

AUDIT REPORT
CRAIG COUNTY RWD NO. 2
VINITA, OKLAHOMA
FOR YEARS ENDED JUNE 30, 2015 AND 2014



JENKINS & KEMPER
CERTIFIED PUBLIC ACCOUNTANTS, P.C.

**CRAIG COUNTY RURAL WATER DISTRICT NO. 2
VINITA, OKLAHOMA
JUNE 30, 2015**

TABLE OF CONTENTS

	<u>PAGE</u>
Table of Contents	1
Board of Directors	2
Independent Auditor's Report	3-4
Independent Auditor's Report on Compliance and Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	5-6
Schedule of Audit Results	7
Management's Discussion and Analysis	8-14
 COMBINED FINANCIAL STATEMENTS:	
Statement of Net Assets	15
Statement of Revenues, Expenses and Changes in Net Assets	16
Statement of Cash Flows	17
Notes to Financial Statements	18-21

**CRAIG COUNTY RURAL WATER DISTRICT NO. 2
BOARD OF DIRECTORS
JUNE 30, 2015**

BOARD OF DIRECTORS

Chairman	Jeff Schroeder
Vice-Chairman	DeWayne Wallace
Secretary/Treasurer	Roy Williams
Member	Shelly Chisum
Member	Brenda Best

MANAGER

Bob Chase

BOOKKEEPER

De Ann King



JENKINS & KEMPER
CERTIFIED PUBLIC ACCOUNTANTS, P.C.

JACK JENKINS, CPA
MICHAEL KEMPER, CPA

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Craig County Rural Water District No. 2
Vinita, Oklahoma 74301

We have audited the accompanying financial statements of the business-type activities of Craig County Rural Water District No. 2 as of and for the year ended June 30, 2015 and 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. 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities of the District as of June 30, 2015 and 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 8 through 14 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the method of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued a report dated September 25, 2015, on our consideration of the District's internal control over financial reporting and 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 in considering the District's internal control over financial reporting and compliance.

Jenkins & Kemper, CPAs P.C.

Jenkins & Kemper
Certified Public Accountants, P.C.

September 25, 2015



JENKINS & KEMPER
CERTIFIED PUBLIC ACCOUNTANTS, P.C.

JACK JENKINS, CPA
MICHAEL KEMPER, CPA

**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 GOVERNMENT AUDITING STANDARDS**

Board of Directors
Craig County Rural Water District No. 2
Vinita, Oklahoma 74301

We have audited the financial statements of the business-type activities of Craig County Rural Water District No. 2 as of and for the year ended June 30, 2015 and 2014, and have issued our report thereon, dated September 25, 2015. We conducted our audit in accordance with generally accepted auditing standards 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

In planning and performing our audit, we considered the District'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 the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect 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.

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 deficiencies, significant deficiencies, or material weaknesses. There can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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 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.

Jenkins & Kemper, CPAs P.C.

Jenkins & Kemper
Certified Public Accountants, P.C.

September 25, 2015

**CRAIG COUNTY RURAL WATER DISTRICT NO. 2
SCHEDULE OF AUDIT RESULTS
JUNE 30, 2015**

Findings – Financial Statement Audit

There were no material findings.

CRAIG COUNTY RURAL WATER DISTRICT NO. 2
VINITA, OKLAHOMA 74301

Management's Discussion and Analysis

The discussion and analysis of the Craig County Rural Water District No. 2 financial statements provides an overview of the Water Districts financial activities for the fiscal year ending June 30, 2015. Management has prepared the financial statements and the related disclosures along with the discussion and analysis.

Financial Highlights

The Water Districts financial position as a whole remained fairly consistent for the fiscal year ending June 30, 2015. Net assets were 102% of the previously reported fiscal year.

Overview of the Financial Statements and Financial Analysis

This report consists of Management's Discussion and Analysis, the Independent Auditor's Report, Balance Sheets, Statements of Revenues and Expenses, Statements of Changes in Net Assets, Statements of Cash Flows, Notes to the Financial Statements, Supplementary Information, and the Independent Auditors Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. These statements provide both long-term and short-term financial information on the Water District as a whole.

