

**Quartz Mountain Regional  
Water Authority**

*Audit Report*

For Year Ending June 30, 2013

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Scott Northrip, CPA

P.O. Box 642

Hobart, OK 73651

(580) 726-5681

# Scott Northrip

*Certified Public Accountant*

P.O. Box 642  
Hobart, Oklahoma 73651

311 S. Main St.  
(580) 726-5681

## Independent Auditor's Report

To The Board of Directors of  
Quartz Mountain Regional Water Authority

We have audited the accompanying basic financial statements of Quartz Mountain Regional Water Authority (Authority) as of June 30, 2013 and 2012, as of and for the years then ended. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted the 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 the audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Quartz Mountain Regional Water Authority as of June 30, 2013, and 2012 and the results of its activities, its cash flows and changes in net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2013, on our consideration of the internal control and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants. These reports are 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 the audit.

*Scott Northrip, CPA*

Scott Northrip  
Certified Public Accountant

November 4, 2013

**QUARTZ MOUNTAIN REGIONAL  
WATER AUTHORITY**

Comparative Statement of Net Assets  
As of June 30, 2013 and 2012

<b>ASSETS:</b>	<u>2013</u>	<u>2012</u>
Current Assets:		
Cash & Cash Equivalents	\$ 357,382	\$ 247,029
Accounts Receivable (Note 2)	45,944	59,926
Prepaid Insurance	22,940	25,235
Prepaid Expenses	-	-
<b>Total Current Assets</b>	<u>\$ 426,266</u>	<u>\$ 332,190</u>
Noncurrent Assets:		
Construction in Progress	\$ -	\$ -
Capital Assets: (Note 6)		
Land & Water Rights	2,348	2,348
Other Capital Assets, net of depreciation	4,774,631	4,938,319
<b>Total Noncurrent Assets</b>	<u>\$ 4,776,979</u>	<u>\$ 4,940,667</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 5,203,245</u></u>	<u><u>\$ 5,272,857</u></u>
 <b>LIABILITIES AND NET ASSETS:</b>		
Current Liabilities:		
Accounts Payable	\$ -	\$ -
Interest Payable	4,558	4,637
Payroll Taxes Payable	-	-
Current Portion of Long-term Liabilities	29,546	28,253
<b>Total Current Liabilities</b>	<u>\$ 34,104</u>	<u>\$ 32,890</u>
Long-Term Liabilities: (Note 10)		
Notes Payable - net of current portion	<u>\$ 1,573,788</u>	<u>\$ 1,603,259</u>
Net Assets:		
Restricted Fund Balance (Note 5)	\$ 100,668	\$ 90,642
Unrestricted Fund Balance	(947,096)	(895,715)
<b>Total Fund Balance</b>	<u>\$ (846,428)</u>	<u>\$ (805,073)</u>
Tapping Fees	100,850	100,850
Grants (Note 7)	4,340,931	4,340,931
<b>TOTAL NET ASSETS</b>	<u><u>\$ 3,595,353</u></u>	<u><u>\$ 3,636,708</u></u>
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 5,203,245</u></u>	<u><u>\$ 5,272,857</u></u>

See accompanying notes to the financial statements.

**QUARTZ MOUNTAIN REGIONAL  
WATER AUTHORITY**

Comparative Statement of Activities  
For the Years Ended June 30, 2013 and 2012

	<b>2013</b>	<b>2012</b>
<b>OPERATING REVENUES:</b>		
Water Sales	\$ 532,158	\$ 527,279
Reimbursements	14,641	10,931
Land Lease	300	299
<b>Total Operating Revenues</b>	<b>\$ 547,099</b>	<b>\$ 538,509</b>
<b>OPERATING EXPENSES:</b>		
Salaries & Payroll Taxes	\$ -	\$ -
Depreciation Expense	163,688	165,671
Interest Expense	72,411	73,647
Utilities	48,458	53,240
Installation & Repairs	52,534	28,547
Water Purchases	133,245	113,898
Insurance	27,215	28,924
Chemicals & Supplies	57,738	71,216
Transportation Expense	2,035	169
Office Supplies & Postage	687	897
Legal & Professional Fees	11,100	10,800
Lab Expenses	4,200	7,098
Outside Management	54,000	54,000
Meeting Expense	-	-
Dues & Licenses	373	2,927
Miscellaneous Expense	1,159	265
Shipping Expense	1,164	1,428
Rent Expense	-	-
<b>Total Operating Expenses</b>	<b>\$ 630,007</b>	<b>\$ 612,727</b>
<b>OPERATING INCOME (LOSS)</b>	<b>\$ (82,908)</b>	<b>\$ (74,218)</b>
<b>OTHER REVENUES (EXPENSES):</b>		
Investment Revenues	\$ 205	\$ 617
Other Income	41,348	-
Gain on Sale of Assets	-	-
<b>Total Other Revenues(Expenses)</b>	<b>\$ 41,553</b>	<b>\$ 617</b>
<b>NET LOSS</b>	<b>\$ (41,355)</b>	<b>\$ (73,601)</b>

See accompanying notes to the financial statements.

