

**Cotton County Rural  
Water District #2**

*Audit Report*  
For Year Ending December 31, 2013

**Scott Northrip, CPA**

P.O. Box 642  
Hobart, OK 73651  
(580) 726-5681

# ***SCOTT NORTHRIP, CPA***

P.O. Box 642, Hobart, Oklahoma 73651

## **Independent Auditor's Report**

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

I have audited the basic financial statements of Cotton County Rural Water District #2 (District), as of and for the years ended December 31, 2013 and 2012. These financial statements are the responsibility of the District's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that the audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cotton County Rural Water District #2, as of December 31, 2013 and 2012, and the results of its operations and its cash flows and its changes in member's equity for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated March 6, 2014, on my consideration of the District's internal control and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants. This 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 the audit.

***Scott Northrip, CPA***

Certified Public Accountant

March 6, 2014

## Cotton County Rural Water District #2

Statement of Net Position  
As of December 31, 2013 and 2012

<b>ASSETS:</b>	<b>2013</b>	<b>2012</b>
Current Assets:		
Cash & Cash Equivalents	\$ 1,677,045	\$ 1,551,902
Accounts Receivable (Note 2)	83,721	73,246
Other Receivable	22,470	5,961
Prepaid Insurance	6,820	8,379
Accrued Interest Receivable	2,867	1,712
<b>Total Current Assets</b>	<b>\$ 1,792,923</b>	<b>\$ 1,641,200</b>
Noncurrent Assets:		
Construction in Progress	\$ -	\$ -
Capital Assets:		
Land and Water Rights	211,000	211,000
Other Capital Assets, net of depreciation	4,611,001	4,618,616
<b>Total Noncurrent Assets</b>	<b>\$ 4,822,001</b>	<b>\$ 4,829,616</b>
<b>TOTAL ASSETS</b>	<b>\$ 6,614,924</b>	<b>\$ 6,470,816</b>
 <b>LIABILITIES AND NET POSITION:</b>		
Current Liabilities:		
Accounts Payable	\$ 20,985	\$ 18,063
Interest Payable	3,050	4,326
Current Portion of Long-term Liabilities	49,782	47,603
<b>Total Current Liabilities</b>	<b>\$ 73,817</b>	<b>\$ 69,992</b>
Long-Term Liabilities: (Note 10)		
Notes Payable - net of current portion	\$ 1,959,546	\$ 2,008,049
Net Position:		
Restricted Fund Balance	\$ 130,625	\$ 118,632
Unrestricted Fund Balance	1,512,394	1,361,519
<b>Total Fund Balance</b>	<b>\$ 1,643,019</b>	<b>\$ 1,480,151</b>
Member Investments	777,550	771,550
Donated Assets (Note 7)	369,992	350,074
Grants	1,791,000	1,791,000
<b>TOTAL NET POSITION</b>	<b>\$ 4,581,561</b>	<b>\$ 4,392,775</b>
 <b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 6,614,924</b>	<b>\$ 6,470,816</b>

See accompanying notes to the financial statements.