Balance Sheets, Statements of Operations, and Statements of Changes in Net Assets

The Balance Sheets, Statements of Revenues and Expenses, and Statements of Changes in Net Assets report the Water District's net assets and how they have changed. Net assets, the difference between assets and liabilities, are one way to measure the Water District's financial position. Over time, increases or decreases in the Water District's net assets are an indicator of whether its financial position is improving or declining. Non-financial factors are important to consider as well, including community trends, number of new customers, and trends in national and state water policies. The attached statements include all assets and liabilities using the accrual basis of accounting, which is consistent with the accounting used by private-sector entities. All of the current year's revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid. For the year ending June 30, 2015, Total Assets were \$ 1,001,004, and Total Liabilities were \$ 84,109. Operating Revenues of \$ 912,010 were exceeded by Operating Expenses of \$ 891,701 resulting in Operating Income of \$ 20,309. The total of Operating Income and Net Non-operating Income and Expenses of \$ 16,932 resulted in an increase in Net Assets from \$ 899,963 to \$ 916,895.

OVERVIEW OF WATER DISTRICT SYSTEM

General Information

1. 1650 active customers mostly in Craig County, but also in Mayes, Rogers and Nowata Counties.
2. 414 miles of water line ranging in size from 1" to 12" (Diameter).
3. 464 valves.
4. 6 water towers
5. 5 pump stations, all with variable frequency drive pumps.
6. 6 employees: Five employees now have Class C Water licenses and Class C Water Lab licenses. We have a new employee that was hired in May 2015 and we will be sending him to classes for his licenses.
7. Water usage averaged 10,139,848 gallons per month. Last year's average was 10,751,088 gallons per month. This is a decrease in customer usage of 611,240 gallons per month which is 7,334,880 gallons less than the previous year.
8. Water is purchased from Vinita Utilities Authority & Ketchum Public Works Authority.
9. Water source is Grand Lake.
10. We do all our own maintenance and repair and install all new and replacement lines.
11. Our growth this past year increased by 17 customers which was 7 more than the previous year. The United States Census for the past 10 years shows that Craig County only experienced a growth of 79 people.

GOALS

1. Provide adequate water pressure to all customers.
 - A. Oklahoma Department of Environmental Quality requires that there be a minimum of 25 PSI at the meter.
 - B. To properly serve a customer there should be between 40 and 60 PSI at the meter.
2. Provide adequate water volume to all customers.
 - A. Oklahoma Department of Environmental Quality requires that the volume of water available at the meter should be enough to ensure that the water pressure does not drop below 25 PSI under all conditions of flow.
 - B. To serve a customer properly the pressure should not drop more than 10 to 15 PSI when in full usage. The pressure should never drop below 25 PSI.
3. Water Quality – Chlorine Residual
 - A. Oklahoma Department of Environmental Quality states that “All systems required to disinfect, including all surface water treatment plants and most groundwater systems, must provide a minimum free chlorine residual of 1.0 mg/L in the water entering the distribution system. There must also be a minimum of 0.2 mg/L of free chlorine residual maintained throughout the distribution system. For this reason, it may be necessary to leave the plant with much higher chlorine residual or to provide supplemental points of chlorination in the distribution system.”
4. Secondary source of water.
 - A. Oklahoma Department of Environmental Quality and the Department of Homeland Security highly recommend that all Water Districts have a backup source of water.

CURRENT STATUS OF CRAIG COUNTY RURAL WATER DISTRICT NO. 2

1. Water Pressure

A. All customers have at least 40 PSI of pressure.

2. Water Volume

A. All customers have enough volume available so they do not see a significant drop in pressure during high usage periods.

3. Water Quality – Chlorine Residual

A. The chlorine residual tests that we perform five days per week are above the .20 mg/L required by the Oklahoma Department of Environmental Quality. In some areas where we have dead-end lines we flush these lines to help maintain acceptable chlorine residual.

