

Harper County Rural Water District No. 1
Financial Statements and Independent Auditor's Report
August 31, 2016



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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Harper County Rural Water District No. 1

We have audited the accompanying financial statements of Harper County Rural Water District No.1 as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the Harper County Rural Water District No. 1's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 entity'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 entity's internal control. Accordingly, we express no such 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Harper County Rural Water District No. 1 as of August 31, 2016, and the changes in its financial position, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2016, on our consideration of Harper County Rural Water District No. 1's internal control over financial reporting and on our tests of its compliance with certain provisions of 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Harper County Rural Water District No. 1's internal control over financial reporting and compliance.

FSW&B CPAs-PLLC

FSW&B CPAs-PLLC
Woodward, Oklahoma
October 24, 2016

Harper County Rural Water District No. 1

Statement of Net Position

As of August 31, 2016

ASSETS

Current Assets

Cash in Bank-(Unrestricted)		\$ 126,173
Cash in Bank-(Restricted)		6,100
Investments		10,000
Accounts Receivable		18,584
Inventory		9,549
Total Current Assets		<u>170,406</u>

Fixed Assets

Water System and Building	2,046,684	
Accumulated Depreciation	<u>(1,207,780)</u>	838,904
Equipment and Vehicles	224,070	
Accumulated Depreciation	<u>(156,360)</u>	67,710
Total Fixed Assets		<u>906,614</u>

Other Assets

Land		300
Right-of-Way and Water Rights		82,004
Total Other Assets		<u>82,304</u>

TOTAL ASSETS		<u><u>\$ 1,159,324</u></u>
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LIABILITIES AND NET POSITION

Current Liabilities

Accounts Payable		\$ 1,870
Customer Deposits		28
Payroll Taxes Payable		2,188
Current Portion of Long Term Liabilities		5,851
Total Current Liabilities		<u>9,937</u>

Long-Term Liabilities

Note Payable		12,565
TOTAL LIABILITIES		<u>22,502</u>

Net Position

Net Investment in Capital Assets		906,614
Restricted		6,100
Unrestricted		224,108
Total Net Position		<u>1,136,822</u>

TOTAL LIABILITIES AND NET POSITION		<u><u>\$ 1,159,324</u></u>
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See Accompanying Notes to Financial Statements

Harper County Rural Water District No. 1
Statement of Revenues, Expenses, and Changes in Fund Net Position
For the Year Ending August 31, 2016

UNRESTRICTED NET POSITION

Operating Revenue:

Water Sales	\$ 216,402
Supplies Sold	-
Penalties & Reconnect Fees	828
Labor	-
Contributions	6,520
Grant Proceeds	33,234
Other Income	3,413
Total Operating Revenue	<u>260,397</u>

Expenses:

Program Services

Electricity & Utilities	18,184
Wages & Labor	94,458
Repairs & Maintenance	24,734
Telephone	3,229
Insurance	26,962
Testing & Water Supplies	22,301
Bank Charges	-
Payroll Taxes	6,744
Travel	-
Office Supplies	2,543
Depreciation	67,717
Legal & Professional	6,048
Miscellaneous Expenses	5,024
Total Expenses	<u>277,944</u>

Excess (Deficit) of Operating Revenue Over Expenses (17,547)

Other Revenue:

Interest Income	21
Total Other Revenue	<u>21</u>

Other Expenses:

Interest Expense	1,278
Total Other Expenses	<u>1,278</u>

Increase (Decrease) in Net Position (18,804)

Changes in Members Equity -

NET POSITION AT BEGINNING OF YEAR 1,155,626

NET POSITION AT END OF YEAR \$ 1,136,822

HARPER COUNTY RURAL WATER DISTRICT NO. 1
STATEMENT OF CASH FLOWS
For the Year Ending August 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$ 234,322
Payments for Goods and Services	(109,788)
Payments for Wages and Labor	(94,458)
Other Operating Revenues	36,668
Other Operating Expenses	(6,304)
Net Cash Provided (Used) by Operating Activities	<u>60,440</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of Capital Assets	(32,142)
Increase in Customer Deposits	-
Member Invested Equity	-
Net Cash Provided (Used) by Investing Activities	<u>(32,142)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from Loan	-
Principal Paid on Notes	(5,690)
Net Cash Provided (Used) by Financing Activities	<u>(5,690)</u>

Net Increase (Decrease) in Cash and Cash Equivalents	22,608
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Beginning Cash and Cash Equivalents	<u>109,665</u>
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Ending Cash and Cash Equivalents	<u><u>\$ 132,273</u></u>
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**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET
CASH PROVIDED (USED) BY OPERATING ACTIVITIES**

Operating Income (Loss)	\$ (18,804)
Adjustment to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	67,717
Noncash Contributions	(6,520)
Changes in assets and liabilities:	
(Increase) Decrease in Accounts Receivable	15,221
Increase (Decrease) in Accounts Payable	1,870
Increase (Decrease) in Payroll Taxes Payable	959
Rounding Difference	(3)
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 60,440</u></u>

Harper County Rural Water District No. 1
Notes to the Financial Statements
For the Year Ended August 31, 2016

NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity:

Harper County Water Corporation was a nonprofit corporation incorporated November 24, 1971 under the provisions of Title 18, Oklahoma Statutes Annotated, for the purpose of constructing and operating a water supply distribution system serving water users within the area.

