RURAL WATER DISTRICT #2,
GARVIN COUNTY, OKLAHOMA

ANNUAL FINANCIAL STATEMENTS AND
ACCOMPANYING INDEPENDENT
AUDITOR'S REPORTS

FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2015

RURAL WATER DISTRICT #2, GARVIN COUNTY, OKLAHOMA
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For the fiscal year ended December 31, 2015

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RURAL WATER DISTRICT #2, GARVIN COUNTY, OKLAHOMA
LIST OF PRINCIPAL OFFICIALS
For the fiscal year ended December 31, 2015

Board of Directors

Darrell Lewis - Chairman

Dannita McCullough - Vice Chairman

Rick Henry - Secretary/Treasurer

Bob Faulkenberry – Director

Monty Morris – Director

Michelle Brown – Bookkeeper

Derek Taylor - Manager

CPA

KRISTI L. DOBBINS

Certified Public Accountant

106 E. McClure Ave PO Box 38 Pauls Valley, OK 73075 405.238.6447 Fax: 405.207.9411 kristidobbins1@hotmail.com

INDEPENDENT AUDITOR'S REPORT

To The Board of Directors
Rural Water District #2, Garvin County, Oklahoma

Report on the Financial Statements

I have audited the accompanying financial statements and related notes to the financial statements of Rural Water District #2, Garvin County, as of December 31, 2015, and for the year then ended 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. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion 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 *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 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 District'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 District's internal control. Accordingly, I express no such an 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 opinion.

Basis for Qualified Opinion

The amounts reported in the financial statements for capital assets and accumulated depreciation are based on estimates and may not represent a complete accounting of all capital assets in service as required by accounting principles generally accepted in the United States of America. Capital asset records necessary to provide reasonable assurance that these amounts are not materially misstated are not readily available as explained in Note 1.C.

Opinion

In my opinion, except for the effects of any adjustments that might have been necessary had I been able to obtain sufficient evidence related to capital assets and related accounts, the financial statements referred to above present fairly, in all material respects, the financial position of Rural Water District #2, Garvin County as of December 31, 2015; the changes in financial position; and, cash flows thereof, for the year then ended in conformity with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Rural Water District #2, Garvin County has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. My opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued a report dated February 29, 2016 on my consideration of the Rural Water District #2, Garvin County's internal control over financial reporting and on 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 an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

Pauls Valley, Oklahoma
February 29, 2016

RURAL WATER DISTRICT #2, GARVIN COUNTY, OKLAHOMA
STATEMENT OF NET POSITION
December 31, 2015

	Business-Type Activities
ASSETS	
Cash and cash equivalents, unrestricted	$159,291
Cash and cash equivalents, restricted	76,935
Accounts receivable	43,698
Inventory	17,199
Capital assets, net of depreciation	678,266
Total Assets	975,389
LIABILITIES	
Customer deposits	76,935
Accounts payable	4,048
Payroll taxes payable	3,147
Total Liabilities	84,130
NET POSITION	
Invested in capital assets, net of related debt	678,266
Unrestricted	212,993
Total Net Position	$891,259

See accompanying notes to the basic financial statements and Independent Auditor's Report.

Statement 2

RURAL WATER DISTRICT #2, GARVIN COUNTY, OKLAHOMA
STATEMENT OF ACTIVITIES
For the fiscal year ended December 31, 2015

Operating Revenues:	
Water	$389,017
Late fees	8,289
Meter reading charges	18,845
Restore service charges	4,822
Benefit units	14,300
Miscellaneous	11,909
Total Operating Revenues	447,182
Operating Expenses:	
Salaries	154,652
Payroll taxes	11,811
Employee Benefits	4,447
Depreciation	34,851
Insurance	35,805
Materials and supplies	38,921
Repairs and maintenance	22,351
Pickup maintenance and fuel	15,688
Utilities	26,450
Telephone	4,574
Office expense	3,878
Dues, licenses and fees	6,053
Board member expense	5,920
Professional fees	3,000
Water purchases	24,046
Annual Meeting Expense	849
Miscellaneous	778
Total Operating Expenses	394,074
Net Operating Income	53,108
Non-Operating Revenues (Expenses):	
Interest income	223
Rent income	6,000
Gain on sale of equipment	7,208
Net Income	66,539
Net position - beginning of year	824,720
Net position - end of year	$891,259

See accompanying notes to the basic financial statements and Independent Auditor's Report.

