

**RURAL WATER DISTRICT NO. 2
NOWATA COUNTY, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015**

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

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

Report on the Financial Statements

We have audited the accompanying statement of assets, liabilities and net position of the Rural Water District No. 2, Nowata County, Oklahoma, as of December 31, 2015, and the related statements of revenues, expenses and changes in net position and of cash flows as of the year 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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 opinion.

Opinion

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, Nowata County, Oklahoma, as of December 31, 2015; the changes in modified cash basis financial position; and of 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 opinion is not modified with respect to this matter.

Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated August 2, 2016 on our consideration of Rural Water District No. 2, Nowata 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
August 2, 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, Nowata County, Oklahoma

We have audited the financial statements of Rural Water District No. 2, Nowata County, Oklahoma as of and for the year ended December 31, 2015 and have issued our report thereon dated August 2, 2016. We conducted our audit 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. 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, Nowata 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, Nowata County, Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of the Rural Water District No 2, Nowata County, Oklahoma'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 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.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water District No. 2, Nowata 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, Nowata 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, Nowata 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.



Kimberly R. Mayer, CPA, P.C.

Blackwell, Oklahoma

August 2, 2016

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

Material Weakness Communicated In Prior Year:

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. This finding was also noted in 2014.

Cause:

The entity's limited size and staffing resources 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 water billing 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: Financial Statements:

Criteria:

The District's management is responsible for internal controls over accounting and financial reporting.

Condition:

The District has relied on its independent external auditors to provide the needed expertise to assist in the preparation of the financial statements and related notes to the financial statements as part of its controls over the financial reporting process. This finding was also noted in 2014.

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

Cause:

The District lacks the expertise to prepare the financial statements.

Effect or Potential Effect:

The District's lack of expertise to prepare the financial statements could result in errors or misstatements in the financial statements could occur and not be prevented or detected by the District.

Recommendation:

We recommend that the District obtain additional expertise to prepare financial statements without the reliance on the external auditors.

Board's Response:

Because the external auditors cannot be considered a part of the District's internal controls, the District has provided safeguards by designating a management level individual with suitable skill, knowledge and/or experience to oversee the services performed by our engagement, make all management decisions, evaluate and monitor the performance and adequacy of the services, and to take responsibility for the books, records and related financial statements.

FINANCIAL STATEMENTS

AND

NOTES

RURAL WATER DISTRICT NO. 2
 NOWATA COUNTY, OKLAHOMA
 STATEMENT OF ASSETS, LIABILITIES AND NET POSITION
 MODIFIED CASH BASIS
 DECEMBER 31, 2015

ASSETS

Current Assets:	
Cash in operating account	\$ 21,969
Certificates of deposit	
Total Current Assets	21,969
Capital assets (net of accumulated depreciation) (Note 2)	31,844
Total Assets	\$ 53,813

LIABILITIES AND NET POSITION

Liabilities:	\$
Net Position:	
Invested in capital assets	31,844
Unrestricted	21,969
Total Net Position	53,813
Total Liabilities and Net Position	\$ 53,813

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

RURAL WATER DISTRICT NO. 2
 NOWATA COUNTY, OKLAHOMA
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 MODIFIED CASH BASIS
 YEAR ENDED DECEMBER 31, 2015

Operating Revenues:	
Water service	\$ 66,819
Late fees	334
Total Operating Revenues	<u>67,153</u>
Operating Expenses:	
Water purchases	47,584
Utilities	2,306
Repairs and maintenance	8,363
Water testing	1,560
Office supplies and postage	1,184
Insurance and bonds	590
Bookkeeping fees	4,400
Professional fees	1,978
Telephone and internet	550
Depreciation	3,621
Dues and memberships	461
Total Operating Expenses	<u>72,597</u>
Operating Income (Loss)	(5,444)
Nonoperating Revenue (Expenses):	
Interest income	11
Memberships	6,600
Total Nonoperating Revenues	<u>6,611</u>
Change in Net Position	1,167
Net Position, beginning of year	<u>52,646</u>
Net Position, end of year	<u><u>\$ 53,813</u></u>

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

RURAL WATER DISTRICT NO.2
NOWATA COUNTY, OKLAHOMA
STATEMENT OF CASH FLOWS
MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2015

Cash Flows From Operating Activities:	
Cash received from customers	\$ 67,153
Cash payments to suppliers for goods and services	<u>(68,976)</u>
Net cash provided (used) by operating activities	(1,823)
Cash flows from non-capital financing activities:	
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(9,724)
Membership fees	<u>6,600</u>
Net cash provided (used) by financing activities	(3,124)
Cash flows from investing activities:	
Interest income	11
Water system improvements	
(Increase) decrease in CD's	<u>17,319</u>
Net cash provided (used) by investing activities	<u>17,330</u>
Net increase (decrease) in cash and cash equivalents	12,383
Beginning cash and cash equivalents	<u>9,586</u>
Ending cash and cash equivalents	<u><u>\$ 21,969</u></u>
Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:	
Operating income or loss	\$ (5,444)
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:	
Depreciation	<u>3,621</u>
Net cash provided (used) by operating activities	<u><u>\$ (1,823)</u></u>

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

RURAL WATER DISTRICT NO. 2
NOWATA COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

Rural Water District No. 2, Nowata County, Oklahoma was incorporated under the Rural Water District Act of the Oklahoma State Statutes, Title 82, 1301-1321, as amended. The District is exempt from federal and state income taxes. The purpose of the District is to acquire water and water rights; to build and acquire waterlines and other facilities; and to operate the same for the purpose of furnishing water to serve the needs of owners 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 maintains its records and prepares its financial statements on the modified cash basis of accounting. Under the modified cash basis, revenues are recognized when received, rather than when earned, and expenditures are recognized when paid, rather than when incurred. Fixed assets are recorded at cost when purchased. Annual depreciation is calculated on a straight-line basis. Total depreciation for the year ended December 31, 2015 was \$3,621.

Cash and Deposits

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.

Cash and deposits are maintained in financial institutions which provide coverage to depositors through the Federal Deposit Insurance Corporation.

Statement of Cash Flows

For the purposes of the Statement of Cash Flows, the District considers all checking accounts and deposit accounts with maturities of three months or less to be cash equivalents.

Budget

The District is not legally required to adopt a budget.

NOTE 2 – PROPERTY AND EQUIPMENT:

Depreciable assets are recorded at cost when purchased or constructed. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset

RURAL WATER DISTRICT NO. 2
 NOWATA COUNTY, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 YEAR ENDED DECEMBER 31, 2015

NOTE 2 – PROPERTY AND EQUIPMENT (continued):

or materially extend the asset's life are expendable. Annual depreciation is calculated on a straight-line basis. The balances for depreciable assets by major category are as follows:

	12/31/14	Additions	12/31/15
Waterline system	\$ 94,385	\$ 6,295	\$ 100,680
Equipment	11,410		11,410
Software	2,800	2,169	4,969
	<u>108,595</u>	<u>8,464</u>	<u>117,059</u>
Accumulated depreciation	(82,854)	(2,361)	(85,215)
Net	<u>\$ 25,741</u>	<u>\$ 6,103</u>	<u>\$ 31,844</u>

NOTE 3 – 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 probably 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. There were no claims during the year ended December 31, 2015.

NOTE 4 – ESTIMATES:

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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 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.

NOTE 6 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through August 2, 2016 the date which the financial statements were available to be issued.

RURAL WATER DISTRICT NO. 2
NOWATA COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

NOTE 7 – 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. 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.