

**Tillman County Rural
Water District #1**

Audit Report

For Year Ending December 31, 2013

3650
1875
1700
1070

P.V.

P.W.

225

5400

6170

6945

6900

6630

4680

800

1700

175

300

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1690

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1690

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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, 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 Tillman County Rural Water District #1, 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 February 26, 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

February 26, 2014

Tillman County Rural Water District #1

Comparative Statement of Net Position

As of December 31, 2013 and 2012

ASSETS:	2013	2012
Current Assets:		
Cash & Cash Equivalents	\$ 331,183	\$ 295,675
Investments (Note 8)	234,269	233,640
Accounts Receivable (Note 2)	45,711	48,750
Other Receivable	-	-
Prepaid Insurance	9,932	9,740
Inventory	25,000	25,000
Total Current Assets	\$ 646,095	\$ 612,805
Noncurrent Assets:		
Construction in Progress	\$ -	\$ -
Capital Assets: (Note 6)		
Land	60,884	60,884
Other Capital Assets, net of depreciation	2,068,598	1,496,839
Total Noncurrent Assets	\$ 2,129,482	\$ 1,557,723
TOTAL ASSETS	\$ 2,775,577	\$ 2,170,528
LIABILITIES AND NET POSITION:		
Current Liabilities:		
Accounts Payable	\$ 17,126	\$ 17,270
Taxes Payable	2,360	1,944
Interest Payable	118	128
Current Portion of Long-term Liabilities	12,952	12,321
Total Current Liabilities	\$ 32,556	\$ 31,663
Long-Term Liabilities: (Note 10)		
Notes Payable - net of current portion	\$ 230,275	\$ 243,202
Net Position:		
Restricted Fund Balance (Note 5)	\$ 24,792	\$ 24,792
Unrestricted Fund Balance	219,595	229,712
Total Fund Balance	\$ 244,387	\$ 254,504
Member Investments	327,404	322,204
Donated Assets (Note 7)	1,538,207	916,207
Grants	402,748	402,748
TOTAL NET POSITION	\$ 2,512,746	\$ 1,895,663
TOTAL LIABILITIES AND NET POSITION	\$ 2,775,577	\$ 2,170,528

See accompanying notes to the financial statements.

Tillman County Rural Water District #1

Comparative Statement of Activities

For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
OPERATING REVENUES:		
Water Sales	\$ 535,756	\$ 514,008
Sale of Meters & Supplies	28,153	10,613
Miscellaneous Revenues	16,380	4,214
Total Operating Revenues	<u>\$ 580,289</u>	<u>\$ 528,835</u>
OPERATING EXPENSES:		
Salaries	\$ 108,179	\$ 102,016
Depreciation Expense	115,450	97,028
Interest Expense	12,486	13,476
Utilities	25,521	25,160
Water Purchases	106,363	89,456
Repairs & Supplies	111,461	30,403
Insurance	19,232	21,112
Legal & Professional Fees	10,108	6,112
Transportation Expense	16,494	19,738
Employee Benefits	20,435	19,431
Payroll Tax Expense	8,470	8,018
Communications Expense	4,866	4,716
Office Supplies & Postage	7,512	9,219
Retirement Benefits	14,605	13,509
Dues & Licenses	2,361	2,053
Bank Charges	1,501	151
Bad Debts Expense	-	1,520
Test Drilling	-	34,460
Water Analysis	4,939	461
Miscellaneous Expense	5,335	4,956
Total Operating Expenses	<u>\$ 595,318</u>	<u>\$ 502,995</u>
OPERATING INCOME (LOSS)	<u>\$ (15,029)</u>	<u>\$ 25,840</u>
OTHER REVENUES (EXPENSES):		
Investment Revenues	\$ 772	\$ 1,141
Farm & Tower Rent	4,140	3,300
Gain on Sale of Assets	-	-
Total Other Revenues(Expenses)	<u>\$ 4,912</u>	<u>\$ 4,441</u>
NET INCOME	<u><u>\$ (10,117)</u></u>	<u><u>\$ 30,281</u></u>

See accompanying notes to the financial statements.

Tillman County Rural Water District #1
Comparative Statement of Changes in Net Position
For the Years Ended December 31, 2013 and 2012

	2013	2012
Balance, January 1	\$ 1,895,663	\$ 1,862,382
Net Income (Loss)	(10,117)	30,281
Prior Period Adjustment (Note 11)	-	-
Member Investments	5,200	3,000
Donated Assets (Note 7)	622,000	-
Grants	-	-
Total Changes in Net Position	\$ 617,083	\$ 33,281
Balance, December 31	\$ 2,512,746	\$ 1,895,663

See accompanying notes to the financial statements.

