

QUINLAN COMMUNITY RURAL WATER DISTRICT NO. 1

ANNUAL FINANCIAL STATEMENTS

YEARS ENDED OCTOBER 31, 2016 AND 2015

QUINLAN COMMUNITY RURAL WATER
DISTRICT NO. 1
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YEARS ENDED OCTOBER 31, 2016 AND 2015

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Independent Auditor's Report

Board of Directors

Quinlan Community Rural Water District No. 1

Report on the Financial Statements

We have audited the accompanying statements of assets, liabilities and net position – modified cash basis of the Quinlan Community Rural Water District No. 1, as of October 31, 2016 and 2015, and the related statements of revenues, expenses and changes in net position – modified cash basis, and of cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 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 we plan and perform the audits to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such an opinion. An audit also includes evaluating 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

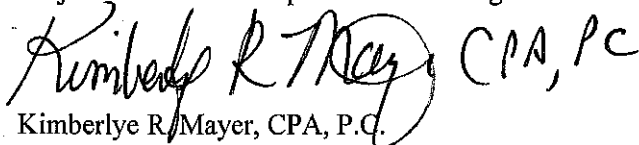
In our opinion, the financial statements referred to above, present fairly, in all material respects, the modified cash basis financial position of the Quinlan Community Rural Water District No. 1 as of October 31, 2016 and 2015, and the changes in its modified cash basis financial position and its cash flows for the years then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated January 19, 2017 on our consideration of the 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 grant agreements 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 audits.



Kimberlye R. Mayer, CPA, P.C.
Blackwell, Oklahoma
January 19, 2017

INDEPENDENT AUDITOR'S 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, 2016 and have issued our report thereon dated January 19, 2017. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements were prepared on the modified cash basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Quinlan Community Rural Water District No. 1's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Quinlan Community Rural Water District No. 1's internal control. Accordingly, we do not express an opinion on the effectiveness of the Quinlan Community Rural Water District No. 1'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 combination of control deficiencies, in internal control that there is reasonable possibility that a material misstatement of the District'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.

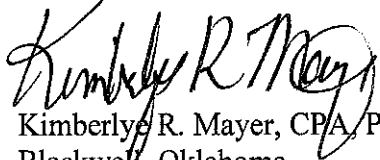
Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*.

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

 CPA, PC

Kimberly R. Mayer, CPA, P.C.

Blackwell, Oklahoma

January 19, 2017

FINANCIAL STATEMENTS

AND

NOTES

QUINLIN COMMUNITY RURAL WATER DISTRICT NO. 1
STATEMENTS OF ASSETS, LIABILITIES, AND NET POSITION
MODIFIED CASH BASIS
OCTOBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
ASSETS:		
Current Assets:		
Operating account	\$ 68,552	66,166
Savings account	106,174	133,544
Total Cash and Cash Equivalents	<u>174,726</u>	<u>199,710</u>
Certificates of deposit	22,828	22,708
ORWAAG certificates	3,000	3,000
Total Current Assets	<u>200,554</u>	<u>225,418</u>
Property, plant and equipment (net of accumulated depreciation) (Note 2)	491,793	365,045
Work in progress		<u>111,588</u>
Total Assets	<u>\$ 692,347</u>	<u>\$ 702,051</u>
LIABILITIES AND NET POSITION:		
Liabilities:		
Notes payable (current portion) (Note 3)	\$ 4,908	\$ 4,762
Total Current Liabilities	<u>4,908</u>	<u>4,762</u>
Notes payable (long-term portion) (Note 3)	26,061	31,777
Total Liabilities	<u>30,969</u>	<u>36,539</u>
Net Position:		
Net Investment in capital assets	460,824	440,094
Unrestricted	200,554	225,418
Total Net Position	<u>661,378</u>	<u>665,512</u>
Total Liabilities and Net Position	<u>\$ 692,347</u>	<u>\$ 702,051</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 POSITION
MODIFIED CASH BASIS
YEARS ENDED OCTOBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Operating Revenues:		
Water service	\$ 72,443	\$ 97,498
Other income	440	750
Total Operating Revenues	<u>72,883</u>	<u>98,248</u>
Operating Expenses:		
Electricity	7,069	7,326
Bookkeeper fees	7,820	5,800
Operator fees	30,000	30,000
Repairs, maintenance and supplies	7,720	7,601
Office supplies and postage	709	1,122
Membership dues and fees	2,236	2,020
Water samples and fees	740	950
Insurance	2,295	2,197
Professional fees	1,150	3,650
Meetings, mileage and travel	1,404	1,307
Depreciation	16,039	15,595
Miscellaneous expenses	245	107
Total Operating Expenses	<u>77,427</u>	<u>77,675</u>
Operating Income (Loss)	(4,544)	20,573
Nonoperating Revenues (Expenses):		
Interest income	417	467
Memberships	1,000	4,000
Interest expense	(1,007)	(1,932)
Total Nonoperating Revenue (Expenses)	<u>410</u>	<u>2,535</u>
Changes in net position	(4,134)	23,108
Net position, beginning of year	<u>665,512</u>	<u>642,404</u>
Net position, end of year	<u>\$ 661,378</u>	<u>\$ 665,512</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, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash flows From Operating Activities:		
Cash received from customers	\$ 72,883	\$ 98,248
Cash payments to suppliers for goods and services	<u>(61,388)</u>	<u>(62,080)</u>
Net cash provided (used) by operating activities	11,495	36,168
Cash flows from non-capital financing activities:		
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(31,199)	(8,830)
Note proceeds		
Principle payments	(5,570)	(3,861)
Interest payments	(1,007)	(1,932)
Membership fees	<u>1,000</u>	<u>4,000</u>
Net cash provided (used) by financing activities	(36,776)	(10,623)
Cash flows from investing activities:		
Interest on cash and investments	417	467
(Increase) decrease in grant account		
Increase in certificates of deposit	<u>(120)</u>	<u>(158)</u>
Net cash provided (used) by investing activities	297	309
Net increase (decrease) in cash and cash equivalents	(24,984)	25,854
Beginning cash and cash equivalents	<u>199,710</u>	<u>173,856</u>
Ending cash and cash equivalents	<u>\$ 174,726</u>	<u>\$ 199,710</u>
Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:		
Operating income or loss	(4,544)	20,573
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation	16,039	15,595
Changes in assets and liabilities:		
Net cash provided (used) by operating activities	<u>\$ 11,495</u>	<u>\$ 36,168</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, 2016 AND 2015

