

QUINLAN COMMUNITY RURAL WATER DISTRICT NO. 1

ANNUAL FINANCIAL STATEMENTS

YEARS ENDED OCTOBER 31, 2012 AND 2011

QUINLAN COMMUNITY RURAL WATER
DISTRICT NO. 1
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YEARS ENDED OCTOBER 31, 2012 AND 2011

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Kimberlye R. Mayer, CPA, P.C.

735 West Doolin

Blackwell, OK 74631

(580) 363-1453
Fax (580) 363-0068

Independent Auditor's Report

Board of Directors
Quinlan Community Rural Water District No. 1


We have audited the accompanying financial statements of Quinlan Community Rural Water District No. 1 as of October 31, 2012 and 2011 and for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of American and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, Quinlan Community Rural Water District No.1 prepared its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of Quinlan Community Rural Water District No. 1 as of October 31, 2012 and 2011 and the results of its operations and its cash flows for the years then ended in conformity with the modified cash basis of accounting.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 9, 2013 on our consideration of Quinlan Community Rural Water District No. 1's internal control over financial reporting and on our tests of its compliance with certain laws, regulations, contracts and grants and other matters. 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 the internal control over financial reporting or on compliance. That 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 our audit.



Kimberlye R. Mayer, CPA, P.C.
Blackwell, Oklahoma
January 9, 2013

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Board of Directors
Quinlan Community Rural Water District No. 1

We have audited the financial statements of Quinlan Community Rural Water District No. 1 as of and for the year ended October 31, 2012, and have issued our report thereon dated January 9, 2013. We conducted our 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. The financial statements were prepared using the modified cash basis of accounting other than accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

Management of Quinlan Community Rural Water District No. 1 is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Quinlan Community Rural Water District No. 1's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Quinlan Community Rural Water District No. 1's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Quinlan Community Rural Water District No. 1's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weaknesses.

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 combination of control 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. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Quinlan Community Rural Water District No. 1's financial statements are free of material misstatement, we performed tests 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, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Quinlan Community Rural Water District No. 1's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the board of directors, others within the organization, and all applicable federal and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



Kimberlye R. Mayer, CPA, P.C.
Blackwell, Oklahoma
January 9, 2013

QUINLAN COMMUNITY RURAL WATER DISTRICT NO. 1
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED OCTOBER 31, 2012

Material Weakness in Internal Control Over Financial Reporting: Inadequate Segregation of Duties:

Criteria: The segregation of duties and responsibilities between different individuals and the reconciliation of those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

Condition: Presently, the same individual is responsible for water service billings and receiving payments; making and recording deposits; maintaining billing registers; and reconciling the monthly bank statements. Only limited oversight is provided over this individual in the conduct of their daily functions.

Cause: The entity's limited size has made it difficult for management to fully segregate the duties.

Effect or Potential Effect: Without sufficient segregation of duties, the risk significantly increases that errors and/or fraud related to the sales and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: The board should evaluate the risks associated with the lack of segregation of duties and consider implementing controls that could mitigate these risks.

Board's Response: The board has concluded that due to the limited number of personnel, an adequate segregation of duties is not achievable and that the cost of correcting the weakness would exceed the benefits that would be derived from it.

Material Weakness in Internal Control Over Financial Reporting: Financial Statements:

Criteria: Internal controls should be in place so that the District could prepare the financial statements, including the related note disclosures.

Condition: As part of the audit, management requested the auditors to prepare the financial statements, including the related notes. Although management reviewed, approved and accepted responsibility for those financial statements, the auditors cannot be considered part of the internal control over the preparation of the financial statements. Because the District's internal financial statements don't reflect all assets and liabilities, the District does not have necessary controls in place to detect, prevent or correct misstatements in those financial statements.

Cause: The entity's limited size and structure has made it difficult for management to obtain these skills.

Effect or Potential Effect: The absence of controls over the preparation of financial statements is considered a significant deficiency because more than a remote likelihood exists that misstatement of the financial statements could occur and not be prevented or detected by the District's internal control.

Recommendation: We recommend that the District strive to understand the presentation and disclosure requirements of the financial statements.

