

Lincoln County Rural Water District No. 2
Chandler, Oklahoma

Financial Statements
As Of and for the Year Ended June 30, 2014

(With Independent Auditors' Report Thereon)

Audited By

Bill Ford

Certified Public Accountant

Lincoln County Rural Water District No. 2
Lincoln County, Oklahoma
For the Year ended June 30, 2014

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INDEPENDENT AUDITOR'S REPORT

TELEPHONE
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Board of Directors
Lincoln County Rural Water District No. 2
Chandler, Oklahoma

I have audited the accompanying financial statements of the business-type activities of Lincoln County Rural Water District No. 2, Lincoln County, Oklahoma, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Lincoln County Rural Water District No. 2, Lincoln County, Oklahoma's basic financial statements as listed on 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 the modified cash basis of accounting described in Note 2. 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 financial statements that are free from material misstatement, whether due to error or fraud.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Basis for Qualified Opinion

The District has not been audited since June 30, 1995. The beginning of the years fixed assets, accumulated depreciation, and net assets have not been audited and I was not engaged to audit the beginning of the year fixed assets, accumulated depreciation, or net assets as part of my audit of the Lincoln County Rural Water District #2, Lincoln County, Oklahoma, basic financial statements - modified cash basis.

Qualified Opinion

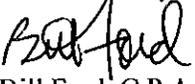
In my opinion, except for the possible effects of the matter discussed in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position - modified cash basis of the business-type activities of the Lincoln County Rural Water District #2, Lincoln County, Oklahoma, as of June 30, 2014, and the respective changes in financial position - modified cash basis and cash flows thereof for the year then ended in conformity with the basis of accounting described in Note 2.

Basis of Accounting

I draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. My opinion is not modified with respect to that matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated September 30, 2015, on my consideration of the District's internal control over financial reporting and my 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 my 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 audits performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.


Bill Ford, C.P.A.

September 30, 2015

LINCOLN COUNTY RURAL WATER DISTRICT No. 2
 LINCOLN COUNTY, OKLAHOMA
 STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
 JUNE 30, 2014

ASSETS

Current assets:

Cash and cash equivalents	\$ 49,349
Total current assets	<u>49,349</u>

Restricted assets:

Investments	<u>16,434</u>
Total restricted assets	<u>16,434</u>

Non-current assets:

Capital assets:	
Capital assets, net of accumulated depreciation	<u>19,625</u>
Total non-current assets	<u>19,625</u>
Total assets	<u><u>\$ 85,408</u></u>

LIABILITIES

Current liabilities:

Accrued interest	10
Notes payable, current	<u>7,632</u>
Total current liabilities	<u>7,642</u>

Non-current liabilities:

Notes payable, non-current	<u>27,854</u>
Total non-current liabilities	<u>27,854</u>
Total liabilities	<u>35,496</u>

NET ASSETS

Restricted for debt service	16,434
Unassigned	<u>33,478</u>
Total net assets	<u><u>\$ 49,912</u></u>

See accompanying notes to financial statements

LINCOLN COUNTY RURAL WATER DISTRICT No. 2
 LINCOLN COUNTY, OKLAHOMA
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES
 IN FUND NET ASSETS - MODIFIED CASH BASIS
 FOR THE YEAR ENDED JUNE 30, 2014

Operating Revenues

Charges for services:	
Water charges/other	\$ 190,989
Total operating revenues	<u>190,989</u>

Operating Expenses

Purchased water	114,859
Contractor expense	19,500
Accounting	2,235
Operating supplies	2,871
Lab fees	767
Telephone expense	902
Office supplies	837
Insurance	548
Postage	668
Printing	1,058
Post office rental	78
Lock box, bank fees	454
Depreciation	<u>3,925</u>
Total operating expenses	<u>148,702</u>
Operating income (loss)	<u>42,287</u>

Non-operating Revenue (Expenses)

Interest income	145
Interest on notes payable	<u>(1,983)</u>
Total non-operating revenue (expenses)	<u>(1,838)</u>
Income (loss) before contributions and transfers	40,449
Capital contributions	<u>0</u>
Change in net assets	40,449
Total net assets, beginning	<u>9,463</u>
 Total net assets, ending	 <u>\$ 49,912</u>