Statement 3

RURAL WATER DISTRICT #2, GARVIN COUNTY, OKLAHOMA
STATEMENT OF CASH FLOWS
For the fiscal year ended December 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	$449,540
Payments to suppliers	(193,282)
Payments to employees	(166,187)
Receipts from customer meter deposits	6,200
Refunds of customer meter deposits	(4,200)
Net Cash Provided by Operating Activities	92,071
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital assets purchased	(63,847)
Sale of capital asset	8,900
Net Cash Used by Capital and Related Financing Activities	(54,947)
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment income	223
Rent income	6,000
Net Cash Provided by Investing Activities	6,223
Net Increase (Decrease) in Cash and Cash Equivalents	43,347
Balance - beginning of the year	192,879
Balance - end of the year	$236,226
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	$53,108
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	34,851
Change in assets and liabilities:	
Accounts receivable	2,359
Inventory	(1,851)
Accounts payable	1,328
Payroll taxes payable	276
Customer deposits	2,000
Net cash provided by operating activities	$92,071

See accompanying notes to the basic financial statements and Independent Auditor's Report.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity
B. Basis of Presentation
C. Assets, Liabilities and Equity
D. Revenue and Expenses
E. Use of Estimates

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Deposits and Investments Laws and Regulations

NOTE 3. DETAIL NOTES - TRANSACTION CLASSES/ACCOUNTS

A. Cash and Cash Equivalents
B. Capital Assets
C. Long-Term Debt

NOTE 4. OTHER NOTES

A. Employee Pension and Other Benefits
B. Risk Management
C. Commitments and Contingencies
D. Subsequent Events

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.A. FINANCIAL REPORTING ENTITY

Rural Water District #2, Garvin County, Oklahoma was established pursuant to Title 82 of Oklahoma State Law in July 1966. The purpose of the District is to provide a water distribution system for its members in the Lindsay, Oklahoma area. Members are owners of land located within the District who have subscribed to one or more Benefit Units, provided payments of charges are current on at least one of the Benefit Units. Each member represents one vote of the governing body of the District without any direct ownership in its assets.

The accompanying financial statements include all functions and activities over which the District exercises financial accountability. The District is considered a primary government as defined by the Governmental Accounting Standards Board (GASB) and has no other component units within its reporting entity.

1.B. BASIS OF PRESENTATION

The District is considered a governmental entity as defined by the Governmental Accounting Standards Board (GASB). Its operations are considered proprietary in nature and therefore, the District has adopted a reporting framework similar to that of proprietary type funds. Proprietary fund types utilize the accrual basis of accounting, revenues are recognized when earned and expenses (including depreciation) are recorded when the liability is incurred or economic asset used.

1.C. ASSETS, LIABILITIES AND EQUITY

Cash and Cash Equivalents

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three-months or less.

Accounts Receivable

Material receivables consist of all revenues earned at year-end and not yet received. Utility charges comprise all of the District's receivables. Due to the past history of immaterial bad debt expenses incurred and the enforcement of the District's cutoff policy, no allowance for doubtful accounts is considered necessary.

Inventory

Inventory includes all inventory on-hand at December 31, 2015 and is valued at cost on the first-in, first-out method.

Capital Assets

Available detailed fixed asset records do not contain a complete detail of all property and equipment still in service and annual physical inventories are not performed to ensure all additions and deletions are properly recorded. Therefore, the amount of property, plant and equipment reported in the financial statements does not represent the historical cost of all fixed assets which are still in service.

