

Financial Statements

of

**Rural Water District No. 2
Muskogee County, Oklahoma**

December 31, 2016 and 2015



Clothier & Company CPA's P.C.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of assets, liabilities and fund balances- modified cash basis as described in Note 1, of Rural Water District No. 2, Muskogee County, Oklahoma, as of December 31, 2016 and 2015 and the revenues, expenses, and changes in fund balance- modified cash basis for the years 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 on the cash basis of accounting, which is a comprehensive basis of accounting other than 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.

Auditors' 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 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 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 auditors' 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 of 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 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 assets, liabilities and fund balances –modified cash basis of Rural Water District No.2, as of December 31, 2016 and 2015, and the revenues, expenses, and changes in fund balance – modified cash basis and cash flows for the years then ended, on the basis of accounting described in Note 1.

Other Matters

Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 14 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 supplementary information in accordance with auditing standards general accepted in the United States of America, which consisted of inquiries of management regarding 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 March 7, 2017, on our consideration of 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 agreement 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 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 Rural Water District No. 2's internal control over financial reporting and compliance.



Clothier & Company, CPA's, P.C.

March 7, 2017

RURAL WATER DISTRICT #2 MUSKOGEE
Statement of Assets, Liabilities and Fund
Balances - Cash Basis
December 31, 2016 and 2015

ASSETS

	<u>2016</u>	<u>2015</u>
Current Assets		
Cash and Cash Equivalents	\$ 151,808	\$ 115,926
Total Current Assets	151,808	115,926
Fixed Assets		
Land	17,719	17,719
Buildings	92,112	92,112
Water System & Equipment	777,746	777,746
Office Furniture/Equipment	21,730	21,730
Accum. Depreciation	(580,054)	(554,464)
Total Fixed Assets	329,253	354,843
Other Assets		
	<u>0</u>	<u>0</u>
Total Assets	<u><u>\$ 481,061</u></u>	<u><u>\$ 470,769</u></u>

LIABILITIES AND FUND BALANCE

Current Liabilities		
Payroll Taxes Payable	\$ 1,944	\$ 1,837
IRA Payable	<u>0</u>	<u>0</u>
Total Current Liabilities	1,944	1,837
Fund Balance		
Fund Balance	468,932	484,073
Current Income (Loss)	<u>10,185</u>	<u>(15,141)</u>
Total Fund Balance	<u>479,117</u>	<u>468,932</u>
Total Liabilities and Fund Balance	<u><u>\$ 481,061</u></u>	<u><u>\$ 470,769</u></u>

See accompanying notes and independent auditors' report.

RURAL WATER DISTRICT #2 MUSKOGEE
Statement of Revenues and Expenses and Changes in Fund Balance - Cash Basis
December 31, 2016 and 2015

	2016	2015
REVENUES		
Water Sales	\$ 256,943	\$ 225,540
Late Charges	14,671	13,889
Reconnect Fees	50	100
Transfer Fees	1,400	1,900
Installation Fees	750	750
Benefit Unit Certificate	1,000	1,000
Miscellaneous Income	1,544	40
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Total Revenue	276,358	243,219
OPERATING EXPENSES		
Water Purchased	82,335	80,314
Wages	71,780	69,056
Contract Labor	10,080	7,440
Payroll Taxes-941	6,262	5,989
Employee Benefits	21,017	20,263
Utilities	4,318	4,666
Insurance-General	6,772	6,461
Depreciation Expense	25,591	25,790
Office Supplies	829	1,344
Plant Maintenance	8,905	6,110
Plant Expense	12,042	10,700
Water Tests	5,114	3,149
Telephone/Internet	2,360	2,530
Travel	0	0
Employee/Board Travel/Training	0	0
District Truck Maint/Ins/Fuel	1,696	2,759
Postal Expense	1,878	2,473
Office Equipment Maintenance	450	421
Miscellaneous Expense	276	209
ORWA Membership	0	407
Bank Service Charges	708	402
Audit Expense	2,090	2,035
Building/Grounds Maintenance	1,670	390
Bad Debt Expense	0	0
Tower Maintenance	0	5,452
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Total Operating Expense	266,173	258,360
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Net Income (Loss)	10,185	(15,141)
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Beginning Fund Balance	468,932	484,073
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Ending Fund Balance	\$ 479,117	\$ 468,932
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35,776

See accompanying notes and independent auditors' report.

