

**OTTAWA COUNTY RURAL
WATER DISTRICT NO. 2**

**ANNUAL FINANCIAL STATEMENTS
AND ACCOMPANYING
INDEPENDENT AUDITOR'S REPORTS**

For the Year Ended October 31, 2014

LANGLEY, LITTLEFIELD, & OBER

CERTIFIED PUBLIC ACCOUNTANTS, PLLC

124 SOUTH MAIN MIAMI, OK 74354

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CERTIFIED PUBLIC ACCOUNTANTS, PLLC

124 SOUTH MAIN MIAMI, OK 74354

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Ottawa County Rural Water District No.2
Miami, Oklahoma

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities of Ottawa County Rural Water District No.2 as of and for the year ended October 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United State. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence 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 respective financial position of the business-type activities of the Ottawa County Rural Water District No.2 as of October 31, 2014, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4–7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2015, on our consideration of the Ottawa County Rural Water District No 2's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Ottawa County Rural Water District No 2's internal control over financial reporting and compliance.

Sincerely,



LANGLEY-LITTLEFIELD-OBER
CERTIFIED PUBLIC ACCOUNTANTS, PLLC
MIAMI, OKLAHOMA
FEBRUARY 27, 2015

OTTAWA COUNTY RURAL WATER DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED OCTOBER 31, 2014

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the fiscal year ended October 31, 2014. Please read it in conjunction with the District's financial statements beginning on page 8.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at October 31, 2014 by \$601,025.23, representing an increase in net position of \$17,042.90 for the year.
- Total operating revenues, grant income, interest income, insurance reimbursements, and membership fees were \$163,333.38 this year while operating expenses were \$146,290.48, resulting in the increase in net position of \$17,042.90.
- The District has \$371,398.69 (net of accumulated depreciation) invested in capital assets as of October 31, 2014.

DISTRICT HIGHLIGHTS

- Our customer base has increased to approximately 456 customers.

USING THIS ANNUAL REPORT

This annual report consists of two parts; Management's Discussion and Analysis and the Financial Statements. The Financial Statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Statements

The Financial Statements of the District report information about the District using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The Statement of Net Position includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine profitability, credit worthiness and whether the District has successfully recovered all its costs through its user fees and other charges. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments and net changes in cash resulting from cooperation, investing, and capital and noncapital financing activities and provides answers to such questions as "from where did cash come?," "for what was cash used?," and "what was the change in cash balance during the reporting period?"

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

One of the most important questions asked about the District's finances is "Is the District, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position report information about the District's activities in a way that will help answer this question. These two statements report the net position of the District and changes in them. You can think of the District's net position – the difference between assets and liabilities – as one way to measure financial health or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, population growth and new or changed legislation.

The District's total Net Position increased from last year by \$17,042.90 or about 2.9%. Our analysis below focuses on the District's net position (Table 1) and changes in net position (Table 2) during the year.

Table 1

	<u>10/31/14</u>	<u>10/31/13</u>
Current Assets	\$ 236,693.60	\$ 250,532.10
Fixed Assets	<u>371,398.69</u>	<u>342,470.97</u>
Total Position	<u>608,092.29</u>	<u>593,003.07</u>
Liabilities	<u>7,067.06</u>	<u>9,020.74</u>
Invested in Capital Assets, Net of Related Debt	371,398.69	342,470.97
Net Position, Unrestricted	<u>229,626.54</u>	<u>241,511.36</u>
Total Net Position	<u>\$ 601,025.23</u>	<u>\$ 583,982.33</u>

The District's net position reflects its investment in capital assets (e.g. water system, buildings, machinery and equipment) less any related debt used to acquire those assets still outstanding. The District uses these capital assets to provide services to citizens and consumers; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay any debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

OTTAWA COUNTY RURAL WATER DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FISCAL YEAR ENDED OCTOBER 31, 2014

The balance of unrestricted net position may be used to meet the District's ongoing obligations to citizens, customers and creditors. The District's unrestricted net position decreased by \$11,884.82 or 4.9% during the current year.

Changes in the District's net position can be determined by reviewing the following condensed Statement of Revenue, Expenses and Changes in Net Position for the year.

Table 2

	<u>10/31/14</u>	<u>10/31/13</u>
Total Operating Revenues	\$ 120,982.02	\$ 112,533.14
Operating Expenses	(130,219.20)	(96,519.67)
Depreciation Expense	(16,071.28)	(15,312.48)
Other Non-Operating Revenues (Expenses)	32,566.36	3,915.23
Membership Fees	<u>9,785.00</u>	<u>1,500.00</u>
Increase (Decrease) in Net Position	17,042.90	6,116.22
Net Position, Beginning of Year	<u>583,982.33</u>	<u>577,866.11</u>
Net Position, End of Year	<u><u>\$ 601,025.23</u></u>	<u><u>\$ 583,982.33</u></u>

The District's primary source of revenue is the sale of water which comprises most of the operating revenues. Operating revenues increased by \$8,448.88 or 7.5% from the prior year.

