

**Cotton County Rural
Water District #2**

Audit Report
For Year Ending December 31, 2022

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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 Audit of the Financial Statements

Opinion

I have audited the accompanying financial statements of Cotton County Rural Water District #2 (District), as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

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, 2022 and 2021, 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.

Basis for Opinion

I conducted the audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (Government Auditing Standards). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of the District and to meet my other ethical responsibilities, in accordance with the relevant ethical requirements relating to the audits. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Responsibility of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for 12 months after the date of the financial statements and no conditions were found that raise substantial doubt.

Auditor's Responsibility for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with GAAS, I: a) exercised professional judgement and maintained professional skepticism throughout the audit, b) identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements, c) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed, d) evaluate 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, e) conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time, and f) required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that I identified during the audit.

Other Reporting Requirements by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated April 6, 2023, 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, 2023

Cotton County Rural Water District #2

Statement of Net Position
As of December 31, 2022 and 2021

ASSETS:	2022	2021
Current Assets:		
Cash & Cash Equivalents	\$ 563,250	\$ 767,462
Accounts Receivable (Note 2)	193,254	169,859
Other Receivable	9,771	9,771
Prepaid Insurance	16,890	16,021
Accrued Interest Receivable	501	1,143
Total Current Assets	\$ 783,666	\$ 964,256
Noncurrent Assets:		
Construction in Progress	\$ -	\$ -
Capital Assets:		
Land and Water Rights	237,590	237,590
Other Capital Assets, net of depreciation	10,009,257	9,893,764
Total Noncurrent Assets	\$ 10,246,847	\$ 10,131,354
TOTAL ASSETS	\$ 11,030,513	\$ 11,095,610
LIABILITIES AND NET POSITION:		
Current Liabilities:		
Accounts Payable	\$ 26,970	\$ 21,008
Interest Payable	2,245	3,466
Current Portion of Long-term Liabilities	188,228	215,131
Total Current Liabilities	\$ 217,443	\$ 239,605
Long-Term Liabilities: (Note 10)		
Notes Payable - net of current portion	\$ 5,918,260	\$ 5,988,612
Net Position:		
Restricted Fund Balance	\$ 117,768	\$ 117,768
Unrestricted Fund Balance	1,557,615	1,574,321
Total Fund Balance	\$ 1,675,383	\$ 1,692,089
Member Investments	846,550	818,050
Donated Assets (Note 7)	417,877	402,254
Grants	1,955,000	1,955,000
TOTAL NET POSITION	\$ 4,894,810	\$ 4,867,393
TOTAL LIABILITIES AND NET POSITION	\$ 11,030,513	\$ 11,095,610

See accompanying notes to the financial statements.

Cotton County Rural Water District #2

Comparative Statement of Revenues & Expenses
For the Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
OPERATING REVENUES:		
Water Sales	\$ 1,387,914	\$ 1,175,227
Sale of Meters & Supplies	-	120
Reimbursements	43,243	4,763
Total Operating Revenues	<u>\$ 1,431,157</u>	<u>\$ 1,180,110</u>
OPERATING EXPENSES:		
Salaries	\$ 274,723	\$ 267,976
Depreciation Expense	262,597	254,272
Interest Expense	206,399	213,486
Utilities	76,373	72,960
Water Purchases	68,876	59,040
Repairs & Supplies	347,318	175,468
Insurance	36,691	35,956
Legal & Professional Fees	35,778	30,111
Transportation Expense	27,495	32,822
Employee Benefits	51,917	55,594
Payroll Tax Expense	22,570	21,920
Communications Expense	8,821	8,091
Office Supplies & Postage	19,619	17,161
Rent Expense	4,200	4,200
Dues & Licenses	6,399	5,729
Director's Fees	4,525	4,275
Miscellaneous Expense	4,042	2,679
Total Operating Expenses	<u>\$ 1,458,343</u>	<u>\$ 1,261,740</u>
OPERATING INCOME (LOSS)	<u>\$ (27,186)</u>	<u>\$ (81,630)</u>
OTHER REVENUES (EXPENSES):		
Investment Revenues	\$ 1,480	\$ 1,583
Farm Income	5,000	4,000
Gain on Sale of Assets	4,000	-
Total Other Revenues(Expenses)	<u>\$ 10,480</u>	<u>\$ 5,583</u>
NET INCOME (LOSS)	<u><u>\$ (16,706)</u></u>	<u><u>\$ (76,047)</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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Balance, January 1	<u>\$ 4,867,393</u>	<u>\$ 4,925,440</u>
Net Income (Loss)	(16,706)	(76,047)
Prior Period Adjustment (Note 11)	-	-
Member Investments	28,500	18,000
Donated Assets (Note 7)	15,623	-
Grants	<u>-</u>	<u>-</u>
Total Changes in Net Position	<u>\$ 27,417</u>	<u>\$ (58,047)</u>
Balance, December 31	<u><u>\$ 4,894,810</u></u>	<u><u>\$ 4,867,393</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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 1,407,762	\$ 1,176,849
Payments to suppliers	(635,044)	(456,361)
Payments to employees	(349,210)	(345,493)
Net Cash Provided by Operating Activities	<u>\$ 423,508</u>	<u>\$ 374,995</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	\$ (378,090)	\$ (27,018)
Donated Assets	15,623	-
Payments for Construction in Progress	-	-
Proceeds from long-term notes	116,653	-
Principal payments on notes payable	(213,907)	(213,400)
Interest paid on notes payable	(207,621)	(213,188)
Proceeds from Grants	-	-
Proceeds from sale of assets	4,000	-
Net Cash Used In Capital & Related Financing Activities	<u>\$ (663,342)</u>	<u>\$ (453,606)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment Receipts	\$ 2,122	\$ 892
Farm Proceeds	5,000	4,000
Proceeds from memberships	28,500	18,000
Net Cash Provided from Investing Activities	<u>\$ 35,622</u>	<u>\$ 22,892</u>
INCREASE (DECREASE) IN CASH AND INVESTMENTS	<u>\$ (204,212)</u>	<u>\$ (55,719)</u>
Cash and Investment Balance - Beginning	767,462	823,181
CASH AND INVESTMENT BALANCE - ENDING	<u>\$ 563,250</u>	<u>\$ 767,462</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ (27,186)	\$ (81,630)
Adjustments to reconcile operating income to net cash provided (used) by Operating Activities:		
Interest Expense	206,399	213,486
Depreciation expense	262,597	254,272
Change in assets and liabilities:		
Accounts Receivable	(23,395)	(3,261)
Other Receivables	-	-
Prepaid Insurance	(869)	1,588
Accounts Payable	5,962	(9,460)
Net Cash Provided from Operating Activities	<u>\$ 423,508</u>	<u>\$ 374,995</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, 2022 and 2021

