

**RURAL WATER DISTRICT NO. 2
COMANCHE COUNTY, OKLAHOMA**

ANNUAL FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

RURAL WATER DISTRICT NO. 2, COMANCHE COUNTY, OKLAHOMA
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Independent Auditor's Report

Board of Directors
Rural Water District No. 2, Comanche County, Oklahoma

Report on the Financial Statements

We have audited the accompanying statements of assets, liabilities and net position of Rural Water District No. 2, Comanche County, Oklahoma as of December 31, 2014 and 2013 and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting as described in Note 1. This includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *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 whether the financial statements are free of 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 District'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 District's internal control. Accordingly, we express no such an 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

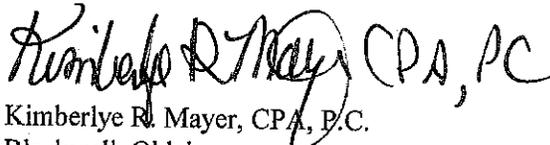
In our opinions, the financial statements referred to above, present fairly, in all material respects, the modified cash basis financial position of Rural Water District No. 2, Comanche County, Oklahoma, as of December 31, 2014 and 2013; the changes in modified cash basis financial position; and cash flows thereof, for the years then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Reporting Required By Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated March 31, 2015 on our consideration of Rural Water District No. 2, Comanche County, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.


Kimberlye R. Mayer, CPA, P.C.
Blackwell, Oklahoma
March 31, 2015

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
Rural Water District No. 2, Comanche County, Oklahoma

We have audited the financial statements of Rural Water District No. 2, Comanche County, Oklahoma as of and for the year ended December 31, 2014 and have issued our report thereon dated March 31, 2015. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements were prepared on the modified cash basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Rural Water District No. 2, Comanche County, Oklahoma'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Rural Water District No. 2, Comanche County, Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of the Rural Water District No. 2, Comanche County, Oklahoma's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control 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 questioned costs, we identified certain deficiencies in internal control 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 combination of control deficiencies, in internal control that there is reasonable possibility that a material misstatement of the District'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 questioned costs to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water District No. 2, Comanche County, Oklahoma'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.

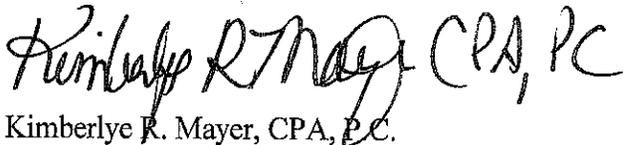
However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Response to Findings

Rural Water District No. 2, Comanche County, Oklahoma's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Rural Water District No. 2, Comanche County, Oklahoma'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.



Kimberlye R. Mayer, CPA, PC.

Blackwell, Oklahoma

March 31, 2015

RURAL WATER DISTRICT NO. 2, COMANCHE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2014

Material Weaknesses in Internal Control Over Financial Reporting: Inadequate Segregation of Duties:

Criteria: The segregation of duties and responsibilities between different individuals and the reconciliation of those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

Condition: Presently, the same individual is responsible for water service billings and receiving payments; making and recording deposits; maintaining billing registers; and reconciling the monthly bank statements. Only limited oversight is provided over this individual in the conduct of their daily functions.

Cause: The entity's limited size has made it difficult for management to fully segregate the duties.

Effect or Potential Effect: Without sufficient segregation of duties, the risk significantly increases that errors and/or fraud related to the sales and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: The board should evaluate the risks associated with the lack of segregation of duties and consider implementing controls that could mitigate these risks.

Board's Response: The board has concluded that due to the limited number of personnel, an adequate segregation of duties is not achievable and that the cost of correcting the weakness would exceed the benefits that would be derived from it.

