

**Cotton County Rural
Water District #2**
Audit Report
For Year Ending December 31, 2014

3650
1875
1700
1070

P.W.
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275

5400
6170
6945
6900
6630
4685

475
300
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169
1690
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1690

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Independent Auditor's Report

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

I have audited the accompanying financial statements of Cotton County Rural Water District #2 (District), as of and for the years ended December 31, 2014 and 2013, 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.

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, 2014 and 2013, 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 March 26, 2015, 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

March 26, 2015

Cotton County Rural Water District #2

Statement of Net Position
As of December 31, 2014 and 2013

ASSETS:	2014	2013
Current Assets:		
Cash & Cash Equivalents	\$ 1,661,752	\$ 1,677,045
Accounts Receivable (Note 2)	88,235	83,721
Other Receivable	26,286	22,470
Prepaid Insurance	6,680	6,820
Accrued Interest Receivable	1,324	2,867
Total Current Assets	\$ 1,784,277	\$ 1,792,923
Noncurrent Assets:		
Construction in Progress	\$ 48,561	\$ -
Capital Assets:		
Land and Water Rights	237,590	211,000
Other Capital Assets, net of depreciation	4,537,464	4,611,001
Total Noncurrent Assets	\$ 4,823,615	\$ 4,822,001
TOTAL ASSETS	\$ 6,607,892	\$ 6,614,924
 LIABILITIES AND NET POSITION:		
Current Liabilities:		
Accounts Payable	\$ 12,670	\$ 20,985
Interest Payable	3,655	3,050
Current Portion of Long-term Liabilities	50,282	49,782
Total Current Liabilities	\$ 66,607	\$ 73,817
Long-Term Liabilities: (Note 10)		
Notes Payable - net of current portion	\$ 1,908,673	\$ 1,959,546
Net Position:		
Restricted Fund Balance	\$ 134,280	\$ 130,625
Unrestricted Fund Balance	1,544,163	1,512,394
Total Fund Balance	\$ 1,678,443	\$ 1,643,019
Member Investments	786,550	777,550
Donated Assets (Note 7)	376,619	369,992
Grants	1,791,000	1,791,000
TOTAL NET POSITION	\$ 4,632,612	\$ 4,581,561
TOTAL LIABILITIES AND NET POSITION	\$ 6,607,892	\$ 6,614,924

See accompanying notes to the financial statements.

Cotton County Rural Water District #2

Comparative Statement of Revenues & Expenses
For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES:		
Water Sales	\$ 689,135	\$ 687,176
Sale of Meters & Supplies	14,279	19,922
Reimbursements	37,152	4,940
Total Operating Revenues	<u>\$ 740,566</u>	<u>\$ 712,038</u>
OPERATING EXPENSES:		
Salaries	\$ 121,249	\$ 100,996
Depreciation Expense	133,589	130,368
Interest Expense	84,511	86,681
Utilities	54,953	47,106
Water Purchases	43,850	37,904
Repairs & Supplies	152,979	66,921
Insurance	16,369	16,198
Legal & Professional Fees	20,139	6,700
Transportation Expense	16,329	14,418
Employee Benefits	19,298	12,060
Payroll Tax Expense	9,414	8,189
Communications Expense	4,559	2,987
Office Supplies & Postage	10,448	7,652
Rent Expense	4,200	4,200
Dues & Licenses	7,460	6,667
Employee Expense	1,278	3,172
Director's Fees	5,287	4,950
Miscellaneous Expense	8,955	3,258
Total Operating Expenses	<u>\$ 714,867</u>	<u>\$ 560,427</u>
OPERATING INCOME (LOSS)	<u>\$ 25,699</u>	<u>\$ 151,611</u>
OTHER REVENUES (EXPENSES):		
Investment Revenues	\$ 5,725	\$ 7,257
Farm Income	4,000	4,000
Gain on Sale of Assets	-	-
Total Other Revenues(Expenses)	<u>\$ 9,725</u>	<u>\$ 11,257</u>
NET INCOME	<u><u>\$ 35,424</u></u>	<u><u>\$ 162,868</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, 2014 and 2013

	2014	2013
Balance, January 1	\$ 4,581,561	\$ 4,392,775
Net Income (Loss)	35,424	162,868
Prior Period Adjustment (Note 11)	-	-
Member Investments	9,000	6,000
Donated Assets (Note 7)	6,627	19,918
Grants	-	-
Total Changes in Net Position	\$ 51,051	\$ 188,786
Balance, December 31	\$ 4,632,612	\$ 4,581,561

See accompanying notes to the financial statements.