Tillman County Rural Water District #1

Comparative Statement of Cash Flows

For the Years Ended December 31, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 583,328	\$ 517,441
Payments to suppliers	(315,613)	(243,754)
Payments to employees	(151,689)	(142,974)
Net Cash Provided by Operating Activities	\$ 116,026	\$ 130,713
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	\$ (687,209)	\$ -
Donated Assets	622,000	-
Payments for Construction in Progress	-	-
Proceeds from Grants	-	-
Principal payments on notes payable	(12,296)	(30,480)
Interest paid on notes payable	(12,496)	(13,528)
Prior period adjustments	-	-
Proceeds from sale of assets	-	-
Net Cash Used In Capital & Related Financing Activities	\$ (90,001)	\$ (44,008)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment Receipts	\$ 772	\$ 1,141
Rent Proceeds	4,140	3,300
Proceeds from memberships	5,200	3,000
Net Cash Provided from Investing Activities	\$ 10,112	\$ 7,441
INCREASE (DECREASE) IN CASH AND INVESTMENTS	\$ 36,137	\$ 94,146
Cash and Investment Balance - Beginning	529,315	435,169
CASH AND INVESTMENT BALANCE - ENDING	\$ 565,452	\$ 529,315
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ (15,029)	\$ 25,840
Adjustments to reconcile operating income to net cash provided (used) by Operating Activities:		
Interest Expense	12,486	13,476
Depreciation expense	115,450	97,028
Change in assets and liabilities:		
Accounts Receivable	3,039	(11,394)
Other Receivables	-	-
Prepaid Insurance	(192)	1,489
Inventory	-	-
Accounts Payable	(144)	4,294
Taxes Payable	416	(20)
Net Cash Provided from Operating Activities	\$ 116,026	\$ 130,713

See accompanying notes to the financial statements.

Tillman County Rural Water District #1

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

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 725 and 706 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 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, 2013 and 2012 amounted to \$45,711 and \$48,750. 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 \$24,792 for debt service as required by Rural Development's mortgage as of December 31, 2013 and 2012, respectively.

Tillman County Rural Water District #1

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	\$ 3,426,493	\$ 622,000	\$ -	\$ 4,048,493
Office Furniture & Fixtures	12,331	2,450	-	14,781
Equipment	134,884	62,759	-	197,643
Buildings	70,323	-	-	70,323
Total Assets	\$ 3,644,031	\$ 687,209	\$ -	\$ 4,331,240
Less: Accumulated Depreciation	2,147,192	115,450	-	2,262,642
Net Fixed Assets	\$ 1,496,839	\$ 571,759	\$ -	\$ 2,068,598

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, 2013 and 2012 were \$622,000 and \$0, respectively.

Note 8 - Components of Cash and Investments

	Date of Maturity	Interest Rate	Balance
Petty Cash	-	0.00%	\$ 100
Checking - Bancfirst	-	0.10%	331,083
CD - Bancfirst	3/17/2014	0.15%	13,816
CD - Bancfirst	10/12/2014	0.10%	8,011
CD - Bancfirst	2/14/2014	0.05%	51,976
CD - Bancfirst	3/11/2014	0.05%	2,338
CD - Bancfirst	1/2/2014	0.05%	51,059
CD - First State Bank	5/28/2014	0.50%	13,513
CD - First State Bank	4/16/2014	0.50%	4,005
CD - First State Bank	6/23/2014	0.50%	3,974
CD - First State Bank	3/14/2014	0.50%	3,952
CD - First State Bank	5/26/2014	0.50%	19,643
CD - First State Bank	4/11/2014	0.50%	3,863
CD - First State Bank	1/13/2014	0.50%	3,827
CD - First State Bank	3/12/2014	0.50%	3,821
CD - First State Bank	5/22/2014	0.50%	3,799
CD - First State Bank	2/14/2014	0.50%	3,767
CD - First State Bank	5/20/2014	0.50%	3,672
CD - First State Bank	2/14/2014	0.50%	3,638
CD - First State Bank	2/21/2014	0.50%	31,888
CD - First State Bank	1/2/2014	0.50%	3,707
Total Cash and Investments			\$ 565,452

Bancfirst has pledged securities to cover account balances over \$250,000.

Tillman County Rural Water District #1

Notes to the Financial Statements

For the Years Ended December 31, 2013 and 2012

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 \$14,605 and \$13,509 for the years ending December 31, 2013 and 2012, respectively.

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 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 12/31/2013	Balance 12/31/2012
91-10	9/6/1978	2,028	5,933	7,618
91-11	6/29/1989	16,272	169,654	177,237
91-13	6/29/1989	6,492	67,640	70,668
		\$ 24,792	\$ 243,227	\$ 255,523
Less: Current Portion			12,952	12,321
Net Balance			\$ 230,275	\$ 243,202

Current Portion:		Note 9110	Note 9111	Note 9113
Year Ending	12/31/2014	1,775	7,988	3,189
Year Ending	12/31/2015	1,866	8,396	3,352
Year Ending	12/31/2016	1,961	8,826	6,524
Year Ending	12/31/2017	331	9,277	3,704
Year Ending	12/31/2018	-	9,752	3,893

Note 11 - Prior Period Adjustments

There were no prior period adjustments in the financial statements for the years 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
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, 2013 and 2012, and have issued my report thereon dated February 26, 2014. 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 26, 2014