See accompany notes to the financial statements

LINCOLN COUNTY RURAL WATER DISTRICT No. 2
 LINCOLN COUNTY, OKLAHOMA
 STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
 FOR THE YEAR ENDED JUNE 30, 2014

<u>Cash Flows from Operating Activities</u>	
Cash received from members and others	\$ 190,989
Cash paid to suppliers and employees	<u>144,767</u>
Net cash provided (used) by operating activities	<u>46,222</u>
 <u>Cash Flows from Capital and Related Financing Activities</u>	
Principal paid on notes payable	(7,279)
Interest paid on notes payable	(1,973)
Net cash provided (used) by capital & related financing activities	<u>(9,252)</u>
 <u>Cash Flows from Investing Activities</u>	
(Increase) decrease in restricted assets	0
Interest earned	<u>145</u>
Net cash provided (used) by investing activities	<u>145</u>
Net increase (decrease) in cash and cash equivalents	37,115
Cash and cash equivalents, beginning	<u>12,234</u>
Cash and cash equivalents, ending	<u>\$ 49,349</u>
 <u>Reconciliation of operating income (loss) to net cash provided (need)</u>	
by operating activities:	
Operating income (loss)	\$ 42,287
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	3,925
Increase (decrease) in accruals	<u>10</u>
Total adjustments	<u>3,935</u>
Net cash provided (used) by operating activities	<u>\$ 46,222</u>

See accompanying notes to financial statements

LINCOLN COUNTY RURAL WATER DISTRICT No. 2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

1. ORGANIZATION

Lincoln County Rural Water District No. 2 (the District) was organized under Title 82, §1324.1 *Oklahoma Statutes*, on June 20, 1974, as a political subdivision of Lincoln County, Oklahoma. The District supplies water to member users living within the district and constructs and maintains all water lines and other related property and equipment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting and reporting policies applied in the preparation of the accompanying financial statements for the year ended June 30, 2014, are as follows:

Government-Wide and Fund Financial Statements - The District is a special purpose governmental entity engaged only in business type activities. The District prepares financial statements required for enterprise funds.

Measurement Focus and Basis of Accounting - Measurement focus is a term used to describe “how” 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:

In the financial statements business-like activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or non-current, financial, or non-financial) associated with their activities are reported. Fund equity is classified as net assets.

Basis of Accounting:

In the financial statements, business-like activities are presented using a 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 this 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. If the District utilized the basis of accounting recognized as generally accepted, the financial statements would use the accrual basis of accounting.

Fund Types and Major Funds - The District reports all activity within a single fund.

Property and Equipment - Acquisition and construction costs of property and equipment are capitalized, and depreciation is provided on a straight-line basis over the estimated useful lives of the property and equipment as follows:

<u>Type of Assets</u>	<u>Years</u>
Water line system	40

Contributed Capital - Amounts received by the District from member units and proceeds received as contributions in aid of construction from other entities as grants are recorded as contributed capital.

Use of Estimates - Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets, liabilities, and equity, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Inventory- The District does not maintain an inventory, except on a de minimus basis. All items are purchased as needed.

Income Tax Status - The District is a political instrumentality of Lincoln County, Oklahoma, and therefore, exempt from income taxes under the *Internal Revenue Code*.

Compensated Absences - The District has no employees, therefore, the District does not record a liability for accrued compensated absences.

3. CASH AND INVESTMENTS

The District's investment policies are governed by state statute. Permissible investments include direct obligations of the United States Government and Agencies; certificates of deposit of savings and loan associations, and bank and trust companies; and savings accounts or savings certificates of saving and loan associations, and trust companies. The District considers highly liquid investments with a maturity of three months or less when purchased

to be cash equivalents. Collateral is required for demand deposits and certificates of deposit for all accounts not covered by federal deposit insurance. The investment consists of a certificate of deposit that matures every six months.

