

**Financial Statements and Reports of
Independent Certified Public Accountant
Rural Water District No. 2
Rogers County, Oklahoma
June 30, 2015**

**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, 2015**

Board of Directors

| | |
|-------------------|---------------------|
| Lonnie Shere | Chairman |
| Brett Battenfield | Vice-Chairman |
| Joanne Green | Secretary/Treasurer |
| Charlie Kellehan | Member |
| Brad Foster | Member |

Rural Water District No. 2
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, 2015, 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, 2015, 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, 2015, 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 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

June 13, 2016



**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, 2015, 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 June 13, 2016. 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.

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. 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*.

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
June 13, 2016

Rural Water District No. 2
Rogers County, Oklahoma
Statement of Net Position
June 30, 2015

| | June 30, 2015 | June 30, 2014 (Memo Only) |
|------------------------------------|------------------------|------------------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and Equivalents | \$ 466,099.74 | \$ 441,643.33 |
| Investments | 200,003.83 | 200,003.83 |
| Accounts Receivable | 52,591.24 | 42,516.53 |
| Inventory | 55,502.16 | 51,799.61 |
| Prepaid Expenses | 7,745.46 | 9,461.93 |
| Total Current Assets | <u>781,942.43</u> | <u>745,425.23</u> |
| Non-current Assets | | |
| Capital Assets | | |
| Property, Plant and Equipment, net | 1,102,289.18 | 1,046,422.12 |
| Construction in Progress | 6,277.50 | 101,072.56 |
| Land | 24,142.25 | 24,142.25 |
| Total Non-Current Assets | <u>1,132,708.93</u> | <u>1,171,636.93</u> |
| TOTAL ASSETS | <u>1,914,651.36</u> | <u>1,917,062.16</u> |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts Payable | 31,738.16 | 44,882.88 |
| Accrued Payables | 15,587.61 | 10,216.07 |
| Total Current Liabilities | <u>47,325.77</u> | <u>55,098.95</u> |
| NET POSITION | | |
| Net Investment in Capital Assets | 1,132,708.93 | 1,171,636.93 |
| Unrestricted | 734,616.66 | 690,326.28 |
| Total Net Position | <u>\$ 1,867,325.59</u> | <u>\$ 1,859,259.60</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, 2015

| | June 30, 2015 | June 30, 2014 (Memo Only) |
|--|------------------------|------------------------------|
| Operating Revenues | | |
| Water Revenues | \$ 543,009.17 | \$ 553,946.51 |
| Penalties and Fees | 6,470.00 | 5,337.00 |
| Other Operating Revenues | 2,564.00 | 2,136.50 |
| Total Operating Revenues | <u>552,043.17</u> | <u>561,420.01</u> |
| Operating Expenses | | |
| Bad Debts | 572.72 | 429.95 |
| Depreciation | 54,705.29 | 50,433.71 |
| Employee Benefits | 22,184.50 | 20,441.01 |
| Insurance | 13,434.71 | 11,275.24 |
| Miscellaneous | 5,114.92 | 4,502.52 |
| Office Expense | 25,480.14 | 24,712.31 |
| Operating Supplies | 41,553.62 | 22,465.73 |
| Payroll Taxes | 11,543.73 | 8,600.85 |
| Professional Fees | 7,327.25 | 9,471.73 |
| Repairs and Maintenance | 56,791.34 | 40,699.78 |
| Salaries | 115,929.55 | 105,710.82 |
| Telephone | 3,389.31 | 3,413.41 |
| Testing | 4,764.00 | 4,918.07 |
| Utilities | 13,004.89 | 13,185.83 |
| Vehicle Maintenance | 7,555.34 | 8,199.34 |
| Water Purchases | 185,263.32 | 198,269.52 |
| Total Operating Expenses | <u>568,614.63</u> | <u>526,729.82</u> |
| Operating Income (Loss) | (16,571.46) | 34,690.19 |
| Non-Operating Revenues (Expenses) | | |
| Interest Income | 2,137.45 | 2,671.84 |
| Capital Contributions | | |
| Membership Fees | <u>22,500.00</u> | <u>21,000.00</u> |
| Net Income (Loss) | 8,065.99 | 58,362.03 |
| Net Position, Beginning of Year | 1,859,259.60 | 1,803,601.18 |
| Net Position, End of Year | <u>\$ 1,867,325.59</u> | <u>\$ 1,859,259.60</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, 2015**

Cash Flows from Operating Activities

Cash Inflows:

| | | |
|----------------------------------|----|------------|
| Payments Received from Customers | \$ | 541,968.46 |
|----------------------------------|----|------------|

Cash Outflows:

| | | |
|--|--|--------------|
| Payments to Suppliers for Goods and Services | | (382,085.97) |
| Payments for Salaries and Benefits | | (144,286.24) |
| Net Cash Provided (Used) by Operating Activities | | 15,596.25 |

