

**Cotton County Rural  
Water District #2**

*Audit Report*  
For Year Ending December 31, 2023

**Scott Northrip, CPA**

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# ***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

### ***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, 2023 and 2022, 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, 2023 and 2022, 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 3, 2024, 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 3, 2024

## Cotton County Rural Water District #2

Statement of Net Position  
As of December 31, 2023 and 2022

<b>ASSETS:</b>	<b>2023</b>	<b>2022</b>
Current Assets:		
Cash & Cash Equivalents	\$ 646,206	\$ 563,250
Accounts Receivable (Note 2)	198,015	193,254
Other Receivable	9,771	9,771
Prepaid Insurance	13,557	16,890
Accrued Interest Receivable	965	501
<b>Total Current Assets</b>	<b>\$ 868,514</b>	<b>\$ 783,666</b>
Noncurrent Assets:		
Construction in Progress	\$ 180,978	\$ -
Capital Assets:		
Land and Water Rights	237,590	237,590
Other Capital Assets, net of depreciation	9,757,156	10,009,257
<b>Total Noncurrent Assets</b>	<b>\$ 10,175,724</b>	<b>\$ 10,246,847</b>
<b>TOTAL ASSETS</b>	<b><u>\$ 11,044,238</u></b>	<b><u>\$ 11,030,513</u></b>
 <b>LIABILITIES AND NET POSITION:</b>		
Current Liabilities:		
Accounts Payable	\$ 27,496	\$ 26,970
Interest Payable	2,355	2,245
Current Portion of Long-term Liabilities	166,364	188,228
<b>Total Current Liabilities</b>	<b>\$ 196,215</b>	<b>\$ 217,443</b>
Long-Term Liabilities: (Note 10)		
Notes Payable - net of current portion	<u>\$ 5,751,729</u>	<u>\$ 5,918,260</u>
Net Position:		
Restricted Fund Balance	\$ 117,768	\$ 117,768
Unrestricted Fund Balance	1,744,948	1,557,615
<b>Total Fund Balance</b>	<b>\$ 1,862,716</b>	<b>\$ 1,675,383</b>
Member Investments	846,550	846,550
Donated Assets (Note 7)	432,028	417,877
Grants	1,955,000	1,955,000
<b>TOTAL NET POSITION</b>	<b>\$ 5,096,294</b>	<b>\$ 4,894,810</b>
 <b>TOTAL LIABILITIES AND NET POSITION</b>	<b><u>\$ 11,044,238</u></b>	<b><u>\$ 11,030,513</u></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, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<b>OPERATING REVENUES:</b>		
Water Sales	\$ 1,632,022	\$ 1,387,914
Sale of Meters & Supplies	-	-
Reimbursements	19,060	43,243
<b>Total Operating Revenues</b>	<u><b>\$ 1,651,082</b></u>	<u><b>\$ 1,431,157</b></u>
<b>OPERATING EXPENSES:</b>		
Salaries	\$ 287,703	\$ 274,723
Depreciation Expense	271,351	262,597
Interest Expense	234,992	206,399
Utilities	82,224	76,373
Water Purchases	76,602	68,876
Repairs & Supplies	331,768	347,318
Insurance	35,888	36,691
Legal & Professional Fees	28,577	35,778
Transportation Expense	21,001	27,495
Employee Benefits	48,965	51,917
Payroll Tax Expense	23,375	22,570
Communications Expense	8,480	8,821
Office Supplies & Postage	19,224	19,619
Rent Expense	4,200	4,200
Dues & Licenses	8,736	6,399
Director's Fees	4,450	4,525
Miscellaneous Expense	1,487	4,042
<b>Total Operating Expenses</b>	<u><b>\$ 1,489,023</b></u>	<u><b>\$ 1,458,343</b></u>
<b>OPERATING INCOME (LOSS)</b>	<u><b>\$ 162,059</b></u>	<u><b>\$ (27,186)</b></u>
<b>OTHER REVENUES (EXPENSES):</b>		
Investment Revenues	\$ 5,274	\$ 1,480
Farm Income	5,000	5,000
Gain on Sale of Assets	-	4,000
<b>Total Other Revenues(Expenses)</b>	<u><b>\$ 10,274</b></u>	<u><b>\$ 10,480</b></u>
<b>NET INCOME (LOSS)</b>	<u><b>\$ 172,333</b></u>	<u><b>\$ (16,706)</b></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, 2023 and 2022

