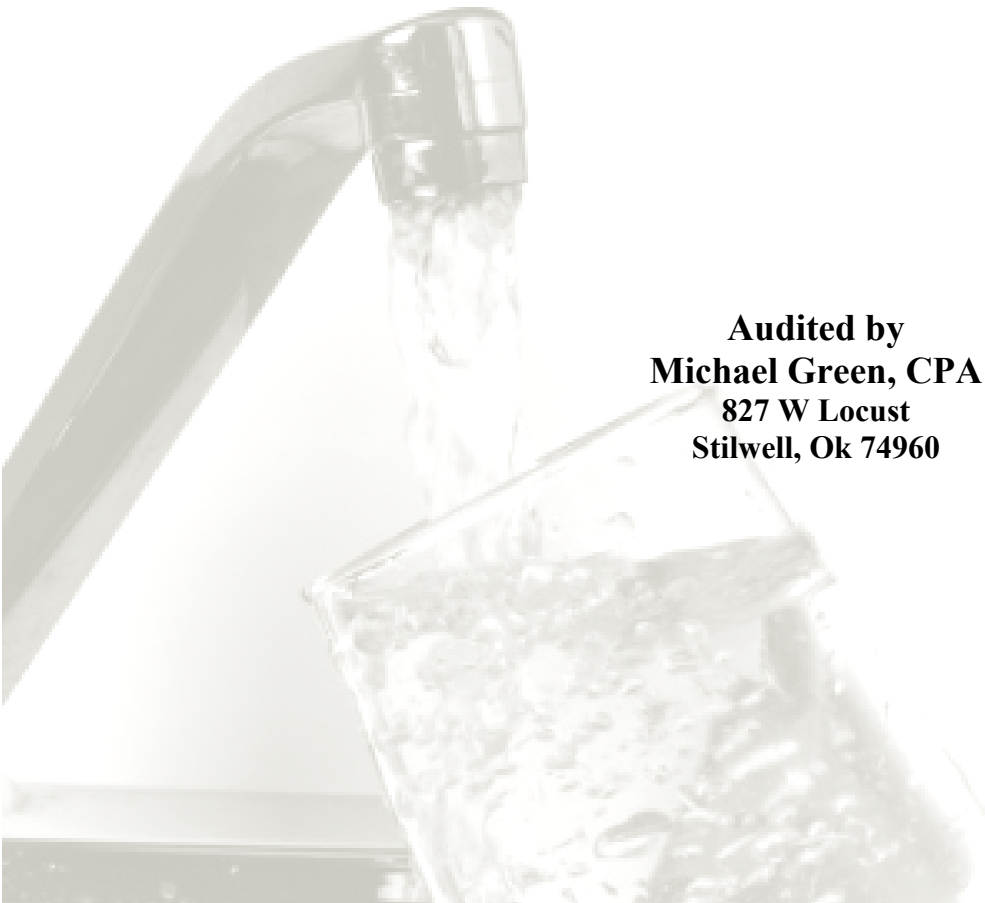


# **QUINLAN COMMUNITY RURAL WATER DISTRICT NO. 1**

**Mooreland, Oklahoma**

## **Annual Financial Statements & Independent Auditor's Report**

**October 31, 2022**



**Audited by  
Michael Green, CPA  
827 W Locust  
Stilwell, Ok 74960**

QUINLAN COMMUNITY  
RURAL WATER DISTRICT NO. 1  
MOORELAND, OKLAHOMA  
TABLE OF CONTENTS  
YEAR ENDED OCTOBER 31, 2022

INDEPENDENT AUDITOR'S REPORT	1
BASIC FINANCIAL STATEMENTS:	
Statement of Assets, Liabilities and Net Position - Modified Cash Basis	3
Statement of Revenues, Expenses and Changes in Net Position - Modified Cash Basis	4
Statement of Cash Flows - Modified Cash Basis	5
Notes to the Financial Statements	6
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>	10
Schedule of Findings and Responses	12

# **MICHAEL W. GREEN**

## ***Certified Public Accountant***

827 W. Locust Street

STILWELL, OK. 74960

(918) 696-6298

### **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Quinlan Community Rural Water District No. 1  
Mooreland, Oklahoma

