

**Financial Statements and Reports of
Independent Certified Public Accountant
Rural Water District No. 4
Mayes County, Oklahoma
August 31, 2013**

**TURNER & ASSOCIATES, PLC
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**Rural Water District No. 4
Mayes County, Oklahoma
Water District Officials
August 31, 2013**

Board of Directors

Terry Fink	Chairman
Jim Chronister	Vice-Chairman
Shawn Hughes	Secretary/Treasurer
Johnny Dodson	Member
Tim Holt	Member
Bill Scott	Member
Wesley Abbott	Member
Charles Dryden	Member
Curtis Collins	Member

Rural Water District No. 4
Mayes County, Oklahoma
Table of Contents

Independent Auditor's Report	1-2
Report Required by <i>Government Auditing Standards</i> :	
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>	3-4
Basic Financial Statements:	
Statement of Net Position	5
Statement of Revenues, Expenses and Changes in Net Position	6
Statement of Cash Flows	7-8
Notes to the Financial Statements	9-14
Schedule of Findings and Responses	15-16



INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rural Water District No. 4

Report on the Financial Statements

We have audited the accompanying financial statements of the Rural Water District No. 4, a special revenue fund, of the County of Mayes, as of and for the year ended August 31, 2013, 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 accounting principles 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

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 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 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. 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 financial position of the business-type activities of the Rural Water District No. 4, as of August 31, 2013, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis and budgetary comparison information 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 statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

TURNER & ASSOCIATES, PLLC

Vinita, Oklahoma
December 20, 2013



**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 District No. 4

We have audited 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, the financial statements of the enterprise fund of the Rural Water District No. 4, County of Mayes, Oklahoma, as of and for the year ended August 31, 2013, and the related notes to the financial statements which collectively comprise the Rural Water District No. 4's financial statements, and have issued our report thereon dated December 20, 2013. The Rural Water District No. 4 did not present the Management's Discussion and Analysis and Budgetary Comparison Schedule that accounting principles generally accepted in the United States of America require to supplement, although not to be part of, the basic financial statements.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Rural Water District No. 4'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 Rural Water District No. 4's internal control. Accordingly, we do not express an opinion on the effectiveness of Rural Water District No. 4's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting, describe in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses.

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. We consider the deficiencies, described in the accompanying schedule of findings and responses to be material weaknesses. (2013-1)

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Rural Water District No. 4's financial statements are free of 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*.

Rural Water District No. 4 Response to Findings

The Rural Water District No. 4's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Rural Water District No. 4's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 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.

TURNER & Associates, PLLC

Vinita, Oklahoma
December 20, 2013

**Rural Water District No. 4
Mayes County, Oklahoma
Statement of Net Position
August 31, 2013**

	2013	(Memo Only) 2012
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 438,145.48	\$ 503,581.25
Investments	400,197.19	397,899.13
Accounts Receivable	55,301.90	86,366.03
Prepaid Insurance	8,854.00	9,489.45
Total Current Assets	902,498.57	997,335.86
Noncurrent Assets		
Capital Assets, net	1,564,754.58	1,452,443.77
Construction in Progress	71,115.60	31,369.79
Total Noncurrent Assets	1,635,870.18	1,483,813.56
Total Assets	2,538,368.75	2,481,149.42
LIABILITIES		
Current Liabilities		
Accounts Payable	31,723.93	48,877.75
Accrued Payables	4,772.74	3,213.64
Total Liabilities	36,496.67	52,091.39
NET POSITION		
Invested in Capital Assets, net of Related Debt	1,635,870.18	1,483,813.56
Restricted	-	-
Unrestricted	866,001.90	945,244.47
Total Net Position	\$ 2,501,872.08	\$ 2,429,058.03

The accompanying Notes to the Financial Statements are an integral part of this statement.

