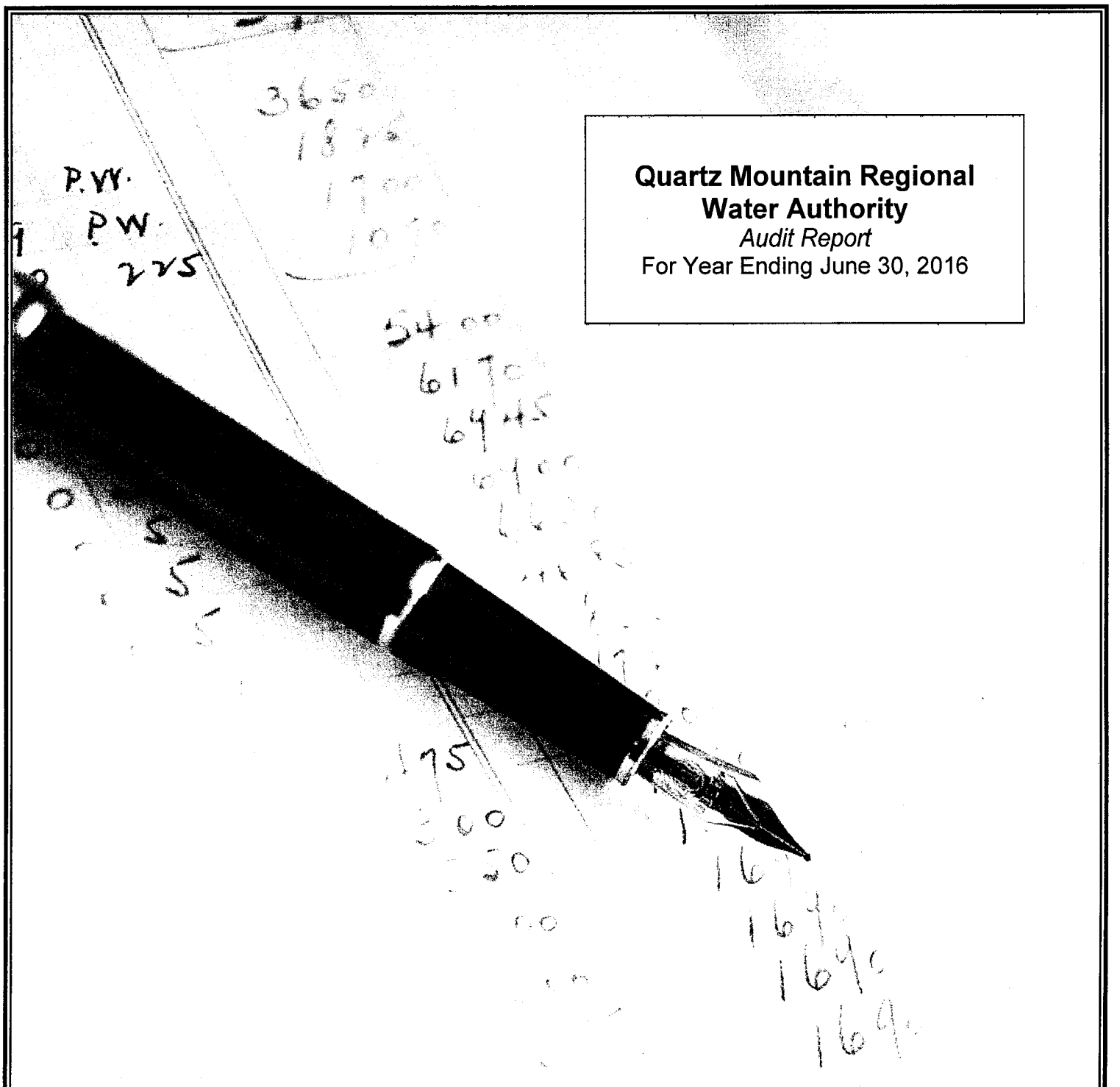

Quartz Mountain Regional Water Authority

Audit Report

For Year Ending June 30, 2016

Scott Northrip, CPA
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Independent Auditor's Report

To the Board of Trustees of
Quartz Mountain Regional Water Authority

I have audited the accompanying basic financial statements of Quartz Mountain Regional Water Authority (Authority) as of June 30, 2016 and 2015, as of and for the years then ended and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair representation of these financial statements in accordance accounting principle 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

My responsibility is to express an opinion on these financial statements based on my audit. I 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence supporting 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

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Opinions

In my 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, 2016, and 2015 and the respective changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Requirements by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated October 4, 2016, on our consideration of the internal control and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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. 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