## Cotton County Rural Water District #2

Comparative Statement of Revenues & Expenses  
For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>OPERATING REVENUES:</b>		
Water Sales	\$ 687,176	\$ 699,242
Sale of Meters & Supplies	19,922	38,853
Reimbursements	4,940	6,832
<b>Total Operating Revenues</b>	<u>\$ 712,038</u>	<u>\$ 744,927</u>
<b>OPERATING EXPENSES:</b>		
Salaries	\$ 100,996	\$ 94,058
Depreciation Expense	130,368	129,836
Interest Expense	86,681	88,787
Utilities	47,106	42,175
Water Purchases	37,904	44,091
Repairs & Supplies	66,921	80,361
Insurance	16,198	15,700
Legal & Professional Fees	6,700	7,295
Transportation Expense	14,418	13,671
Employee Benefits	12,060	7,500
Payroll Tax Expense	8,189	7,762
Communications Expense	2,987	2,589
Office Supplies & Postage	7,652	6,734
Rent Expense	4,200	4,300
Dues & Licenses	6,667	6,073
Retirement Expense	-	-
Employee Expense	3,172	3,496
Director's Fees	4,950	4,400
Miscellaneous Expense	3,258	2,257
<b>Total Operating Expenses</b>	<u>\$ 560,427</u>	<u>\$ 561,085</u>
<b>OPERATING INCOME (LOSS)</b>	<u>\$ 151,611</u>	<u>\$ 183,842</u>
<b>OTHER REVENUES (EXPENSES):</b>		
Investment Revenues	\$ 7,257	\$ 9,665
Farm Income	4,000	4,000
Gain on Sale of Assets	-	-
<b>Total Other Revenues(Expenses)</b>	<u>\$ 11,257</u>	<u>\$ 13,665</u>
<b>NET INCOME</b>	<u><u>\$ 162,868</u></u>	<u><u>\$ 197,507</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, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Balance, January 1</b>	<u>\$ 4,392,775</u>	<u>\$ 4,173,641</u>
Net Income (Loss)	162,868	197,507
Prior Period Adjustment (Note 11)	-	-
Member Investments	6,000	15,000
Donated Assets (Note 7)	19,918	6,627
Grants	<u>-</u>	<u>-</u>
Total Changes in Net Position	<u>\$ 188,786</u>	<u>\$ 219,134</u>
<b>Balance, December 31</b>	<u><u>\$ 4,581,561</u></u>	<u><u>\$ 4,392,775</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, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from customers	\$ 698,254	\$ 736,995
Payments to suppliers	(227,680)	(233,411)
Payments to employees	(124,417)	(109,320)
<b>Net Cash Provided by Operating Activities</b>	<u><b>\$ 346,157</b></u>	<u><b>\$ 394,264</b></u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Purchase of capital assets	\$ (122,753)	\$ (126,655)
Donated Assets	19,918	6,627
Payments for Construction in Progress	-	26,689
Proceeds from Grants	-	-
Principal payments on notes payable	(46,323)	(46,867)
Interest paid on notes payable	(87,957)	(87,413)
Prior period adjustments	-	-
Proceeds from sale of assets	-	-
<b>Net Cash Used In Capital &amp; Related Financing Activities</b>	<u><b>\$ (237,115)</b></u>	<u><b>\$ (227,619)</b></u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investment Receipts	\$ 6,101	\$ 11,495
Farm Proceeds	4,000	4,000
Proceeds from memberships	6,000	15,000
<b>Net Cash Provided from Investing Activities</b>	<u><b>\$ 16,101</b></u>	<u><b>\$ 30,495</b></u>
<b>INCREASE (DECREASE) IN CASH AND INVESTMENTS</b>	<u><b>\$ 125,143</b></u>	<u><b>\$ 197,140</b></u>
Cash and Investment Balance - Beginning	1,551,902	1,354,762
<b>CASH AND INVESTMENT BALANCE - ENDING</b>	<u><b>\$ 1,677,045</b></u>	<u><b>\$ 1,551,902</b></u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</b>		
Operating Income (Loss)	\$ 151,611	\$ 183,842
Adjustments to reconcile operating income to net cash provided (used) by Operating Activities:		
Interest Expense	86,681	88,787
Depreciation expense	130,368	129,836
Change in assets and liabilities:		
Accounts Receivable	(10,475)	(7,932)
Other Receivables	(16,509)	840
Prepaid Insurance	1,559	(889)
Accounts Payable	2,922	(220)
<b>Net Cash Provided from Operating Activities</b>	<u><b>\$ 346,157</b></u>	<u><b>\$ 394,264</b></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, 2013 and 2012

### **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 1,407 and 1,386 meters for the years ending December 31, 2013 and 2012.

#### **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 notes 9107 through 9109 and \$114,113 restricted for note 9114 as required by Rural Development's mortgage as of December 31, 2013.

