



**Washita County Rural
Water District #2**
Audit Report
For Year Ending December 31, 2013

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Independent Auditor's Report

To The Board of Directors of
Washita County Rural Water District #2
Colony, Oklahoma

I have audited the basic financial statements of Rural Water, Sewer and Solid Waste Management District #2, Washita County, Oklahoma (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 Rural Water, Sewer and Solid Waste Management District #2, Washita County, Oklahoma, 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 January 29, 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

January 29, 2014

**Rural Water, Sewer, & Solid Waste Management
District #2, Washita County, Oklahoma**

Comparative Statement of Net Assets
As of December 31, 2013 and 2012

ASSETS:	2013	2012
Current Assets:		
Cash & Cash Equivalents	\$ 116,847	\$ 48,519
Investments	178,173	177,275
Accounts Receivable (Note 2)	39,459	37,380
Other Receivable	1,500	-
Interest Receivable	990	1,243
Prepaid Insurance	8,235	7,156
Inventory	53,425	49,515
Total Current Assets	\$ 398,629	\$ 321,088
Noncurrent Assets:		
Construction in Progress	\$ -	\$ -
Capital Assets: (Note 5)		
Land	191,690	191,690
Other Capital Assets, net of depreciation	1,263,358	1,306,705
Total Noncurrent Assets	\$ 1,455,048	\$ 1,498,395
TOTAL ASSETS	\$ 1,853,677	\$ 1,819,483
LIABILITIES AND NET ASSETS:		
Current Liabilities:		
Accounts Payable	\$ -	\$ -
Interest Payable	1,658	1,111
Customer Deposits	2,300	1,500
Current Portion of Long-term Liabilities	31,148	29,627
Total Current Liabilities	\$ 35,106	\$ 32,238
Long-Term Liabilities:		
Notes Payable - net of current	\$ 518,680	\$ 550,400
Net Assets:		
Restricted Fund Balance	\$ 57,888	\$ 57,888
Unrestricted Fund Balance	(51,494)	(72,189)
Total Fund Balance	\$ 6,394	\$ (14,301)
Member Investments	330,400	312,800
Donated Assets	665,498	640,747
Grants	297,599	297,599
TOTAL NET ASSETS	\$ 1,299,891	\$ 1,236,845
TOTAL LIABILITIES AND NET ASSETS	\$ 1,853,677	\$ 1,819,483

See accompanying notes to the financial statements.

**Rural Water, Sewer, & Solid Waste Management
District #2, Washita County, Oklahoma**

Comparative Statement of Activities
For the Years Ended December 31, 2013 and 2012

	2013	2012
OPERATING REVENUES:		
Water Sales	\$ 397,068	\$ 392,445
Late Fees	9,703	9,769
Sale of Supplies	945	2,056
Miscellaneous Revenues	8,495	24,753
Total Operating Revenues	\$ 416,211	\$ 429,023
OPERATING EXPENSES:		
Salaries	\$ 119,609	\$ 106,094
Depreciation Expense	115,930	110,624
Interest Expense	28,234	29,777
Utilities	31,387	31,464
Water Purchases	10,769	11,280
Repairs & Maintenance	162	5,378
Insurance	25,804	23,954
Legal & Professional Fees	9,912	6,851
Transportation Expense	8,865	10,672
Director's Fees	6,800	6,800
Payroll Tax Expense	9,753	8,623
Operating Supplies & Chemicals	14,451	13,350
Office Supplies & Postage	6,517	6,952
Retirement Benefits	3,417	2,809
Dues & Licenses	674	930
Equipment Rent	2,858	2,396
Bad Debts Expense	971	2,633
FEMA Repairs	-	-
Miscellaneous Expense	1,226	3,513
Total Operating Expenses	\$ 397,339	\$ 384,100
OPERATING INCOME (LOSS)	\$ 18,872	\$ 44,923
OTHER REVENUES (EXPENSES):		
Investment Revenues	\$ 1,823	\$ 2,545
Gain on Sale of Assets	-	-
Total Other Revenues(Expenses)	\$ 1,823	\$ 2,545
NET INCOME	\$ 20,695	\$ 47,468

See accompanying notes to the financial statements.

**Rural Water, Sewer, & Solid Waste Management
District #2, Washita County, Oklahoma**

Comparative Statement of Changes in Net Assets
For the Years Ended December 31, 2013 and 2012

	2013	2012
Balance, January 1	\$ 1,236,845	\$ 1,177,077
Net Income (Loss)	20,695	47,468
Member Investments	17,600	9,700
Donated Assets	24,751	2,600
Grants	-	-
Total Changes in Net Assets	\$ 63,046	\$ 59,768
Balance, December 31	\$ 1,299,891	\$ 1,236,845

See accompanying notes to the financial statements.