Rural Water District No. 4
Mayes County, Oklahoma
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended August 31, 2013

	2013	(Memo Only) 2012
Operating Revenues		
Water Revenues	\$ 720,293.00	\$ 777,143.48
Penalties	22,899.29	20,107.11
Miscellaneous Operating Revenue	6,074.00	8,435.24
Total Operating Revenues	<u>749,266.29</u>	<u>805,685.83</u>
Operating Expenses		
Water Purchased	305,673.45	337,084.26
Contract Meter Reading	28,393.60	33,989.55
Depreciation	101,331.56	91,253.37
Director's Per Diem	3,240.00	6,000.00
Engineering Fees	8,585.39	-
Insurance	16,283.18	14,531.43
Miscellaneous	14,714.62	5,038.21
Office Expense	13,855.75	17,999.14
Payroll Taxes	9,238.08	10,994.98
Professional Fees	4,914.42	6,167.67
Repairs and Maintenance	33,418.30	62,325.05
Salaries	125,041.35	130,780.96
Telephone	3,631.37	3,891.59
Travel and Conference	1,784.09	2,605.88
Utilities	21,584.89	16,505.78
Vehicle Maintenance	18,020.99	9,856.75
Total Operating Expenses	<u>709,711.04</u>	<u>749,024.62</u>
Operating Income (Loss)	<u>39,555.25</u>	<u>56,661.21</u>
Non-Operating Revenues (Expenses)		
Interest Income	4,258.80	6,312.90
Total Non-Operating Revenues (Expenses)	<u>4,258.80</u>	<u>6,312.90</u>
Capital Contributions		
Meter Taps	<u>29,000.00</u>	<u>48,358.40</u>
Change in Net Position	72,814.05	111,332.51
Net Position, Beginning of Year	2,429,058.03	2,317,725.52
Net Position, End of Year	<u>\$ 2,501,872.08</u>	<u>\$ 2,429,058.03</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Rural Water District No. 4
Mayes County, Oklahoma
Statement of Cash Flows
For the Year Ended August 31, 2013

	2013	(Memo Only) 2012
Cash Flows from Operating Activities		
Cash Inflows:		
Payments Received from Customers	\$ 780,330.42	\$ 784,893.10
Cash Outflows:		
Payments for Salaries and Benefits	(132,720.33)	(142,092.31)
Payments for Goods and Services	(490,618.42)	(519,713.65)
Total Cash Used	(623,338.75)	(661,805.96)
Net Cash Provided (Used) by Operating Activities	156,991.67	123,087.14
Cash Flows from Noncapital Financing Activities		
Purchase of Capital Assets	(213,642.37)	(295,774.38)
Construction in Progress	(39,745.81)	164,705.43
Meter Taps	29,000.00	48,358.40
Net Cash Provided (Used) for Capital and Related Financing Activities	(224,388.18)	(82,710.55)
Cash Flows from Investing Activities		
Interest Received from Investments	1,955.74	2,623.23
Cashed in Certificate of Deposit	-	-
Net Cash Provided by Investing Activities	1,955.74	2,623.23
Net Cash Inflow (Outflow) from All Activities	(65,440.77)	42,999.82
Cash and Cash Equivalents at Beginning of Year	503,586.25	460,586.43
Cash and Cash Equivalents at End of Year	\$ 438,145.48	\$ 503,586.25

The accompanying Notes to the Financial Statements are an integral part of this statement.

Rural Water District No. 4
Mayes County, Oklahoma
Statement of Cash Flows (Continued)
For the Year Ended August 31, 2013

	2013	(Memo Only) 2012
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ 39,555.25	\$ 56,661.21
Depreciation	101,331.56	91,253.37
(Increase) Decrease in:		
Decrease in Accounts Receivable	31,064.13	(20,792.73)
Decrease in Prepaid Insurance	635.45	(1,792.38)
Increase (Decrease) in:		
Decrease in Accounts Payable	(17,153.82)	(1,925.96)
Increase in Payroll - Accrued Payable	287.71	(428.73)
Increase in Accrued Vacation	1,271.39	112.36
 Net Cash Provided (Used) by Operating Activities	 \$ 156,991.67	 \$ 123,087.14

The accompanying Notes to the Financial Statements are an integral part of this statement.

Rural Water District No. 4
Mayes County, Oklahoma
Notes to the Financial Statements
For the Year Ended August 31, 2013

The following notes to the financial statements are an integral part of Mayes County Rural Water District No. 4's financial statements.

