

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

ANNUAL FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

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, 2015 and 2014 and the 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, 2015 and 2014; the changes in modified cash basis financial position; and, cash flows thereof, for the year 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 29, 2016 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 29, 2016

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, 2015, and have issued our report thereon dated March 29, 2016. 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. The financial statements were prepared using 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 a certain deficiency in internal control that we consider to be a material weakness.

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 deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

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.



Kimberley R. Mayer, CPA, P.C.
Blackwell, Oklahoma
March 29, 2016

RURAL WATER DISTRICT NO. 2, COMANCHE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2015

Material Weakness 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, 2015 AND 2014

	ASSETS	
	2015	2014
Current Assets:		
Operating cash	\$ 41,284	\$ 49,790
Certificate of deposits	94,773	94,352
Capital improvements account	64,949	63,353
Membership accounts	144,639	215,618
Total cash and cash equivalents	345,645	423,113
Restricted Accounts		
Debt service accounts	71,920	21,654
Debt service reserve	84,014	84,011
Total reserve accounts	155,934	105,665
Reserve certificate	1,000	1,000
Deposits	890	760
Capital assets (Note 2) (net of accumulated depreciation of \$1,643,941)	3,690,120	3,797,149
Work in progress		
Total Assets	\$ 4,193,589	\$ 4,327,687

LIABILITIES AND NET POSITION

Liabilities:		
Current Liabilities:		
Current portion of long-term debt (Note 3)	\$ 153,467	\$ 150,692
Noncurrent Liabilities:		
Long-term debt, noncurrent (Note 3)	3,644,841	3,798,308
Total Liabilities	3,798,308	3,949,000
Net Position:		
Net investment in capital assets	(108,188)	(151,851)
Restricted for debt service	155,934	105,665
Unrestricted	347,535	424,873
Total Net Position	395,281	378,687
Total Liabilities and Net Position	\$ 4,193,589	\$ 4,327,687

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, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Operating Revenues:		
Water sales	\$ 655,903	\$ 677,404
Miscellaneous revenues	<u>7,665</u>	<u>7,927</u>
Total Operating Revenues	663,568	685,331
Operating Expenses:		
Payroll	137,350	148,568
Payroll taxes	11,287	17,519
Employee benefits	28,496	23,199
Repairs and maintenance	62,545	60,495
Fuel and auto expenses	15,430	17,932
Insurance and bonds	19,258	19,078
Professional fees	19,332	6,370
Director fees	3,600	3,500
Office and postage	6,781	5,857
Meter readings	9,766	5,584
Water purchases	27,187	209,311
Telephone and pagers	2,552	2,253
Utilities	34,654	27,971
Water tests and fees	5,843	5,630
School and travel	1,115	1,324
Depreciation	160,589	108,851
Other expenses	<u>2,241</u>	<u>5,100</u>
Total Operating Expenses	548,026	668,542
	115,542	16,789
Operating Income (Loss)		
Nonoperating Revenue (Expenses):		
Interest income	853	550
Benefit units	29,000	82,000
Line upgrade fees		64,000
FEMA	9,700	
Interest expense	(121,924)	(55,606)
Loan closing costs		(134,500)
Administration fees	<u>(16,577)</u>	<u>(5,380)</u>
Total Nonoperating Revenues (Expenses)	(98,948)	(48,936)
	16,594	(32,147)
Change in Net Position		
Net position, beginning of year	378,687	410,834
Net Position, end of year	<u>\$ 395,281</u>	<u>\$ 378,687</u>

