



**Cotton County Rural
Water District #2**
Audit Report
For Year Ending December 31, 2015

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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, 2015 and 2014, 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, 2015 and 2014, 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 24, 2016, 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 24, 2016

Cotton County Rural Water District #2

Statement of Net Position
As of December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS:		
Current Assets:		
Cash & Cash Equivalents	\$ 1,516,834	\$ 1,661,752
Accounts Receivable (Note 2)	107,522	88,235
Other Receivable	73,744	26,286
Prepaid Insurance	11,249	6,680
Accrued Interest Receivable	2,224	1,324
Total Current Assets	<u>\$ 1,711,573</u>	<u>\$ 1,784,277</u>
Noncurrent Assets:		
Construction in Progress	\$ 48,561	\$ 48,561
Capital Assets:		
Land and Water Rights	237,590	237,590
Other Capital Assets, net of depreciation	4,460,449	4,537,464
Total Noncurrent Assets	<u>\$ 4,746,600</u>	<u>\$ 4,823,615</u>
TOTAL ASSETS	<u>\$ 6,458,173</u>	<u>\$ 6,607,892</u>
LIABILITIES AND NET POSITION:		
Current Liabilities:		
Accounts Payable	\$ 24,529	\$ 12,670
Interest Payable	3,770	3,655
Current Portion of Long-term Liabilities	37,622	50,282
Total Current Liabilities	<u>\$ 65,921</u>	<u>\$ 66,607</u>
Long-Term Liabilities: (Note 10)		
Notes Payable - net of current portion	<u>\$ 1,867,078</u>	<u>\$ 1,908,673</u>
Net Position:		
Restricted Fund Balance	\$ 117,768	\$ 134,280
Unrestricted Fund Balance	1,431,692	1,544,163
Total Fund Balance	<u>\$ 1,549,460</u>	<u>\$ 1,678,443</u>
Member Investments	788,050	786,550
Donated Assets (Note 7)	396,664	376,619
Grants	1,791,000	1,791,000
TOTAL NET POSITION	<u>\$ 4,525,174</u>	<u>\$ 4,632,612</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 6,458,173</u>	<u>\$ 6,607,892</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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
OPERATING REVENUES:		
Water Sales	\$ 677,989	\$ 689,135
Sale of Meters & Supplies	16,185	14,279
Reimbursements	71,588	37,152
Total Operating Revenues	<u>\$ 765,762</u>	<u>\$ 740,566</u>
OPERATING EXPENSES:		
Salaries	\$ 145,593	\$ 121,249
Depreciation Expense	139,095	133,589
Interest Expense	82,049	84,511
Utilities	53,484	54,953
Water Purchases	86,860	43,850
Repairs & Supplies	239,163	152,979
Insurance	16,907	16,369
Legal & Professional Fees	31,058	20,139
Transportation Expense	17,081	16,329
Employee Benefits	39,903	19,298
Payroll Tax Expense	11,139	9,414
Communications Expense	8,817	4,559
Office Supplies & Postage	8,813	10,448
Rent Expense	4,200	4,200
Dues & Licenses	14,267	7,460
Employee Expense	-	1,278
Director's Fees	4,605	5,287
Miscellaneous Expense	1,081	8,955
Total Operating Expenses	<u>\$ 904,115</u>	<u>\$ 714,867</u>
OPERATING INCOME (LOSS)	<u>\$ (138,353)</u>	<u>\$ 25,699</u>
OTHER REVENUES (EXPENSES):		
Investment Revenues	\$ 5,370	\$ 5,725
Farm Income	4,000	4,000
Gain on Sale of Assets	-	-
Total Other Revenues(Expenses)	<u>\$ 9,370</u>	<u>\$ 9,725</u>
NET INCOME (LOSS)	<u><u>\$ (128,983)</u></u>	<u><u>\$ 35,424</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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Balance, January 1	<u>\$ 4,632,612</u>	<u>\$ 4,581,561</u>
Net Income (Loss)	(128,983)	35,424
Prior Period Adjustment (Note 11)	-	-
Member Investments	1,500	9,000
Donated Assets (Note 7)	20,045	6,627
Grants	<u>-</u>	<u>-</u>
Total Changes in Net Position	<u>\$ (107,438)</u>	<u>\$ 51,051</u>
Balance, December 31	<u><u>\$ 4,525,174</u></u>	<u><u>\$ 4,632,612</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, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 699,017	\$ 732,236
Payments to suppliers	(479,046)	(354,981)
Payments to employees	(196,635)	(149,961)
Net Cash Provided by Operating Activities	\$ 23,336	\$ 227,294
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	\$ (62,080)	\$ (60,052)
Donated Assets	20,045	6,627
Payments for Construction in Progress	-	(48,561)
Purchase of land	-	(26,590)
Principal payments on notes payable	(54,255)	(50,374)
Interest paid on notes payable	(81,934)	(83,906)
Prior period adjustments	-	-
Proceeds from sale of assets	-	-
Net Cash Used In Capital & Related Financing Activities	\$ (178,224)	\$ (262,856)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment Receipts	\$ 4,470	\$ 7,269
Farm Proceeds	4,000	4,000
Proceeds from memberships	1,500	9,000
Net Cash Provided from Investing Activities	\$ 9,970	\$ 20,269
INCREASE (DECREASE) IN CASH AND INVESTMENTS	\$ (144,918)	\$ (15,293)
Cash and Investment Balance - Beginning	1,661,752	1,677,045
CASH AND INVESTMENT BALANCE - ENDING	\$ 1,516,834	\$ 1,661,752
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ (138,353)	\$ 25,699
Adjustments to reconcile operating income to net cash provided (used) by Operating Activities:		
Interest Expense	82,049	84,511
Depreciation expense	139,095	133,589
Change in assets and liabilities:		
Accounts Receivable	(19,287)	(4,514)
Other Receivables	(47,458)	(3,816)
Prepaid Insurance	(4,569)	140
Accounts Payable	11,859	(8,315)
Net Cash Provided from Operating Activities	\$ 23,336	\$ 227,294