Recorded fixed assets are stated at historical cost or estimated historical cost if actual historical cost is not available. The District has determined that assets with a cost of more than $1,000 will be capitalized. Depreciation of exhaustible fixed assets is charges as an expense against their operations. Accumulated depreciation is reported on the balance sheet, although no detail records exist to support these amounts. Depreciation has been provided over the estimated useful lives using the straight-line method since 1994 and estimated each year before 1994.

Restricted Assets

Restricted assets include current assets that are legally restricted as to their use. The District currently has restricted assets in the amount of $76,935 comprised of amounts held by the District for utility deposits (refunded upon termination of service or applied to the final bill).

Equity Classification

Equity is classified as net assets 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 bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvements of those assets.
b. Restricted net assets - Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
c. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

It is the District's policy to first use restricted net assets prior to the use of unrestricted net assets when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. However, the District currently has no restricted net assets.

1.D. REVENUES AND EXPENSES

Operating Revenue and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

Benefit Unit Fees

Benefit unit fees represent a membership/connection fee required of each District member at the time they request service. This nonrefundable fee is designed to cover the estimated cost of connection, tap and related hook-up costs to the District's system. As such, the fees are recorded as operation revenues.

1.E. USE OF ESTIMATES

The preparation of financial statements in conformity GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

By its nature as a government unit, the District and its component unit are subject to various federal, state and local laws and contractual regulations. An analysis of the District's compliance with significant laws and regulations and demonstration of its stewardship over District resources follows:

2.A. DEPOSITS AND INVESTMENT LAWS AND REGULATIONS

In accordance with State law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State of Oklahoma or political subdivision debt obligations, surety bonds and certain letters of credit. As required by 12 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the District must have a written collateral agreement approved by the board of directors or loan committee. For the year ended December 31, 2015, the District's deposits were fully insured or collateralized.

NOTE 3. DETAIL NOTES-TRANSACTION CLASSES/ACCOUNTS

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues and expenditures/expenses.

3.A. CASH AND CASH EQUIVALENTS

Custodial Credit Risk

At December 31, 2015, the District held deposits of approximately $236,226 at financial institutions. The District's cash deposits, including the interest-bearing certificates of deposit, are entirely covered by the Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name.

Investment Interest Rate Risk

The District does not have a formal investment policy that limits the investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The District has no policy that limits its investment choices other than the limitation of state law as follows:

a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
c. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations.
d. County, municipal or school district tax supported debt obligations, bonds or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality, or school district.
e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligation of the National Mortgage Association.
f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

There were no investments held at December 31, 2015.

3.B. CAPITAL ASSETS

Capital assets activity resulting from accrual basis transactions for the fiscal year ended December 31, 2015, was as follows:

	January 1, 2014	Additions	Disposals	December 31, 2014
Capital assets being depreciated:				
Building	$ 93,730	$ 1,050	-	$ 94,780
Office equipment & furniture	33,931	650	-	34,581
Machinery and equipment	154,201	2,142	7,000	149,343
Utility property and improvements	1,249,977	60,005	-	1,309,982
Work in progress	-	-	-	-
Total capital assets at historical cost	1,531,839	63,847	7,000	1,588,686
Less accumulated depreciation for:				
Building	27,202	2,306	-	29,508
Office equipment & furniture	31,906	1,071	-	32,977
Machinery and equipment	55,829	15,460	5,308	65,981
Utility property and improvements	765,940	16,014	-	781,954
Total accumulated depreciation	880,877	34,851	5,308	910,420
Capital assets, net	$ 650,962	$ 28,996	1,692	$ 678,266

NOTE 4 - OTHER NOTES

4.A. EMPLOYEE PENSION AND OTHER BENEFITS

The District provides pension benefits through a Simple IRA. As of December 31, 2015, the District provided a benefit to each employee in the amount of 3% of each employee's gross income. The District provides no other deferred compensation or other post-employment benefits to employees of the District.

