

Financial Statements

of

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

December 31, 2014 and 2013



Clothier & Company CPA's P.C.

P.O. Box 1495 * Muskogee, Ok 74402

(918) 687-0189 FAX (918) 687-3594

cccpa@yahoo.com



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cccpa@yahoo.com

P.O. Box 1495
Muskogee, Oklahoma 74402
918-687-0189 FAX 918-687-3594

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- cash basis as described in Note 1, of Rural Water District No. 2, Muskogee County, Oklahoma, as of December 31, 2014 and 2013 and the revenues, expenses, and changes in fund balance- 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 –cash basis of Rural Water District No.2, as of December 31, 2014 and 2013, 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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 11 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 February 29, 2015, 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.
February 29, 2015

RURAL WATER DISTRICT #2 MUSKOGEE
Statement of Assets, Liabilities and Fund
Balances - Cash Basis
December 31, 2014 and 2013

ASSETS

	<u>2014</u>	<u>2013</u>
Current Assets		
Cash and Cash Equivalents	\$ 105,070	\$ 96,050
Total Current Assets	105,070	96,050
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	<u>(528,673)</u>	<u>(502,559)</u>
Total Fixed Assets	380,634	406,748
Other Assets		
N/R Hopwell Park	<u>0</u>	<u>2,901</u>
Total Assets	<u><u>\$ 485,704</u></u>	<u><u>\$ 505,699</u></u>

LIABILITIES AND FUND BALANCE

Current Liabilities		
Payroll Taxes Payable	\$ 1,631	\$ 1,637
IRA Payable	<u>0</u>	<u>0</u>
Total Current Liabilities	1,631	1,637
Fund Balance		
Fund Balance	504,062	515,026
Current Income (Loss)	<u>(19,989)</u>	<u>(10,964)</u>
Total Fund Balance	<u>484,073</u>	<u>504,062</u>
Total Liabilities and Fund Balance	<u><u>\$ 485,704</u></u>	<u><u>\$ 505,699</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, 2014 and 2013

	2014	2013
REVENUES		
Water Sales	\$ 223,016	\$ 223,391
Late Charges	12,875	13,033
Reconnect Fees	75	150
Transfer Fees	1,675	525
Installation Fees	3,000	2,250
Benefit Unit Certificate	4,000	5,000
Miscellaneous Income	81	20
Interest Income	0	42
Total Revenue	244,722	244,411
OPERATING EXPENSES		
Water Purchased	84,182	87,343
Wages	67,785	64,963
Contract Labor	4,110	0
Payroll Taxes-941	5,485	4,970
Employee Benefits	20,061	19,635
Utilities	4,764	4,614
Insurance-General	6,076	4,822
Depreciation Expense	26,114	26,431
Office Supplies	1,199	661
Plant Maintenance	8,175	9,295
Plant Expense	11,593	10,260
Water Tests	4,706	4,668
Telephone/Internet	2,200	2,097
Travel	0	312
Employee/Board Travel/Training	188	64
District Truck Maint/Ins/Fuel	3,102	2,722
Postal Expense	2,041	2,021
Office Equipment Maintenance	982	1,031
Miscellaneous Expense	275	244
ORWA Membership	699	320
Bank Service Charges	354	490
Audit Expense	2,085	2,134
Building/Grounds Maintenance	182	826
Bad Debt Expense	2,901	0
Tower Maintenance	5,452	5,452
Total Operating Expense	264,711	255,375
Net Income (Loss)	(19,989)	(10,964)
Beginning Fund Balance	504,062	515,026
Ending Fund Balance	\$ 484,073	\$ 504,062

See accompanying notes and independent auditors' report.

RURAL WATER DISTRICT #2 MUSKOGEE
Statement of Cash Flows
December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash Flows From Operating Activities:		
Cash received from customers	\$ 244,641	\$ 244,349
Cash received from other sources	2,982	1,177
Cash paid to employees	(67,791)	(64,973)
Cash paid to suppliers	(84,182)	(87,343)
Other operating payments	(86,630)	(76,638)
Net Cash Flows from Operating Activities	<u>9,020</u>	<u>16,572</u>
Cash Flows From Capital and Related		
Financing Activities:		
Payment of debt	0	0
Acquisition and construction of capital assets	0	0
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	0	42
Net Cash Provided (Used) By Investing Activities	<u>0</u>	<u>42</u>
 Net Increase (Decrease) In Cash	 9,020	 16,614
Cash Beginning of Year	<u>96,050</u>	<u>79,436</u>
 Cash End of Year	 <u><u>\$ 105,070</u></u>	 <u><u>\$ 96,050</u></u>
 Reconciliation of Operating Income to Net Cash Flows from Operating Activities:		
Operating income (loss)	\$ (19,989)	\$ (10,964)
Add depreciation expense	26,114	26,431
Less interest income	0	(42)
(Increase)/Decrease in Current Assets:		
Notes receivables, net	2,901	1,157
Increase/(Decrease) in Current Liabilities:		
Accrued expenses	<u>(6)</u>	<u>(10)</u>
Net Cash Flows from Operating Activities	<u><u>\$ 9,020</u></u>	<u><u>\$ 16,572</u></u>

See accompanying notes and independent auditors' report.

