

**QUINLAN COMMUNITY RURAL WATER DISTRICT NO. 1**

**ANNUAL FINANCIAL STATEMENTS**

**YEARS ENDED OCTOBER 31, 2014 AND 2013**

QUINLAN COMMUNITY RURAL WATER  
DISTRICT NO. 1  
TABLE OF CONTENTS  
YEARS ENDED OCTOBER 31, 2014 AND 2013

	Page
<b>INTRODUCTORY SECTION:</b>	
Table of Contents	i
<b>FINANCIAL SECTION:</b>	
Independent Auditor's Report	1-2
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 <i>Government Auditing Standards</i> .	3-5
Financial Statements:	6
Statement of Assets, Liabilities, and Net Position – Modified Cash Basis	7
Statement of Revenues, Expenses and Changes in Net Position - Modified Cash Basis	8
Statement of Cash Flows – Modified Cash Basis	
Notes to Financial Statements	10-12

# Kimberlye R. Mayer, CPA, P.C.

723 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

### 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, 2014 and 2013, 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

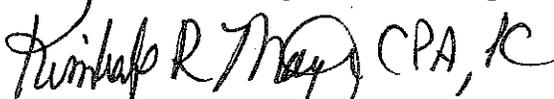
In our opinion, the financial statements referred to above, present fairly, in all material respects, the modified cash basis financial position of the Quinlan Community Rural Water District No. 1 as of October 31, 2014 and 2013, and the changes in its modified cash basis financial position and its cash 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, 2015 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.



Kimberly R. Mayer, CPA, P.C.  
Blackwell, Oklahoma  
January 19, 2015

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, 2014 and have issued our report thereon dated January 19, 2015. 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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

## **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*.

## **Response to Findings**

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 questioned costs. Quinlan Community Rural Water District No. 1's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **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.



Kimberly R. Mayer, CPA, P.C.  
Blackwell, Oklahoma  
January 19, 2015

QUINLAN COMMUNITY RURAL WATER DISTRICT NO. 1  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED OCTOBER 31, 2014

**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.

FINANCIAL STATEMENTS

AND

NOTES

QUINLIN COMMUNITY RURAL WATER DISTRICT NO. 1  
STATEMENTS OF ASSETS, LIABILITIES, AND NET POSITION  
MODIFIED CASH BASIS  
OCTOBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
<b>ASSETS:</b>		
Current Assets:		
Operating account	\$ 44,109	33,408
Savings account	<u>129,747</u>	<u>125,955</u>
Total Cash and Cash Equivalents	173,856	159,363
Certificates of deposit	22,550	22,393
ORWAAG certificates	<u>3,000</u>	<u>3,000</u>
Total Current Assets	199,406	184,756
Property, plant and equipment (net of accumulated depreciation) (Note 2)	371,810	376,334
Work in progress	<u>111,588</u>	<u>110,469</u>
Total Assets	<u>\$ 682,804</u>	<u>\$ 671,559</u>
 <b>LIABILITIES AND NET POSITION:</b>		
Liabilities:		
Notes payable (current portion) (Note 3)	<u>\$ 4,645</u>	<u>\$ 4,509</u>
Total Current Liabilities	4,645	4,509
Notes payable (long-term portion) (Note 3)	<u>35,755</u>	<u>40,400</u>
Total Liabilities	40,400	44,909
Net Position:		
Net Investment in capital assets	442,998	441,894
Unrestricted	<u>199,406</u>	<u>184,756</u>
Total Net Position	<u>642,404</u>	<u>626,650</u>
Total Liabilities and Net Position	<u>\$ 682,804</u>	<u>\$ 671,559</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, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Operating Revenues:		
Water service	\$ 89,137	\$ 66,813
Other income	1,368	6,335
Total Operating Revenues	<u>90,505</u>	<u>73,148</u>
Operating Expenses:		
Electricity	7,774	8,589
Bookkeeper fees	4,800	4,800
Operator fees	30,000	24,150
Repairs, maintenance and supplies	7,627	11,038
Office supplies and postage	346	319
Membership dues and fees	1,847	1,575
Water samples and fees	2,454	1,314
Insurance	2,157	2,471
Professional fees	1,150	2,259
Meeting expenses	1,219	837
Depreciation	15,006	14,368
Miscellaneous expenses	542	132
Total Operating Expenses	<u>74,922</u>	<u>71,852</u>
Operating Income (Loss)	15,583	1,296
Nonoperating Revenues (Expenses):		
Interest income	457	650
Memberships	1,000	2,000
Service fees		41,000
Line relocation		(24,242)
Interest expense	(1,286)	(1,419)
Total Nonoperating Revenue (Expenses)	<u>171</u>	<u>17,989</u>
Changes in net position	15,754	19,285
Net position, beginning of year	<u>626,650</u>	<u>607,365</u>
Net position, end of year	<u>\$ 642,404</u>	<u>\$ 626,650</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, 2014 AND 2013

	2014	2013
Cash flows From Operating Activities:		
Cash received from customers	\$ 90,505	\$ 73,148
Cash payments to suppliers for goods and services	(59,916)	(57,484)
Net cash provided (used) by operating activities	30,589	15,664
 Cash flows from non-capital financing activities:		
 Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(11,601)	(7,451)
Note proceeds		
Loan payments	(4,509)	(4,375)
Interest payments	(1,286)	(1,419)
Membership fees	1,000	2,000
Service fees (net)		16,758
Net cash provided (used) by financing activities	(16,396)	5,513
 Cash flows from investing activities:		
Interest on cash and investments	457	650
(Increase) decrease in grant account		
Increase in certificates of deposit	(157)	(371)
Net cash provided (used) by investing activities	300	279
 Net increase (decrease) in cash and cash equivalents	14,493	21,456
Beginning cash and cash equivalents	159,363	137,907
Ending cash and cash equivalents	\$ 173,856	\$ 159,363
 Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:		
Operating income or loss	15,583	1,296
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation	15,006	14,368
Changes in assets and liabilities:		
Net cash provided (used) by operating activities	\$ 30,589	\$ 15,664

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, 2014 AND 2013

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, 2014 AND 2013

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, 2014 and 2013 was \$15,006 and \$14,368 respectively. The balances for depreciable assets by major category are as follows:

	10/31/13	Additions	10/31/14
Land	\$ 500	\$	\$ 500
Waterline system and buildings	667,273		667,273
Machinery and equipment	43,788	10,482	54,270
Accumulated depreciation	(335,227)	(15,006)	(350,233)
Net	\$ 376,334	\$ (4,524)	\$ 371,810

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	Payments	Principle	Interest
2015	\$ 5,794	\$ 4,645	\$ 1,149
2016	5,794	4,786	1,008
2017	5,794	4,932	862
2018	5,794	5,082	712
2019	5,794	5,237	557
2020-2022	16,414	15,718	696
Totals	\$ 45,384	\$ 40,400	\$ 4,984

QUINLAN COMMUNITY RURAL WATER DISTRICT NO. 1  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED OCTOBER 31, 2014 AND 2013

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 - FAIR VALUE OF INSTRUMENTS:

The District's financial instruments include cash and cash equivalents, and certificates of deposit. The District's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying values 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, 2014, 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 District has evaluated subsequent events through January 19, 2015, the date which the financial statements were available to be issued.