate, the government must have effective internal controls over recording, processing, summarizing, and adjusting accounting data. As evidence of effective internal controls over accounting and financial reporting, there should generally be few, if any, material adjustments to the trial balances required that are detected and corrected solely as a result of the financial statement audit. In other words, government management should not rely on the external auditor to detect and correct material misstatements in the books and records as part of its internal control, but rather should have its own procedures designed and in place that are independent of the external auditor to provide reasonable, although not absolute, assurance that material misstatements will be detected and corrected in its trial balances prior to audit.

Condition:

The government's trial balances for the year ended June 30, 2014, required a number of material adjusting journal entries in order for the financial statements to be prepared in accordance with GAAP. These necessary adjusting entries, identified solely as a result of the financial statement audit, included such adjustments as the following: adjusting accounts receivable/accounts payable; writing off outstanding checks; capital asset additions; adjusting payroll taxes, prepaid insurance, inventory, interest earned, and depreciation.

Cause:

The government's accounting and financial reporting staff lacks the necessary knowledge, expertise and education, relative to the complex nature of applying GAAP applicable to state and local governments, sufficient to provide reasonable assurance that the trial balances used for preparing the GAAP financial statements are complete and accurate prior to audit. As a result, management has had to rely on the external auditors to identify and correct a number of material misstatements in the trial balances.

Effect:

As a result of this condition, without reliance on its external auditors, the government lacks the necessary internal controls over the completeness and accuracy of the trial balances that are used in the preparation of its financial statements in accordance with GAAP. This condition can result in undetected and uncorrected material misstatements in the financial statements that are not detected by management and may also not be detected by the financial statement audit. In addition, if management's intentions are to continue to rely on the external auditor to detect and correct material misstatements, this condition could place the auditor in a questionable position regarding auditor independence as a result of the auditor performing part of management's functions regarding to the trial balances.

**Rural Water District No. 2
Rogers County, Oklahoma
Schedule of Findings and Responses
For the Year Ended June 30, 2014**

2014-1 Material Adjusting Journal Entries (continued)

Recommendation:

The government should consider designing and implementing sufficient internal controls over the completeness and accuracy of trial balances by obtaining the necessary knowledge, expertise, and continuing education to apply GAAP in the development of working trial balances that will be used to prepare the government's annual financial statements. This could be achieved through employment of qualified accounting staff or the outsourcing of these control activities to a qualified accounting firm other than the external auditor.

Client Response:

No response.