Total operating expenses increased by \$33,699.53 or 34.9% from the prior year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of October 31, 2014, the District had \$371,398.69 (net of accumulated depreciation) invested in capital assets, including the water storage and distribution system, improvements, machinery and equipment. The net capital assets increased by \$28,927.72 or 8.4% from the prior year.

Debt

The District had no notes payable outstanding as of October 31, 2014.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

A product of an ongoing examination of how the District does business, our budget emphasizes outcomes or results for the community and allows for longer-term financial planning decisions.

In considering the District's budget for the fiscal year 2014/2015, the Board estimates that revenues and expenses in the coming year will approximate actual revenues and expenses for the past fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Board of Directors at Ottawa County Rural Water District No. 2, P.O. Box 1267, Miami, Oklahoma 74355.

OTTAWA COUNTY RURAL WATER DISTRICT NO. 2
STATEMENT OF NET POSITION
FISCAL YEAR ENDED OCTOBER 31, 2014

	<u>2014</u>
ASSETS	
Current Assets:	
Petty Cash	\$ 25.00
Cash and Cash Equivalents	45,453.11
Certificates of Deposit	171,645.42
Accounts Receivable	17,870.40
Interest Receivable	637.27
Returned Checks	58.25
Prepaid Insurance	1,004.15
Total Current Assets	<u>236,693.60</u>
Noncurrent Assets:	
Capital Assets, net of accumulated depreciation	<u>371,398.69</u>
Total Noncurrent Assets	<u>371,398.69</u>
Total Assets	<u>608,092.29</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	<u>7,067.06</u>
Total Liabilities	<u>7,067.06</u>
NET POSITION	
Invested in capital assets, net of related debt	371,398.69
Unrestricted	<u>229,626.54</u>
Total Net Position	<u>\$ 601,025.23</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

OTTAWA COUNTY RURAL WATER DISTRICT NO. 2
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FISCAL YEAR ENDED OCTOBER 31, 2014

	2014
Operating Revenues:	
Water charges and fees	\$ 120,245.78
Other revenues	736.24
Total Operating Revenues	<u>120,982.02</u>
Operating Expenses:	
Advertising	354.87
Depreciation	16,071.28
DEQ expenses	2,888.41
Dues	395.10
Utilities	27,068.91
Insurance & bonds	1,619.23
Legal & accounting	10,299.00
Miscellaneous	880.69
Office supplies	1,057.01
Operator fees	21,600.00
Postage	1,752.57
Professional fees	1,650.00
Repairs & maintenance	27,149.67
Operating supplies	30,818.49
Telephone	485.25
Travel & conference expense	2,200.00
Total Operating Expenses	<u>146,290.48</u>
Operating Income (Loss)	(25,308.46)
Non-Operating Revenues (Expenses):	
Grant income	15,572.43
Insurance reimbursement	12,217.35
Interest income	4,776.58
Total Non-Operating Revenues (Expenses)	<u>32,566.36</u>
Income (Loss) before membership fees	7,257.90
Membership fees	<u>9,785.00</u>
Change in net position	17,042.90
Total net position, beginning	<u>583,982.33</u>
Total net position, ending	<u><u>\$ 601,025.23</u></u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

OTTAWA COUNTY RURAL WATER DISTRICT NO. 2
STATEMENT OF CASH FLOWS
FISCAL YEAR ENDED OCTOBER 31, 2014

	2014
Cash flows from operating activities:	
Cash received from customers	\$ 112,420.32
Cash paid to suppliers for goods and services	(132,188.98)
Net cash provided by operating activities	<u>(19,768.66)</u>
Cash flows from investing activities:	
Additions to water system	(44,999.00)
Purchase of certificates of deposit	(4,777.28)
Interest received on investments	4,760.43
Net cash provided (used) in investing activities	<u>(45,015.85)</u>
Cash flows from financing activities:	
Grant income received	15,572.43
Insurance claim reimbursement received	12,217.35
Memberships purchased	9,785.00
Net cash provided (used) in financing activities	<u>37,574.78</u>
Net increase (decrease) in cash and cash equivalents	(27,209.73)
Beginning cash balance	72,687.84
Ending cash balance	<u>\$ 45,478.11</u>
Reconciliation of net income (loss) to cash provided by operating activities:	
Net income (loss)	\$ (25,308.46)
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	16,071.28
(Increase) Decrease in receivables	(8,561.70)
(Increase) Decrease in prepaid insurance	(16.10)
Increase (Decrease) in accounts payable	(1,953.68)
Total Adjustments	<u>5,539.80</u>
Net cash provided by operating activities	<u>\$ (19,768.66)</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