4. Secondary source of water.

A. At the present time we have a second source of water for the Southeast portion of our Water District. We are obtaining 25% of our water from Ketchum Public Works Authority. The southeast area can now be serviced by water from the City of Vinita Utilities Authority or Ketchum Public Works Authority. Both of these plants obtain their water from Grand Lake.

B. We are actively working to expand this service to the rest of the Water District as described later in this report.

FUTURE PLANS

WATER LOSS:

The Water District's first priority will continue to be locating and repairing water leaks. We appreciate the efforts of the employees and the members of the Water District in helping us locate leaks. We have many miles of glue joint lines that are the cause of 97% of our leaks. During the past 15 years we have located and repaired over 2,800 leaks with most of them being the result of a joint failure on a glue joint line. We have reduced our water loss and will continue to work to keep our water loss low.

COMPLETE DISTRIBUTION SYSTEM:

We have a Master Plan for connecting all of our water system together, so we can obtain water at any point in the system and distribute it throughout the entire system. In the past we have taken water from the Vinita Utility Authority System at 9 different locations in order to provide water to all our customers. In the past 15 years we have installed water lines so that now we only need to obtain water from 4 locations on the Vinita Utility Authority System. The plan is to complete our system so that we can distribute water to all our customers without using Vinita Utility Authority's distribution system. This is a necessary step so that we can also distribute water from a second source to all our customers.

SECOND SOURCE OF WATER:

Ten years ago we installed four miles of 8" water line that connects our System to the Ketchum Public Works Authority System. We are now purchasing approximately 3.5 million gallons of water per month from Ketchum Public Works Authority. This water which is approximately 25% of our water purchases is being used to supply water to the southeast area of our System.

The southeast area of our System can now be supplied with water from Vinita Utilities Authority or Ketchum Public Works Authority.

Ketchum Public Works Authority is moving ahead on their plans to build a new Water Treatment Plant and we are working closely with them to coordinate our future needs and plans with their plans.

The Water District has been able to install 11 miles of 8" pvc pipe and have purchased 3 more miles of 8" pvc pipe and are working to get this line completed. When complete this 8" line will extend from Ketchum Public Works Authority Water Tower to our Pump Station #310 on 310 road and then to our Pump Station #16 which is west of Big Cabin. When this line is completed we will be able to service 50% of our system from KPWA's System or the Vinita Utility Authority System. This covers the Southeast and Southwest portions of our System.

FUTURE PLANS

PAST YEARS PROJECTS:

We have now started a project to replace all the glue joint lines in the System. starting with the areas where we are repairing the most leaks. These line are old and the glue joints are getting worse and creating more leaks. In order to control our water loss we have determined that it would be best to replace these lines.

We have completed the replacement of one mile of 4" waterline on 350 road between 4330 road and 4440 road. We have also replaced the waterline from 4390 road to 4400 road on 210 Road. These were the two lines that were identified as having the greatest number of leaks. We will continue to replace the lines where we are having the most problems.

We are now getting GPS Coordinates on all leak repairs and are able to show them on a District Map making it easier to determine where the greatest numbers of problems are occurring.

We have divided the Water District into Zones and have installed inline water meters going into each of these zones. We can now tell how much water is going into each area and how much water is being used by the customers in the area. This is helping us identify where are biggest water loss problems are, so we can concentrate our efforts in the areas that have the highest loss. We read these meters weekly and calculate the gallons per minute that flow through each area. We compare this with the previous weeks and this gives us a idea of where we probably have leaks.