RURAL WATER DISTRICT #2 MUSKOGEE
Statement of Cash Flows
December 31, 2016 and 2015

	2016	2015
Cash Flows From Operating Activities:		
Cash received from customers	\$ 274,814	\$ 243,179
Cash received from other sources	1,544	40
Cash paid to employees	(64,698)	(68,850)
Cash paid to suppliers	(82,335)	(80,313)
Other operating payments	(93,443)	(83,200)
Net Cash Flows from Operating Activities	<u>35,882</u>	<u>10,856</u>
Cash Flows From Capital and Related Financing Activities:		
Payment of debt	0	0
Acquisition and construction of capital assets	<u>0</u>	<u>0</u>
Net Cash (Used) By Capital and Related Financing Activities	<u>0</u>	<u>0</u>
Cash Flows From Investing Activities:		
Receipt of interest and dividends	<u>0</u>	<u>0</u>
Net Cash Provided (Used) By Investing Activities	<u>0</u>	<u>0</u>
Net Increase (Decrease) In Cash	35,882	10,856
Cash Beginning of Year	<u>115,926</u>	<u>105,070</u>
Cash End of Year	<u><u>\$ 151,808</u></u>	<u><u>\$ 115,926</u></u>
Reconciliation of Operating Income to Net Cash Flows from Operating Activities:		
Operating income (loss)	\$ 10,185	\$ (15,141)
Add depreciation expense	25,591	25,790
Less interest income	0	0
(Increase)/Decrease in Current Assets:		
Notes receivables, net	0	0
Increase/(Decrease) in Current Liabilities:		
Accrued expenses	<u>106</u>	<u>207</u>
Net Cash Flows from Operating Activities	<u><u>\$ 35,882</u></u>	<u><u>\$ 10,856</u></u>

See accompanying notes and independent auditors' report.

Rural Water District No. 2
Muskogee County, Oklahoma
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Rural Water District No. 2 is a political subdivision of the State of Oklahoma organized in June of 1965, with its offices located in Muskogee County, Oklahoma. The District was formed to furnish water service to the residents of the district by constructing and maintaining a water system.

Basis of Accounting

The financial statements of the District are prepared using the cash basis of accounting where revenues are recognized when received and expenses are recognized when paid. This is a comprehensive basis of accounting other than generally accepted accounting principles. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the District had the option to apply FASB pronouncements issued after that date to its business-type activities, it has chosen not to do so.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents, consists of cash on hand and all cash in bank.

The District maintains the following account for funds deposited with a fully insured bank:

Operating account- Gross revenues of the District are to be deposited to this account. The reasonable and necessary current expenses of operating and maintaining the District for each month are also paid from this account. These funds are on deposit with Arvest bank.

Property and Equipment

Property and equipment are recorded at cost, with depreciation provided on a straight-line method over the estimated useful lives of the assets.

Income Tax

As a political subdivision of the State of Oklahoma, the District is exempt from income taxes.

Use of Estimates

The preparation of financial statements in conformity with the cash basis of accounting principles requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. PROPERTY AND EQUIPMENT

	<u>Beginning Balance</u>	<u>Addition</u>	<u>Accumulated Depreciation</u>	<u>Book Balance</u>
Land	\$17,719	\$0	\$0	\$17,719
Office Furniture & Equipment	21,730	0	(21,730)	0
Water System & Equipment	777,746	0	(524,339)	253,407
Buildings	92,112	0	(33,985)	58,127
Construction in Process	0	0	0	0
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Totals	\$909,307	\$0	(\$580,054)	\$329,253
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3. CONCENTRATION OF CREDIT RISK

The District maintains cash balances at Arvest Bank. As of December 31, 2016 the District's deposits and investments were \$151,808 (\$300 in petty cash). Of the bank balance \$151,508 was covered by Federal Depository Insurance Corporation and \$0 was collateralized.