OTTAWA COUNTY RURAL WATER DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENT
FISCAL YEAR ENDED OCTOBER 31, 2014

Note 1 - Summary of Significant Accounting Policies

Ottawa County Rural Water District No. 2, (the “District”) was created under the provisions of Title 82, O.S. 1981, Sections 1324.1-1324.26 inclusive, for the purpose of providing water to the members of the District it serves. Membership in the water district consists of water users who have paid the required membership and connection fees. The District is exempt from federal and state income taxes.

The membership consists of approximately 456 users, each entitled one vote. The Board of Directors consists of 5 members serving one to three-year terms. The vacant Board seats are elected at the annual meeting in March, and following, the Board of Directors meet and elect a chairman, vice-chairman, secretary and treasurer. All Board members receive a stipend for attending meetings.

The accounting policies of the District conform to generally accepted accounting principles applicable to governmental units. The District complies with generally accepted accounting principles and applies all relevant Government Accounting Standards Board (GASB) pronouncements. In addition, the District applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The District has elected not to follow FASB pronouncements issued since that date.

1.A. Financial Reporting Entity

The District complies with GASB Statement No. 14, “*The Financial Reporting Entity*.” This statement establishes standards for defining and reporting on the financial reporting entity. It defines component units as legally separate organizations for which the elected officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

The District considered all potential component units determining what organizations should be included in the financial statements. Based on these criteria, there are no component units to include in the District’s financial statements.

Note 1 – Summary of Significant Accounting Policies: continued

1.B. Basis of Presentation

The accounts of the District are organized into funds, each of which is considered to be a separate accounting entity. The District uses the following fund types:

Proprietary Funds

Enterprise Funds

The District's fund is an enterprise fund. Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

1.C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe *which* transactions are recorded within the various financial statements. Basis of accounting refers to *when* transactions are recorded regardless of the measurement focus applied.

Measurement Focus

The proprietary funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net asset (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

Basis of Accounting

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the District's enterprise fund is charges to customers for sales and services. The District also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

OTTAWA COUNTY RURAL WATER DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENT
FISCAL YEAR ENDED OCTOBER 31, 2014

Note 1 – Summary of Significant Accounting Policies: continued

1.C. Measurement Focus and Basis of Accounting: continued

Recent Accounting Pronouncements

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63). The objective of GASB 63 is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The pronouncement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statements elements by providing guidance where none previously existed. The provisions of this statement were effective for financial statements for periods beginning after December 15, 2011. The District adopted GASB 63 effective November 1, 2012. The adoption of the statement required the District to adopt the term "net position" as required. In addition, as required by GASB 63, the District determined as of October 31, 2014, there were no items of deferred inflows or outflows of resources, as presently defined, to be reported.

1.D. Assets, Liabilities and Net Position

Cash and Cash Equivalents

For the purposes of cash flows, the District considers all cash on hand, demand deposits, and highly liquid investments, with an original maturity of three months or less when purchased, to be cash and cash equivalents.

Fair Value of Financial Instruments

The District's financial statements include cash and investments. The District's estimates of the fair value of all financial instruments do 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.

Accounts Receivable

Accounts receivable consists primarily of charges for water sales. Management has not established a provision for uncollectible accounts. Such amounts are written off in the month in which management determines they are uncollectible.

Capital Assets

The water storage and delivery system and equipment are recorded at cost. Donated capital assets are reported at estimated fair market value at the date of donation.

OTTAWA COUNTY RURAL WATER DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENT
FISCAL YEAR ENDED OCTOBER 31, 2014

Note 1 – Summary of Significant Accounting Policies: continued

1.D. Assets, Liabilities and Net Position: continued

Capital Assets: continued

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

All reported capital assets are depreciated on the straight-line basis over the estimated useful lives ranging from ten (10) to forty (40) years.

Equity Classification

Equity is classified as net position and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- b. Restricted – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted – All other net position that do not meet the definitions of “restricted” or “invested in capital assets, net of related debt”.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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. Actual results could differ from those estimates.

Note 2 – Detailed Notes Concerning Accounts

2.A. Deposits and Investments

At year-end, the carrying amount of the District’s deposits was \$217,098.53 and the bank balance was \$216,912.00. The bank balance was completely covered by federal depository insurance or by collateral held by the District’s agent in the District’s name.