COMMUNICATION SYSTEM BETWEEN PUMP STATIONS, TOWERS & OFFICE:

We continue work on a system that allows us to monitor the status of our Pump Stations and Water Towers. The Junction Internet Service now has high-speed wireless Internet antennas on all our water towers. The Junction Internet Service is giving all Water District customers who use their service a 10% discount. We continue to work with the Junction Internet Service and their associated company Positronix Technology. We are now able to see the water levels in all of our towers at any time day or night on our Smart Phones. The System also sends us regular updates three times per day and also sends warning messages if the towers drop below certain levels. We can inquire as to the status of any tower or all towers any time of day or night. This past year we have added Pump Stations #1 and #10 to this system. We can now see the Incoming and outgoing water pressure at these Pump Stations and soon we will be able to see witch pumps are running and the speed they are running at and how many gallons per minute are going through the Pump Station. Pump Stations #9 and #16. will be added in the next few months. All this type of information will be available on the Office Computers and Smart Phones. This is already helping us monitor the system and discover problems without having to drive to the towers and pump stations.

FUTURE PLANS

METER READING SYSTEM:

For the past 6 years we have been using our three field employees to read all customers' meters. We have refined the system and can read the 1650 meters using 3 employees for 3 days. Having our own employees read the meters has helped in finding leaks and identifying other areas that need our attention such as, missing meter lids, broken meter lids, leaks in the meter can, meter cans that need replacing and other maintenance issues. We also have the employees' report all meters that have a leak detector that is turning. We check all meters that are showing a higher than normal usage and notify customers if we think they have a leak. We will continue to read the meters and watch for other opportunities that can make this procedure more efficient and improve the system. This has also helped with our past due accounts because we get a reading for every meter every month so customers do not get behind on reporting their water usage.

We are working on an Automated Meter Reading System. We have completed the Engineering Report and during the next year we will be working on completing this plan and begin testing the System in a section of the District to make sure it will provide us the accurate information and savings that we expect.

MAPPING SYSTEM:

We continue to update our Mapping System with GPS locations of all meters and keep this information in a mapping system that our Engineer, David Dollar, uses to keep our hydraulic system current. This System helps us in determining where we can add new customers and aids us in identifying areas where we have potential pressure and volume problems. We use this System to determine where problems exist and analyze what will happen to an area if we add more customers. We continue to update this system as we make changes to our system. We are also adding the GPS locations of all leak repairs and the GPS locations of all valves in the System. We are looking at a mapping system upgrade that will work with Google Maps and allow us to see the maps on our Smart Phones so the employees can check the maps while out in the field working.

CRAIG COUNTY RURAL WATER DISTRICT NO. 2
STATEMENT OF NET ASSETS
FOR YEARS ENDED JUNE 30, 2015 AND 2014

	June 30,	
	2015	2014
<u>ASSETS</u>		
Current assets		
Cash and cash equivalents	\$ 217,873	193,449
Inventory	97,748	98,368
Deposits	175	175
Prepaid insurance	24,071	25,313
Accounts receivable	71,474	83,882
Less allowance for doubtful account	(6,022)	(6,022)
Total current assets	405,319	395,165
Noncurrent assets		
Restricted cash and cash equivalents	52,464	52,464
Work in process	212,963	212,963
Water System and Equipment	1,923,546	1,921,711
Less accumulated depreciation	(1,593,288)	(1,515,582)
Total noncurrent assets	595,685	671,556
Total Assets	1,001,004	1,066,721
<u>LIABILITIES</u>		
Current liabilities		
Accounts payable	33,053	65,645
Customer deposits	10,825	11,775
Current maturities of long-term debt	40,231	49,107
Total current liabilities	84,109	126,527
Noncurrent liabilities		
Long-Term Debt, less current maturities	-	40,231
Total Liabilities	84,109	166,758
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	290,027	316,791
Restricted for debt service	52,464	52,464
Unrestricted	574,404	530,708
Total net assets	\$ 916,895	899,963

The accompanying notes are an integral part of the financial statement

CRAIG COUNTY RURAL WATER DISTRICT NO. 2
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS
FOR YEARS ENDED JUNE 30, 2015 AND 2014

