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**RURAL WATER AND SEWER DISTRICT NO. 4  
LINCOLN COUNTY, OKLAHOMA**

**ANNUAL FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2011**

RURAL WATER AND SEWER DISTRICT NO. 4,  
LINCOLN COUNTY, OKLAHOMA  
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YEAR ENDED JUNE 30, 2011

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## Independent Auditor's Report

Board of Directors  
Rural Water and Sewer District No. 4,  
Lincoln County, Oklahoma

We have audited the accompanying financial statements of the of Rural Water and Sewer District No. 4, Lincoln County, Oklahoma as of June 30, 2011. These financial statements are the responsibility of the District's management. 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 and the standards for 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 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 statements presentation. We believe that our 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 the Rural Water and Sewer District No. 4, Lincoln County, Oklahoma, as of June 30, 2011, and the changes in net assets and cash flows for the year 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 a report dated September 7, 2011 on our consideration of Rural Water and Sewer District No. 4, Lincoln County, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants 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 the internal control over financial reporting or on compliance. That report is 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 our audit.

Rural Water and Sewer District No. 4, Lincoln County, Oklahoma has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board requires to supplement, although, not be a part of the basic financial statements.



Kimberlye R. Mayer, CPA, P.C.  
Blackwell, Oklahoma  
September 7, 2011

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*

Board of Directors  
Rural Water and Sewer District No. 4, Lincoln County, Oklahoma

We have audited the financial statements of Rural Water and Sewer District No. 4, Lincoln County, Oklahoma as of and for the year ended June 30, 2011 and have issued our report thereon dated September 7, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and in *Government Auditing Standards*, issued by the Comptroller General of the United States. Rural Water and Sewer District No. 4, Lincoln County, Oklahoma has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board requires to supplement, although, not be a part of the basic financial statements.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Rural Water and Sewer District No. 4, Lincoln County Oklahoma's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Rural Water and Sewer District No. 4, Lincoln County Oklahoma's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Rural Water and Sewer District No. 4, Lincoln County, Oklahoma's internal control over financial reporting

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

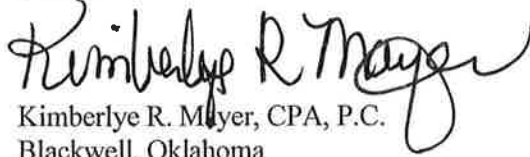
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of control 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. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water and Sewer District No. 4, Lincoln County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 audits 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*.

Rural Water and Sewer District No. 4, Lincoln County, Oklahoma's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the board of directors, and others within the District and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Kimberley R. Meyer". The signature is written in a cursive style with a large, looping initial "K".

Kimberly R. Meyer, CPA, P.C.  
Blackwell, Oklahoma  
September 7, 2011

RURAL WATER AND SEWER DISTRICT NO. 4, LINCOLN COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2011

Material Weakness Communicated In Prior Year:

Material Weakness in Internal Control Over Financial Reporting: Inadequate Segregation of Duties:

Criteria:

The segregation of duties and responsibilities between different individuals and the reconciliation of those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

Condition:

Presently, the same individual is responsible for water service billings and receiving payments; making and recording deposits; and maintaining billing registers. Only limited oversight is provided over this individual in the conduct of their daily functions.

Cause:

The entity's limited size has made it difficult for management to fully segregate the duties.

Effect or Potential Effect:

Without sufficient segregation of duties, the risk significantly increases that errors and/or fraud related to the water billing and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation:

The board should evaluate the risks associated with the lack of segregation of duties and consider implementing controls that could mitigate these risks.

Board'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.