## Cotton County Rural Water District #2

Notes to the Financial Statements  
For the Years Ended December 31, 2013 and 2012

### **Note 6 - Changes in Capital Assets**

	Balance 1/1/2013	Additions	Disposed	Balance 12/31/2013
Water System Plant Assets	\$ 6,068,866	\$ 66,559	\$ -	\$ 6,135,425
Wells, Pump Houses & Valves	223,242	56,194	-	279,436
Vehicles	38,305	-	-	38,305
Office Furniture & Fixtures	15,452	-	-	15,452
<b>Total Assets</b>	<b>\$ 6,345,865</b>	<b>\$ 122,753</b>	<b>\$ -</b>	<b>\$ 6,468,618</b>
Less: Accumulated Depreciation	1,727,249	130,368	-	1,857,617
<b>Net Fixed Assets</b>	<b>\$ 4,618,616</b>	<b>\$ (7,615)</b>	<b>\$ -</b>	<b>\$ 4,611,001</b>

### **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, 2013 and 2012 were \$19,918 and \$6,627, respectively.

### **Note 8 - Components of Cash and Investments**

	Date of Maturity	Interest Rate	Balance
Checking - Walters Bank	-	0.10%	\$ 462,932
Reserve Acct - Walters Bank	-	0.20%	114,113
CD - Arvest Bank	4/16/2014	0.40%	100,000
CD - Bank of the Wichitas	10/20/2014	0.60%	50,000
CD - Bank of the Wichitas	10/20/2014	0.60%	50,000
CD - Bank of the Wichitas	1/24/2014	0.50%	50,000
CD - Bank of the Wichitas	1/24/2014	0.50%	50,000
CD - Bank of the Wichitas	1/24/2014	0.50%	50,000
CD - Arvest Bank	11/9/2014	0.35%	50,000
CD - Arvest Bank	11/9/2014	0.40%	100,000
CD - First State Bank	6/10/2014	0.55%	30,000
CD - First State Bank	1/26/2014	0.70%	50,000
CD - First State Bank	11/20/2014	0.55%	50,000
CD - First State Bank	10/28/2014	1.00%	50,000
CD - First State Bank	10/28/2014	1.00%	50,000
CD - First State Bank	10/28/2014	1.00%	20,000
CD - Liberty Bank	6/20/2014	0.30%	50,000
CD - Liberty Bank	6/20/2014	0.30%	50,000
CD - Liberty Bank	5/20/2014	0.25%	50,000
CD - Liberty Bank	5/20/2014	0.25%	50,000
CD - Walters Bank	8/12/2014	0.50%	100,000
CD - Walters Bank	11/18/2014	0.50%	50,000
<b>Total Cash and Investments</b>			<b>\$ 1,677,045</b>



## Cotton County Rural Water District #2

### Notes to the Financial Statements

For the Years Ended December 31, 2013 and 2012

#### **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 12/31/2013	Balance 12/31/2012	Interest Rate
91-07	4/6/1976	5,544	8,935	13,890	5.00%
91-09	6/28/1977	10,968	24,338	33,812	5.00%
91-14	9/4/2003	117,768	1,976,055	2,007,950	4.25%
		\$ 134,280	\$ 2,009,328	\$ 2,055,652	
Less: Current Portion			49,782	47,603	
Net Balance			\$ 1,959,546	\$ 2,008,049	

#### Current Portion:

Year Ending	12/31/2015	50,260
Year Ending	12/31/2016	41,412
Year Ending	12/31/2017	39,254
Year Ending	12/31/2018	40,905

#### **Note 11 - Prior Period Adjustments**

There were no prior period adjustments in the financial statements for the year ending December 31, 2013 or 2012.

# ***SCOTT NORTHRIP, CPA***

P.O. Box 642, Hobart, Oklahoma 73651

## **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND INTERNAL CONTROL OF THE FINANCIAL STATEMENTS IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

I have audited the basic financial statements of Cotton County Rural Water District #2 (District), as of and for the years ending December 31, 2013 and 2012, and have issued my report thereon dated March 6, 2014. I conducted the audit in accordance with 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.

### **Compliance**

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, I performed test of the District's compliance with certain laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, my objective was not to provide an opinion on overall compliance with such provisions. Accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that require to be reported under *Government Auditing Standards*.

### **Internal Control**

In planning and performing the audit, I considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. 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.

## Report on Compliance and Internal Controls-Continued

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.

My consideration of the internal control over financial reporting 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

This report is intended for the information of the Board of Directors, Rural Development and the State of Oklahoma. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

*Scott Northrip, CPA*

Certified Public Accountant

March 6, 2014