	June 30,	
	2015	2014
Operating Revenues:		
Charges for services	\$ 911,414	930,008
Miscellaneous	596	216
Total operating revenues	912,010	930,224
Operating Expenses:		
Water Purchased	315,102	361,312
Salaries & payroll taxes	282,996	272,751
Depreciation	77,706	85,118
Parts & supplies	47,795	65,226
Utilities	45,711	46,415
Insurance	28,421	22,549
Repairs & maintenance	12,710	40,647
Travel reimbursements	19,876	25,169
Engineering	10,765	11,128
Office Expense	20,745	12,411
Miscellaneous	2,573	2,674
Telephone	10,579	10,049
Dozer service	-	4,788
Contract Labor	2,661	-
Accounting	2,000	1,800
Bad debt	4,341	2,114
Water testing	7,720	2,910
Total operating expenses	891,701	967,061
Operating Income (Loss)	20,309	(36,837)
Non-Operating Revenues (Expenses):		
Interest income	1,021	1,043
Reimbursable	(1,040)	(3,225)
Interest expense	(3,358)	(5,860)
Total non-operating revenues (expenses)	(3,377)	(8,042)
Change in Net Assets	16,932	(44,879)
Total Net Assets, beginning of period	899,963	944,842
Total Net Assets, end of period	\$ 916,895	899,963

The accompanying notes are an integral part of the financial statement

CRAIG COUNTY RURAL WATER DISTRICT NO. 2
STATEMENT OF CASH FLOWS
FOR YEARS ENDED JUNE 30, 2015 AND 2014

	June 30,	
	2015	2014
Cash Flows from Operating Activities:		
Receipts from customers	\$ 923,468	925,973
Payments to employees	(282,996)	(272,751)
Payments to vendors	(561,729)	(621,487)
Net cash flows from operating activities	78,743	31,735
Cash Flows from Investing Activities:		
Interest earned	1,021	1,043
Reimbursable expense	(1,040)	(3,225)
Capital assets purchased, net	(1,835)	(9,953)
Net cash flows from investing activities	(1,854)	(12,135)
Cash Flows from Financing Activities:		
Interest expense on debt	(3,358)	(5,860)
Principal payments on long-term debt	(49,107)	(50,975)
Net cash flows from financing activities	(52,465)	(56,835)
Net increase (decrease) in cash and cash equivalents	24,424	(37,235)
Cash and cash equivalents, beginning of period	193,449	230,684
Cash and cash equivalents, end of period	\$ 217,873	193,449
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 20,309	(36,837)
Add depreciation expense	77,706	85,118
(Increase)/Decrease in Current Assets		
Accounts receivable, net	12,408	(3,151)
Inventory	620	(9,014)
Prepaid Insurance	1,242	(4,713)
Increase/(Decrease) in Current Liabilities		
Customer deposits	(950)	(1,100)
Accounts payable	(32,592)	1,432
Net cash flows from operating activities	\$ 78,743	31,735

The accompanying notes are an integral part of the financial statements

CRAIG COUNTY RURAL WATER DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
FOR YEARS ENDED JUNE 30, 2015 AND 2014

Note 1 – Organization

Craig County Rural Water District No. 2, Vinita, Oklahoma, was originally an Oklahoma nonprofit corporation, incorporated in 1968. Currently the district is recognized as a public not for profit rural water district under Oklahoma Statutes, Title 82. The purpose of the organization is to provide water to residential and commercial customers who are members of the District.

Note 2 – Summary of significant accounting policies

Reporting Entity

Craig County 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 of providing water services is financed through user charges. The District purchases water primarily from the cities of Vinita and Ketchum.

Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with Generally Accepted Accounting Principles 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 balance sheet. The operating statements present increases and decreases 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.

Accounts Receivable

All accounts greater than thirty days are considered past due. Receivables greater than ninety days are carried at the original billed amount.

Accounts written off when the water usage is not in dispute or which the District feels it can collect if legal action is pursued, are classified as bad debts. Accounts written off when the water usage is in dispute and the District does not believe legal action would result in collection due to a weak position are removed from sales and not classified as bad debts. An *Allowance For Bad Debts*, account (reserve) is utilized to record the management estimate of accounts, which are not collectible or collection is in substantial doubt at year-end.