Rural Water District No. 2
Muskogee County, Oklahoma
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

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 Citizen's 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	(477,771)	299,975
Buildings	92,112	0	(29,172)	62,940
Construction in Process	0	0	0	0
Totals	<u>\$909,307</u>	<u>\$0</u>	<u>(\$528,673)</u>	<u>\$380,634</u>

3. CONCENTRATION OF CREDIT RISK

The District maintains cash balances at Citizens Security Bank. As of December 31, 2014 the District's deposits and investments were \$105,070 (\$300 in petty cash). Of the bank balance \$104,770 was covered by Federal Depository Insurance Corporation and \$0 was collateralized.

4. SYSTEM IMPROVEMENTS

Funding for system improvements projects was provided with monies saved by the District in previous years for this purpose. The maintenance projects are expenses on the Statement of Revenues and Expenses and the capital improvements are included on the Balance Sheet under Property and Equipment.

District Contingency Funding 1/1/2014:			\$11,112
		<u>Capital</u>	
System Improvement Costs:	<u>Maintenance</u>	<u>Improvements</u>	
Water Tower Maintenance	5,452		
Equipment Purchases		0	
New Meter System		0	
Meter Installation		0	
Total System Improvements	<u>5,452</u>	<u>0</u>	<u>5,452</u>
District Contingency Funding 12/31/2014:			<u>\$5,660</u>

5. 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.

Rural Water District No. 2
Muskogee County, Oklahoma

6. OTHER INFORMATION

The Board of Directors and staff of Rural Water District #2, Muskogee County, Oklahoma as of December 31, 2014:

Chairman	Alvie McDaniel
Vice-chairman	Ken Herringshaw
Secretary/Treasure	Bob Rose
Director	Alan Hensley
Director	Gary Rogers
District Manager	Gerald Schneidewent
Office Manager/Bookkeeper	Patty Sweptson



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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, as of and for the years ended December 31, 2014 and 2013, 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 February 29, 2015.

As described in Note 1, the District prepares its financial statements on the 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 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 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.

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.

February 29, 2015

SUPPLEMENTARY INFORMATION

RURAL WATER DISTRICT NO. 2
Budget to Actual Comparison
December 31, 2014

	Original	Final	Actual	Variance
Revenue:				
Water Revenue	\$258,000	\$258,000	\$223,016	\$34,984
Late Charges	10,000	10,000	12,875	(2,875)
Meter Installation/Benefit Unit	1,750	1,750	7,000	(5,250)
Reconnection/Transfer Fees	525	525	1,750	(1,225)
Returned Check Charges	175	175	0	175
Misc. & Intrest Income	100	100	81	19
Total Revenue	270,550	270,550	244,722	25,828
Cost of Sales:				
Water Purchases	87,300	87,300	84,182	3,118
Gross Revenue	183,250	183,250	160,540	22,710
Operating Expenses:				
Audit Expense	2,200	2,200	2,085	115
Wages - Operator	48,951	48,951	48,951	0
Contract-system assitant	400	400	4,110	(3,710)
Wages - Office Manager	19,131	19,131	18,834	297
Payroll Taxes	5,000	5,000	5,485	(485)
Health/Life Insurance	14,898	14,898	14,867	31
Retirement Expense	5,133	5,133	5,194	(61)
Utilities	4,650	4,650	4,764	(114)
Insurance	7,200	7,200	6,076	1,124
Office Supplies/Expenses	1,750	1,750	2,181	(431)
Plant Expense	12,000	12,000	11,593	407
Water Tests/Environment Fees	4,645	4,645	4,706	(61)
Tower Maintenance	5,452	5,452	5,452	0
Telephone Expense	2,158	2,158	2,200	(42)
Travel Expense	100	100	0	100
Staff/Board Travel/Training	100	100	188	(88)
Truck Expense	3,375	3,375	3,102	273
Postal Expense	2,050	2,050	2,041	9
Contract Backhoe Expense	10,000	10,000	8,175	1,825
Miscellaneous Expense	300	300	275	25
OWRA Membership	325	325	699	(374)
Bank Service Charge	485	485	354	131
Building Maintenance	925	925	182	743
Bad Debt	0	0	2,901	(2,901)
Total Operating Expenses	151,228	151,228	154,415	(3,187)
Revenues Over/(Under) Expenses	\$32,022	\$32,022	6,125	\$25,897
Depreciation Expense(not included in budget)			(26,114)	
Net Income (Loss)			(\$19,989)	

See accompanying footnotes and auditors' report.