FINANCIAL STATEMENTS

AND

NOTES

RURAL WATER DISTRICT NO. 2, COMANCHE COUNTY, OKLAHOMA
STATEMENTS OF ASSETS, LIABILITIES AND NET POSITION
MODIFIED CASH BASIS
DECEMBER 31, 2014 AND 2013

ASSETS		2014	2013
Current Assets:			
Operating cash	\$	49,790	\$ 79,850
Certificate of deposits		94,352	85,741
Capital improvements account		63,353	12,251
Membership accounts		215,618	65,872
Total cash and cash equivalents		423,113	243,714
Restricted Accounts			
Debt service		21,654	22,003
Debt service reserve		84,011	84,010
Total reserve accounts		105,665	106,013
Reserve certificate		1,000	1,000
Deposits		760	
Capital assets (Note 2) (net of accumulated depreciation of \$1,483,352)		3,797,149	572,902
Work in progress			463,765
Total Assets	\$	4,327,687	\$ 1,387,394

LIABILITIES AND NET POSITION

Liabilities:			
Current Liabilities:			
Current portion of long-term debt (Note 3)	\$	150,692	\$ 81,000
Noncurrent Liabilities:			
Long-term debt, noncurrent (Note 3)		3,798,308	895,560
Total Liabilities		3,949,000	976,560
Net Position:			
Net investment in capital assets		(151,851)	60,107
Restricted for debt service		105,665	106,013
Unrestricted		424,873	244,714
Total Net Position		378,687	410,834
Total Liabilities and Net Position	\$	4,327,687	\$ 1,387,394

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

RURAL WATER DISTRICT NO. 2, COMANCHE COUNTY, OKLAHOMA
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 MODIFIED CASH BASIS
 YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Operating Revenues:		
Water sales	\$ 677,404	\$ 568,624
Miscellaneous revenues	7,927	7,834
Total Operating Revenues	685,331	576,458
Operating Expenses:		
Salaries and wages	148,568	136,081
Payroll taxes	17,519	12,194
Employee benefits	23,199	27,394
Repairs and maintenance	60,495	24,562
Fuel and auto expenses	17,932	11,941
Insurance and bonds	19,078	15,464
Professional fees	6,370	5,586
Director fees	3,500	3,800
Office and postage	5,857	6,302
Meter readings	5,584	9,529
Water purchases	209,311	141,944
Telephone and pagers	2,253	2,507
Utilities	27,971	16,433
Water tests and fees	5,630	5,527
School and travel	1,324	1,178
Depreciation	108,851	62,837
Other expenses	5,100	2,463
Total Operating Expenses	668,542	485,742
Operating Income (Loss)	16,789	90,716
Nonoperating Revenue (Expenses):		
Interest income	550	667
Benefit units	82,000	7,130
Line upgrade fees	64,000	
Interest expense	(55,606)	(24,403)
Loan closing costs	(134,500)	
Administration fees	(5,380)	
Total Nonoperating Revenues (Expenses)	(48,936)	(16,606)
Change in Net Position	(32,147)	74,110
Net position, beginning of year	410,834	336,724
Net Position, end of year	\$ 378,687	\$ 410,834

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

RURAL WATER DISTRICT NO. 2, COMANCHE COUNTY, OKLAHOMA
 STATEMENTS OF CASH FLOWS
 MODIFIED CASH BASIS
 YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Cash Flows From Operating Activities:		
Cash received from customers	\$ 684,571	\$ 576,458
Cash payments to suppliers for goods and services	(411,123)	(286,824)
Cash payments to employees	(148,568)	(136,081)
Net cash provided (used) by operating activities	124,880	153,553
Cash flows from non-capital financing activities:		
Cash flows from capital and related financing activities:		
(Increase) decrease in capital assets	(2,869,333)	(329,297)
New borrowings	3,053,440	246,560
Principal paid on notes	(81,000)	(65,000)
Interest paid on notes	(55,606)	(24,403)
System development fees	146,000	7,130
Loan and administrative fees	(139,880)	
Net cash provided (used) by financing activities	53,621	(165,010)
Cash flows from investing activities:		
Interest income	550	667
(Increase) decrease in restricted accounts	348	8,594
Net cash provided (used) by investing activities	898	9,261
Net increase (decrease) in cash and cash equivalents	179,399	(2,196)
Beginning cash and cash equivalents	243,714	245,910
Ending cash and cash equivalents	\$ 423,113	\$ 243,714
Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:		
Operating income or loss	\$ 16,789	\$ 90,716
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation	108,851	62,837
(Increase) decrease in deposits	(760)	
Net cash provided (used) by operating activities	\$ 124,880	\$ 153,553