#### **Report on the Audit of the Financial Statements**

##### **Opinions**

I have audited the accompanying modified cash basis statement of assets, liabilities and net position of Quinlan Community Rural Water District No. 1, Mooreland, Oklahoma (the District) as of and for the year ended October 31, 2022, and the statement of revenues and expenses and change in net position, the statement of cash flows and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In my opinion, the modified cash basis financial statements referred to above present fairly, in all material respects, the assets, liabilities and net position of the District, as of October 31, 2022, and the changes in revenues, expenses, and net position, and the statement of cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

##### **Basis for Opinions**

I conducted my 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. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of the District, and to meet my other ethical responsibilities, in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

##### **Emphasis of Matter—Basis of Accounting**

I draw attention to Note 1 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. My opinions are not modified with respect to this matter.

##### **Responsibilities of Management 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 1 and for 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 Responsibilities for the Audit of the Financial Statements**

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is

not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, I:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

I am required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that I identified during the audit.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, I have also issued my report dated November 3, 2023, on my consideration of the District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's 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 the District's internal control over financial reporting and compliance.

Regards,

A handwritten signature in black ink, appearing to read "Mike Green", with a stylized flourish at the end.

Michael Green, CPA

Stilwell, Oklahoma  
November 3, 2023

**QUINLAN COMMUNITY  
RURAL WATER DISTRICT NO. 1  
MOORELAND, OKLAHOMA  
STATEMENT OF ASSETS, LIABILITIES AND NET POSITION -  
MODIFIED CASH BASIS  
OCTOBER 31, 2022**

**Assets**

Current Assets

Operating accounts	\$ 66,199
Savings account	130,909
Cash and cash equivalents	<u>197,108</u>
 Certificates of Deposit	 25,086
ORWAAG certificates	<u>3,000</u>
Total Current Assets	225,194

Property and Equipment

Land	3,100
Waterline and building	997,536
Office equipment	1,109
Machinery and equipment	54,270
Accumulated Depreciation	<u>(514,699)</u>
Total Property and Equipment	541,316

Total Assets	<u><u>\$ 766,510</u></u>
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**Liabilities**

Total Liabilities	\$ -
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**Net Position**

Net Investment in Capital Assets	541,316
Unrestricted	<u>225,194</u>
Total Net Position	<u><u>\$ 766,510</u></u>

The accompanying notes and auditor's report are an integral part of these financial statements.

**QUINLAN COMMUNITY  
RURAL WATER DISTRICT NO. 1  
MOORELAND, OKLAHOMA  
STATEMENT OF REVENUES, EXPENSES AND CHANGES  
IN NET POSITION - MODIFIED CASH BASIS  
YEAR ENDED OCTOBER 31, 2022**

Operating Revenues:	
Water Sales	\$ 117,891
Rental Income	510
Membership fees	49,200
Other Income	800
Total Revenues	<u>168,401</u>
Operating Expenses:	
Electric	7,590
Bookkeeper fees	7,800
Operator fees	38,400
Repairs, maintenance, fuel and supplies	27,290
Office supplies and postage	7,475
Membership dues and fees	1,130
DEQ, water samples and fees	2,913
Insurance	2,590
Professional fees	1,715
Meetings, mileage and travel	353
Rental expense	300
Survey fee	750
Depreciation	24,124
Misc expense	1,485
Total Operating Expenses	<u>123,915</u>
Operating Income (Loss)	44,486
Nonoperating Revenues (Expenses):	
Interest Income	2,787
Interest Expense	(250)
Total Nonoperating Revenue (Expenses)	<u>2,537</u>
Change in Net Position	47,023
Net Position at Beginning of Year	719,487
Net Position at End of Year	<u><u>\$ 766,510</u></u>

The accompanying notes and auditor's report are an integral part of these financial statements.

