

**Tillman County Rural  
Water District #1**  
*Audit Report*  
For Year Ending December 31, 2012

**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  
Tillman County Rural Water District #1  
Chattanooga, Oklahoma

I have audited the basic financial statements of Tillman County Rural Water District #1 (District), as of and for the years ended December 31, 2012 and 2011. 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 Tillman County Rural Water District #1, as of December 31, 2012 and 2011, 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 February 14, 2013, 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

February 14, 2013

# Tillman County Rural Water District #1

Statement of Net Assets  
As of December 31, 2012 and 2011

<b>ASSETS:</b>	<u>2012</u>	<u>2011</u>
<b>Current Assets:</b>		
Cash & Cash Equivalents	\$ 295,675	\$ 232,783
Investments (Note 8)	233,640	202,386
Accounts Receivable (Note 2)	48,750	37,355
Other Receivable	-	-
Prepaid Insurance	9,740	11,229
Inventory	25,000	25,000
<b>Total Current Assets</b>	<u>\$ 612,805</u>	<u>\$ 508,753</u>
<b>Noncurrent Assets:</b>		
Construction in Progress	\$ -	\$ -
Capital Assets: (Note 6)		
Land	60,884	60,884
Other Capital Assets, net of depreciation	1,496,839	1,593,868
<b>Total Noncurrent Assets</b>	<u>\$ 1,557,723</u>	<u>\$ 1,654,752</u>
<b>TOTAL ASSETS</b>	<u><b>\$ 2,170,528</b></u>	<u><b>\$ 2,163,505</b></u>
<b>LIABILITIES AND NET ASSETS:</b>		
<b>Current Liabilities:</b>		
Accounts Payable	\$ 17,270	\$ 12,976
Taxes Payable	1,944	1,964
Interest Payable	128	180
Current Portion of Long-term Liabilities	12,321	29,230
<b>Total Current Liabilities</b>	<u>\$ 31,663</u>	<u>\$ 44,350</u>
<b>Long-Term Liabilities: (Note 10)</b>		
Notes Payable - net of current portion	<u>\$ 243,202</u>	<u>\$ 256,773</u>
<b>Net Assets:</b>		
Restricted Fund Balance (Note 5)	\$ 24,792	\$ 47,852
Unrestricted Fund Balance	229,712	176,371
<b>Total Fund Balance</b>	<u>\$ 254,504</u>	<u>\$ 224,223</u>
Member Investments	322,204	319,204
Donated Assets (Note 7)	916,207	916,207
Grants	402,748	402,748
<b>TOTAL NET ASSETS</b>	<u>\$ 1,895,663</u>	<u>\$ 1,862,382</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><b>\$ 2,170,528</b></u>	<u><b>\$ 2,163,505</b></u>

See accompanying notes to the financial statements.

# Tillman County Rural Water District #1

Comparative Statement of Activities  
For the Years Ended December 31, 2012 and 2011

	2012	2011
<b>OPERATING REVENUES:</b>		
Water Sales	\$ 514,008	\$ 545,323
Sale of Meters & Supplies	10,613	5,586
Miscellaneous Revenues	4,214	1,681
<b>Total Operating Revenues</b>	<b>\$ 528,835</b>	<b>\$ 552,590</b>
<b>OPERATING EXPENSES:</b>		
Salaries	\$ 102,016	\$ 98,262
Depreciation Expense	97,028	103,591
Interest Expense	13,476	15,134
Utilities	25,160	25,733
Water Purchases	89,456	97,196
Repairs & Supplies	30,403	53,720
Insurance	21,112	19,039
Legal & Professional Fees	6,112	4,517
Transportation Expense	19,738	18,254
Employee Benefits	19,431	20,765
Payroll Tax Expense	8,018	7,292
Communications Expense	4,716	4,300
Office Supplies & Postage	9,219	6,392
Retirement Benefits	13,509	12,983
Dues & Licenses	2,053	2,208
Bank Charges	151	1,024
Bad Debts Expense	1,520	547
Test Drilling	34,460	20,000
Water Analysis	461	1,235
Miscellaneous Expense	4,956	4,329
<b>Total Operating Expenses</b>	<b>\$ 502,995</b>	<b>\$ 516,521</b>
<b>OPERATING INCOME (LOSS)</b>	<b>\$ 25,840</b>	<b>\$ 36,069</b>
<b>OTHER REVENUES (EXPENSES):</b>		
Investment Revenues	\$ 1,141	\$ 1,541
Farm Income	3,300	3,300
Gain on Sale of Assets	-	5,726
<b>Total Other Revenues(Expenses)</b>	<b>\$ 4,441</b>	<b>\$ 10,567</b>
<b>NET INCOME</b>	<b>\$ 30,281</b>	<b>\$ 46,636</b>