OTTAWA COUNTY RURAL WATER DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENT
FISCAL YEAR ENDED OCTOBER 31, 2014

Note 2 – Detailed Notes Concerning Accounts: continued

2.A. Deposits and Investments: continued

State statutes govern the District's investment policy. The District is authorized to invest in U. S. Government obligations and its agencies or instrumentalities; certificates of deposit of savings and loan associations, and bank and trust companies; and savings accounts or savings certificates of savings and loan associations and trust companies. Collateral is required for demand deposits and certificates of deposit for all amounts not covered by federal deposit insurance. Investments are stated at cost. Currently the District invests entirely in certificates of deposit.

Credit Risk: The District's investment policy is to apply the "prudent investor" standard. "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."

Custodial Credit Risk – Deposits: Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's cash deposits, including interest-bearing certificates of deposit, are maintained in financial institutions. As of October 31, 2014, none of the District's investments were exposed to custodial credit risk because they were either insured or collateralized.

Interest rate risk: This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

2.B. Accounts Receivable

Aged accounts receivable are as follows:

Current billings	\$ 8,176.50
31 – 60 days arrears	5,269.75
61 – 90 days arrears	497.95
Over 90 days arrears	<u>3,926.20</u>
	<u>\$ 17,870.40</u>

OTTAWA COUNTY RURAL WATER DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENT
FISCAL YEAR ENDED OCTOBER 31, 2014

Note 2 – Detailed Notes Concerning Accounts: continued

2.C. Changes in Capital Assets

Capital asset activity for the fiscal year ended October 31, 2014 was as follows:

	Beginning of Year	Additions	Deletions	End of Year
Well System & Pump Station	\$ 264,962.16	\$ 44,999.00	\$ -	\$ 309,961.16
System Water Well	26,136.82	-	-	26,136.82
System Pipeline	544,370.38	-	-	544,370.38
Computer	2,432.03	-	-	2,432.03
System Equipment	51,113.00	-	-	51,113.00
Total Capital Assets	889,014.39	44,999.00	-	934,013.39
Less: Accumulated Depreciation	(546,543.42)	(16,071.28)	-	(562,614.70)
Net Book Value	\$ 342,470.97	\$ 28,927.72	\$ -	\$ 371,398.69

Note 3 – Other Information

3.A. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District purchases commercial insurance to cover these risks, including general and auto liability, property damage, and public officials liability. There were no significant reductions in insurance coverage from the prior year. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

OTTAWA COUNTY RURAL WATER DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENT
FISCAL YEAR ENDED OCTOBER 31, 2014

Note 3 – Other Information: continued

3.B. Rates and Fees

Water Rates and Charges

Minimum monthly charge on first 1,000 gallons	\$ 10.00
Price per thousand gallons for next 1,000 gallons	2.00
Price per thousand gallons for next 4,000 gallons	1.50
Price per thousand gallons for next 2,000 gallons	1.25
Price per thousand gallons for next 2,000 gallons	1.00
Price per thousand gallons for next 5,000 gallons	0.90
Price per thousand gallons for next 5,000 gallons	0.80
Price per thousand gallons for next 20,000 gallons	1.00
Price per thousand gallons for next 20,000 gallons	1.25
Price per thousand gallons for next 60,000 gallons	1.40
Price per thousand gallons for next 10,000 gallons	1.75
Price per thousand gallons for gallons over 130,000	2.00

Other Fees

Cost of membership	\$ 650.00
Meter setting fee	750.00
Reconnect fee	100.00

3.C. Related Party Transactions

During the year, the District paid Crafton Pump Service, Inc. \$84,592.62 for operator services, repairs and additions to the water distribution system and bookkeeping services. Crafton Pump Service, Inc. is an entity wholly owned by a member of the District's Board of Directors.

3.D. Evaluation of Subsequent Events

The District has evaluated subsequent events through February 27, 2015, the date which the financial statements were available to be issued.

REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS

LANGLEY-LITTLEFIELD-OBER

CERTIFIED PUBLIC ACCOUNTANTS, PLLC

124 SOUTH MAIN MIAMI, OK 74354

918-524-4401 OFFICE

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

To the Board of Directors
Ottawa County Rural Water District No. 2
Miami, Oklahoma

We have audited, in accordance with the 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 the business-type activities of Ottawa County Rural Water District No. 2, as of and for the year ended October 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 27, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Ottawa County Rural Water District No. 2'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Ottawa County Rural Water District No. 2's internal control. Accordingly, we do not express an opinion on the effectiveness of Ottawa County Rural Water District No. 2'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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or 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 the 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 Ottawa County Rural Water District No. 2's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Very truly yours,

A handwritten signature in cursive script, reading "Langley Littlefield Ober".

LANGLEY, LITTLEFIELD, & OBER, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

MIAMI, OKLAHOMA

FEBRUARY 27, 2015