**QUINLAN COMMUNITY  
RURAL WATER DISTRICT NO. 1  
MOORELAND, OKLAHOMA  
STATEMENT OF CASH FLOWS  
MODIFIED CASH BASIS  
YEAR ENDED OCTOBER 31, 2022**

**Cash Flows From Operating Activities:**

Cash Received From Customers	\$ 168,401
Cash Payments to Suppliers For Goods and Services	(99,791)
Net Cash Provided (Used) by Operating Activities	<u>68,610</u>

**Cash Flows From Non-Capital Financing Activities:**

**Cash Flows From Capital and Related Financing Activities:**

Principal Payments of Notes Payable	(5,701)
Net Cash Provided (Used) by Financing Activities	<u>(5,701)</u>

**Cash Flows From Investing Activities:**

(Increase) Decrease in Fixed Assets	(64,210)
(Increase) Decrease in CDs	(870)
Interest Income	2,787
Interest Expense	(250)
Net Cash Provided (Used) by Investing Activities	<u>(62,543)</u>

Net Increase (Decrease) in Cash and Cash Equivalents	366
Beginning Cash and Cash Equivalents	196,742
Ending Cash and Cash Equivalents	<u><u>\$ 197,108</u></u>

**Reconciliation of Income (Loss) From Operations to**

**Net Cash Provided (Used) by Operating Activities:**

Income (Loss) From Operations	\$ 44,486
Depreciation	24,124
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 68,610</u></u>

The accompanying notes and auditor's report are an integral part of these financial statements.

QUINLAN COMMUNITY  
RURAL WATER DISTRICT NO. 1  
MOORELAND, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED OCTOBER 31, 2022

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

1. A Nature of Organization

Quinlan Community Rural Water District No. 1 (the District), Mooreland, Oklahoma was incorporated in January 2006. The District was created under the Rural Water, Sewer, Gas, and Solid Waste Management District Act, as amended, Title 82, Section 1324.1-1324.35 of the Oklahoma State Statutes. The purpose of the District is to acquire water and water rights; to build and acquire pipelines and other facilities; and to operate the same for the purpose of furnishing water to serve the needs of owner 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 act as the authoritative and legislative body of the entity. The Board is comprised of elected board members.

1.B Basis of Accounting

The District is classified as an Enterprise Fund. The cost of providing water services to the public is 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 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.

1.C Cash and Cash Equivalents

The District considers all checking and savings accounts and deposits with a maturity of three months or less to be cash equivalents.

1.D Cash and Deposits

Cash and deposits are 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 State 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.



## 1.E Capital Assets

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Revenues, Expenses, and Changes in Net Position, with accumulated depreciation reflected in the Statement of Net Position. District policy has set the capitalization threshold for reporting capital assets at \$1,000. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation.

The range of estimated useful life of property by type of asset is as follows:

Vehicles	5
Furniture and Equipment	5
Buildings	20
Water System Improvements	10- 40

## 1.F Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position is displayed in three components:

- a. *Net Investment in capital assets* – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- b. *Restricted net position* – consists of net assets with constraints placed on the use either by an external group such as creditors, grantors, contributors, or laws and regulation of other governments, or by law through constitutional provisions or enabling legislation.
- c. *Unrestricted net position* – all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available.

## 1.G Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting which 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 (such as estimated useful lives in determining depreciation expense.) Accordingly, actual results could differ from those estimates.

## NOTE 2 - CASH AND DEPOSITS

*Custodial Credit Risk* – Custodial credit risk related to deposits exists when the District hold deposits that are uninsured and uncollateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the District’s name or collateralized without a written or approved collateral agreement. Exposure to custodial credit risk related to investments exists when the District holds investments that or uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the District’s name. The District’s policy for custodial credit risk is to secure its uninsured deposits with collateral. As of October 31, 2022, the District’s bank balances of \$222,194 were covered by FDIC insurance.

*Investment Credit Risk* - The District has no investment policy that limits investments choices other than the limitation of state law. As of October 31, 2022, the District did not hold investments other than certificates of deposits which were insured by FDIC insurance.