Board's response: The District concurs with the recommendation, and will strive to understand the presentation and disclosure requirements of the financial statements, however, we believe the cost to obtain this knowledge would be prohibitive for the size and structure of our organization.

FINANCIAL STATEMENTS

AND

NOTES

QUINLIN COMMUNITY RURAL WATER DISTRICT NO. 1
STATEMENTS OF ASSETS, LIABILITIES, AND NET ASSETS
MODIFIED CASH BASIS
OCTOBER 31, 2012 AND 2011

| | <u>2012</u> | <u>2011</u> |
|--|-------------------|-------------------|
| ASSETS: | | |
| Current Assets: | | |
| Operating account | \$ 15,738 | \$ 16,856 |
| Savings account | <u>122,169</u> | <u>34,159</u> |
| Total Cash and Cash Equivalents | 137,907 | 51,015 |
| Grant account | | 84,846 |
| Certificates of deposit | 22,022 | 21,586 |
| ORWAAG certificates | <u>3,000</u> | <u>3,000</u> |
| Total Current Assets | 162,929 | 160,447 |
| Property, plant and equipment | | |
| (net of accumulated depreciation) (Note 2) | 390,702 | 401,430 |
| Work in progress | <u>103,018</u> | <u>49,573</u> |
| Total Assets | <u>\$ 656,649</u> | <u>\$ 611,450</u> |
| LIABILITIES AND NET ASSETS: | | |
| Liabilities: | | |
| Notes payable (current portion) (Note 3) | \$ 4,375 | \$ |
| Total Current Liabilities | <u>4,375</u> | |
| Notes payable (long-term portion) (Note 3) | 44,909 | |
| Total Liabilities | <u>49,284</u> | |
| Net Assets: | | |
| Invested in capital assets | 444,436 | 451,003 |
| Unrestricted | <u>162,929</u> | <u>160,447</u> |
| Total Net Assets | <u>607,365</u> | <u>611,450</u> |
| Total Liabilities and Net Assets | <u>\$ 656,649</u> | <u>\$ 611,450</u> |

The accompanying report and notes are an integral part of these financial statements.

QUINLAN COMMUNITY RURAL WATER DISTRICT NO. 1
STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN NET ASSETS
MODIFIED CASH BASIS
YEARS ENDED OCTOBER 31, 2012 AND 2011

| | <u>2012</u> | <u>2011</u> |
|---------------------------------------|-------------------|-------------------|
| Operating Revenues: | | |
| Water service | \$ 61,050 | \$ 66,863 |
| Other income | 3,040 | 1,187 |
| Total Operating Revenues | <u>64,090</u> | <u>68,050</u> |
| Operating Expenses: | | |
| Electricity | 7,477 | 6,741 |
| Bookkeeper fees | 4,800 | 4,800 |
| Operator fees | 22,200 | 22,200 |
| Repairs, maintenance and supplies | 12,390 | 4,804 |
| Office supplies and postage | 475 | 449 |
| Membership dues and fees | 1,533 | 1,613 |
| Water samples and fees | 2,291 | 2,607 |
| Engineer fees | | 6,000 |
| Insurance | 1,670 | 1,879 |
| Professional fees | 985 | 985 |
| Meeting expenses | 451 | 453 |
| Depreciation | 14,600 | 16,537 |
| Miscellaneous expenses | 658 | 306 |
| Total Operating Expenses | <u>69,530</u> | <u>69,374</u> |
| Operating Income (Loss) | (5,440) | (1,324) |
| Nonoperating Revenues (Expenses): | | |
| Interest income | 604 | 730 |
| Memberships | 1,000 | 2,000 |
| Grants | | 99,999 |
| Interest expense | (249) | |
| Total Nonoperating Revenue (Expenses) | <u>1,355</u> | <u>102,729</u> |
| Changes in net assets | (4,085) | 101,405 |
| Net assets, beginning of year | <u>611,450</u> | <u>510,045</u> |
| Net assets, end of year | <u>\$ 607,365</u> | <u>\$ 611,450</u> |

The accompanying report and notes are an integral part of these financial statements.