Cotton County Rural Water District #2

Comparative Statement of Cash Flows
For the Years Ended December 31, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 732,236	\$ 698,254
Payments to suppliers	(354,981)	(227,680)
Payments to employees	(149,961)	(124,417)
Net Cash Provided by Operating Activities	\$ 227,294	\$ 346,157
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	\$ (60,052)	\$ (122,753)
Donated Assets	6,627	19,918
Payments for Construction in Progress	(48,561)	-
Purchase of land	(26,590)	-
Principal payments on notes payable	(50,374)	(46,323)
Interest paid on notes payable	(83,906)	(87,957)
Prior period adjustments	-	-
Proceeds from sale of assets	-	-
Net Cash Used In Capital & Related Financing Activities	\$ (262,856)	\$ (237,115)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment Receipts	\$ 7,269	\$ 6,101
Farm Proceeds	4,000	4,000
Proceeds from memberships	9,000	6,000
Net Cash Provided from Investing Activities	\$ 20,269	\$ 16,101
INCREASE (DECREASE) IN CASH AND INVESTMENTS	\$ (15,293)	\$ 125,143
Cash and Investment Balance - Beginning	1,677,045	1,551,902
CASH AND INVESTMENT BALANCE - ENDING	\$ 1,661,752	\$ 1,677,045
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ 25,699	\$ 151,611
Adjustments to reconcile operating income to net cash provided (used) by Operating Activities:		
Interest Expense	84,511	86,681
Depreciation expense	133,589	130,368
Change in assets and liabilities:		
Accounts Receivable	(4,514)	(10,475)
Other Receivables	(3,816)	(16,509)
Prepaid Insurance	140	1,559
Accounts Payable	(8,315)	2,922
Net Cash Provided from Operating Activities	\$ 227,294	\$ 346,157

See accompanying notes to the financial statements.

Cotton County Rural Water District #2

Notes to the Financial Statements

For the Years Ended December 31, 2014 and 2013

Note 1 - Significant Accounting Policies

Organization:

Cotton County Rural Water District #1, (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 1,410 and 1,407 meters for the years ending December 31, 2014 and 2013.

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, 2013 and 2012 amounted to \$83,721 and \$73,246. The meters are read monthly.

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 didn't have any contingencies as of the date of the audit.

Note 5 - Restricted Assets

The District has restricted certificates of deposit in the amount of \$16,512 for Rural Development notes 9107 through 9109. The District has restricted a savings account for \$117,768 and \$114,113 for 2014 and 2013, respectively for note 9114 as required by Rural Development's mortgage.

Cotton County Rural Water District #2

Notes to the Financial Statements

For the Years Ended December 31, 2014 and 2013

Note 6 - Changes in Capital Assets

	Balance 1/1/2014	Additions	Disposed	Balance 12/31/2014
Water System Plant Assets	\$ 6,135,425	\$ 6,627	\$ -	\$ 6,142,052
Wells, Pump Houses & Valves	279,436	6,840	-	286,276
Vehicles	38,305	34,897	-	73,202
Equipment	-	5,500	-	5,500
Office Furniture & Fixtures	15,452	6,188	-	21,640
Total Assets	\$ 6,468,618	\$ 60,052	\$ -	\$ 6,528,670
Less: Accumulated Depreciation	1,857,617	133,589	-	1,991,206
Net Fixed Assets	\$ 4,611,001	\$ (73,537)	\$ -	\$ 4,537,464

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, 2014 and 2013 were \$6,627 and \$19,918, respectively.