## NOTE 3 – PROPERTY AND EQUIPMENT:

Depreciable Assets are recorded at cost when purchased or constructed. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset’s life are expensed. Depreciation is calculated on a straight-line basis over the estimated useful lives of the depreciable assets. Total depreciation for the year ended October 31, 2022, was \$24,124. The following is a summary of category of changes in property and equipment:

	Balance October 31, 2021	Additions	Deletions	Balance October 31, 2022
Non Depreciated Assets				
Land	\$ 2,100	\$ 1,000	\$ -	\$ 3,100
Total Non Depreciated Assets	2,100	1,000	-	3,100
Other fixed assets:				
Waterline and Building	934,326	63,210	-	997,536
Office Equipment	1,109	-	-	1,109
Machinery and Equipment	54,270			54,270
Total Other Fixed Assets	989,705	63,210	-	1,052,915
Less Accumulated Depreciation	(490,575)	(24,124)	-	(514,699)
Totals	\$ 501,230	\$ 40,086	\$ -	\$ 541,316

## NOTE 4 – RISK MANAGEMENT:

The District is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District manages this risk through the purchase of commercial insurance policies. Claims are recognized when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

## NOTE 5 – COMMITMENTS AND CONTINGENCIES:

As of October 31, 2022, 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 6 – BUDGETS:**

The District is not legally required to adopt a budget.

**NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS:**

The District's financial instruments include cash and cash equivalents, certificates of deposit, accounts receivable, accounts payable and notes payable. The District's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying value 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 8 – EVALUATION OF SUBSEQUENT EVENTS:**

The District has evaluated subsequent events through November 3, 2023, the date which the financial statements were available to be issued.

**MICHAEL W. GREEN**  
***Certified Public Accountant***  
827 W. Locust Street  
STILWELL, OK. 74960  
**(918) 696-6298**

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 Directors  
Quinlan Community  
Rural Water District No. 1  
Mooreland, Oklahoma

I 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 modified cash basis statement of assets and net position of Quinlan Community Rural Water District No. 1, Mooreland, Oklahoma (the District) as of and for the year ended October 31, 2022, and the statement of revenues and expenses and change in net position and the related notes to the financial statements, which collectively comprise the Districts basic financial statements and have issued my report thereon dated November 3, 2023. The report included an emphasis-of-matter paragraph related to the District's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

**Report on Internal Control over Financial Reporting**

In planning and performing my audit of the financial statements, I considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I do not express an opinion on the effectiveness of the District'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.

My 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. I identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses (2022-01) that I consider to be material weaknesses.


**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, I 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed one instance of noncompliance (2022-02) 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 my 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.

Regards,

A handwritten signature in black ink, appearing to read "Mike Green", with a stylized, cursive script.

Michael Green, CPA  
November 3, 2023

**Quinlan Community  
Rural Water District No. 1  
Mooreland, Oklahoma  
Schedule of Findings & Responses  
October 31, 2022**

**2022-01 Internal Controls over Financial Reporting**

*Criteria:* The segregation of duties and responsibilities between different individuals for custody of assets, record keeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the Town's assets and ensure accurate financial reporting.

*Condition:* Presently a limited number of individuals have responsibility for all functions of financial statement reporting. These individuals have oversight responsibilities for billing and adjustments, posting of payments to subsidiary ledgers and reconciling the monthly bank statements. In addition, only limited oversight is provided over these individuals in the conduct of their daily functions.

*Cause and Effect:* The limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner. Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to the income and other billing and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

*Recommendation:* Management and the board should consider a formal evaluation of their risks associated with this lack of duties segregation over assets. In response to the identified risks, consideration should be given to identifying and implementing compensating duties to act as controls that could help mitigate the risks associated with lack of segregation of duties, such as management performing review procedures for the reconciliation of accounts.

*Responsible Official'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.

**2022-02 – Timely Financial Statements and Audit**

*Criteria:* Title 11 O.S. § 17-105-113 and Title 60 § 180.1-.3 of the Oklahoma Statutes requires all audits to be filed with the Oklahoma Office of the State Auditor and Inspector within six months of the year end.

*Condition:* The District is not in compliance with State Statutes. The financial statements were not available for audit until after this deadline. These violations create potential issues with funding sources and can create a situation where management decisions are not made based on relevant financial information.

*Cause and Effect:* Inadequate control over year end closing and financial statement preparation appear to be the cause of this issue.

*Recommendation:* The year-end closing and financial statement preparation should be completed by mid-February each year to allow adequate time to complete the audit.

*Responsible Official's Response:* The Board of Directors agree that the financial statements and annual audit should be completed within 6 months of the year end and has taken action to be in compliance.