

**HARPER COUNTY RURAL WATER DISTRICT NO. 1**

**FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT**

**August 31, 2015**



## TABLE OF CONTENTS

<b>INDEPENDENT AUDITOR'S REPORT</b>	1
<b>FINANCIAL STATEMENTS:</b>	
Statement of Financial Position (Modified Cash Basis)	3
Statement of Revenues, Expenses, and Changes in Fund Net Position (Modified Cash Basis)	4
Statement of Cash Flows (Modified Cash Basis)	5
Notes to Financial Statements	6
<b>SUPPLEMENTAL INFORMATION</b>	
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	10



## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying modified cash basis financial statements of the business-type activities of Harper County Rural Water District No. 1, as of and for the year ended August 31, 2015, and the related notes to the financial statements, which collectively comprise the District'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 the modified cash basis of accounting described in Note A; 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 financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions 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 opinions.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the business-type activities of Harper County Rural Water District No. 1, as of August 31, 2015, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note A.

### **Basis of Accounting**

We draw attention to Note A of the financial statements, which 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 opinions are not modified with respect to this matter.

### **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 statement 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 27, 2015, 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, OK  
October 27, 2015

**HARPER COUNTY RURAL WATER DISTRICT NO. 1**  
**STATEMENT OF FINANCIAL POSITION (Modified Cash Basis)**  
**As of August 31, 2015**

**ASSETS**

Current Assets

Cash in Bank		109,665
Investments		10,000
Accounts Receivable		33,805
Inventory		9,549
Total Current Assets		<u>163,019</u>

Fixed Assets

Water System and Building	2,046,684	
Accumulated Depreciation	<u>(1,154,637)</u>	892,047
Equipment and Vehicles	185,408	
Accumulated Depreciation	<u>(141,786)</u>	43,622
Total Fixed Assets		<u>935,669</u>

Other Assets

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

TOTAL ASSETS		<u>1,180,992</u>
--------------	--	------------------

**LIABILITIES AND NET POSITION**

Current Liabilities

Current Portion of Long Term Liabilities		5,520
Customer Deposits		28
Payroll Taxes Payable		1,230
Total Current Liabilities		<u>6,778</u>

Long-Term Liabilities

Note Payable		18,586
TOTAL LIABILITIES		<u>25,364</u>

Net Position

Net Investment in Capital Assets		692,897
Unrestricted		462,729
Total Net Position		<u>1,155,626</u>

TOTAL LIABILITIES AND NET POSITION		<u>1,180,990</u>
------------------------------------	--	------------------

**HARPER COUNTY RURAL WATER DISTRICT NO. 1**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN**  
**FUND NET POSITION (Modified Cash Basis)**  
**For the Year Ending August 31, 2015**

**UNRESTRICTED NET POSITION**

Operating Revenue:

Water Sales	265,675
Supplies Sold	-
Penalties & Reconnect Fees	1,314
Labor	-
Other Income	5,322
Total Operating Revenue	272,311

Expenses:

Program Services	
Electricity & Utilities	19,101
Wages & Labor	90,571
Repairs & Maintenance	20,386
Telephone	2,637
Insurance	24,945
Testing & Water Supplies	26,387
Bank Charges	5
Payroll Taxes	6,894
Travel	323
Office Supplies	2,196
Depreciation	65,049
Legal & Professional	10,243
Miscellaneous Expenses	5,713
Total Expenses	274,450

Excess (Deficit) of Operating Revenue Over Expenses (2,139)

Other Revenue:

Interest Income	400
Total Other Revenue	400

Other Expenses:

Interest Expense	1,898
Total Other Expenses	1,898

Increase (Decrease) in Unrestricted Net Position (3,637)

Changes in Members Equity 1,433

**NET POSITION AT BEGINNING OF YEAR** **1,157,830**

**NET POSITION AT END OF YEAR** **1,155,626**

**HARPER COUNTY RURAL WATER DISTRICT NO. 1**  
**STATEMENT OF CASH FLOWS (Modified Cash Basis)**  
**For the Year Ending August 31, 2015**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from Customers	\$ 249,089
Payments for Goods and Services	(113,912)
Payments for Wages and Labor	(90,571)
Other Operating Revenues	5,722
Other Operating Expenses	<u>(7,611)</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u><u>42,717</u></u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchase of Capital Assets	(16,923)
Increase in Customer Deposits	-
Member Invested Equity	<u>1,433</u>
<b>Net Cash Provided (Used) by Investing Activities</b>	<u><u>(15,490)</u></u>