4. SUBSEQUENT EVENTS

The District has evaluated subsequent events through the date which the financial state were available to be issued with none found that need disclosed.

5. OTHER INFORMATION

The Board of Directors and staff of Rural Water District #2, Muskogee County, Oklahoma as of December 31, 2016:

Chairman	Ken Herringshaw
Vice-chairman	Gary Rogers
Secretary/Treasure	Bob Rose
Director	Jerry Smith
Director	Jeff Case
District Manager	Gerald Schneidewent
Office Manager/Bookkeeper	Patty Swepston



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**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
Rural Water District No. 2
Muskogee County, Oklahoma

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Rural Water District No. 2 Muskogee County, Oklahoma (District), as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collective comprise Rural Water District No. 2's basic financial statements, and have issued our report thereon dated March 7, 2017.

As described in Note 1, the District prepares its financial statements on the modified cash basis, which is a comprehensive 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 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 opinion 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 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 over financial reporting that

might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 cursive script that reads "Clothier & Company CPA's".

Clothier & Company, CPA's, P.C.

March 7, 2017

SUPPLEMENTARY INFORMATION

RURAL WATER DISTRICT NO. 2

Budget to Actual Comparison

December 31, 2016

	Original Budget	Final Budget	Actual	Variance
Revenue:				
Water Revenue	\$251,447	\$251,447	\$256,943	(\$5,496)
Late Charges	12,000	12,000	14,671	(2,671)
Meter Installation/Benefit Unit	1,750	1,750	1,750	0
Reconnection/Transfer Fees	1,600	1,600	1,450	150
Returned Check Charges	125	125	0	125
Misc. & Intrest Income	40	40	1,544	(1,504)
Total Revenue	266,962	266,962	276,358	(9,396)
Cost of Sales:				
Water Purchases	82,000	82,000	82,335	(335)
Gross Revenue	184,962	184,962	194,023	(9,061)
Operating Expenses:				
Audit Expense	2,035	2,035	2,090	(55)
Wages - Operator	51,680	51,680	51,680	0
Contract-system assitant	8,000	8,000	10,080	(2,080)
Wages - Office Manager	20,100	20,100	20,100	0
Payroll Taxes	10,080	10,080	6,262	3,818
Health/Life Insurance	15,138	15,138	15,613	(475)
Retirement Expense	5,125	5,125	5,405	(280)
Utilities	4,618	4,618	4,318	300
Insurance	6,460	6,460	6,772	(312)
Office Supplies/Expenses	1,725	1,725	1,279	446
Plant Expense	10,800	10,800	12,042	(1,242)
Water Tests/Environment Fees	3,975	3,975	5,114	(1,139)
Tower Maintenance	0	0	0	0
Telephone Expense	2,244	2,244	2,360	(116)
Travel Expense	0	0	0	0
Staff/Board Travel/Training	100	100	0	100
Truck Espense	2,800	2,800	1,696	1,104
Postal Expense	2,500	2,500	1,878	622
Contract Backhoe Expense	8,000	8,000	8,905	(905)
Miscellaneous Expense	225	225	276	(51)
OWRA Membership	330	330	0	330
Bank Service Charge	500	500	708	(208)
Building Maintenance	250	250	1,670	(1,420)
Bad Debt	0	0	0	0
Total Operating Expenses	156,685	156,685	158,248	(1,563)
Revenues Over/(Under) Expenses	\$28,277	\$28,277	35,776	(\$7,499)
Depreciation Expense(not included in budget)			(25,591)	
Net Income (Loss)			\$10,185	

See accompanying footnotes and auditors' report.