See accompanying notes to the financial statements.

**Tillman County Rural Water District #1**  
**Comparative Statement of Changes in Net Assets**  
For the Years Ended December 31, 2012 and 2011

	<b>2012</b>	<b>2011</b>
<b>Balance, January 1</b>	\$ 1,862,382	\$ 1,774,646
Net Income (Loss)	30,281	46,636
Prior Period Adjustment (Note 11)	-	-
Member Investments	3,000	35,100
Donated Assets (Note 7)	-	6,000
Grants	-	-
<b>Total Changes in Net Assets</b>	\$ 33,281	\$ 87,736
<b>Balance, December 31</b>	\$ 1,895,663	\$ 1,862,382

See accompanying notes to the financial statements.

# Tillman County Rural Water District #1

Comparative Statement of Cash Flows  
For the Years Ended December 31, 2012 and 2011

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from customers	\$ 517,441	\$ 554,277
Payments to suppliers	(243,754)	(267,799)
Payments to employees	(142,974)	(139,654)
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 130,713</b>	<b>\$ 146,824</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Purchase of capital assets	\$ -	\$ (65,870)
Donated Assets	-	6,000
Payments for Construction in Progress	-	-
Proceeds from Grants	-	-
Principal payments on notes payable	(30,480)	(32,662)
Interest paid on notes payable	(13,528)	(15,190)
Prior period adjustments	-	-
Proceeds from sale of assets	-	14,250
<b>Net Cash Used In Capital &amp; Related Financing Activities</b>	<b>\$ (44,008)</b>	<b>\$ (93,472)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investment Receipts	\$ 1,141	\$ 1,541
Farm Proceeds	3,300	3,300
Proceeds from memberships	3,000	35,100
<b>Net Cash Provided from Investing Activities</b>	<b>\$ 7,441</b>	<b>\$ 39,941</b>
<b>INCREASE (DECREASE) IN CASH AND INVESTMENTS</b>	<b>\$ 94,146</b>	<b>\$ 93,293</b>
Cash and Investment Balance - Beginning	435,169	341,876
<b>CASH AND INVESTMENT BALANCE - ENDING</b>	<b>\$ 529,315</b>	<b>\$ 435,169</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</b>		
Operating Income (Loss)	\$ 25,840	\$ 36,069
Adjustments to reconcile operating income to net cash provided (used) by Operating Activities:		
Interest Expense	13,476	15,134
Depreciation expense	97,028	103,591
Change in assets and liabilities:		
Accounts Receivable	(11,394)	1,687
Other Receivables	-	-
Prepaid Insurance	1,489	(2,147)
Inventory	-	-
Accounts Payable	4,294	(7,158)
Taxes Payable	(20)	(352)
<b>Net Cash Provided from Operating Activities</b>	<b>\$ 130,713</b>	<b>\$ 146,824</b>

See accompanying notes to the financial statements.

# Tillman County Rural Water District #1

Notes to the Financial Statements  
For the Years Ended December 31, 2012 and 2011

## **Note 1 - Significant Accounting Policies**

### **Organization:**

Tillman 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 Tillman County, Oklahoma to individuals and businesses that purchase a membership. The District served 706 and 696 meters for the years ending December 31, 2012 and 2011.

### **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 40 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, 2012 and 2011 amounted to \$48,750 and \$37,355. 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 \$24,792 and \$47,852 for debt service as required by Rural Development's mortgage as of December 31, 2012 and 2011, respectively.

