

**LOVE COUNTY RURAL
WATER DISTRICT NO. 2**

Audit Report

Year Ended June 30, 2014

LOVE COUNTY RURAL WATER DISTRICT NO. 2
June 30, 2014

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Love County Rural Water District No. 2
Thackerville, Oklahoma

Report on the Financial Statements

We have audited accompanying financial statements of Love County Rural Water District No. 2 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Love County Rural Water District No. 2, as of June 30, 2014, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

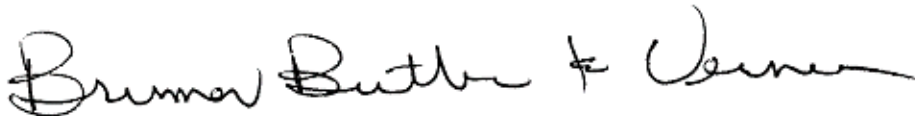
Other Matters

Required Supplementary Information

Management has omitted managements' 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 26, 2014, on our consideration of the Love County Rural Water District No. 2's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Love County Rural Water District No. 2's internal control over financial reporting and compliance.

A handwritten signature in cursive script, appearing to read "Brunner Butcher & Co.", written in black ink.

Ardmore, Oklahoma
August 26, 2014

RURAL WATER DISTRICT No. 2, LOVE COUNTY
BALANCE SHEET
June 30, 2014

CURRENT ASSETS

Cash - unrestricted	\$ 564,832
Cash invested in certificates of deposit	104,845
Accounts receivable net of allowance for bad debts	50,243
Inventory	<u>30,672</u>

TOTAL CURRENT ASSETS 750,592

FIXED ASSETS, net of depreciation 1,001,075

\$ 1,751,667

CURRENT LIABILITIES

Accounts payable	\$ 21,072
Customer deposits	<u>7,026</u>

TOTAL CURRENT LIABILITIES 28,098

TOTAL LIABILITIES 28,098

NET ASSETS

Invested in capital assets, net of related debt	970,769
Unrestricted net assets	<u>752,800</u>
	<u>1,723,569</u>

\$ 1,751,667

RURAL WATER DISTRICT No. 2, LOVE COUNTY
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
June 30, 2014

REVENUE	
Water sales and related revenues	\$ 508,640
EXPENSES	
Salaries and benefits	183,916
Depreciation and amortization	57,670
Bad debt expense	20
Utilities and telephone	40,002
Insurance	27,818
Repairs and maintenance	18,885
Office and printing	10,652
Professional fees	6,593
Supplies	21,395
Gas, oil and mileage	7,463
Machine hire and contract labor	6,456
Water testing	4,370
Returned checks	396
Uniforms	2,311
Advertising	2,229
Bank fees	3,310
Miscellaneous other expense	<u>7,238</u>
	<u>400,723</u>
	OPERATING INCOME 107,916
Rental income	3,000
Gain on sale of assets	2,150
Interest income	<u>473</u>
	NET INCOME 113,540
NET ASSETS BEGINNING OF THE YEAR	<u>1,610,029</u>
NET ASSETS END OF THE YEAR	<u>\$ 1,723,569</u>

The accompanying notes are an integral part of these financial statements.

RURAL WATER DISTRICT No. 2, LOVE COUNTY
STATEMENT OF CASH FLOWS
Year ended June 30, 2014

Cash flow from Operating Activities:

Cash received from customers	\$ 509,903
Cash paid for goods and services	144,878
Cash paid for employees and contractors	<u>197,756</u>
	342,634
Net cash provided (used) by operating activities	<u>167,268</u>

Cash flows from capital and related financing activities:

Cash received on sale of equipment	2,150
Cash paid for property and equipment	<u>(53,697)</u>
	(51,547)

Cash flows from non-capital financing activities

Increase in tenant deposits	244
Investment in certificates of deposit	<u>(176)</u>
	68

Cash flows from investing activities:

Interest received	473
Rents received	<u>3,000</u>
Net cash provided (used) by investing activities	3,473
Net Increase (Decrease) in Cash	119,263

Cash at the Beginning of the Year	<u>445,569</u>
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Cash at the End of the Year	<u>\$ 564,832</u>
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Reconciliation of operating income (loss) to net cash

Provided by operating activities:

Operating income	\$ 107,916
Depreciation and amortization	57,670
(Increase) Decrease accounts receivable	1,679
(Increase) Decrease in inventory	(4,385)
Increase (Decrease) accounts payable	<u>4,388</u>
	59,352
Total adjustments	<u>59,352</u>
Net cash provided (used) by operating activities	<u>\$ 167,268</u>

LOVE COUNTY RURAL WATER DISTRICT NO.2
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and nature of operations

Love County Rural Water District No. 2 (the "District") is a body corporate and politic, without taxing power, established in the State of Oklahoma pursuant to Title 82, Oklahoma Statutes 1991, and an Order of the Board of County Commissioners of Love County, Oklahoma dated as of July 26, 1993. All assets and liabilities of Thackerville Water and Sewerage Company were transferred to the District. Its purpose is the construction, maintenance and operation of a water works within its district.

The basic financial statements of the Love County Rural Water District #2 have been prepared in conformity with generally accepted accounting principles as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The District is governed by a Board of Directors consisting of five members elected by the members of the District. The Board elects a Chairman.

Basis of Presentation

The District's resources are allocated to and accounted for in these basic financial statements as an enterprise fund type of the proprietary fund group. The enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other policies. Net assets for the enterprise fund represent the amount available for future operations.

