

**Cotton County Rural
Water District #2**

Audit Report
For Year Ending December 31, 2021

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Independent Auditor's Report

To the Board of Directors of
Cotton County Rural Water District #2
Walters, Oklahoma

Report on the Financial Statements

I have audited the accompanying financial statements of Cotton County Rural Water District #2 (District), as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair representation of these financial statements in accordance accounting principle 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted the 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence supporting 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.

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

Auditor's Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Cotton County Rural Water District #2, as of December 31, 2021 and 2020, and the respective changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Requirements by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated July 29, 2020, on my consideration of the District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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 the District's internal control over financial reporting and compliance.

Scott Northrip, CPA

Certified Public Accountant

April 6, 2022

Cotton County Rural Water District #2

Statement of Net Position
As of December 31, 2021 and 2020

ASSETS:	2021	2020
Current Assets:		
Cash & Cash Equivalents	\$ 767,462	\$ 823,181
Accounts Receivable (Note 2)	169,859	166,598
Other Receivable	9,771	9,771
Prepaid Insurance	16,021	17,609
Accrued Interest Receivable	1,143	452
Total Current Assets	\$ 964,256	\$ 1,017,611
Noncurrent Assets:		
Construction in Progress	\$ -	\$ -
Capital Assets:		
Land and Water Rights	237,590	237,590
Other Capital Assets, net of depreciation	9,893,764	10,121,018
Total Noncurrent Assets	\$ 10,131,354	\$ 10,358,608
TOTAL ASSETS	<u>\$ 11,095,610</u>	<u>\$ 11,376,219</u>
LIABILITIES AND NET POSITION:		
Current Liabilities:		
Accounts Payable	\$ 21,008	\$ 30,468
Interest Payable	3,466	3,168
Current Portion of Long-term Liabilities	215,131	213,115
Total Current Liabilities	\$ 239,605	\$ 246,751
Long-Term Liabilities: (Note 10)		
Notes Payable - net of current portion	\$ 5,988,612	\$ 6,204,028
Net Position:		
Restricted Fund Balance	\$ 117,768	\$ 117,768
Unrestricted Fund Balance	1,574,321	1,650,368
Total Fund Balance	\$ 1,692,089	\$ 1,768,136
Member Investments	818,050	800,050
Donated Assets (Note 7)	402,254	402,254
Grants	1,955,000	1,955,000
TOTAL NET POSITION	\$ 4,867,393	\$ 4,925,440
TOTAL LIABILITIES AND NET POSITION	<u>\$ 11,095,610</u>	<u>\$ 11,376,219</u>

See accompanying notes to the financial statements.

Cotton County Rural Water District #2

Comparative Statement of Revenues & Expenses
For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
OPERATING REVENUES:		
Water Sales	\$ 1,175,227	\$ 1,149,782
Sale of Meters & Supplies	120	556
Reimbursements	4,763	48,296
Total Operating Revenues	<u>\$ 1,180,110</u>	<u>\$ 1,198,634</u>
OPERATING EXPENSES:		
Salaries	\$ 267,976	\$ 261,395
Depreciation Expense	254,272	201,907
Interest Expense	213,486	73,275
Utilities	72,960	70,022
Water Purchases	59,040	76,238
Repairs & Supplies	175,468	251,799
Insurance	35,956	30,487
Legal & Professional Fees	30,111	50,960
Transportation Expense	32,822	25,865
Employee Benefits	55,594	52,459
Payroll Tax Expense	21,920	19,912
Communications Expense	8,091	9,209
Office Supplies & Postage	17,161	19,801
Rent Expense	4,200	4,200
Dues & Licenses	5,729	7,458
Director's Fees	4,275	4,275
Miscellaneous Expense	2,679	1,760
Total Operating Expenses	<u>\$ 1,261,740</u>	<u>\$ 1,161,022</u>
OPERATING INCOME (LOSS)	<u>\$ (81,630)</u>	<u>\$ 37,612</u>
OTHER REVENUES (EXPENSES):		
Investment Revenues	\$ 1,583	\$ 7,733
Farm Income	4,000	4,000
Gain on Sale of Assets	-	-
Total Other Revenues(Expenses)	<u>\$ 5,583</u>	<u>\$ 11,733</u>
NET INCOME (LOSS)	<u><u>\$ (76,047)</u></u>	<u><u>\$ 49,345</u></u>

See accompanying notes to the financial statements.