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

RURAL WATER DISTRICT NO. 2, COMANCHE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

The Rural Water District No. 2, Comanche County, Oklahoma was created under the Rural Water District Act, Title 82, as amended, of the laws of the state of Oklahoma. The District is exempt from federal and state income taxes. The purpose of the District is to provide water services to the owners and occupants of land located within the District, and others as authorized by law. Membership in the water district consists of water users who have paid the required membership fees.

The District is an entity governed by a Board of Directors that acts as the authoritative and legislative body of the entity. The Board of Directors is comprised of elected board members.

Basis of Accounting

The District is classified as an Enterprise Fund. The costs of providing the water services to the public are financed mainly through user charges. The financial statements of the District have been prepared using the modified cash basis of accounting. This basis recognizes assets, liabilities, net assets, revenues, and expenses when they result from cash transactions with a provision for depreciation. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

Cash and Deposits

Cash is maintained in financial institutions, which provide coverage to depositors through the Federal Deposit Insurance Corporation.

The State of Oklahoma allows government entities to invest in the following: direct obligations of the United States Government, its agencies or instrumentalities; collateralized or insured certificates of deposit; insured savings accounts or savings certificates; or county, municipal or school district direct debt.

Statement of Cash Flows

For the purposes of the Statement of Cash Flows, the District considers all accounts, (excluding restricted reserves), and deposits with a maturity of three months or less to be cash equivalents.

Budget

The District is not legally required to adopt a budget.

RURAL WATER DISTRICT NO. 2, COMANCHE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Restricted Reserve Accounts

As part of the loan agreement with OWRB, (Note 3) the District is to maintain a reserve amount equal to 125% of the maximum annual amount due for debt service. At December 31, 2014 and 2013, the District had \$105,665 and \$106,013 respectively, in its debt service reserve account.

NOTE 2 – WATERLINE SYSTEM AND EQUIPMENT:

Waterline extensions and additions are capitalized and depreciated over their estimated useful lives. Annual depreciation is calculated on a straight-line basis. Total depreciation for the year ended December 31, 2014 and 2013 was \$108,851 and \$62,837 respectively. The balances for depreciable assets by major category as December 31, 2014 are as follows:

	12/31/13	Deletions	Additions	12/31/14
Land	\$ 9,400	\$	\$	\$ 9,400
Waterline system	1,754,033		3,263,233	5,017,266
Machinery & equipment	108,595		36,789	145,384
Vehicles	38,896			38,896
Buildings & improvements	63,277			63,277
Furniture & office equipment	11,309	(5,031)		6,278
Accumulated depreciation	(1,412,608)	38,107	(108,851)	(1,483,352)
Total	<u>\$ 572,902</u>	<u>\$ 33,076</u>	<u>\$ 3,191,171</u>	<u>\$ 3,797,149</u>

NOTE 3 – NOTES PAYABLE:

The District entered into a loan agreement with the OWRB in 2001 for water system improvements; to refinance the existing debt to USDA-Rural Development and to establish a debt reserve. Collateral for this loan is the revenue from operations and a mortgage with the power of sale and security agreement on the real property. In January 2012, the District borrowed \$840,000 to refinance this note. The new note has a fixed interest rate of 3.26% with a maturity date of September 2023. The monthly payments are \$7,845. Principal payments are due on September 15th of each year and an interest payment is due on March 15th of each year.

In November 2013, the District entered into a loan agreement with the OWRB for water system improvements including a new well. The interest rate is 3.03% and a .5% administration fee. The payments are semiannual and commenced on March 15, 2014 with a final payment due on March 15, 2039.