Effective July 22, 2014, the corporation was restructured by dissolving the existing corporation and reforming as a rural water district under the provisions of Title 60, Oklahoma Statutes Annotated. The new organization name is Harper County Rural Water District No. 1 (the "District").

Measurement Focus, basis of accounting, and financial statement presentation:

The District's fund is an enterprise fund. Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. The activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

The proprietary funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

The fund financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles (GAAP).

Bank Deposits and Investments:

All bank deposits and investments are in institutions insured by the Federal Government's appropriate agency. All investments are presented at their cost.

Cash and Cash Equivalents:

For purposes of the statement of cash flows, the District considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Accounts Receivable:

Accounts receivable consists of the amounts owed to the District by customers for water sales, late fees, and memberships. Billings for accounts receivable at August 31, 2016 were \$18,584. Allowance for doubtful accounts was not computed on this balance because uncollectibles do not have a material effect on the balance sheet.

Property and Equipment

Purchased property and equipment are recorded at cost and consist of the water system, building and equipment. Donated property and equipment is recorded at fair market value at the date of donation. Depreciation is computed on the straight-line method based on estimated useful lives.

Deferred Revenue:

Deferred revenue is used to account for prepaid service fees. As services are used, revenue is recognized.

Harper County Rural Water District No. 1
Notes to the Financial Statements
For the Year Ended August 31, 2016

NOTE A – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –
Cont'd

Inventories:

Inventories are stated at the lower of cost (determined on a first-in, first-out basis) or market.

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.

Net Position:

Net position is displayed in three components as follows:

Net investment in capital assets- consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of any debt or other borrowings that are attributable to the acquisition, construction, or improvements of these assets.

Restricted- consists of net position with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) through constitutional provisions or enabling legislation.

Unrestricted- all other net position that does not meet the definitions of "net investment in capital assets" or "restricted".

It is the District's policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Operating revenues and expenses:

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services.

Budgets and Budgetary Accounting:

The District is not required to submit a legally binding budget. They did not prepare a budget for fiscal year 2016.

NOTE B – INVESTMENTS

Certificates of Deposit and Investment:

	<u>Amount</u>
RWAAG	<u>10,000</u>
Total Investments	<u>\$10,000</u>

Harper County Rural Water District No. 1
Notes to the Financial Statements
For the Year Ended August 31, 2016

NOTE C – CONTINGENCIES

Grants require the fulfillment of certain conditions as set forth in the grant instrument. Failure to fulfill the conditions could result in the return of funds to the grantor. Although that is a possibility, the Board deems the contingency remote, since by accepting the grants and their terms; it has accomplished the objectives of the Corporation to the provisions of the grant.

NOTE D – FIXED ASSETS

Investment in property and equipment, at August 31, 2016, was as follows:

	Balance 9/1/15	Additions	Dispositions	Balance 8/31/16
Property and Equipment	\$ 2,232,392	38,662	-	\$ 2,271,054
Accumulated depreciation	(1,296,424)	(67,716)	-	(1,364,140)
Net property and equipment	\$ 935,968	(29,054)	-	\$ 906,914

Donated assets are the estimated fair market value at the date of transfer. During the year ended June 30, 2016, the District received a donated trailer with an estimated fair market value of \$6,520. This amount is included in the above total of property and equipment.

NOTE E – NOTES PAYABLE

The organization has a note payable to Oklahoma State Bank, Buffalo, OK, for a 2013 Chevrolet pickup truck purchased on January 28, 2014. The note has an interest rate of 6.00% on the unpaid principal balance and requires annual payments in the amount of \$6,966 beginning January 28, 2015 and annually thereafter until the principal balance is paid in full. The term of the note is five years.

As of August 31, 2016, the four year maturities of long term debt are as follows:

<u>Year Ending</u>	<u>Minimum Required Principal Reduction</u>
August 31, 2017	5,851
August 31, 2018	6,490
August 31, 2019	6,075
Total Debt Owed as of August 31, 2017	<u>\$18,416</u>

NOTE F- SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 24, 2016 and believes that there are no subsequent events that are not disclosed. October 24, 2016 is the date that the financial statements were available to be issued.



**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***

To the Board of Trustees of
Harper County Rural Water District No. 1

We have audited, in accordance with the 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 of the business-type activities of the Harper County Rural Water District No. 1, as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the Harper County Rural Water District No. 1's basic financial statements, and have issued our report thereon dated October 24, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Harper County 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Harper County Rural Water District No. 1's internal control. Accordingly, we do not express an opinion on the effectiveness of Harper County 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 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. 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 first paragraph of this section 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 the Harper County Rural Water District No. 1's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

FSW&B CPAs-PLLC

FSW&B CPA's-PLLC
Woodward, Oklahoma
October 24, 2016