Rural Water, Sewer & Solid Waste Management District #2, Washita County, Oklahoma

Comparative Statement of Cash Flows
For the Years Ended December 31, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 414,132	\$ 432,737
Payments to suppliers	(114,949)	(134,629)
Payments to employees & benefits	(143,915)	(117,526)
Net Cash Provided by Operating Activities	\$ 155,268	\$ 180,582
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of fixed assets	\$ (72,583)	\$ (48,075)
Donated Assets	24,751	2,600
Payments for Land	-	(187,530)
Proceeds from Grants	-	-
Principal payments on notes payable	(30,199)	(40,797)
Interest paid on notes payable	(27,688)	(30,025)
Proceeds from sale of assets	-	-
Net Cash Used In Capital & Related Financing Activities	\$ (105,719)	\$ (303,827)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment Receipts	\$ 2,077	\$ 2,967
Proceeds from memberships	17,600	9,700
Net Cash Provided from Investing Activities	\$ 19,677	\$ 12,667
INCREASE (DECREASE) IN CASH AND INVESTMENTS	\$ 69,226	\$ (110,578)
Cash and Investment Balance - Beginning	225,794	336,372
CASH AND INVESTMENT BALANCE - ENDING	\$ 295,020	\$ 225,794
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ 18,872	\$ 44,923
Adjustments to reconcile operating income to net cash provided (used) by Operating Activities:		
Interest Expense	28,234	29,777
Depreciation expense	115,930	110,624
Change in assets and liabilities:		
Accounts Receivable	(2,079)	3,714
Other Receivable	(1,500)	-
Prepaid Insurance	(1,079)	(779)
Inventory	(3,910)	(7,827)
Accounts Payable	-	-
Customer Deposits	800	150
Net Cash Provided from Operating Activities	\$ 155,268	\$ 180,582

See accompanying notes to the financial statements.

Rural Water, Sewer & Solid Waste Management District #2, Washita County, Oklahoma

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

Note 1 - Significant Accounting Policies

Organization:

Rural Water, Sewer, and Solid Waste Management District #2, Washita County, Oklahoma (District) is an Oklahoma trust formed under the Oklahoma Rural Water Act to provide water, sewer, and solid waste management in a designated area in and around Washita County, Oklahoma to individuals and businesses that purchase a membership. The District served 743 meters and sold 61,034,000 gallons of water for the year ending December 31, 2013 which represented an increase of 14 meters from previous year.

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 reserve method to account for bad debts. No provision was made during the years 2013 or 2012 even though it was less than the accounts receivable balances over 90 days old. The accounts receivable balances at December 31, 2013 and 2012 amounted to \$42,532 and \$40,453, respectively with the allowance in the amount of \$3,073 and \$3,073, respectively.

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.

**Rural Water, Sewer & Solid Waste Management
District #2, Washita County, Oklahoma**

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

Note 5 - Changes in Fixed Assets

	Balance 1/1/2013	Additions	Disposed	Balance 12/31/2013
Water System Plant Assets	\$ 2,701,236	\$ 47,282	\$ -	\$ 2,748,518
Extensions	656,139	-	-	656,139
Office Furniture & Fixtures	17,657	-	-	17,657
Equipment	141,092	15,436	-	156,528
Vehicles	16,391	9,865	(10,244)	16,012
Buildings	179,325	-	-	179,325
Total Assets	\$ 3,711,840	\$ 72,583	\$ (10,244)	\$ 3,774,179
 <u>Accumulated Depreciation:</u>				
Water System Plant Assets	\$ 2,013,317	\$ 71,646	\$ -	\$ 2,084,963
Extensions	262,067	16,824	-	278,891
Office Furniture & Fixtures	16,884	343	-	17,227
Equipment	51,429	12,052	-	63,481
Vehicles	6,147	6,099	(10,244)	2,002
Buildings	55,291	8,966	-	64,257
Total Accumulated Deprec.	\$ 2,405,135	\$ 115,930	\$ (10,244)	\$ 2,510,821
 Net Fixed Assets	 \$ 1,306,705	 \$ (43,347)	 \$ -	 \$ 1,263,358

Note 6 - 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 \$24,751 and \$2,600, respectively.

Note 7 - Components of Cash and Investments

	Date of Maturity	Interest Rate	Balance
Checking - Bank of Cordell	-	0.50%	\$ 116,547
Petty Cash	-	0.00%	300
CD - Bank of Hydro	4/19/2014	0.75%	58,000
CD - Bank of Cordell	3/16/2014	0.75%	120,173
			-
Total Cash and Investments			\$ 295,020

Designation:

Operating	\$ 116,847
Reserved for System Improvements	120,285
Restricted for Debt Service - Rural Development	57,888
	\$ 295,020

**Rural Water, Sewer & Solid Waste Management
District #2, Washita County, Oklahoma**

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

Note 8 - Retirement

The District provides a Simple IRA retirement plan for its participating employees. The District matches contributions up to 3% of the employee wages.

Note 9 - 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
			-	-
91-11	2/21/1983	32,664	215,629	237,176
91-13	5/23/1997	25,224	334,199	342,851
		<u>\$ 57,888</u>	<u>\$ 549,828</u>	<u>\$ 580,027</u>
Less: Current Portion			31,148	29,627
Net Long-Term Liabilities			<u>\$ 518,680</u>	<u>\$ 550,400</u>

Current Portion:		Note 91-11	Note 91-13
Year Ending	12/31/2014	-	22,430
Year Ending	12/31/2015	-	23,571
Year Ending	12/31/2016	-	24,782
Year Ending	12/31/2017	-	26,046
Year Ending	12/31/2018	-	27,392

Note 10 - 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 OVER FINANCIAL REPORTING IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
Washita County Rural Water District #2
Colony, Oklahoma

I have audited the basic financial statements of Rural Water, Sewer and Solid Waste Management District #2, Washita County, Oklahoma (District), as of and for the year ending December 31, 2013 and 2012, and have issued my report thereon dated January 29, 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

January 29, 2014