RURAL WATER DISTRICT NO. 2, COMANCHE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013

NOTE 3 – NOTES PAYABLE (continued):

The following is a detail of the loan activity during the year ended December 31, 2014 and 2013:

Balance at 12/31/12	\$	795,000
Principle payments		(65,000)
New borrowings		246,560
Balance at 12/31/13		<u>976,560</u>
Principle payments		(81,000)
New borrowings		3,053,440
Balance at 12/31/14		<u><u>\$ 3,949,000</u></u>

The following is a summary of the District's future annual debt requirements:

Year Ended	Payments	Principal	Interest & Admin. fees
12/31/2015	\$ 285,583	\$ 150,692	\$ 134,891
12/31/2016	296,593	153,467	143,126
12/31/2017	296,593	161,981	134,612
12/31/2018	296,593	165,303	131,290
12/31/2019	296,593	173,743	122,850
12/31/2020 - 12/31/2024	1,388,825	869,287	519,538
12/31/2025 - 12/31/2029	1,012,263	656,256	356,007
12/31/2030 - 12/31/2034	1,012,263	783,671	228,592
12/31/2035 - 12/31/2039	911,038	834,600	76,438
Totals	<u><u>\$ 5,796,344</u></u>	<u><u>\$ 3,949,000</u></u>	<u><u>\$ 1,847,344</u></u>

NOTE 4 – RETIREMENT PLAN:

The full-time, permanent employees of the District participate in a SEP retirement plan. The District contributes 6.2 % of gross wages to the employee's retirement accounts. This amounted to \$6,033 and \$8,097 for the years ended December 31, 2014 and 2013, respectively.

RURAL WATER DISTRICT NO. 2, COMANCHE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013

NOTE 5 – RISK MANAGEMENT:

The District is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District manages this risk through the purchase of commercial insurance policies. Claims are recognized when it is probable that a loss has occurred and the amounts of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. There were no claims during the year ended December 31, 2014.

NOTE 6 – FAIR VALUE OF FINANCIAL INSTRUMENTS:

The District's financial instruments include cash and cash equivalents, certificates of deposit, restricted accounts and notes payable. The District's estimate of the fair value of all financial instruments does 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.

NOTE 7 – ESTIMATES:

The preparation of financial statements in conformity with the modified cash basis 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. Accordingly, actual results could differ from those estimates.

NOTE 8 – CONTINGENCIES:

As of December 31, 2014 the District did not have any pending litigation or potential non-disclosed liabilities that management believes would have a material effect on the financial statements.

NOTE 9 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through March 31, 2015, the date which the financial statements were available to be issued.

SINGLE AUDIT INFORMATION

RURAL WATER DISTRICT NO. 2, COMANCHE COUNTY
 SCHEDULE OF FEDERAL AND STATE FINANCIAL AWARDS
 YEAR ENDED DECEMBER 31, 2014

<u>Program Title/Source</u>	<u>CFDA Number</u>	<u>Amount of Grants or Loans</u>	<u>Receipts/ Revenues</u>	<u>Disbursements/ Expenses</u>
Passed thru OWRB:				
Federal:				
ARRA Environmental Protection Agency:				
Safe Drinking Water State Revolving				
Fund Loan				
	66.468	\$ 3,300,000	\$ 3,053,440	\$ 3,053,440

INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Board of Directors
Rural Water District No. 2, Comanche County, Oklahoma

Report on the Financial Statements

We have audited Rural Water District No. 2, Comanche County, Oklahoma with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Rural Water District No. 2, Comanche County, Oklahoma's major federal programs for the year ended December 31, 2014. Rural Water District No. 2, Comanche County, Oklahoma's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility for the Financial Statements

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express opinions on compliance for each of Rural Water District No. 2, Comanche County, Oklahoma's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Rural Water District No. 2, Comanche County, Oklahoma's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Rural Water District No. 2, Comanche County, Oklahoma's compliance.

Opinion on Each Major Federal Program

In our opinion, Rural Water District No. 2, Comanche County, Oklahoma, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs. Our opinion on each major federal program is not modified with respect to these matters.