QUINLAN COMMUNITY RURAL WATER DISTRICT NO. 1
STATEMENTS OF CASH FLOWS
MODIFIED CASH BASIS
YEARS ENDED OCTOBER 31, 2012 AND 2011

| | <u>2012</u> | <u>2011</u> |
|--|-------------------|------------------|
| Cash flows From Operating Activities: | | |
| Cash received from customers | \$ 64,090 | \$ 68,050 |
| Cash payments to suppliers for goods and services | <u>(54,930)</u> | <u>(52,837)</u> |
| Net cash provided (used) by operating activities | 9,160 | 15,213 |
| Cash flows from non-capital financing activities: | | |
| Cash flows from capital and related financing activities: | | |
| Acquisition and construction of capital assets | (57,317) | (49,573) |
| Note proceeds | 50,000 | |
| Loan payments | (716) | |
| Interest payments | (249) | |
| Membership fees | 1,000 | 2,000 |
| Grants received | | <u>99,999</u> |
| Net cash provided (used) by financing activities | <u>(7,282)</u> | <u>52,426</u> |
| Cash flows from investing activities: | | |
| Interest on cash and investments | 604 | 730 |
| (Increase) decrease in grant account | 84,846 | (84,846) |
| Increase in certificates of deposit | <u>(436)</u> | <u>(532)</u> |
| Net cash provided (used) by investing activities | <u>85,014</u> | <u>(84,648)</u> |
| Net increase (decrease) in cash and cash equivalents | 86,892 | (17,009) |
| Beginning cash and cash equivalents | <u>51,015</u> | <u>68,024</u> |
| Ending cash and cash equivalents | <u>\$ 137,907</u> | <u>\$ 51,015</u> |
| Reconciliation of income (loss) from operations to net cash provided (used) by operating activities: | | |
| Operating income or loss | (5,440) | (1,324) |
| Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities: | | |
| Depreciation | 14,600 | 16,537 |
| Changes in assets and liabilities: | | |
| Net cash provided (used) by operating activities | <u>\$ 9,160</u> | <u>\$ 15,213</u> |

The accompanying report and notes are an integral part of these financial statements.

QUINLAN COMMUNITY RURAL WATER DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED OCTOBER 31, 2012 AND 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

Quinlan Community Water, Inc. was organized on April 2, 1968 under the Nonprofit Corporation Act of 1968. During the year ended October 31, 2007 this corporation was reorganized into a rural water district under the Rural Water, Sewer, Gas and Solid Waste Management District Act, Title 82, 1324.3 et seq. of the laws of the State of Oklahoma. During their reorganization, all assets and liabilities were transferred from Quinlan Community Water, Inc. to Quinlan Community Rural Water District No. 1. The District is exempt from federal and state income taxes. The purpose of the District is to acquire water and water rights; to build and acquire waterlines and other facilities; and to operate the same for the purpose of furnishing water to serve the needs of owners and occupants of land located within the District, and others as authorized by the by-laws.

The District is a governed entity by a Board of Directors that acts as the authoritative and legislative body of the entity. The Board of Directors is comprised of elected board members.

Basis of Accounting

The District is classified as an Enterprise Fund. The costs of providing the water services to the public are financed mainly through user charges. The financial statements of the District have been prepared using the modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

Cash and Deposits

Cash is maintained in financial institutions, which provide coverage to depositors through the Federal Deposit Insurance Corporation.

The State of Oklahoma allows government entities to invest in the following: direct obligations of the United States Government, its agencies or instrumentalities; collateralized or insured certificates of deposit; insured savings accounts or savings certificates; or county, municipal or school district direct debt.

QUINLAN COMMUNITY RURAL WATER DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED OCTOBER 31, 2012 AND 2011

NOTE 4 – ESTIMATES:

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

NOTE 5 – RISK MANAGEMENT:

The District is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District purchases commercial insurance for these and other risks of loss. Settled claims have not exceeded the commercial coverage in the past year.

NOTE 6 – CONTINGENCIES:

As of October 31, 2012, the District did not have any pending litigation or potential non-disclosed liabilities that management believes would have a material effect on the financial statements.

NOTE 7 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through January 9, 2013, the date which the financial statements were available to be issued.