

**LOVE COUNTY RURAL WATER
DISTRICT #2**

**FINANCIAL STATEMENTS AND
AUDITORS' REPORT**

JUNE 30, 2016



**Jackson, Fox and Richardson PC
A Professional Corporation
Certified Public Accountants
Ardmore, Oklahoma**

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Love County Rural Water District #2
Thackerville, Oklahoma

We have audited the accompanying financial statements of the business-type activities of Love County Rural Water District #2 (the District) as of and for the year ended June 30, 2016, 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 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. Those standards require that we 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, 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 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 respective financial position of the business-type activities of the Love County Rural Water District #2 as of June 30, 2016, 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.

Required Supplementary Information

Jackson, for: R. L. Bush PC

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Love County Rural Water District #2
Statement of Net Assets
June 30, 2016

ASSETS

CURRENT ASSETS

Cash on hand and in banks	\$ 521,832
Certificates of deposit	105,079
Accounts receivable	45,893
Inventory	<u>30,672</u>
Total current assets	703,476

NONCURRENT ASSETS - AT COST - NOTE 3

Water systems	\$ 1,841,116	
Office equipment	22,777	
Land	31,450	
Machinery & equipment	<u>320,199</u>	
	2,215,543	
Less accumulated depreciation	<u>977,517</u>	
		<u>1,238,026</u>
		<u><u>\$ 1,941,502</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	18,486
Accrued liabilities	<u>5,921</u>
Total current liabilities	24,407

NET ASSETS

Net investment in capital assets	1,238,026
Unrestricted	<u>679,069</u>
Total net assets	1,917,094
	<u><u>\$ 1,941,502</u></u>

The accompanying notes are an integral part of this financial statement.

Love County Rural Water District #2
Statement of Revenues, Expenditures
and
Changes in Net Assets
For the year ended June 30, 2016

REVENUES

Water sales and related revenues	\$ 516,805
Penalties / late charges	<u>6,171</u>

Total revenues 522,977

EXPENDITURES - OPERATING

Salaries and benefits	225,246
Depreciation	64,884
Bad debt expense	1,403
Utilities and telephone	37,869
Insurance	19,229
Repairs and maintenance	5,972
Office and printing	11,907
Professional fees	37,298
Supplies	12,774
Gas, oil and mileage	3,568
Machine hire and contract labor	6,141
Water testing	8,260
Dues and subscriptions	3,461
Uniforms	3,437
Cost of meters and supplies	11,812
Bank fees	4,538
Advertising	1,750
Miscellaneous other expenses	<u>4,669</u>
	<u>464,219</u>

Net Revenue from operations 58,758

OTHER REVENUE (EXPENDITURES)

Grant income	92,912
Rental income	3,000
Interest income	<u>320</u>
	<u>96,232</u>

NET REVENUES 154,990

NET ASSETS JULY 1, 2015 1,762,104

NET ASSETS JUNE 30, 2016 \$ 1,917,094

The accompanying notes are an integral part of this financial statement.

Love County Rural Water District #2
Statement of Cash Flows
For the year ended June 30, 2016

Cash flow from Operating Activities:

Cash received from customers	\$ 522,580
Cash payments to supplies for goods and services	(139,439)
Cash payments to employees and contractors	(269,135)
Net cash provided (used) by operating activities	<u>114,006</u>

Cash flows from capital and related financing activities:

Cash received from sale of equipment	-
Cash used to purchase assets	<u>(17,789)</u>

Cash flows from non-capital financing activities

Decrease in deposits from customers	(400)
Investment in certificates of deposit	(109)
Net cash provided (used) by noncapital financing activities	<u>(509)</u>

Cash flows from investing activities:

Interest income on unrestricted accounts	320
Grant Income	97,412
Rental income	3,000
Net cash provided (used) by investing activities	<u>100,732</u>

Net Increase (Decrease) in Cash 196,440

Cash and certificate equivalents July 1, 2015 325,392

Cash and certificate equivalents June 30, 2016 \$ 521,832

Reconciliation of operating income to cash flows from operating activities

Operating income (loss)	\$ 58,758
Adjustment to reconcile net revenues to net cash provided by operating activities	
Depreciation and amortization	64,884
(Increase) Decrease accounts receivable	1,006
(Increase) Decrease other current assets	-
(Increase) Decrease in inventory	(6,364)
Increase (Decrease) accounts payable	(4,278)
Increase (Decrease) accrued liabilities	-
Total adjustments	<u>55,248</u>

Net cash provided (used) by operating activities \$ 114,006

The accompanying notes are an integral part of this financial statement.

Love County Rural Water District #2
Notes to the Financial Statements
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and nature of operations

Love County Rural Water District No. 2 (the "District") is a body corporate and politic, without taxing power, established in the State of Oklahoma pursuant to Title 82, Oklahoma Statutes 1991, and an Order of the Board of County Commissioners of Love County, Oklahoma dated as of July 26, 1993. All assets and liabilities of Thackerville Water and Sewerage Company were transferred to the District. Its purpose is the construction, maintenance and operation of a water works within its district.