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, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Cash Flows From Operating Activities:		
Cash received from customers	\$ 663,438	\$ 684,571
Cash payments to suppliers for goods and services	(250,087)	(411,123)
Cash payments to employees	(137,350)	(148,568)
Net cash provided (used) by operating activities	<u>276,001</u>	<u>124,880</u>
Cash flows from non-capital financing activities:		
Cash flows from capital and related financing activities:		
(Increase) decrease in capital assets	(53,560)	(2,869,333)
New borrowings		3,053,440
Principal paid on notes	(150,692)	(81,000)
Interest paid on notes	(121,924)	(55,606)
System development fees	29,000	146,000
FEMA	9,700	
Loan and administrative fees	(16,577)	(139,880)
Net cash provided (used) by financing activities	<u>(304,053)</u>	<u>53,621</u>
Cash flows from investing activities:		
Interest income	853	550
(Increase) decrease in restricted accounts	(50,269)	348
Net cash provided (used) by investing activities	<u>(49,416)</u>	<u>898</u>
Net increase (decrease) in cash and cash equivalents	(77,468)	179,399
Beginning cash and cash equivalents	423,113	243,714
Ending cash and cash equivalents	<u>\$ 345,645</u>	<u>\$ 423,113</u>
Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:		
Operating income or loss	\$ 115,542	\$ 16,789
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation	160,589	108,851
(Increase) decrease in deposits	(130)	(760)
Net cash provided (used) by operating activities	<u>\$ 276,001</u>	<u>\$ 124,880</u>

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, 2015 AND 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

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 on 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, 2015 AND 2014

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, 2015 and 2014, the District had \$155,934 and \$105,665 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, 2015 and 2014 was \$160,589 and \$108,851 respectively. The balances for depreciable assets by major category as December 31, 2015 are as follows:

	<u>12/31/14</u>	<u>Deletions</u>	<u>Additions</u>	<u>12/31/15</u>
Land	\$ 9,400	\$	\$	\$ 9,400
Waterline system	5,017,266		42,127	5,059,393
Machinery & equipment	145,384		11,433	156,817
Vehicles	38,896			38,896
Buildings & improvements	63,277			63,277
Furniture & office equipment	6,278			6,278
Accumulated depreciation	(1,483,352)		(160,589)	(1,643,941)
Total	<u>\$ 3,797,149</u>	<u>\$</u>	<u>\$ (107,029)</u>	<u>\$ 3,690,120</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, 2015 AND 2014

NOTE 3 – NOTES PAYABLE (continued):

The following is a detail of the loan activity during the year ended December 31, 2015 and 2014:

Balance at 12/31/13	\$	976,560
Principle payments		(81,000)
New borrowings		<u>3,053,440</u>
Balance at 12/31/14		3,949,000
Principle payments		(150,692)
New borrowings		<u> </u>
Balance at 12/31/15	\$	<u><u>3,798,308</u></u>

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

Year Ended	Payments	Principal	Interest & Admin. fees
12/31/16	\$ 296,593	\$ 153,467	\$ 143,126
12/31/17	296,593	161,981	134,612
12/31/18	296,593	165,303	131,290
12/31/19	296,593	173,743	122,850
12/31/20	296,593	177,028	119,565
12/31/21 - 12/31/25	1,294,680	814,404	480,276
12/31/26 - 12/31/30	1,012,263	679,953	332,310
12/31/31 - 12/31/35	1,012,263	811,970	200,293
12/31/36 - 12/31/39	708,581	660,459	48,122
Totals	<u>\$ 5,510,752</u>	<u>\$ 3,798,308</u>	<u>\$ 1,712,444</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 \$8,431 and \$6,033 for the years ended December 31, 2015 and 2014, respectively.

NOTE 5 – CONTINGENCIES:

As of December 31, 2015 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.

RURAL WATER DISTRICT NO. 2, COMANCHE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 6 – 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, 2015.

NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS:

The definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosure about the use of fair value measurements in an effort to make the measurement of fair value more consistent and comparable.

Level 1: Quoted prices in active markets for identical securities.

Level 2: Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment spread and credit risk).

Level 3: Significant unobservable inputs (including the District's own assumptions in determining the fair value of investments).

The District's financial instruments include cash and cash equivalents, certificates of deposit, inventory, accounts receivable, accounts payable and notes payable. The District's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying value 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 8 – 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 9 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through March 29, 2016, the date which the financial statements were available to be issued.