Deposits and Investments - The District's cash deposits and investments at June 30, 2014,, were completely insured by federal deposit insurance. Therefore, the District's cash deposits and investments at June 30, 2014, were not exposed to Custodial Credit Risk, Investment Credit Risk, Investment Interest Rate Risk, or Concentration of Investment Credit Risk.

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014, were as follows:

	<u>Balance 7/1/13</u>	<u>Decreases/ Increases</u>	<u>Balance 6/30/14</u>
Capital assets:			
Water line system	\$ 157,000		\$ 157,000
Total capital assets	<u>157,000</u>		<u>157,000</u>
Less accumulated depreciation for:			
Water line system	133,450	3,925	137,375
Total accumulated depreciation	<u>133,450</u>	<u>3,925</u>	<u>137,375</u>
Capital assets, net	<u>\$ 23,550</u>	<u>\$ 3,925</u>	<u>\$ 19,625</u>

Depreciation expense for the year ended June 30, 2014, was \$3,925.

5. LONG-TERM DEBT

The District had the following long-term debt as of June 30, 2014:

Notes Payable:

Note - U.S. Department of Agriculture - Rural Development dated November 28, 1978, for the amount of \$157,000. Payments of \$771 per month for 40 years including interest at 5.0%.

Secured by all business assets. \$35,486

Total Long-Term Debt \$35,486

Changes in long-term debt during the year ended December June 30, 2014, were as follows:

	Balance <u>at 7/1/13</u>	<u>Decreases</u>	Balance at <u>6/30/14</u>
Note - Rural Development	\$42,765	\$ (7,279)	\$35,486

Annual payments required to amortize the above outstanding debt over the next five years and thereafter, are as follows:

Year Ended <u>6/30</u>	<u>Rural Development</u>	
	<u>Principal</u>	<u>Interest</u>
2015	\$ 7,632	\$ 1,620
2016	8,023	1,229
2017	8,433	819
2018	8,864	387
Thereafter	<u>2,534</u>	<u>29</u>
	<u>\$ 35,486</u>	<u>\$ 4,084</u>

6 RESERVE ACCOUNT

Section 4(d) of the loan agreement with Rural Development stipulates that the District establish a reserve account for repairs and replacement of the system. An amount equal to ten (10%) percent of the monthly debt service payments shall be transferred monthly to the reserve account until the balance reaches an amount equal to the annual debt service payments.

The reserve account, including accumulated interest earned thereon, is shown as a restricted investment on the statement of net assets - modified cash basis. The respective balance of the reserve account as of June 30, 2014, is \$16,434.

7. 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 carries commercial insurance for risk of loss, including workers' compensation.

8. CONTRACTS

The District purchases water for resale from the Chandler Municipal Authority, Chandler, Oklahoma. The price paid by the District is determined based on costs incurred by the Authority in producing the water purchased. The contract contains terms defining the costs to be considered.

9. SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 30, 2015, which is the date the financial statements were available to be issued. Subsequent to the financial statement date, the District loaned the operator for the District \$4,000.

WILLIAM A. FORD
CERTIFIED PUBLIC ACCOUNTANT
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CHANDLER, OKLAHOMA 74834

REPORT ON COMPLIANCE AND 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

TELEPHONE
(405) 258-2405

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

I 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*, the financial statements-modified cash basis of the business-type activities of Lincoln County Rural Water District No. 2, Lincoln County, Oklahoma, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Lincoln County Rural Water District No. 2, Lincoln County, Oklahoma's basic financial statements and have issued my report thereon dated September 30, 2015. The financial statements were prepared on a modified cash basis of accounting, a comprehensive basis of accounting other than accounting principles generally accepted in the United States and is not intended to be presented in conformity with United States generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion in the effectiveness of the District's internal control. Accordingly, I do not express an opinion on the effectiveness of the District'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. I consider the deficiencies described in the accompanying schedule of findings and responses as items 2014-1, 2014-2, 2014-3, and 2014-4 to be material weaknesses.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

District's Responses to the Findings

The District's response to the findings identified in my audit are described in the accompanying schedule of findings and responses. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, I express no opinion on them. I also noted certain matters that I reported to the District's management in a separate letter dated September 30, 2015.

