

RURAL WATER DISTRICT NO. 2, NOBLE COUNTY
ANNUAL FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014

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

Board of Directors
Rural Water District No. 2, Noble County

Report on the Financial Statements

We have audited the accompanying statements of assets, liabilities and net position of Rural Water District No. 2, Noble County as of December 31, 2015 and 2014 and the related statements of revenues, expenses and changes in net position, and of cash flows and the related notes to the financial statements for the years then ended.

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 opinion, the financial statements referred to above, present fairly, in all material respects, the modified cash basis financial position of Rural Water District No. 2, Noble County, 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.

Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated May 26, 2016 on our consideration of Rural Water District No. 2, Noble County'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.

 CPA, PC

Kimberlye R. Mayer, CPA, P.C.

Blackwell, Oklahoma

May 26, 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, Noble County

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Rural Water District No. 2, Noble County which comprise the statement of assets, liabilities and net position as of December 31, 2015, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 26, 2016. 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, Noble County'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, Noble County's internal control. Accordingly, we do not express an opinion on the effectiveness of the Rural Water District No. 2, Noble County's internal control.

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 deficiencies, in internal control such that there is reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

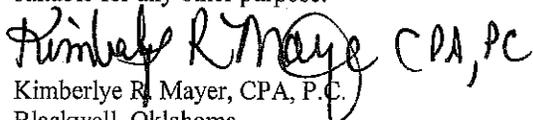
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water District No. 2, Noble County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Kimberlye R. Mayer, CPA, P.C.
Blackwell, Oklahoma
May 26, 2016

FINANCIAL STATEMENTS

AND

NOTES

RURAL WATER DISTRICT NO. 2, NOBLE COUNTY
 STATEMENTS OF ASSETS, LIABILITIES AND NET POSITION
 MODIFIED CASH BASIS
 DECEMBER 31, 2015 AND 2014

ASSETS

	2015	2014
Current Assets:		
Cash and cash equivalents	\$ 30,071	\$ 176,863
Certificates of deposit	252,635	250,918
Total Current Assets	282,706	427,781
Restricted Funds:		
Debt service account	4,553	7,041
Debt service reserve account	47,481	47,482
Total Restricted Funds	52,034	54,523
Property, plant and equipment (net of accumulated depreciation) (Note 2)	1,153,086	1,229,410
Construction in progress	117,308	30,820
Total Assets	\$ 1,605,134	\$ 1,742,534

LIABILITIES AND NET POSITION

Current Liabilities:		
Current portion of notes payable (Note 3)	\$ 10,400	\$ 17,900
Meter deposits	98,560	80,450
Notes payable (Note 3)	217,000	227,400
Total Liabilities	325,960	325,750
Net Position:		
Net investment in capital assets	1,042,994	1,014,930
Restricted for debt service	52,034	54,523
Unrestricted	184,146	347,331
Total Net Position	1,279,174	1,416,784
Total Liabilities and Net Position	\$ 1,605,134	\$ 1,742,534

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

RURAL WATER DISTRICT NO. 2, NOBLE COUNTY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
MODIFIED CASH BASIS
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Operating Revenues		
Water service	\$ 490,416	\$ 428,685
Other income	2,222	360
Total Operating Revenues	492,638	429,045
Operating Expenses		
Water purchases	344,061	121,358
Payroll	94,561	69,552
Employee benefits	28,544	15,856
Payroll taxes	5,830	5,827
Trustee fees	750	750
Professional fees	1,135	1,120
Insurance and bonds	8,104	7,929
Repairs, maintenance and supplies	43,895	39,534
Water tests and fees	1,459	4,410
Auto expense	9,405	8,592
Meter reading fees		12,955
Utilities and telephone	13,439	12,460
Depreciation	80,949	81,684
Director fees	2,100	2,275
Mileage, meetings and travel	2,298	1,964
Postage and office supplies	9,807	10,547
Processing fees	4,749	3,501
Other expenses	3,987	6,624
Total Operating Expenses	655,073	406,938
Operating Income (Loss)	(162,435)	22,107
Nonoperating Revenue (Expenses):		
Interest income	1,825	1,904
Interest expense	(3,650)	(2,914)
Water tap and connection fees	26,650	50,172
Total Nonoperating Revenues and (Expenses)	24,825	49,162
Change in Net Position	(137,610)	71,269
Net Position, beginning of year	1,416,784	1,345,515
Net Position, end of year	\$ 1,279,174	\$ 1,416,784

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

RURAL WATER DISTRICT NO. 2, NOBLE COUNTY
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	\$ 508,526	\$ 439,035
Other operating cash receipts	2,222	360
Cash payments to suppliers for goods and services	(479,563)	(255,702)
Cash payments to employees	(94,561)	(69,552)
Net cash provided (used) by operating activities	<u>(63,376)</u>	<u>114,141</u>
 Cash flows from non-capital financing activities:		
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(91,113)	(122,759)
Decrease in capital assets		90,196
Connection and membership fees	26,650	50,172
Principle payments	(17,900)	(12,450)
Interest payments on debt	(3,650)	(2,914)
Net cash provided (used) by financing activities	<u>(86,013)</u>	<u>2,245</u>
 Cash flows from investing activities:		
Interest income	1,825	1,904
(Increase) decrease in investments	(1,717)	(101,423)
(Increase) decrease in restricted accounts	2,489	(5,353)
Net cash provided (used) by investing activities	<u>2,597</u>	<u>(104,872)</u>
 Net increase (decrease) in cash and cash equivalents	(146,792)	11,514
Beginning cash and cash equivalents	176,863	165,349
Ending cash and cash equivalents	<u>\$ 30,071</u>	<u>\$ 176,863</u>
 Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:		
Operating income or loss	\$ (162,435)	\$ 22,107
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation	80,949	81,684
Changes in assets and liabilities:		
Increase in meter deposits	18,110	10,350
Net cash provided (used) by operating activities	<u>\$ (63,376)</u>	<u>\$ 114,141</u>