Cotton County Rural Water District #2

Comparative Statement of Changes in Net Position
For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Balance, January 1	<u>\$ 4,925,440</u>	<u>\$ 4,694,505</u>
Net Income (Loss)	(76,047)	49,345
Prior Period Adjustment (Note 11)	-	-
Member Investments	18,000	12,000
Donated Assets (Note 7)	-	5,590
Grants	<u>-</u>	<u>164,000</u>
Total Changes in Net Position	<u>\$ (58,047)</u>	<u>\$ 230,935</u>
Balance, December 31	<u><u>\$ 4,867,393</u></u>	<u><u>\$ 4,925,440</u></u>

See accompanying notes to the financial statements.

Cotton County Rural Water District #2

Comparative Statement of Cash Flows
For the Years Ended December 31, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 1,176,849	\$ 1,211,694
Payments to suppliers	(456,361)	(571,873)
Payments to employees	(345,493)	(333,766)
Net Cash Provided by Operating Activities	<u>\$ 374,995</u>	<u>\$ 306,055</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	\$ (27,018)	\$ (6,148,658)
Donated Assets	-	5,590
Payments for Construction in Progress	-	5,679,361
Proceeds from long-term notes	-	3,532
Principal payments on notes payable	(213,400)	(211,483)
Interest paid on notes payable	(213,188)	(72,952)
Proceeds from Grants	-	164,000
Proceeds from sale of assets	-	-
Net Cash Used In Capital & Related Financing Activities	<u>\$ (453,606)</u>	<u>\$ (580,610)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment Receipts	\$ 892	\$ 11,795
Farm Proceeds	4,000	4,000
Proceeds from memberships	18,000	12,000
Net Cash Provided from Investing Activities	<u>\$ 22,892</u>	<u>\$ 27,795</u>
INCREASE (DECREASE) IN CASH AND INVESTMENTS	<u>\$ (55,719)</u>	<u>\$ (246,760)</u>
Cash and Investment Balance - Beginning	823,181	1,069,941
CASH AND INVESTMENT BALANCE - ENDING	<u>\$ 767,462</u>	<u>\$ 823,181</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ (81,630)	\$ 37,612
Adjustments to reconcile operating income to net cash provided (used) by Operating Activities:		
Interest Expense	213,486	73,275
Depreciation expense	254,272	201,907
Change in assets and liabilities:		
Accounts Receivable	(3,261)	13,060
Other Receivables	-	(2,848)
Prepaid Insurance	1,588	(10,961)
Accounts Payable	(9,460)	(5,990)
Net Cash Provided from Operating Activities	<u>\$ 374,995</u>	<u>\$ 306,055</u>

See accompanying notes to the financial statements.

Cotton County Rural Water District #2

Notes to the Financial Statements
For the Years Ended December 31, 2021 and 2020

Note 1 - Significant Accounting Policies

Organization:

Cotton County Rural Water District #2, (District) is an Oklahoma trust formed under the Oklahoma Rural Water Act to provide water in a designated area in and around Cotton County, Oklahoma to individuals and businesses that purchase a membership. The District served 1,468 and 1,456 meters for the years ending December 31, 2021 and 2020.

Basis of Accounting:

The District is a proprietary fund type of entity and uses the accrual method of accounting which reports revenues when earned and expenses when incurred. The District is not legally required to adopt a budget or report on budget comparisons in this report.

Fixed Assets and Depreciation:

The District records its fixed assets at their historical cost or donated value. Depreciation is calculated on each individual asset using the straight-line method of depreciation at the asset's estimated useful life. The District estimates the useful lives of the assets based on the type of asset. The lives range from 5 to 50 years.

Income Tax:

The District is exempt from federal and state income taxes under IRS Code Section 115 (a) as an agency of the State of Oklahoma.

Note 2 - Accounts Receivable

The accounts receivable represents the water usage and service revenues for December plus any unpaid balances from the previous months. The District uses the direct method to account for bad debts. No provision for an allowance has been made based on the history of the District's bad debts being very small or nonexistent. The accounts receivable balances at December 31, 2021 and 2020 amounted to \$169,859 and \$166,598. The meters are read monthly. The balance over 90 days old is \$65,687 or 39%.

Note 3 - Use of Estimates

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

Note 4 - Contingencies

The District has no contingencies as of 12-31-21.

Note 5 - Restricted Assets

The District has restricted a savings account for Rural Development note 9109. The District has restricted \$117,768 and \$117,768 for 2021 and 2020, respectively for debt service requirements.