Purpose of this Report

The purpose of this report is solely to describe the scope of my 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.



Bill Ford, C.P.A.

September 30, 2015

LINCOLN COUNTY RURAL WATER DISTRICT NO. 2
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2014

<u>Reference Number</u>	<u>Finding</u>
2014-1	<p>Criteria or Specific Requirement - Management is responsible for maintaining filing requirements</p> <p>Condition - Prior to the current fiscal period an audit, budget, or 1099's had not been filed with the proper agencies since fiscal year ended June 30, 1995.</p> <p>Context - The State Auditor Inspector of Oklahoma, and Rural Development require annual audits. Rural Development require annual budgets. The Internal Revenue Service require annual 1099 forms filed for independent contractors paid more than \$600 annually. The last audit filed with Rural Development was for the fiscal year ended June 30, 1995.</p> <p>Effect - Potential material misstatements in the financial statements or material misappropriation of assets due to error or fraud could occur and not be prevented or deleted in a timely manner.</p> <p>Cause - Management has not had proper oversight in their filing requirements.</p> <p>Recommendation - Management should have a checklist of filing requirements and assure these requirements are not on a timely basis.</p> <p>Views of Responsible Officials and Planned Corrective Actions - Management concurs with the finding and recommendation. Management will perform the suggested evaluation and make any changes deemed appropriate that are cost beneficial within the next year.</p>
2014-2	<p>Criteria or Specific Requirement - Management is responsible for establishing and maintaining effective internal controls to promote accurate recording, classification, and reporting of accounting transactions.</p> <p>Condition - Management prior to the current fiscal year, did not have any procedure for monitoring revenues collected nor who the members of the District consisted of.</p>

Context - One individual was responsible for the collection of revenue for the District prior to the current fiscal year.

Effect - Potential material misstatement in the financial statements or material misappropriations of assets due to error or fraud could occur and not be prevented or detected on a timely basis. The current years financial statements includes revenues collected from prior years due to ineffective monitoring.

Cause - Management has not monitored the collection and recording of revenue prior to the current fiscal year.

Recommendation - Management should review, and monitor, on a monthly basis, collections, and past due accounts. An accurate member/customer list should be maintained.

Views of Responsible Officials and Planned Corrective Actions - Management concurs with the finding and recommendation. Management will perform the suggested evaluation and make any changes deemed appropriate that are cost beneficial within the next year.

2014-3

Criteria or Specific Requirement - Management is responsible for establishing and maintaining effective internal controls to assure accounting transactions have documentation.

Condition - Management, prior to the current fiscal year, did not have any procedure for maintaining or reviewing documentation of any transactions.

Context - One individual was responsible for maintaining documentation of transactions. Some of this documentation has yet to be given to the management of the District and was missing in the current fiscal year.

Effect - Potential material misstatements in the financial statements or material misappropriation of assets due to error or fraud could occur and not be prevented or detected in a timely manner.

Cause - Management relied on one individual to maintain documentation of accounting records.

Recommendation - Management should periodically review and monitor documentation of accounting transactions. All documents prior and current should be retrieved from any individual not currently responsible for the accounting of the District.

Views of Responsible Officials and Planned Corrective Actions - Management concurs with the finding and recommendation. Management will perform the suggested evaluation and make any changes deemed appropriate that are cost beneficial within the next year.

2014-4

Criteria or Specific Requirement - Segregation of duties for accounting transactions. The inherent limitation resulting from a small number performing functions that would normally be divided among several were a larger number available.

Condition - There is only one person performing accounting transactions and collection of revenues.

Context - In a larger organization different individuals would perform accounting functions to assure proper segregation of duties.

Effect - Error in accounting transactions that would not be detected or prevented in a timely manner.

Cause - The size and nature of the organization.

Recommendation - The Board should remain actively involved in the activities of the District including periodically reviewing bank statements and documentation.

Views of Responsible Officials and Planned Corrective Actions - Management concurs with the finding and recommendation. Management will perform the suggested evaluation and make any changes deemed appropriate that are cost beneficial within the next year.