Cash Flows from Capital and Related Financing Activities

| | | |
|--|--|-------------|
| Purchase of Capital Assets | | (15,777.29) |
| Membership Fees Received | | 22,500.00 |
| Net Cash Provided (Used) by Capital and Related Financing Activities | | 6,722.71 |

Cash Flows from Investing Activities

| | | |
|-------------------|--|----------|
| Interest Received | | 2,137.45 |
|-------------------|--|----------|

Net Cash Inflow (Outflow) from All Activities

| | | |
|--|--|------------|
| Cash and Cash Equivalents at Beginning of Year | | 24,456.41 |
| | | 441,643.33 |
| Cash and Cash Equivalents at End of Year | | 466,099.74 |

**Reconciliation of Operating Income (Loss) to Net Cash
Provided by Operating Activities:**

| | | |
|--|----|-------------|
| Operating Income (Loss) | | (16,571.46) |
| Depreciation | | 54,705.29 |
| (Increase) Decrease in: | | |
| Accounts Receivable | | (10,074.71) |
| Inventory | | (3,702.55) |
| Prepaid Expenses | | (987.14) |
| Increase (Decrease) in: | | |
| Accrued Payables | | 5,371.54 |
| Accounts Payable | | (13,144.72) |
| Net Cash Provided (Used) by Operating Activities | \$ | 15,596.25 |

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, 2015**

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.

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.

**Rural Water District No. 2
Rogers County, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2015**

I. Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting (continued)

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.

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 certificates of deposit maturing in the following fiscal year with interest paid monthly. The governing body has not formally adopted deposit and investment policies that limit the government’s allowable deposits or investments.

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.

**Rural Water District No. 2
Rogers County, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2015**

I. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Position (continued)

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.

6. Prepaid Expenses

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

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. Budget

The district's management prepares an annual budget as directed by Title 82, O.S. 1994 §, 1324.18.

**Rural Water District No. 2
Rogers County, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2015**

I. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Position (continued)

9. Recent Accounting Pronouncements

In February 2015, GASB issued Statement No. 72 Fair Value Measurement and Application. The objective of this statement is to provide guidance for determining a fair value measurement and for applying fair value to certain investments as well as disclosures for all fair value measurements.

This statement is effective for fiscal years beginning after June 30, 2015. Certain investments with maturity of one year or less are exempt from these fair value measurements. As such, the effect of this statement is not expected to have a significant impact on the District's financial statements for the year ended June 30, 2015.

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.

**Rural Water District No. 2
Rogers County, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2015**

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, 2015, none of the District's investments were exposed to custodial credit risk because they were uninsured or uncollateralized.

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, 2014 | Additions | Deletions | June 30, 2015 |
|--|-----------------|--------------|---------------|-----------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 24,142.25 | \$ - | \$ - | \$ 24,142.25 |
| Construction in Progress | 101,072.56 | 6,277.50 | 101,072.56 | 6,277.50 |
| Total capital assets not being depreciated | 125,214.81 | 6,277.50 | 101,072.56 | 30,419.75 |
| Other capital assets: | | | | |
| Water Distribution System | 1,821,027.07 | 101,072.56 | - | 1,922,099.63 |
| Building | 64,320.20 | 1,700.00 | - | 66,020.20 |
| Office Furniture | 13,115.50 | 2,259.02 | - | 15,374.52 |
| Equipment and Tools | 36,338.31 | 5,540.77 | - | 41,879.08 |
| Total other capital assets | 1,934,801.08 | 110,572.35 | - | 2,045,373.43 |
| Less accumulated depreciation for: | | | | |
| Water Distribution System | (795,031.02) | (46,759.04) | - | (841,790.06) |
| Building | (58,520.79) | (765.94) | - | (59,286.73) |
| Office Furniture | (9,818.17) | (1,121.49) | - | (10,939.66) |
| Equipment and Tools | (25,008.98) | (6,058.82) | - | (31,067.80) |
| Total accumulated depreciation | (888,378.96) | (54,705.29) | - | (943,084.25) |
| Other capital assets, net | 1,046,422.12 | 55,867.06 | - | 1,102,289.18 |
| Total capital assets | \$ 1,171,636.93 | \$ 62,144.56 | \$ 101,072.56 | \$ 1,132,708.93 |

**Rural Water District No. 2
Rogers County, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2015**

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.

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 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. The school pays \$4.15 per 1,000 gallons at all rates of usage. 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, 2015, 2014 and 2013 were \$3,113, \$3,010 and \$2,924, 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.

E. Prior Period Adjustment

Beginning net position of the District as of June 30, 2015 was restated for a prior period adjustment. The adjustment related to prepaid insurance expense not booked in the prior year. As a result, beginning net position for June 30, 2015 has been changed from \$1,861,963.21 to \$1,859,259.60.

F. Subsequent Events

Management has evaluated subsequent events through the date of this report, which is the date the financial statements were available to be issued.