**QUARTZ MOUNTAIN REGIONAL  
WATER AUTHORITY**

Comparative Statement of Changes in Net Assets  
For the Years Ended June 30, 2013 and 2012

	<b>2013</b>	<b>2012</b>
<b>Balance, July 1</b>	\$ 3,636,708	\$ 3,710,309
Net Income (Loss)	(41,355)	(73,601)
Prior Period Adjustment (Note 10)	-	-
Tapping Fees	-	-
Grants (Note 7)	-	-
<b>Total Changes in Net Assets</b>	<b>\$ (41,355)</b>	<b>\$ (73,601)</b>
<b>Balance, June 30</b>	<b>\$ 3,595,353</b>	<b>\$ 3,636,708</b>

See accompanying notes to the financial statements.

# QUARTZ MOUNTAIN REGIONAL WATER AUTHORITY

Comparative Statement of Cash Flows  
For the Years Ended June 30, 2013 and 2012

	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from customers	\$ 561,081	\$ 528,149
Payments to suppliers	(391,613)	(372,147)
Payments to employees	-	-
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 169,468</b>	<b>\$ 156,002</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Purchase of capital assets	\$ -	\$ -
Payments for Construction in Progress	-	-
Principal payments on notes payable	(28,177)	(26,944)
Interest paid on notes payable	(72,491)	(73,724)
Prior period adjustments	-	-
Proceeds from Grants	-	-
<b>Net Cash Used In Capital &amp; Related Financing Activities</b>	<b>\$ (100,668)</b>	<b>\$ (100,668)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investment Receipts	\$ 205	\$ 617
Other Proceeds	41,348	-
<b>Net Cash Provided from Investing Activities</b>	<b>\$ 41,553</b>	<b>\$ 617</b>
<b>INCREASE (DECREASE) IN CASH AND INVESTMENTS</b>	<b>\$ 110,353</b>	<b>\$ 55,951</b>
Cash and Investment Balance - Beginning	247,029	191,078
<b>CASH AND INVESTMENT BALANCE - ENDING</b>	<b>\$ 357,382</b>	<b>\$ 247,029</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</b>		
Operating Income (Loss)	\$ (82,908)	\$ (74,218)
Adjustments to reconcile operating income to net cash provided (used):		
Interest Expense	72,411	73,647
Depreciation expense	163,688	165,671
Change in assets and liabilities:		
Accounts Receivable	13,982	(10,360)
Prepaid Insurance	2,295	1,262
Prepaid Utilities	-	-
Accounts Payable	-	-
Payroll Taxes Payable	-	-
<b>Net Cash Provided from Operating Activities</b>	<b>\$ 169,468</b>	<b>\$ 156,002</b>

See accompanying notes to the financial statements.

# QUARTZ MOUNTAIN REGIONAL WATER AUTHORITY

Notes to the Financial Statements  
For the Years Ended June 30, 2013 and 2012

## **Note 1 - Significant Accounting Policies**

### **Organization:**

Quartz Mountain Regional Water Authority, Kiowa Co., OK, (Authority) was formed on 12-10-96 under the Oklahoma Trust Act, Section 176 to 180.3, Title 60 of the Oklahoma Statutes of 1995 for the purpose of constructing a water distribution system to provide water to the Quartz Mountain area.

### **Basis of Accounting:**

The Authority is a proprietary fund type of entity and uses the accrual method of accounting which reports revenues when earned and expenses when incurred. The Authority is not legally required to adopt a budget or report on budget comparisons in this report.

### **Fixed Assets and Depreciation:**

The Authority records its fixed assets at their historical cost or donated value. Depreciation is calculated on each individual asset using the straight-line method of depreciation at the asset's estimated useful life. The Authority estimates the useful lives of the assets based on the type of asset. The lives range from 4 to 40 years.

### **Income Tax:**

The Authority is exempt from federal and state income taxes under IRS Code Section 115 (a) as an agency of the State of Oklahoma.

## **Note 2 - Accounts Receivable**

The accounts receivable represents the water usage and service revenues for June plus any unpaid balances from the previous months. The Authority uses the direct method to account for bad debts. No provision for an allowance has been made based on the history of the Authority's bad debts being very small or nonexistent. The accounts receivable balances at June 30, 2013 and 2012 were \$45,944 and \$59,926. The meters are read monthly.

## **Note 3 - Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

## **Note 4 - Contingencies**

The Authority didn't have any contingencies as of the date of the audit.