Note 8 - Components of Cash and Investments

	Date of Maturity	Interest Rate	12/31/2014 Balance
Checking - Walters Bank	-	0.10%	\$ 335,509
Reserve Acct - Walters Bank	-	0.20%	126,130
Debit Card Acct - Walters Bank	-	0.00%	113
CD - Arvest Bank	4/16/2015	0.40%	100,000
CD - Bank of the Wichitas	10/20/2015	0.30%	50,000
CD - Bank of the Wichitas	10/20/2015	0.30%	50,000
CD - Bank of the Wichitas	1/24/2015	0.50%	50,000
CD - Bank of the Wichitas	1/24/2015	0.50%	50,000
CD - Bank of the Wichitas	1/24/2015	0.50%	50,000
CD - Arvest Bank	11/9/2015	0.35%	50,000
CD - Arvest Bank	11/9/2015	0.40%	100,000
CD - First State Bank	6/10/2015	0.35%	30,000
CD - First State Bank	1/26/2015	0.55%	50,000
CD - First State Bank	11/20/2015	0.55%	50,000
CD - First State Bank	10/28/2016	0.85%	50,000
CD - First State Bank	10/28/2016	0.85%	50,000
CD - First State Bank	10/28/2016	0.85%	20,000
CD - Liberty Bank	6/21/2015	0.30%	50,000
CD - Liberty Bank	6/21/2015	0.30%	50,000
CD - Liberty Bank	5/20/2015	0.20%	50,000
CD - Liberty Bank	5/20/2015	0.20%	50,000
CD - Walters Bank	1/19/2015	0.20%	50,000
CD - Walters Bank	1/19/2015	0.20%	50,000
CD - Walters Bank	8/12/2015	0.50%	100,000
CD - Walters Bank	11/18/2015	0.50%	50,000
Total Cash and Investments			\$ 1,661,752

Cotton County Rural Water District #2

Notes to the Financial Statements

For the Years Ended December 31, 2014 and 2013

Note 9 - Retirement

The District provided a SEP-IRA retirement plan for its participating employees with the District contributing 5% of the employee's wages beginning in 2008.

Note 10 - Long Term Liabilities

The District has three 40 year notes with Rural Development, an agency of the United States Department of Agriculture. The loans are all fixed interest notes. The notes are 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 on each of the notes.

Note Number	Date of Note	Annual Payment	Balance 12/31/2014	Balance 12/31/2013	Interest Rate
91-07	4/6/1976	5,544	3,716	8,935	5.00%
91-09	6/28/1977	10,968	14,351	24,338	5.00%
91-14	9/4/2003	117,768	1,940,888	1,976,055	4.25%
		<u>\$ 134,280</u>	<u>\$ 1,958,955</u>	<u>\$ 2,009,328</u>	
Less: Current Portion			50,282	49,782	
Net Balance			<u>\$ 1,908,673</u>	<u>\$ 1,959,546</u>	

Current Portion:		Note 9107	Note 9109	Note 9114
Year Ending	12/31/2015	3,716	10,509	36,057
Year Ending	12/31/2016	-	3,842	37,622
Year Ending	12/31/2017	-	-	39,254
Year Ending	12/31/2018	-	-	40,905
Year Ending	12/31/2019	-	-	42,707

Note 11 - Prior Period Adjustments

There were no prior period adjustments in the financial statements for the year ending December 31, 2014 or 2013.

Note 12 - Evaluation of Subsequent Events

The subsequent events of the District have been evaluated through March 26, 2015, 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, 2014 and 2013, and have issued my report thereon dated March 26, 2015.

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*.

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.

Report on Compliance and Internal Controls-Continued

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 identify deficiencies in internal control that we consider to be material weaknesses. We considered the deficiencies described in the accompanying schedule of findings and responses to be material.

Response to Findings

Cotton County Rural Water District #2's response to the findings identified in our audit is described in the accompanying schedule of findings and responses on page 12. Cotton County Rural Water District #2's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

March 26, 2015

Cotton County Rural Water District #2

Schedule of Findings and Responses

For the Year Ending December 31, 2014

Material Weakness in Internal Control Over Financial Reporting:

1) Bank reconciliations were not being performed on the checking accounts

Criteria: The reconciliation of the bank accounts is an important activity to ensure accurate financial reporting of all transactions have cleared the bank and in the amount posted to the financial statements.

Condition: The bank accounts were not being reconciled on any of the bank accounts for the entire year.

Effect: The effect of not reconciled was 44 transactions that were in error, misposted, or not posted which overstated the bank accounts by \$75,226.98.

Recommendation: The District should reconcile each account monthly and correct any transactions and reviewed by management or person other than employee posting transactions.

Response: The District will reconcile accounts on a monthly basis.

2) New bank account was opened for use of debit cards but not included in financial statements.

Criteria: All bank accounts should be included in financial statement accounting in order to provide accurate financial position and approval of transactions by the board of directors.

Condition: A new bank account was not included in the accounting system of the District except for the transfers from the operating account to supply account with limited funds.

Effect: The effect of not accounting for the new account was an overstatement of transfers and no accurate reporting of disbursements from the new account in the amount of \$6,313.38.

Recommendation: The District should record the transactions in the debit card account in the accounting system and reconcile monthly.

Response: The District will include the new account in the financial statement accounting system.