See accompanying notes to the financial statements.

Cotton County Rural Water District #2

Notes to the Financial Statements
For the Years Ended December 31, 2015 and 2014

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 1,410 meters for the years ending December 31, 2015 and 2014.

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, 2015 and 2014 amounted to \$107,522 and \$83,721. 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 a savings account and certificates of deposit for Rural Development notes 9107 through 9109. The District has restricted \$117,768 and \$134,280 for 2015 and 2014, respectively for debt service requirements.

Cotton County Rural Water District #2

Notes to the Financial Statements

For the Years Ended December 31, 2015 and 2014

Note 6 - Changes in Capital Assets

	Balance 1/1/2015	Additions	Disposed	Balance 12/31/2015
Water System Plant Assets	\$ 6,142,052	\$ 27,690	\$ -	\$ 6,169,742
Wells, Pump Houses & Valves	286,276	-	-	286,276
Vehicles	73,202	30,640	-	103,842
Equipment	5,500	3,750	-	9,250
Office Furniture & Fixtures	21,640	-	-	21,640
Total Assets	\$ 6,528,670	\$ 62,080	\$ -	\$ 6,590,750
Less: Accumulated Depreciation	1,991,206	139,095	-	2,130,301
Net Fixed Assets	\$ 4,537,464	\$ (77,015)	\$ -	\$ 4,460,449

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, 2015 and 2014 were \$20,045 and \$6,627, respectively.

Note 8 - Components of Cash and Investments

	Date of Maturity	Interest Rate	12/31/2015 Balance
Checking - Walters Bank	-	0.10%	\$ 178,202
Reserve Acct - Walters Bank	-	0.20%	138,171
Debit Card Acct - Walters Bank	-	0.00%	461
CD - Arvest Bank	4/16/2016	0.40%	100,000
CD - All-America Bank	10/20/2016	0.40%	50,000
CD - All-America Bank	10/20/2016	0.40%	50,000
CD - All-America Bank	1/24/2016	0.30%	50,000
CD - All-America Bank	1/24/2016	0.30%	50,000
CD - All-America Bank	1/24/2016	0.30%	50,000
CD - Arvest Bank	11/9/2016	0.35%	50,000
CD - Arvest Bank	11/9/2016	0.40%	100,000
CD - First State Bank	6/10/2016	0.35%	30,000
CD - First State Bank	1/26/2016	0.55%	50,000
CD - First State Bank	11/20/2016	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	5/20/2016	0.20%	50,000
CD - Liberty Bank	5/20/2016	0.20%	50,000
CD - Liberty Bank	6/21/2016	0.30%	50,000
CD - Liberty Bank	6/21/2016	0.30%	50,000
CD - Walters Bank	1/19/2016	0.20%	50,000
CD - Walters Bank	1/19/2016	0.20%	50,000
CD - Walters Bank	8/12/2016	0.50%	100,000
CD - Walters Bank	11/18/2016	0.50%	50,000
Total Cash and Investments			<u>\$ 1,516,834</u>

Cotton County Rural Water District #2

Notes to the Financial Statements
For the Years Ended December 31, 2015 and 2014

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 12/31/2015	Balance 12/31/2014	Interest Rate
91-07	4/6/1976	5,544	-	3,716	5.00%
91-09	6/28/1977	10,968	-	14,351	5.00%
91-14	9/4/2003	117,768	1,904,700	1,940,888	4.25%
			\$ 134,280	\$ 1,958,955	
Less: Current Portion			37,622	50,282	
Net Balance			\$ 1,867,078	\$ 1,908,673	

Current Portion:		Note 9107	Note 9109	Note 9114
Year Ending	12/31/2016	-	-	37,622
Year Ending	12/31/2017	-	-	39,254
Year Ending	12/31/2018	-	-	40,905
Year Ending	12/31/2019	-	-	42,707
Year Ending	12/31/2020	-	-	44,566

Note 11 - Prior Period Adjustments

There were no prior period adjustments in the financial statements for the year ending December 31, 2015 or 2014.

Note 12 - Evaluation of Subsequent Events

The subsequent events of the District have been evaluated through March 24, 2016, 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, 2015 and 2014, and have issued my report thereon dated March 24, 2016.

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 not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 24, 2016