October 4, 2016

QUARTZ MOUNTAIN REGIONAL WATER AUTHORITY

Comparative Statement of Net Position
As of June 30, 2016 and 2015

ASSETS:	**2016**	**2015**
Current Assets:		
Cash & Cash Equivalents	$ 441,825	$ 352,563
Accounts Receivable (Note 2)	123,135	127,233
Prepaid Insurance	19,779	22,988
Prepaid Expenses	-	-
Total Current Assets	$ 584,739	$ 502,784
Noncurrent Assets:		
Construction in Progress	$ -	$ -
Capital Assets: (Note 6)		
Land & Water Rights	2,348	2,348
Other Capital Assets, net of depreciation	4,327,677	4,447,522
Total Noncurrent Assets	$ 4,330,025	$ 4,449,870
TOTAL ASSETS	**$ 4,914,764**	**$ 4,952,654**
LIABILITIES AND NET POSITION:		
Current Liabilities:		
Accounts Payable	$ -	$ -
Interest Payable	4,294	4,386
Payroll Taxes Payable	-	-
Current Portion of Long-term Liabilities	33,770	32,313
Total Current Liabilities	$ 38,064	$ 36,699
Long-Term Liabilities: (Note 10)		
Notes Payable - net of current portion	$ 1,477,058	$ 1,510,740
Net Position:		
Restricted Fund Balance (Note 5)	$ 100,668	$ 100,668
Unrestricted Fund Balance	(1,142,807)	(1,137,234)
Total Fund Balance	$ (1,042,139)	$ (1,036,566)
Tapping Fees	100,850	100,850
Grants (Note 7)	4,340,931	4,340,931
TOTAL NET POSITION	$ 3,399,642	$ 3,405,215
TOTAL LIABILITIES AND NET POSITION	**$ 4,914,764**	**$ 4,952,654**

See accompanying notes to the financial statements.

QUARTZ MOUNTAIN REGIONAL WATER AUTHORITY

Comparative Statement of Activities
For the Years Ended June 30, 2016 and 2015

	2016	2015
OPERATING REVENUES:		
Water Sales	$ 534,635	$ 554,747
Reimbursements	2,423	-
Total Operating Revenues	**$ 537,058**	**$ 554,747**
OPERATING EXPENSES:		
Salaries & Payroll Taxes	$ -	$ -
Depreciation Expense	165,778	163,481
Interest Expense	68,351	69,765
Utilities	49,118	55,531
Installation & Repairs	18,248	96,673
Water Purchases	100,087	111,407
Insurance	24,695	24,809
Chemicals & Supplies	46,091	52,121
Transportation Expense	1,426	1,456
Office Supplies & Postage	873	894
Legal & Professional Fees	11,000	11,000
Lab Expenses	2,420	7,949
Outside Management	54,000	54,000
Dues & Licenses	953	1,764
Miscellaneous Expense	46	460
Shipping Expense	-	798
Advertising Expense	121	-
Total Operating Expenses	**$ 543,207**	**$ 652,108**
OPERATING INCOME (LOSS)	**$ (6,149)**	**$ (97,361)**
OTHER REVENUES (EXPENSES):		
Investment Revenues	$ 189	$ 148
Other Income	387	1,550
Gain on Sale of Assets	-	-
Total Other Revenues(Expenses)	$ 576	$ 1,698
NET LOSS	**$ (5,573)**	**$ (95,663)**

See accompanying notes to the financial statements.

QUARTZ MOUNTAIN REGIONAL WATER AUTHORITY

Comparative Statement of Changes in Net Position
For the Years Ended June 30, 2016 and 2015

	2016	2015
Balance, July 1	$ 3,405,215	$ 3,500,878
Net Income (Loss)	(5,573)	(95,663)
Prior Period Adjustment (Note 10)	-	-
Grants (Note 7)	-	-
Total Changes in Net Position	$ (5,573)	$ (95,663)
Balance, June 30	$ 3,399,642	$ 3,405,215

See accompanying notes to the financial statements.