4.B. RISK MANAGEMENT

Rural Water District No. 2, Garvin Co., 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 continues to carry commercial insurance for these risks, including general and auto liability, and property damage liability. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

4.C. COMMITMENTS AND CONTINGENCIES

Commitments

Water Contracts

Rural Water District #2, Garvin County, Oklahoma has three water lease contracts with Preston and Gladys Bunch, which sets the cost of water purchased by the District. At December 31, 2015, each contract allowed a purchase price of $.32 per thousand gallons pumped. The lease allows an increase in the price paid by the District if the District raises rates charged to its members. The lease also states an $80 rental fee is to be paid each year per contract and that water purchased plus the rental fee can never be less than $400 per year, whether water is used or not. One of the leases extends through March 2017 and the other two extend through August 2022.

The District also has a water lease contract with Robert Chandler, which sets the cost of water purchased from them. At December 31, 2015, the contract allowed a purchased price of $.43 per thousand gallons pumped. The lease allows an increase in price paid by the District if the District raises its rates charged to its members. The lease also states an $80 rental fee is to be paid each year and that water purchased plus the rental fee can never be less than $400 per year, whether water is used or not. The lease extends through December 2022.

The District has another water lease contract with Ronnie and Betty Ann Chandler, which sets the cost of water purchased from them. At December 31, 2015, the contract allowed a purchased price of $.38 per thousand gallons pumped. The lease allows an increase in price paid by the District if the District raises its rates charged to its members. The lease also states an $80 rental fee is to be paid each year. The lease extends through May 2033.

The District has another water lease contract with Joy M. and Linda S. Newby, which sets the cost of water purchased from them. At December 31, 2015, the contract allowed a purchased price of $.43 per thousand gallons pumped. The lease allows an increase in price paid by the District if the District raises its rates charged to its members. The lease also states an $80 rental fee is to be paid each year. The lease extends through December 2052.

A contract with Lindsay Public Works Authority, which sets the cost of water purchased by the District is also in effect. At December 31, 2015, the contract allowed the District to purchase a maximum of 1,500,000 gallons per month at a cost of $2.49 per thousand gallons. The contract also requires the District to pay a minimum charge of $75 per month. The contract extends through May 2046 at which time the contract may be extended another five years if all parties consent.

Contingencies

The District is not involved with any legal proceedings, which normally occur in the course of governmental operations at this time. Therefore, the financial statements do not include accruals or provisions for loss contingencies.

While legal proceedings cannot be foreseen, the District feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the District.

4.D. SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 29, 2016, which is the date the financial statements were available to be issued and have determined that no additional information needs to be added to the financial statements.

CPA

KRISTI L. DOBBINS

Certified Public Accountant

106 E. McClure Ave PO Box 38 Pauls Valley, OK 73075 405.238.6447 Fax: 405.207.9411 kristidobbins1@hotmail.com

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*

February 29, 2016

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

I have audited the financial statements of Rural Water District #2, Garvin County (the District) as of and for the year ended December 31, 2015, and have issued my report thereon dated February 29, 2016. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. The auditor's report for the year ended December 31, 2015 is qualified due to the lack of records related to the value of the capital assets. The District did not present the Management's Discussion and Analysis that is required by the Governmental Accounting Standards Board to supplement, although, not be a part of the basic financial statements.

Internal Control over Financial Reporting

In planning and performing my audit, I considered the District's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Rural Water District #2, Garvin County's internal control. Accordingly, I do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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 control 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 charges with governance.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during my audit I consider the following to be a material weakness. Other material weaknesses may exist that have not been identified.

An adequate internal control structure does not exist because of the small size of the entity, nor is there adequate segregation of duties. A good internal control system would provide for separation of duties and responsibilities in financial matters between various employees. The individual receiving payments for utility billings would not be the same as the individual doing the billing, making the deposits and maintaining accounts receivable. The individual writing checks would not be the same as the individual recording those checks and reconciling bank accounts. However, because of the very limited number of administrative employees and the small size of the District budget, it is generally not financially efficient to have enough employees for proper segregation of duties. The best protection is to maintain sufficient bond on those handling cash to cover losses should they occur. This condition has been discussed with management, and management has concluded that the cost to correct this condition would exceed the benefit.

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 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 District's internal control over compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kristi L. Dobbins, CPA