FINANCIAL STATEMENTS

AND

NOTES

RURAL WATER AND SEWER DISTRICT NO. 4  
 LINCOLN COUNTY, OKLAHOMA  
 STATEMENT OF NET ASSETS  
 JUNE 30, 2011

ASSETS

Current Assets:	
Cash and cash equivalents (Note 2)	\$ 19,228
Certificates of deposit	58,622
Accounts receivable (less allowance for doubtful accounts of \$5,900)	42,303
Prepaid insurance	9,879
Total Current Assets	130,032
Restricted Assets:	
Cash and cash investments	49,022
Other Assets:	
Loan fees (net of accumulated amortization) (Note 7)	42,680
Meter deposits	255
Total Other Assets	42,935
Non-current Assets:	
Property and equipment (net of accumulated depreciation) (Note 3)	912,186
Construction in progress	17,822
Total Assets	\$ 1,151,997

LIABILITIES AND NET ASSETS

Current Liabilities:	
Accounts payable	\$ 17,401
Payroll taxes due	5,402
Customer and rental deposits	2,885
Notes payable (current portion) (Note 4)	12,700
Loans payable (current portion) (Note 4)	4,427
Total Current Liabilities	42,815
Non-current Liabilities:	
Loans payable, long term (Note 4)	21,641
Notes payable, long term (Note 4)	451,150
Total Non-current Liabilities	472,791
Total Liabilities	515,606
Net Assets:	
Invested in capital assets, net of related debt	440,090
Restricted for debt service	49,022
Unrestricted	147,279
Total Net Assets	636,391
Total Liabilities and Net Assets	\$ 1,151,997

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



RURAL WATER AND SEWER DISTRICT NO. 4  
LINCOLN COUNTY, OKLAHOMA  
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN NET ASSETS  
YEAR ENDED JUNE 30, 2011

Operating Revenue:	
Water service	\$ 494,978
Sewer Revenues	37,745
Late penalties	17,845
Other revenues	6,615
Total Operating Revenue	557,183
Operating Expense:	
Wages	207,181
Payroll taxes	19,128
Employee benefits	44,405
Water costs	80,928
Water exam and permit fees	5,509
Operating supplies	26,022
Chemicals	12,238
Fuel	19,829
Repairs and maintenance	26,628
Insurance	21,440
Outside services	4,747
Uniform rental	1,889
Professional fees	1,995
Advertising and promotion	4,322
Office supplies and postage	11,253
Meetings and training	4,531
Utilities and telephone	36,622
Trustee fees	2,000
Other expenses	7,555
Bad debts	1,906
Depreciation and amortization	53,078
Total Operating Expense	593,206
Income (Loss) From Operations	(36,023)
Non-operating Revenue (Expense):	
FEMA	1,803
Interest income	521
Gain on sale of assets	1,026
System development fees	24,500
Interest expense	(8,865)
Total Non-operating Revenue (Expense)	18,985
Change in Net Assets	(17,038)
Net Assets, beginning of year	653,429
Net Assets, end of year	\$ 636,391

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

RURAL WATER AND SEWER DISTRICT NO. 4  
LINCOLN COUNTY, OKLAHOMA  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2011

Cash Flows From Operating Activities:	
Cash received from customers	\$ 560,857
Other operating cash receipts	6,615
Cash payments to suppliers for goods and services	(326,385)
Cash payments to employees for services	(207,181)
Net cash provided (used) by operating activities	<u>33,906</u>
Cash flows from non-capital financing activities:	
Cash flows from capital and related financing activities:	
FEMA reimbursement	1,803
Gain on sale of assets	1,026
Acquisition and construction of capital assets	(43,890)
Principal paid on notes and loans	(28,677)
New borrowings	30,620
Interest paid on notes and loans	(8,865)
System development fees	24,500
Net cash provided (used) by financing activities	<u>(23,483)</u>
Cash flows from investing activities:	
Interest on cash and investments	521
Increase in Certificates of Deposit	(942)
(Increase) decrease in restricted accounts	(26)
Net cash provided (used) by investing activities	<u>(447)</u>
Net increase (decrease) in cash and cash equivalents	
	9,976
Beginning cash and cash equivalents	
	9,252
Ending cash and cash equivalents	
	<u><u>\$ 19,228</u></u>
Reconciliation of income (loss) from operations to	
net cash provided (used) by operating activities:	
Income (Loss) from operations	\$ (36,023)
Adjustments to reconcile income (loss) from operations	
to net cash provided (used) by operating activities:	
Depreciation and amortization	53,078
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	10,289
(Increase) decrease in prepaids	1,220
Increase (decrease) in payables	5,342
Net cash provided (used) by operating activities	<u><u>\$ 33,906</u></u>

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

RURAL WATER AND SEWER DISTRICT NO. 4,  
LINCOLN COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

The Rural Water and Sewer District No. 4, Lincoln County, Oklahoma was created under the provisions of Title 82 of the Oklahoma Statutes, Section 1324.1 – 1324.35 and the laws of the State of Oklahoma. The purpose of this District is to furnish and supply to owners and occupants of property within the corporate limits water, sewer and related facilities and services.