Rural Water District No. 2, Comanche County, Oklahoma's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Rural Water District No. 2, Comanche County, Oklahoma's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of Rural Water District No. 2, Comanche County, Oklahoma is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Rural Water District No. 2, Comanche County, Oklahoma's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Rural Water District No. 2, Comanche County, Oklahoma's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs to be material weaknesses.

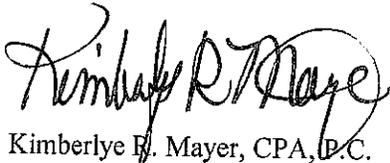
A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs to be significant deficiencies.

Rural Water District No. 2, Comanche County, Oklahoma's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Rural Water District No. 2, Comanche County, Oklahoma's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of Rural Water District No. 2, Comanche County, Oklahoma as of and for the year ended December 31, 2014, and the related notes to the financial statements. We issued our report thereon dated March 31, 2015 which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions of the financial statements. The accompanying schedule of expenditures of federal and state financial awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal and state financial awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

 (CPA, PC)

Kimberlye R. Mayer, CPA, P.C.
Blackwell, Oklahoma
March 31, 2015

RURAL WATER DISTRICT NO. 2, COMANCHE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2014

SUMMARY OF AUDITOR'S RESULTS:

1. The auditor's report expresses an unmodified opinion on the financial statements of Rural Water District No. 2, Comanche County, Oklahoma.
2. A material weakness disclosed during the audit of the financial statements is reported in the 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*.
3. No instances of noncompliance material to the financial statements of Rural Water District No. 2, Comanche County, Oklahoma were disclosed during the audit.
4. A material weakness in internal control over major federal award programs disclosed during the audit is reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for Rural Water District No. 2, Comanche County, Oklahoma expresses an unmodified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The program tested as a major program includes:

ARRA Environmental Protection Agency
Safe Drinking Water State Revolving Fund Loan
66.468
8. The dollar threshold used to distinguish between Type A and Type B programs was \$500,000.
9. The auditee did not qualify as a low risk auditee.

RURAL WATER DISTRICT NO. 2, COMANCHE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2014

FINDINGS – FINANCIAL STATEMENTS AUDIT:

Material Weaknesses in Internal Control Over Financial Reporting: Inadequate Segregation of Duties:

Criteria: The segregation of duties and responsibilities between different individuals and the reconciliation of those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

Condition: Presently, the same individual is responsible for water service billings and receiving payments; making and recording deposits; maintaining billing registers; and reconciling the monthly bank statements. Only limited oversight is provided over this individual in the conduct of their daily functions.

Cause: The entity's limited size has made it difficult for management to fully segregate the duties.

Effect or Potential Effect: Without sufficient segregation of duties, the risk significantly increases that errors and/or fraud related to the sales and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: The board should evaluate the risks associated with the lack of segregation of duties and consider implementing controls that could mitigate these risks.

Board's Response: The board has concluded that due to the limited number of personnel, an adequate segregation of duties is not achievable and that the cost of correcting the weakness would exceed the benefits that would be derived from it.

Material Weakness in Internal Control Over Financial Reporting: Incomplete Financial Statements:
(See Findings and Questioned Costs – Major Federal Awards Programs Audit section)

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT:

ARRA Environmental Protection Agency – Safe Drinking Water State Revolving Fund

2014-001 Material Weakness in Internal Control Over Financial Reporting: Incomplete Financial Statements:

Criteria: Internal controls should be in place so that the District could prepare the financial statements that included all financial transactions and accounts.

Condition: The District did not reflect the grant accounts in the financial statements.

Cause: The entity's limited structure has made it difficult for management to correctly reflect the grant activity in the financial statements.

Effect or Potential Effect: The absence of controls over the preparation of financial statements significantly increases the risk that a misstatement of the financial statements could occur and not be prevented or detected by the District within a timely basis.

RURAL WATER DISTRICT NO. 2, COMANCHE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2014

Recommendation: We recommend that the District strive to include all of the entity's transactions and accounts in the financial statements.

Board's Response: The District concurs with the recommendation, and will strive to prepare accurate financial statements.