The basic financial statements of the Love County Rural Water District #2 have been prepared in conformity with generally accepted accounting principles as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The District is governed by a Board of Directors consisting of five members elected by the members of the District. The Board elects a Chairman.

Basis of Presentation

The District's resources are allocated to and accounted for in these basic financial statements as an enterprise fund type of the proprietary fund group. The enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other policies. Net assets for the enterprise fund represent the amount available for future operations.

Basis of accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The enterprise fund type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. Net assets are segregated into amounts invested in capital assets, net of related debt, amounts restricted and amount unrestricted. Enterprise fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The District uses the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Revenues are recognized when customers are billed.

Accounts receivable

The District uses the allowance method to account for uncollectible accounts receivable. Accounts receivable are presented net of an allowance for doubtful accounts of \$1,000.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with an initial maturity of three months or less to be cash equivalents, including restricted assets.

Love County Rural Water District #2
Notes to the Financial Statements
June 30, 2016

Fair Value of Financial Instruments Approximates Carrying Amount

The District's financial instruments are cash and cash equivalents, accounts receivable and accounts payable. The recorded values of cash and cash equivalents, accounts receivable, and payable approximate their fair values based on their short-term nature.

Operating and Nonoperating Revenues

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the cost of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Fixed Assets and Depreciation

Fixed assets are stated at original cost. The costs of additions and replacements are capitalized. Replacements of minor items of property are charged to expense as incurred. Costs of property retired are eliminated from accounts, likewise such costs plus removal expense less salvage are charged to accumulated depreciation.

Inventory

Inventory consisting of meters, pumps, valves and other merchandise, held for replacement purposes, is stated at cost.

Accounting estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

Restricted and Unrestricted resources

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

Tenant Security Deposits

Tenant security deposits are held in a segregated demand account in the name of the District.

Subsequent Events

The District evaluates events or transactions that occur subsequent to year end for potential recognition or disclosure in the financial statement through the date on which the financial statements are available to be issued. The financial statements were approved by management and available to be issued on February 17, 2017.

Love County Rural Water District #2
Notes to the Financial Statements
June 30, 2016

NOTE 2 – CASH AND INVESTMENTS

The District's bank deposits are categorized below per GASB Statement 3 to give an indication of the level of risk assumed at year-end. Deposits of the District are carried at cost. The carrying amount of deposits is stated in the balance sheet as "cash and cash equivalents". The District invests only in cash accounts and certificates of deposit.

Deposits	Risk Category			Bank Balance	Financial Statement
	1	2	3		Carrying Amount
Demand Deposits	\$ 250,000	\$ 271,632	\$ -	\$ 521,632	\$ 521,632
Certificates of Deposit	-	105,079	-	105,079	105,079
Totals	\$ 250,000	\$ 376,711	\$ -	\$ 626,711	\$ 626,711

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. GASB directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance and the deposits are as follow:

1. Insured by Federal Deposit Insurance,
2. Collateralized by securities held by pledging financial institution, or
3. Collateralized by securities held by the pledging financial institution's trust department or agent but not in the district's name.

None of the District's aggregate bank balances, not covered by depository insurance, were exposed to custodial credit risk as described above at year end.

NOTE 3 – PROPERTY AND EQUIPMENT

Fixed assets are depreciated on a straight-line basis over their estimated useful life. As of June 30, fixed assets consisted of the following:

	Beginning Asset	Additions	Deletions	Ending Balance
Water systems	\$ 1,841,116		\$ -	\$ 1,841,116
Office equipment	21,422	1,355	-	22,777
Machinery and equipment	305,159	15,040	-	320,199
Land	30,057	1,394	-	31,451
	\$ 2,197,754	\$ 17,789	\$ -	\$ 2,215,543
Accumulated Depreciation	(912,634)	(64,884)	-	\$ (977,517)
	\$ 1,285,120	\$ (47,094)	\$ -	\$ 1,238,026

Love County Rural Water District #2
Notes to the Financial Statements
June 30, 2016

Depreciation expense for the year ended June 30, 2016 was \$64,884.

NOTE 4 – RISK MANAGEMENT

The District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

Health Care Coverage

During the year ended June 30, 2016, employees of the District were covered by health insurance under a plan sponsored by the State of Oklahoma.

Workers' Compensation Coverage

Workers' compensation insurance is purchased through Oklahoma Rural Water Association.

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INDEPENDENT AUDITORS' 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 Trustees

Love County Rural Water District #2

Thackerville, 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 Love County Rural Water District #2 (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Love County Rural Water District #2's basic financial statements, and have issued our report thereon dated February 17, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we 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. 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 the District'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

A handwritten signature in black ink, appearing to read "Nathan Fox".

Ardmore, Oklahoma
February 17, 2017