The District is a governed entity administered by a Board of Directors that acts as the authoritative and legislative body of the entity. The Board is comprised of seven elected board members. Of the seven, four are elected as officers of the District.

Basis of Accounting

The accounting policies of Rural Water and Sewer District No. 4, Lincoln County, Oklahoma conform to the basic principles of governmental accounting and financial reporting set forth by the Governmental Accounting Standards Board.

The District is classified as an Enterprise Fund. The costs of providing the water services to the public are financed mainly through user charges. The financial statements of the District have been prepared using the accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred.

Restricted Assets

Restricted assets are cash and cash equivalents, whose use is limited by legal requirements. Restricted cash with fiscal agent represents amounts required by debt covenant to be segregated for debt payments and accrued interest on the notes.

Net Assets

Net assets present the difference between assets and liabilities in the statement of net assets. Net assets invested in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by District legislation or external restrictions by creditors, grantors, laws or regulations of other governments.

NOTE 2 – CASH AND CASH EQUIVALENTS:

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

RURAL WATER AND SEWER DISTRICT NO. 4  
 LINCOLN COUNTY, OKLAHOMA  
 NOTES TO FINANCIAL STATEMENTS  
 YEAR ENDED JUNE 30, 2011

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 not. Depreciation is calculated on a straight-line basis over the estimated useful lives of the depreciable assets. Total depreciation for the year ended June 30, 2011 was \$51,562. The following is a summary by category of changes in property and equipment:

<u>Category</u>	<u>6/30/10</u>	<u>Additions</u>	<u>Deletions</u>	<u>6/30/11</u>
Land	\$ 72,441	\$	\$	\$ 72,441
Vehicles	75,844	31,620	(26,050)	81,414
Buildings and improvements	48,771			48,771
Waterline system	1,451,319			1,451,319
Sewer system	151,391			151,391
Meter installation	26,701			26,701
Office equipment	27,286	8,000		35,286
Machinery and equipment	204,383	2,920		207,303
Accumulated depreciation	<u>(1,136,928)</u>	<u>(51,562)</u>	<u>26,050</u>	<u>(1,162,440)</u>
Net	<u>\$ 921,208</u>	<u>\$ (9,022)</u>	<u>\$</u>	<u>\$ 912,186</u>

NOTE 4 – NOTES AND LOANS PAYABLE:

During the year ended June 30, 2003, the District entered into a note agreement with the Oklahoma Water Resources Board for \$335,000. The proceeds from this note were used to pay loan costs, set up a debt reserve fund, and to pay for construction costs for the improvement and expansion of its waterline system. The payments are semiannual with a variable interest rate adjusted every six months. The interest rate is currently 1.35% and the term of the note is 30 years. Principle payments made during the year ended June 30, 2011 were \$7,000.

On January 6, 2011 the District borrowed \$30,670 to purchase a vehicle. The note matures on August 1, 2016 and carries an interest rate of 3.03%. Monthly payments are \$500. The principle payments made during the year ended June 30, 2011 were \$4,602. Collateral for this loan is the certificates of deposit.

RURAL WATER AND SEWER DISTRICT NO. 4  
LINCOLN COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2011

NOTE 4 – NOTES AND LOANS PAYABLE (Continued):

On June 26, 2006 the District entered into a note agreement with the Oklahoma Water Resources Board for \$300,000. The proceeds of this note are to be used to pay for costs of drilling a new well. The payments are semiannual with a variable interest rate adjusted every six months. The interest rate is currently 1.755% and the term of the note is 30 years. Principle payments made during the year ended June 30, 2011 were \$5,200.