QUARTZ MOUNTAIN REGIONAL WATER AUTHORITY

Comparative Statement of Cash Flows
For the Years Ended June 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	$ 541,156	$ 509,812
Payments to suppliers	(305,869)	(418,845)
Payments to employees	-	-
Net Cash Provided by Operating Activities	**$ 235,287**	**$ 90,967**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	$ (45,933)	$ -
Payments for Construction in Progress	-	-
Principal payments on notes payable	(32,225)	(30,815)
Interest paid on notes payable	(68,443)	(69,853)
Prior period adjustments	-	-
Proceeds from Grants	-	-
Net Cash Used In Capital & Related Financing Activities	**$ (146,601)**	**$ (100,668)**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment Receipts	$ 189	$ 148
Other Proceeds	387	1,550
Net Cash Provided from Investing Activities	**$ 576**	**$ 1,698**
INCREASE (DECREASE) IN CASH AND INVESTMENTS	**$ 89,262**	**$ (8,003)**
Cash and Investment Balance - Beginning	352,563	360,566
CASH AND INVESTMENT BALANCE - ENDING	**$ 441,825**	**$ 352,563**
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	$ (6,149)	$ (97,361)
Adjustments to reconcile operating income to net cash provided (used):		
Interest Expense	68,351	69,765
Depreciation expense	165,778	163,481
Change in assets and liabilities:		
Accounts Receivable	4,098	(44,935)
Prepaid Insurance	3,209	17
Prepaid Utilities	-	-
Accounts Payable	-	-
Payroll Taxes Payable	-	-
Net Cash Provided from Operating Activities	$ 235,287	$ 90,967

See accompanying notes to the financial statements.

QUARTZ MOUNTAIN REGIONAL WATER AUTHORITY

Notes to the Financial Statements
For the Years Ended June 30, 2016 and 2015

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 nonexistant. The accounts receivable balances at June 30, 2016 and 2015 were $123,135 and $127,233. 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 $100,668 for debt service as required by Rural Development's mortgage as of June 30, 2016 and 2015.

QUARTZ MOUNTAIN REGIONAL WATER AUTHORITY

Notes to the Financial Statements
For the Years Ended June 30, 2016 and 2015

Note 6 - Changes in Capital Assets

	Balance 7/1/2015	Additions	Disposed	Balance 6/30/2016
Water System Plant Assets	$ 6,286,281	$ 45,933	$ -	$ 6,332,214
Office Furniture & Fixtures	12,312	-	-	12,312
Equipment	63,167	-	-	63,167
Vehicles	13,109	-	-	13,109
Buildings & Improvements	25,018	-	-	25,018
Total Assets	$ 6,399,887	$ 45,933	$ -	$ 6,445,820
Less: Accumulated Depreciation	1,952,365	165,778	-	2,118,143
Net Fixed Assets	$ 4,447,522	$ (119,845)	$ -	$ 4,327,677

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%	1,701
Checking - HiFi Bancfirst	-	0.15%	440,024
Checking - Construction Acct. Bancfirst	-	0.00%	100
Total Cash and Investments			$ 441,825

Reserved and Restricted Cash

Restricted for USDA Debt	$ 100,668
Reserved for Membrane Replacement	120,000
Reserved for Equipment Replacement	36,300
Reserved for Standpipe Repairs	85,000
Reserved for Insurance	-
Total Reserved or Restricted	$ 341,968

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 6/30/2015	Balance 6/30/2015	Interest Rate
91-01	3/7/2001	$ 81,960	$ 1,217,203	$ 1,243,735	4.50%
91-03	3/7/2001	10,752	159,309	162,806	4.50%
91-05	4/5/2006	7,956	134,316	136,512	4.25%
		$ 100,668	$ 1,510,828	$ 1,543,053	
Less: Current Portion			33,770	32,313	
Net Balance			$ 1,477,058	$ 1,510,740	

Current Portion:		Note 9101	Note 9103	Note 9105
Year Ending	6/30/2017	27,811	3,663	2,296
Year Ending	6/30/2018	29,088	3,833	2,396
Year Ending	6/30/2019	30,423	4,009	2,499
Year Ending	6/30/2020	31,819	4,193	2,608
Year Ending	6/30/2021	33,280	4,386	2,721

Note 10 - Prior Period Adjustments

There were no prior period adjustments in the financial statements for the year ending June 30, 2015 or 2014.

Note 11 - Evaluation of Subsequent Events

The Authority's subsequent events have been evaluated through October 4, 2016, the date of the financial statements.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees of
Quartz Mountain Regional Water Authority

I have audited the basic financial statements of the Quartz Mountain Regional Water Authority for the year ended June 30, 2016 and 2015, and have issued our report thereon dated October 4, 2016. I 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, I 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 my objective was not to provide an opinion on the overall compliance with such provisions, and accordingly I 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 the audit, I considered the Authority's internal control over financial reporting (internal control) to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements , but not for the purpose of expressing an opinion on the effectiveness of the Authority'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.

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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.

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.

Scott Northrip, CPA

Scott Northrip
Certified Public Accountant

October 4, 2016