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 1,477 meters for the years ending December 31, 2022 and 2021.

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, 2022 and 2021 amounted to \$193,254 and \$169,859. 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 December 31, 2022 or 2021.

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 2022 and 2021, respectively for debt service requirements.

Cotton County Rural Water District #2

Notes to the Financial Statements
For the Years Ended December 31, 2022 and 2021

Note 6 - Changes in Capital Assets

	Balance 1/1/2022	Additions	Disposed	Balance 12/31/2022
Water System Plant Assets	\$ 12,588,489	\$ 332,336	\$ -	\$ 12,920,825
Wells, Pump Houses & Valves	286,276	-	-	286,276
Vehicles	136,489	45,754	(30,640)	151,603
Equipment	9,250	-	-	9,250
Office Furniture & Fixtures	21,640	-	-	21,640
Total Assets	\$ 13,042,144	\$ 378,090	\$ (30,640)	\$ 13,389,594
Accumulated Depreciation:				
Water System Plant Assets	2,876,378	244,770	-	3,121,148
Wells, Pump Houses & Valves	125,180	5,178	-	130,358
Vehicles	120,166	11,105	(30,640)	100,631
Equipment	6,563	925	-	7,488
Office Furniture & Fixtures	20,093	619	-	20,712
Less: Accumulated Depreciation	\$ 3,148,380	\$ 262,597	\$ (30,640)	\$ 3,380,337
Net Fixed Assets	\$ 9,893,764	\$ 115,493	\$ -	\$ 10,009,257

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, 2022 and 2021 were \$15,623 and \$0, respectively.

Note 8 - Components of Cash and Investments

	Date of Maturity	Interest Rate	12/31/2022 Balance
Checking - Walters Bank	-	0.10%	\$ 248,894
Reserve Acct - Walters Bank	-	0.40%	134,097
Debit Card Acct - Walters Bank	-	0.00%	259
CD - All-America Bank	10/20/2023	1.83%	50,000
CD - All-America Bank	10/20/2023	1.83%	50,000
CD - First State Bank	6/10/2023	1.00%	30,000
CD - First State Bank	10/28/2023	1.40%	50,000
Total Cash and Investments			\$ 563,250

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, 2022 and 2021

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. A payment of \$65,056.29 is due on March 15, 2023 and \$20,467.72 per month starting April 15, 2023.

Note Number	Date of Note	Annual Payment	Balance 12/31/2022	Balance 12/31/2021	Interest Rate
RD 91-14	9/4/2003	117,768	1,606,488	1,653,729	4.25%
OWRB18	8/22/2018	245,613	4,500,000	4,550,014	3.00%
		\$ 363,381	\$ 6,106,488	\$ 6,203,743	
Less: Current Portion			188,228	215,131	
Net Balance			<u>\$ 5,918,260</u>	<u>\$ 5,988,612</u>	

Current Portion:		Note 9114	OWRB18
Year Ending	12/31/2023	50,539	137,689
Year Ending	12/31/2024	52,765	113,599
Year Ending	12/31/2025	55,069	117,266
Year Ending	12/31/2026	57,471	120,860
Year Ending	12/31/2027	59,912	124,401

Under OWRB requirements, the District must maintain a minimum debt coverage ratio of 125% each year. The ratio for the year ending 2022 was 132%.

Note 11 - Prior Period Adjustments

There were no prior period adjustments in the financial statements for the year ending December 31, 2022 or 2021.

Note 12 -Evaluation of Subsequent Events

The subsequent events of the District have been evaluated through April 6, 2023, 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, 2022 and 2021, and have issued my report thereon dated April 6, 2023.

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, 2023