The following is a summary of the District's future annual debt requirements:

<u>Year Ending</u>	<u>OWRB</u>	<u>Loans</u>	<u>Totals</u>
6/30/12	\$ 22,958	\$ 5,217	\$ 28,175
6/30/13	22,958	5,217	28,175
6/30/14	22,958	5,217	28,175
6/30/15	22,958	5,217	28,175
6/30/16	22,958	5,217	28,175
6/30/17-6/30/21	114,788	2,551	117,339
6/30/22-6/30/26	114,788		114,788
6/30/27-6/30/31	114,788		114,788
6/30/32-6/30/36	103,769		103,769
	<u>\$ 562,923</u>	<u>\$ 28,636</u>	<u>\$ 591,559</u>
Less interest	(99,073)	(2,568)	(101,641)
Net	<u>\$ 463,850</u>	<u>\$ 26,068</u>	<u>\$ 489,918</u>

NOTE 5 – WATER PURCHASE COMMITMENT:

The governing board of the Rural Water and Sewer District No. 4, Lincoln Oklahoma, together with seven other cities and rural water districts located in Noble, Pawnee, and Payne Counties have jointly formed Lone Chimney Water Association (Association). The purpose of the Association is to provide a water system for the benefit of its members and other users. The Association has entered into various loan agreements with the USDA-Rural Development to provide financing for the facility. Under the terms of the agreement regarding the Lone Chimney Water Association, each member has contracted to purchase a minimum amount of water from the Association during the 40 year term of the notes. In addition, each individual member is proportionately liable for any debts that exceed the assets of the Association to the extent of one and one-half times the percentage of ownership interest held by the entity pursuant to the agreement. The District is contingently liable for approximately 8% of the obligations of the Association. At June 30, 2011, the Association's debts did not exceed its assets.

RURAL WATER AND SEWER DISTRICT NO. 4  
 LINCOLN COUNTY, OKLAHOMA  
 NOTES TO FINANCIAL STATEMENTS  
 YEAR ENDED JUNE 30, 2011

NOTE 5 – WATER PURCHASE COMMITMENT (Continued):

At June 30, 2009, the Rural Water and Sewer District No. 4, Lincoln County, Oklahoma, was obligated to purchase a minimum of 2.16 million gallons of water annually, currently at a cost of \$43,200. The rate charged for the water can be adjusted every three years to provide sufficient revenues for the Association. Future purchase commitments at current rates are as follows:

6/30/11	\$ 43,200
6/30/12	43,200
6/30/13	43,200
6/30/14	43,200
6/30/15	43,200
Thereafter	<u>666,360</u>
Total	<u><u>\$ 882,360</u></u>

During the year ended June 30, 2004 the District entered into a water purchase contract with the Town of Chandler. The District is obligated to purchase a minimum of 250,000 gallons annually at a rate of \$700 per month. Future purchase commitments are as follows.

6/30/11	\$ 8,400
6/30/12	8,400
6/30/13	8,400
6/30/14	8,400
6/30/15	8,400
Thereafter	<u>235,200</u>
Total	<u><u>\$ 277,200</u></u>

NOTE 6 – ACCOUNTS RECEIVABLE:

The accounts receivable at June 30, 2011 consist of amounts due from customers for water and sewer services.

NOTE 7 – AMORTIZATION OF LOAN COSTS:

The loan costs are being amortized over the life of the loan. Total amortization for the year ended June 30, 2011 was \$1,516.

RURAL WATER AND SEWER DISTRICT NO. 4  
LINCOLN COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2011

NOTE 8 – RETIREMENT PLAN:

The District maintains a retirement plan for its qualified employees. The District contributes 7% of the employees gross wages to this plan. The amount contributed by the District during the year ended June 30, 2011 was \$13,776.

NOTE 9 – INVESTMENTS:

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.

NOTE 10 – DEPOSITS, INVESTMENTS AND COLLATERAL:

At June 30, 2011, all of the District's deposits were covered by Federal Depository Insurance Corporation.

NOTE 11 – ESTIMATES:

The preparation of financial statements in conformity generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Accordingly, actual results could differ from those estimates.

NOTE 12 – 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. The District has had no claims that exceeded its insurance coverage.

RURAL WATER AND SEWER DISTRICT NO. 4  
LINCOLN COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2011

NOTE 13 – CONTINGENCIES:

As of June 30, 2011, 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 14 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through September 7, 2011, the date which the financial statements were available to be issued.