	<u><b>2023</b></u>	<u><b>2022</b></u>
<b>Balance, January 1</b>	\$ 4,894,810	\$ 4,867,393
Net Income (Loss)	172,333	(16,706)
Prior Period Adjustment (Note 11)	-	-
Member Investments	15,000	28,500
Donated Assets (Note 7)	14,151	15,623
Grants	-	-
	<u>          </u>	<u>          </u>
Total Changes in Net Position	\$ 201,484	\$ 27,417
	<u>          </u>	<u>          </u>
<b>Balance, December 31</b>	<u><u><b>\$ 5,096,294</b></u></u>	<u><u><b>\$ 4,894,810</b></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, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from customers	\$ 1,646,321	\$ 1,407,762
Payments to suppliers	(618,777)	(635,044)
Payments to employees	(360,043)	(349,210)
<b>Net Cash Provided by Operating Activities</b>	<u><b>\$ 667,501</b></u>	<u><b>\$ 423,508</b></u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Purchase of capital assets	\$ (19,250)	\$ (378,090)
Donated Assets	14,151	15,623
Payments for Construction in Progress	(180,978)	-
Proceeds from long-term notes	-	116,653
Principal payments on notes payable	(188,396)	(213,907)
Interest paid on notes payable	(234,882)	(207,621)
Proceeds from Grants	-	-
Proceeds from sale of assets	-	4,000
<b>Net Cash Used In Capital &amp; Related Financing Activities</b>	<u><b>\$ (609,355)</b></u>	<u><b>\$ (663,342)</b></u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investment Receipts	\$ 4,810	\$ 2,122
Farm Proceeds	5,000	5,000
Proceeds from memberships	15,000	28,500
<b>Net Cash Provided from Investing Activities</b>	<u><b>\$ 24,810</b></u>	<u><b>\$ 35,622</b></u>
<b>INCREASE (DECREASE) IN CASH AND INVESTMENTS</b>	<b>\$ 82,956</b>	<b>\$ (204,212)</b>
Cash and Investment Balance - Beginning	<u>563,250</u>	<u>767,462</u>
<b>CASH AND INVESTMENT BALANCE - ENDING</b>	<u><b>\$ 646,206</b></u>	<u><b>\$ 563,250</b></u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</b>		
Operating Income (Loss)	\$ 162,059	\$ (27,186)
Adjustments to reconcile operating income to net cash provided (used) by Operating Activities:		
Interest Expense	234,992	206,399
Depreciation expense	271,351	262,597
Change in assets and liabilities:		
Accounts Receivable	(4,761)	(23,395)
Other Receivables	-	-
Prepaid Insurance	3,333	(869)
Accounts Payable	527	5,962
<b>Net Cash Provided from Operating Activities</b>	<u><b>\$ 667,501</b></u>	<u><b>\$ 423,508</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, 2023 and 2022

### **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 1,488 and 1,468 meters for the years ending December 31, 2023 and 2022.

#### **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, 2023 and 2022 amounted to \$198,015 and \$193,254. The meters are read monthly. The balance over 90 days old is \$64,502 or 33%.

### **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, 2023 or 2022.

### **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 2023 and 2022, respectively for debt service requirements.



## Cotton County Rural Water District #2

### Notes to the Financial Statements

For the Years Ended December 31, 2023 and 2022

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

	Balance 1/1/2023	Additions	Disposed	Balance 12/31/2023
Water System Plant Assets	\$ 12,920,825	\$ 14,151	\$ -	\$ 12,934,976
Wells, Pump Houses & Valves	286,276	-	-	286,276
Vehicles	151,603	-	-	151,603
Equipment	9,250	5,099	-	14,349
Office Furniture & Fixtures	21,640	-	-	21,640
<b>Total Assets</b>	<b>\$ 13,389,594</b>	<b>\$ 19,250</b>	<b>\$ -</b>	<b>\$ 13,408,844</b>
Accumulated Depreciation:				
Water System Plant Assets	3,121,148	248,220	-	3,369,368
Wells, Pump Houses & Valves	130,358	5,179	-	135,537
Vehicles	100,631	15,680	-	116,311
Equipment	7,488	1,653	-	9,141
Office Furniture & Fixtures	20,712	619	-	21,331
Less: Accumulated Depreciation	<b>\$ 3,380,337</b>	<b>\$ 271,351</b>	<b>\$ -</b>	<b>\$ 3,651,688</b>
<b>Net Fixed Assets</b>	<b>\$ 10,009,257</b>	<b>\$ (252,101)</b>	<b>\$ -</b>	<b>\$ 9,757,156</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, 2023 and 2022 were \$14,151 and \$15,623, respectively.

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

	Date of Maturity	Interest Rate	12/31/2023 Balance
Checking - Walters Bank	-	0.10%	\$ 368,016
Reserve Acct - Walters Bank	-	0.65%	146,709
Debit Card Acct - Walters Bank	-	0.00%	170
CD - All-America Bank	10/20/2024	4.65%	50,000
CD - All-America Bank	10/20/2024	4.65%	50,000
CD - First State Bank	6/10/2024	2.75%	30,000
Debt Reserve Acct - Bancfirst		3.90%	1,311
<b>Total Cash and Investments</b>			<b>\$ 646,206</b>

#### **Note 9 - Retirement**

The District provides a qualified retirement plan for its employees, but there were \$4,831 contributions made during the year December 31, 2023 and \$5,243 for 2022.

## Cotton County Rural Water District #2

### Notes to the Financial Statements

For the Years Ended December 31, 2023 and 2022

#### **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 12/31/2023	Balance 12/31/2022	Interest Rate
RD 91-14	9/4/2003	117,768	1,555,782	1,606,488	4.25%
OWRB18	8/22/2018	245,613	4,362,311	4,500,000	3.00%
		\$ 363,381	\$ 5,918,093	\$ 6,106,488	
Less: Current Portion			166,364	188,228	
Net Balance			<u>\$ 5,751,729</u>	<u>\$ 5,918,260</u>	

Current Portion:		Note 9114	OWRB18
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
Year Ending	12/31/2028	62,520	128,211

Under OWRB requirements, the District must maintain a minimum debt coverage ratio of 125% each year. The ratio for the year ending 2023 was 187%.

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

There were no prior period adjustments in the financial statements for the year ending December 31, 2023 or 2022.

#### **Note 12 -Evaluation of Subsequent Events**

The subsequent events of the District have been evaluated through April 3, 2024, 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, 2023 and 2022, and have issued my report thereon dated April 3, 2024.

### **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 3, 2024