**CASH FLOWS FROM FINANCING ACTIVITIES**

Proceeds from Loan	-
Principal Paid on Notes	<u>(8,769)</u>
<b>Net Cash Provided (Used) by Financing Activities</b>	<u><u>(8,769)</u></u>

Net Increase (Decrease) in Cash and Cash Equivalents	18,458
Rounding	(1)

Beginning Cash and Cash Equivalents	<u>91,208</u>
-------------------------------------	---------------

Ending Cash and Cash Equivalents	<u><u>\$ 109,665</u></u>
----------------------------------	--------------------------

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES**

Operating Income (Loss)	\$ (3,637)
Adjustment to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	65,049
Changes in assets and liabilities:	
(Increase) Decrease in Accounts Receivable	(17,901)
Increase (Decrease) in Accounts Payable	-
Increase (Decrease) in Payroll Taxes Payable	(797)
Rounding Difference	<u>3</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u><u>\$ 42,717</u></u>

**HARPER COUNTY RURAL WATER DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended August 31, 2015**

**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.

Effective for years ending after August 31, 2006 the organization has elected to present their financial statements on a modified cash basis. Under this method, revenue is recognized when received rather than when earned, and expenses are recognized when paid rather than when the related obligation is incurred. Modification to the cash basis of accounting results from management’s decision to record property and equipment and related depreciation in the accompanying basic financial statements.

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 Corporation 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, 2015 were \$ 33,805. Allowance for doubtful accounts was not computed on this balance because uncollectibles do not have a material effect on the balance sheet.

**HARPER COUNTY RURAL WATER DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended August 31, 2015**

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

Property and Equipment

Property and equipment are recorded at cost and consist of the water system, building and equipment. 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.

Inventories

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

Income Tax

The organization is a not-for-profit corporation that is exempt from income tax under Section 501(c)(12) of the Internal Revenue Code and therefore has made no provision for federal income taxes in the accompanying financial statements. The organization is required to file an information return, IRS Form 990. There are four open tax years subject to examination: tax years 2011, 2012, 2013, and 2014. There was no unrelated business income for the year ended August 31, 2015. A final tax return will be filed for tax year 2014. After the final tax return is filed the District will be exempt from filing Federal and State income tax forms.

Net Position

Net position is displayed in three components as follows:

- a. *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.
- b. *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.
- c. *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.

**HARPER COUNTY RURAL WATER DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended August 31, 2015**

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

Budgets and Budgetary Accounting

The District is not required to submit a legally binding budget. They did not prepare a budget for fiscal year 2015.

NOTE B – INVESTMENTS

<u>Certificates of Deposit and Investment</u>	<u>Amount</u>
RWAAG	<u>10,000</u>
Total Investments	<u>\$10,000</u>

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, 2015, was as follows:

	Balance 9/1/14	Additions	Dispositions	Balance 8/31/15
Property and Equipment	\$ 2,215,469	16,923	-	\$ 2,232,392
Accumulated depreciation	(1,231,375)	(65,049)	-	(1,296,424)
Net property and equipment	\$ 984,094	(48,126)	-	\$ 935,968

NOTE E – NOTES PAYABLE

The organization had a note payable to Great Plains National Bank formerly First American Bank, Woodward, OK for a line extension that was completed in 2004. The note had an interest rate of 4.50% on the unpaid principal balance and required monthly payments in the amount of \$ 1,848.25 beginning October 29, 2010 and monthly thereafter until the principal balance is paid in full. This note was paid off on September 5, 2014.

**HARPER COUNTY RURAL WATER DISTRICT NO. 1**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended August 31, 2015**

NOTE E – NOTES PAYABLE, Cont'd.

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 \$6,966.06 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, 2015, the four year maturities of long term debt are as follows:

<u>Year Ending</u>	<u>Minimum Required Principal Reduction</u>
August 31, 2016	5,520
August 31, 2017	5,851
August 31, 2018	6,202
August 31, 2019	<u>6,533</u>
Total Debt Owed as of August 31, 2015	\$24,106

NOTE F- SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 27, 2015 and believes that there are no subsequent events that are not disclosed. October 27, 2015 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 modified cash basis of accounting 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, 2015, 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 27, 2015.

**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 the Harper County Rural Water District No. 1's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 CPA'S- PLLC

FSW&B CPAs-PLLC

Woodward, OK

October 27, 2015