Basis of accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The enterprise fund type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. Net assets are segregated into amounts invested in capital assets, net of related debt, amounts restricted and amount unrestricted. Enterprise fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The District uses the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Revenues are recognized when customers are billed.

Accounts receivable

The District uses the allowance method to account for uncollectible accounts receivable. Accounts receivable are presented net of an allowance for doubtful accounts of \$1,000.

LOVE COUNTY RURAL WATER DISTRICT NO.2
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with an initial maturity of three months or less to be cash equivalents, including restricted assets.

Fair Value of Financial Instruments Approximates Carrying Amount

The District's financial instruments are cash and cash equivalents, accounts receivable and accounts payable. The recorded values of cash and cash equivalents, accounts receivable, and payable approximate their fair values based on their short-term nature.

Operating and Nonoperating Revenues

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the cost of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Fixed Assets and Depreciation

Fixed assets are stated at original cost. The costs of additions and replacements are capitalized. Replacements of minor items of property are charged to expense as incurred. Costs of property retired are eliminated from accounts, likewise such costs plus removal expense less salvage are charged to accumulated depreciation.

Inventory

Inventory consisting of meters, pumps, valves and other merchandise, held for replacement purposes, is stated at cost.

Accounting estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

Restricted and Unrestricted resources

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

Tenant Security Deposits

Tenant security deposits are held in a segregated demand account in the name of the District.

Subsequent Events

The District evaluates events or transactions that occur subsequent to year end for potential recognition or disclosure in the financial statement through the date on which the financial statements are available to be issued. The financial statements were approved by management and available to be issued on August 26, 2014

NOTE 2 – CASH AND INVESTMENTS

All deposits are stated at cost, which approximates market value unless otherwise indicated. Funds are invested only in Certificates of Deposits in Oklahoma banks. Funds in excess of \$250,000 are collateralized by securities held by the pledging institution. As of June 30, 2014 the District had \$ 550,238 deposited in several financial institutions. Of those balances \$ 313,506

LOVE COUNTY RURAL WATER DISTRICT NO.2
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 2 - CONTINUED

were insured by federal depository insurance and the remaining was collateralized by securities held on behalf of the District.

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. GASB directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance and the deposits are as follow:

- A. Uncollateralized,
- B. Collateralized by securities held by pledging financial institution, or
- C. Collateralized by securities held by the pledging financial institution's trust department or agent but not in the district's name.

None of the District's aggregate bank balances, not covered by depository insurance, were exposed to custodial credit risk as described above at year end.

NOTE 3 - PROPERTY AND EQUIPMENT

Fixed assets are depreciated on a straight-line basis over their estimated useful life. As of June 30, fixed assets consisted of the following:

	<u>June 30, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2014</u>
Water systems	1,495,309			1,495,309
Office furniture and fixtures	17,351	1,084		18,435
Machinery and equipment	276,257	52,613	(22,746)	306,124
Land	30,057	-	-	30,057
	1,818,974	53,697	(22,746)	1,849,925
	(813,926)	(57,670)	22,746	(848,850)
	<u>1,005,048</u>	<u>(3,973)</u>	<u>-</u>	<u>1,001,075</u>

The District entered into a contract for the drilling and completion of a new well located on property it owns. As of June 30, 2014 drilling had not commenced and no funds were expended.

Depreciation expense for the year ended June 30, 2014 was \$57,507.

NOTE 4 - RISK MANAGEMENT

The District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

Health Care Coverage

During the year ended June 30, 2014, employees of the District were covered by health insurance under a plan sponsored by the State of Oklahoma.

Workers' Compensation Coverage

Workers' compensation insurance is purchased through Oklahoma Rural Water Association.



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENTAL
AUDITING STANDARDS*

To the Board of Trustees
Love County Rural Water District No. 2
Thackerville, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Love County Rural Water District No. 2 as of and for the year ended June 30, 2014, and the related notes to the financial statements which collectively comprise Love County Rural Water District No. 2's basic financial statements and have issued our report thereon dated August 26, 2014. Love County Rural Water District No. 2, elected not to present management's discussion and analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement the basic financial statements.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Love 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 Love County Rural Water District No. 2's internal control. Accordingly, we do not express an opinion on the effectiveness of Love 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 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, 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 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 in 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 deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. 2014-1 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Love 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 grants, noncompliance with which

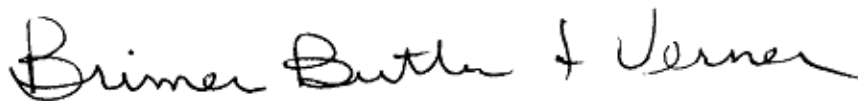
could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Love County Rural Water District No. 2 Response to Findings

Love County Rural Water District No. 2's responses to the findings identified in our audit are described in the accompanying schedule of finding and responses. We did not audit Love County Rural Water District No. 2's responses and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

A handwritten signature in cursive script that reads "Brimer Butler & Verner".

Ardmore, Oklahoma
August 26, 2014

RURAL WATER DISTRICT NO. 2, LOVE COUNTY

Schedule of Findings and Responses

Year ended June 30, 2014

2014-1 Depreciation expense was not posted to the financial statements.

Observation

Income was overstated.

Recommendation

Retain consultant to assist with preparation of financial statements.

Management's Response

We will retain a consultant to assist with preparation of year-end financial statements.