## **Note 5 - Restricted Assets**

The Authority has restricted a bank account in the amount of \$100,668 and \$90,642 for debt service as required by Rural Development's mortgage as of June 30, 2013 and 2012.

# QUARTZ MOUNTAIN REGIONAL WATER AUTHORITY

Notes to the Financial Statements  
For the Years Ended June 30, 2013 and 2012

## **Note 6 - Changes in Capital Assets**

	Balance 7/1/2012	Additions	Disposed	Balance 6/30/2013
Water System Plant Assets	\$ 6,286,281	\$ -	\$ -	\$ 6,286,281
Office Furniture & Fixtures	12,312	-	-	12,312
Equipment	63,167	-	-	63,167
Vehicles	13,109	-	-	13,109
Buildings & Improvements	25,018	-	-	25,018
<b>Total Assets</b>	<b>\$ 6,399,887</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 6,399,887</b>
Less: Accumulated Depreciation	1,461,568	163,688	-	1,625,256
<b>Net Fixed Assets</b>	<b>\$ 4,938,319</b>	<b>\$ (163,688)</b>	<b>\$ -</b>	<b>\$ 4,774,631</b>

## **Note 7 - Grants**

The Authority received grants in the years prior to this report of \$740,500 from CDBG and \$3,370,400 from Rural Development and \$150,000 from Oklahoma Water Resources Board and \$80,031 from the Oklahoma Dept. of Transportation for the development and upgrade of the water distribution system.

## **Note 8 - Components of Cash and Investments**

	Date of Maturity	Interest Rate	Balance
Petty Cash	-	0.00%	\$ -
Checking - Operating Bancfirst	-	0.00%	3,939
Checking - HiFi Bancfirst	-	0.15%	353,343
Checking - Construction Acct. Bancfirst	-	0.00%	100
<b>Total Cash and Investments</b>			<b><u>\$ 357,382</u></b>

## **Reserved and Restricted Cash**

Restricted for USDA Debt	\$ 100,668
Reserved for Membrane Replacement	98,338
Reserved for Vehicle Replacement	26,400
Reserved for Standpipe Repairs	49,000
Reserved for Insurance	37,027
<b>Total Reserved or Restricted</b>	<b><u>\$ 311,433</u></b>

# QUARTZ MOUNTAIN REGIONAL WATER AUTHORITY

Notes to the Financial Statements  
For the Years Ended June 30, 2013 and 2012

## **Note 9 - Long Term Liabilities**

The Authority has three 40 year notes with Rural Development, an agency of the United States Department of Agriculture. The loans are fixed interest notes. The notes are secured by the assets of the Authority. Rural Development requires the Authority to reserve enough funds to pay an amount equal to a year's total payments. The Authority makes monthly payments on the notes.

Note Number	Date of Note	Annual Payments	Balance 6/30/2013	Balance 6/30/2012	Interest Rate
91-01	3/7/2001	\$ 81,960	\$ 1,293,354	\$ 1,316,541	4.50%
91-03	3/7/2001	10,752	169,345	172,402	4.50%
91-05	4/5/2006	7,956	140,635	142,569	4.25%
		<u>\$ 100,668</u>	<u>\$ 1,603,334</u>	<u>\$ 1,631,512</u>	
Less: Current Portion			29,546	28,253	
Net Balance			<u>\$ 1,573,788</u>	<u>\$ 1,603,259</u>	

Current Portion:		Note 9101	Note 9103	Note 9105
Year Ending	6/30/2014	24,324	3,200	2,022
Year Ending	6/30/2015	25,442	3,347	2,109
Year Ending	6/30/2016	26,611	3,501	2,201
Year Ending	6/30/2017	27,811	3,663	2,296
Year Ending	6/30/2018	29,088	3,833	2,396

## **Note 10 - Prior Period Adjustments**

There were no prior period adjustments in the financial statements for the year ending June 30, 2013 or 2012.

# *Scott Northrip*

*Certified Public Accountant*

P.O. Box 642  
Hobart, Oklahoma 73651

311 S. Main St.  
(580) 726-5681

## **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OF THE FINANCIAL STATEMENTS IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

### **To the Board of Directors of Quartz Mountain Regional Water Authority**

We have audited the basic financial statements of the Quartz Mountain Regional Water Authority for the year ended June 30, 2013, and have issued our report thereon dated November 4, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the Government Auditing Standards issued by the Comptroller General of The United States.

#### Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Authority's compliance with certain laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However our objective was not to provide an opinion on the overall compliance with such provisions, and accordingly we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

#### Internal Control

In planning and performing our audit, we considered Quartz Mountain Regional Water Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the board of directors and management of the Authority. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

*Scott Northrip, CPA*

**Scott Northrip**  
**Certified Public Accountant**

November 4, 2013