CRAIG COUNTY RURAL WATER DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
FOR YEARS ENDED JUNE 30, 2015 AND 2014

Inventory

Inventory is recorded and valued using the FIFO method of costing. Materials associated with the installation and repair of water system lines on hand at the end of the year are reflected in inventory.

Property and Equipment

Property and equipment is recorded at cost when purchased. Depreciation expense is recorded using the straight-line method over the estimated useful life of the asset. Water line extensions and improvements are depreciated using a 20-year life. Water system improvements constructed by the District include capitalizing the direct cost of materials and labor. If an asset is permanently impaired in value, the asset cost is written down to market value. The District capitalizes assets with a useful life in excess of one year with a cost of \$250 or more. Line extension costs reimbursed by the customer are not capitalized and accordingly not depreciated.

Cash and Cash Equivalents

Cash and cash equivalents, shown in the financial statements, are amounts that are not subject to fluctuations in principal value due to changing market conditions and have a maturity of less than three months.

Custodial Credit Risk

At June 30, 2015, the District held deposits of approximately \$270,337 at financial institutions. The District's cash deposits are entirely covered by Federal Depository Insurance.

Note 3 – Reserve Account

The loan agreement with the United States Department of Agriculture Rural Development requires the District to maintain a debt service reserve account in the amount of \$52,464 as of June 30, 2015. This account is fully funded. The District cannot withdraw funds from the reserve account without USDA approval.

**CRAIG COUNTY RURAL WATER DISTRICT NO. 2
 NOTES TO FINANCIAL STATEMENTS
 FOR YEARS ENDED JUNE 30, 2015 AND 2014**

Note 4 – Water Purchase Commitment

The District purchases its water from the City of Vinita and Ketchum Public Works Authority. The current contract with City of Vinita for water purchase is dated in 1968. The contract provides the City is not obligated to provide more than four million gallons per month. For the year ended June 30, 2015, the District's average purchase per month was approximately 11,374,333 gallons from City of Vinita and 3,512,417 from Ketchum Public Works Authority. Until an updated contract is agreed upon, the District's ability to continue as a going concern would come into question.

Note 5 – Long-Term Debt

The following is a summary of the long-term debt transactions of the District for the year ended June 30, 2015:

	Notes Payable
Balance, 7/1/14	\$ 89,338
Additions	
Retirements	49,107
Balance, 6/30/15	\$ 40,231

Long-term debt at June 30, 2015, is detailed as follows:

Note payable to United States Department of Agriculture Rural Development, payable in monthly installments of \$4,372 including interest. This note is secured by a mortgage dated December 22, 1976 in favor of the United States of America. The mortgage covers the water system, land, all easements owned or issued, and water revenues of the District with the exception of \$65,000 water revenue subordination.

\$ 40,231

CRAIG COUNTY RURAL WATER DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
FOR YEARS ENDED JUNE 30, 2015 AND 2014

Note 5 – Long-Term Debt – contd.

The annual debt service requirements for the retirement of principal, and interest payments are as follows:

<u>Year- ending June</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	<u>40,231</u>	<u>832</u>	<u>41,063</u>

Note 6 – Risk Management

Craig County Rural Water District No. 2 is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District continues to carry commercial insurance for these risks, including general and auto liability, property damage, and public officials liability. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

Note 7 – Capital Assets

The following is a summary of changes in property, plant and equipment:

	<u>Balance June 30, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2015</u>
Water System & Equipment	\$ 1,921,711	1,835		1,923,546
Less accumulated depreciation	<u>(1,515,582)</u>	<u>(77,706)</u>		<u>(1,593,288)</u>
Net	<u>\$ 406,129</u>	<u>(75,871)</u>	<u>-</u>	<u>330,258</u>

Note 8 – Subsequent Events

Management has evaluated subsequent events through the date of the audit report, which is the date the financial statements were available to be issued and have determined that no additional information needs to be added to the financial statements.