# Tillman County Rural Water District #1

## Notes to the Financial Statements

For the Years Ended December 31, 2012 and 2011

### Note 6 - Changes in Capital Assets

	Balance 1/1/2012	Additions	Disposed	Balance 12/31/2012
Water System Plant Assets	\$ 3,426,493	\$ -	\$ -	\$ 3,426,493
Office Furniture & Fixtures	12,331	-	-	12,331
Equipment	134,884	-	-	134,884
Buildings	70,323	-	-	70,323
<b>Total Assets</b>	<b>\$ 3,644,031</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,644,031</b>
Less: Accumulated Depreciation	2,050,163	97,029	-	2,147,192
<b>Net Fixed Assets</b>	<b>\$ 1,593,868</b>	<b>\$ (97,029)</b>	<b>\$ -</b>	<b>\$ 1,496,839</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 October 31, 2012 and 2011 were \$0 and \$6,000, respectively.

### Note 8 - Components of Cash and Investments

	Date of Maturity	Interest Rate	Balance
Petty Cash	-	0.00%	\$ 100
Checking - Bancfirst	-	0.10%	295,575
CD - Bancfirst	3/17/2013	0.25%	13,805
CD - Bancfirst	10/12/2013	0.25%	8,003
CD - Bancfirst	2/14/2013	0.25%	51,937
CD - Bancfirst	3/11/2013	0.25%	2,336
CD - Bancfirst	1/3/2013	0.25%	51,021
CD - First State Bank	5/29/2013	0.50%	13,446
CD - First State Bank	4/17/2013	1.00%	3,985
CD - First State Bank	6/24/2013	0.50%	3,955
CD - First State Bank	3/15/2013	1.00%	3,932
CD - First State Bank	5/27/2013	1.00%	19,546
CD - First State Bank	4/12/2013	1.00%	3,844
CD - First State Bank	1/14/2013	1.00%	3,808
CD - First State Bank	3/13/2013	1.00%	3,802
CD - First State Bank	5/23/2013	1.00%	3,780
CD - First State Bank	2/15/2013	1.00%	3,748
CD - First State Bank	5/23/2013	1.00%	3,654
CD - First State Bank	2/15/2013	1.00%	3,620
CD - First State Bank	2/22/2013	1.00%	31,730
CD - First State Bank	1/3/2013	1.00%	3,688
<b>Total Cash and Investments</b>			<b>\$ 529,315</b>

# Tillman County Rural Water District #1

Notes to the Financial Statements  
For the Years Ended December 31, 2012 and 2011

## **Note 9 - Retirement**

The District provides a retirement plan for its participating employees with the Oklahoma Public Employees Retirement System. The District makes a contribution of 10.5% of the employee's wages since July, 2007 and 10.2% since July, 2006. The rate was 8.5% before July, 2006 while the employee contributes 6.5%. The District contributed \$13,509 and \$12,983 for the years ending December 31, 2012 and 2011, respectively.

## **Note 10 - Long Term Liabilities**

The District has four 40 year notes with Rural Development, an agency of the United States Department of Agriculture. The loans are all 5% 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 12/31/2012	Balance 12/31/2011
91-07	10/15/1974	23,060	\$ -	\$ 17,565
91-10	9/6/1978	2,028	7,618	10,439
91-11	6/29/1989	16,272	177,237	184,451
91-13	6/29/1989	6,492	70,668	73,548
		<u>\$ 47,852</u>	<u>\$ 255,523</u>	<u>\$ 286,003</u>
Less: Current Portion			12,321	32,733
Net Balance			<u>\$ 243,202</u>	<u>\$ 253,270</u>

### Current Portion:

Year Ending	12/31/2014	12,952
Year Ending	12/31/2015	13,614
Year Ending	12/31/2016	14,311
Year Ending	12/31/2017	13,309

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

There were no prior period adjustments in the financial statements for the years ending December 31, 2012 or 2011.

# ***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  
Tillman County Rural Water District #1  
Chattanooga, Oklahoma

I have audited the basic financial statements of Tillman County Rural Water District #1 (District), as of and for the years ending December 31, 2012 and 2011, and have issued my report thereon dated February 14, 2013. 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.

### **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

February 14, 2013