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

RURAL WATER DISTRICT NO. 2, NOBLE COUNTY
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, Noble County was incorporated under the Rural Water District Act, as amended, Title 82, Section 1301-1321 of the Oklahoma State Statutes. The purpose of the District is to acquire water and water rights; to build and acquire pipelines and other facilities; and to operate the same for the purpose of furnishing water to serve the needs of owner and occupants of land located within the District, and others as authorized by the by-laws.

The District is a governed entity 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/fund equity, revenues, and expenditures/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.

Restricted Reserves

Rural Economic and Community Development Agency requires monies to be held in reserve accounts. These reserve funds are for future debt service and amounted to \$52,034 and \$54,523 at December 31, 2015 and 2014 respectively.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

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

NOTE 2 – PROPERTY, PLANT AND EQUIPMENT:

Waterline extensions and additions are capitalized and depreciated over their estimated useful lives. Depreciation is calculated on a straight-line basis. Total depreciation for the year ended December 31, 2015 and 2014 was \$80,949 and \$70,682 respectively. The balances for depreciable assets by major category are as follows:

	Balance 12/31/14	(Deletions) Additions	Balance 12/31/15
Building and land	\$ 177,853	\$	\$ 177,853
Water distribution system	1,935,206		1,935,206
Machinery & equipment	190,462	3,975	194,437
Office furniture & fixtures	15,756	650	16,406
	<u>2,319,277</u>	<u>4,625</u>	<u>2,323,902</u>
Less accumulated depreciation	(1,089,867)	(80,949)	(1,170,816)
Net	<u>\$ 1,229,410</u>	<u>\$ (76,324)</u>	<u>\$ 1,153,086</u>

NOTE 3 – NOTES PAYABLE:

During the year ended December 31, 1999 the District entered into a note agreement with the Oklahoma Water Resources Board for \$510,000. The proceeds from this note were used to refinance an existing note with USDA – Rural Development, pay loan costs, set up a debt service reserve fund, and to pay for construction costs for the improvement and expansion of its waterline system. Monthly payments began January 15, 2000 with an interest rate of 4.772%. The rate of interest and monthly payments are adjusted semiannually. The term of the note is 30 years. The current interest rate at December 31, 2015 was 1.515%. The following is a summary of the notes payable at December 31, 2015 and 2014:

Balance at 12/31/13	\$ 257,750
Principle payments	<u>(12,450)</u>
Balance at 12/31/14	245,300
Principle payments	<u>(17,900)</u>
Balance at 12/31/15	<u>\$ 227,400</u>

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

NOTE 3 – NOTES PAYABLE(continued):

The following is a summary of future debt requirements.

Year Ending	Payments	Principle	Interest
12/31/16	\$ 13,644	\$ 10,400	\$ 3,244
12/31/17	13,644	11,100	2,544
12/31/18	13,644	11,600	2,044
12/31/19	13,644	11,600	2,044
12/31/20	13,644	12,500	1,144
12/31/21-12/31/25	95,580	79,700	15,880
12/31/26-12/31/29	106,696	90,500	16,196
	<u>\$ 270,496</u>	<u>\$ 227,400</u>	<u>\$ 43,096</u>

NOTE 4 – WATER PURCHASE COMMITMENT:

The governing board of the Rural Water District No. 2, Noble County, together with seven other cities and rural water districts located in Noble, Pawnee, and Payne Counties have jointly formed Lone Chimney Water Association (Association). The purpose of the Association is to provide a water system for the benefit of its members and other users. The Association has entered into various loan agreements with the USDA-Rural Development to provide financing for the facility. Under the terms of the agreement regarding the Lone Chimney Water Association, each member has contracted to purchase a minimum amount of water from the Association during the 40 year term of the notes. In addition, each individual member is proportionately liable for any debts that exceed the assets of the Association to the extent of one and one-half times the percentage of ownership interest held by the entity pursuant to the agreement. At December 31, 2015 and 2014, the District's percentage of ownership was 12%. During the year ended December 31, 2014, because the District's minimum purchase had been waived, the District was required to pay debt service for three months which totaled \$7,700.

Up until July 1, 2011, Rural Water District No. 2, Noble County, was obligated to purchase a minimum of 31.2 million gallons of water annually. Because of the drought conditions at the Lone Chimney Lake, the minimum purchase was waived until the availability of water increases. At December 31, 2013, all water was being purchased from the cities of Stillwater and Perry. In September 2014, the District began purchasing water from the Association at a new minimum of 2.6 million gallons annually. Beginning October 1, 2015, the minimum was changed to 2,080,000 gallons annually.

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

NOTE 5 – FAIR VALUES 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 6 - ESTIMATES:

The preparation of financial statements in conformity with the modified cash basis of accounting requires the use of management 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 7 – 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 amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

NOTE 8 – 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, NOBLE COUNTY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 9 – NET POSITION:

Net position presents the difference between assets and liabilities in the statement of net position. Net investment in capital assets is reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are legal limitations imposed on their use by District legislation or external restrictions by creditors, grantors, laws or regulations of other governments.

NOTE 10 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through May 26, 2016, the date which the financial statements were available to be issued.