Cotton County Rural Water District #2

Notes to the Financial Statements

For the Years Ended December 31, 2021 and 2020

Note 6 - Changes in Capital Assets

	Balance 1/1/2021	Additions	Disposed	Balance 12/31/2021
Water System Plant Assets	\$ 12,561,471	\$ 27,018	\$ -	\$ 12,588,489
Wells, Pump Houses & Valves	286,276	-	-	286,276
Vehicles	136,489	-	-	136,489
Equipment	9,250	-	-	9,250
Office Furniture & Fixtures	21,640	-	-	21,640
Total Assets	\$ 13,015,126	\$ 27,018	\$ -	\$ 13,042,144
Less: Accumulated Depreciation	2,894,108	254,272	-	3,148,380
Net Fixed Assets	\$ 10,121,018	\$ (227,254)	\$ -	\$ 9,893,764

Note 7 - Donated Assets

Donated assets are the estimated value of water lines installed by members from the existing lines of the system to the member's meter. The value of the lines donated to the District for the years ending December 31, 2021 and 2020 were \$0 and \$0, respectively.

Note 8 - Components of Cash and Investments

	Date of Maturity	Interest Rate	12/31/2021 Balance
Checking - Walters Bank	-	0.10%	\$ 195,359
Reserve Acct - Walters Bank	-	0.15%	172,061
Debit Card Acct - Walters Bank	-	0.00%	42
CD - All-America Bank	10/20/2022	0.30%	50,000
CD - All-America Bank	10/20/2022	0.30%	50,000
CD - First State Bank	6/10/2022	0.20%	30,000
CD - First State Bank	11/20/2022	0.25%	50,000
CD - First State Bank	10/28/2022	0.75%	50,000
CD - First State Bank	10/28/2022	0.75%	50,000
CD - First State Bank	10/28/2022	0.75%	20,000
CD - Liberty Bank	6/21/2022	0.30%	50,000
CD - Liberty Bank	6/21/2022	0.30%	50,000

Total Cash and Investments

\$ 767,462

Note 9 - Retirement

The District provides a qualified retirement plan for its employees, but there were \$5,553 contributions made during the year December 31, 2021 and \$5,302 for 2020.

Cotton County Rural Water District #2

Notes to the Financial Statements

For the Years Ended December 31, 2021 and 2020

Note 10 - Long Term Liabilities

The District has a 40 year note with Rural Development, an agency of the United States Department of Agriculture. The loan is a fixed interest note. The note is secured by the assets of the District. Rural Development requires the District to reserve enough funds to pay an amount equal to a year's total payments. The District makes monthly payments.

The District is borrowing \$5,000,000 from the Oklahoma Water Resources Board from the Drinking Water SRF Financing Program for the construction of a water treatment facility and a blending station. The District will make semi-annual payments of principal, interest and administration fee to the trustee bank, Bancfirst beginning in March 15 or September 15. Interest of \$30,654.81 was capitalized as part of the cost of construction during the year ending December 31, 2019, \$147,177 for 2020, and none in 2021.

Note Number	Date of Note	Annual Payment	Balance 12/31/2021	Balance 12/31/2020	Interest Rate
RD 91-14	9/4/2003	117,768	1,653,729	1,700,462	4.25%
OWRB18	8/22/2018	255,000	4,550,014	4,716,681	3.00%
		\$ 372,768	\$ 6,203,743	\$ 6,417,143	
Less: Current Portion			215,131	213,115	
Net Balance			<u>\$ 5,988,612</u>	<u>\$ 6,204,028</u>	

Current Portion:		Note 9114	OWRB18
Year Ending	12/31/2022	48,465	166,666
Year Ending	12/31/2023	50,539	166,666
Year Ending	12/31/2024	52,765	166,666
Year Ending	12/31/2025	55,069	166,666
Year Ending	12/31/2026	57,471	166,666

Under OWRB requirements, the District must maintain a minimum debt coverage ratio of 125% each year.

Note 11 - Prior Period Adjustments

There were no prior period adjustments in the financial statements for the year ending December 31, 2021 or 2020.

Note 12 -Evaluation of Subsequent Events

The subsequent events of the District have been evaluated through April 6, 2022, the date of the financial statements.

SCOTT NORTHRIP, CPA

P.O. Box 642, Hobart, Oklahoma 73651

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
Cotton County Rural Water District #2
Walters, Oklahoma

I 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 basic financial statements of Cotton County Rural Water District #2 (District), as of and for the years ending December 31, 2021 and 2020, and have issued my report thereon dated April 6, 2022.

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I considered the District's internal control over financial reporting (internal control) to determine the auditing 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 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.

Report on Compliance and Internal Controls-Continued

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, I performed test of its compliance with certain provisions of laws, regulations, contracts, and grants, 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, 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*.

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.

Scott Northrip

Certified Public Accountant

April 6, 2022