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 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, 2016 AND 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Statement of Cash Flows

For the purpose of the Statement of Flows, the District considers all checking and savings accounts (excluding grant accounts) and deposits with a maturity of three months or less to be cash equivalents.

NOTE 2 – WATERLINE SYSTEM:

New waterline costs are capitalized and depreciated over their estimated useful lives. Annual depreciation is calculated on a straight-line basis. Total depreciation for the years ended October 31, 2016 and 2015 was \$16,039 and \$15,595 respectively. The balances for depreciable assets by major category are as follows:

	10/31/15	Additions	10/31/16
Land	\$ 500	\$	\$ 500
Office equipment	1,109		1,109
Waterline system and buildings	674,994	142,787	817,781
Machinery and equipment	54,270		54,270
Accumulated depreciation	(365,828)	(16,039)	(381,867)
Net	<u>\$ 365,045</u>	<u>\$ 126,748</u>	<u>\$ 491,793</u>

NOTE 3 – NOTES PAYABLE:

In August 2012 the District borrowed \$50,000 for improvements to the water system. Collateral for this loan is a secured interest in the assets. The interest rate is 3% and the monthly payments are \$483 for 10 years. The following is a schedule of the annual payments:

Year Ending 10/31	Payments	Principle	Interest
2017	\$ 5,794	\$ 4,908	\$ 886
2018	5,794	5,057	737
2019	5,794	5,210	584
2020	5,794	5,369	425
2021	5,794	5,534	260
2022	5,062	4,891	171
Totals	<u>\$ 34,032</u>	<u>\$ 30,969</u>	<u>\$ 3,063</u>

QUINLAN COMMUNITY RURAL WATER DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED OCTOBER 31, 2016 AND 2015

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; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health benefits; unemployment; and natural disasters. The District purchases commercial insurance for these and other risks of loss.

NOTE 6 – FAIR VALUES OF FINANCIAL INSTRUMENTS:

The definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosure about the use of fair value measurements in an effort to make the measurement of fair value more consistent and comparable.

Level 1: Quoted prices in active markets for identical securities.

Level 2: Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment spread and credit risk).

Level 3: Significant unobservable inputs (including the District's own assumptions in determining the fair value of investments).

The District's financial instruments include cash and cash equivalents, certificates of deposit, and notes payable. The District's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying statement of net position. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

NOTE 7 – CONTINGENCIES:

As of October 31, 2016, 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 8 – EVALUATION OF SUBSEQUENT EVENTS:

The Corporation has evaluated subsequent events through January 19, 2017, the date which the financial statements were available to be issued.