I. Summary of Significant Accounting Policies

Rural Water District No. 4, Mayes County, Oklahoma (the "District") was created under the provisions of Title 82, O.S. 1981, Sections 1324.1-1324.26 inclusive, for the purpose of processing and providing for the use and benefit of its members a water processing and distribution system, including physical facilities necessary for its operations and maintenance. The District was organized by the Board of County Commissioners of Mayes County, Oklahoma. District members fall within territorial boundaries within Mayes County as assigned by the Board of County Commissioners of Mayes County, Oklahoma. The membership consists of approximately 1495 users, each entitled one vote. The Board of Directors consists of 9 members serving three-year terms. The vacant Board seats are elected at the annual meeting, and following, the Board of Directors meet and elect a chairman, vice-chairman and secretary/treasurer.

A. Reporting Entity

Rural Water District No. 4 is an independent, self-contained reporting entity with no associated component units. It is operated in a manner similar to a private business enterprise where the cost (expenses, including depreciation) of providing water services is financed through user charges.

B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with Generally Accepted Accounting Principles (GAAP) promulgated in the United States of America. The accounting and financial reporting treatment is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation are included on the statement of net position. The operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Depreciation expense is provided for capital assets based upon estimated useful lives.

Financial activity is accounted for on the flow of economic resources measurement focus using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. As permitted by Generally Accepted Accounting Principles (GAAP), the District has elected to apply only applicable FASB Statements and Interpretations issued on or before November 30, 1989 that do not contradict GASB pronouncements in its accounting and reporting practices for its proprietary operations.

Memorandum Only – Total Column

The total column on the financial statements is captioned "Memo Only" to indicate that it is present only to facilitate financial analysis. Data in this column does not present assets and liabilities, revenues collected and expenditures paid in conformity with the statutory basis of accounting. Neither is such data comparable to a consolidation. Inter-fund eliminations have not been made in the aggregation of this data.

Rural Water District No. 4
Mayes County, Oklahoma
Notes to the Financial Statements
For the Year Ended August 31, 2013

I. Summary of Significant Accounting Policies (continued)

C. Assets, Liabilities and Net Assets

1. Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all cash on hand, demand deposits, and highly liquid investments, with an original maturity of three months or less when purchased, to be cash and cash equivalents.

2. Investments

Investments consist of certificates of deposit maturing in the following fiscal year with interest paid monthly at varying rates.

3. Fair Value of Financial Instruments

The District's financial statements include cash and investments. The District's estimates of the fair value of all financial instruments do not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

4. Accounts Receivable

Accounts receivable consists primarily of charges for water sales. Management has not established a provision for uncollectible accounts. Such amounts are written off in the month in which management determines they are uncollectible.

5. Capital Assets

Capital assets purchased or acquired are recorded at cost. Donated capital assets are reported as estimated fair value at the date of donation. Additions and improvements that significantly extend the useful life of an asset are capitalized. Internal engineering costs are capitalized to the extent of direct support and contribution to construct and expansion projects. Costs of studies that directly result in specific construction projects are capitalized. District policy has set the capitalization threshold for reporting capital assets at \$1,000.

Maintenance and repairs, which do not significantly extend the value or life of property, plant, and equipment, are expensed as incurred.

**Rural Water District No. 4
Mayes County, Oklahoma
Notes to the Financial Statements
For the Year Ended August 31, 2013**

I. Summary of Significant Accounting Policies (continued)

C. Assets, Liabilities and Net Assets (continued)

5. Capital Assets (continued)

Depreciation on capital assets is calculated on the straight-line basis over the following estimated useful lives:

	<u>Years</u>
Office Building	30
Office Equipment	5-10
Transportation Equipment	5
Construction Equipment	10
Pump Stations	10-20
Water Towers	10-40
Water Lines	40

6. Annual Budget-to-Actual Comparison

The District is not legally required to prepare an annual budget. Therefore, an annual budget-to-actual comparison as required by GASB 34 is not presented.

7. Recent Accounting Pronouncements

In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34* (GASB 61). GASB 61 modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that were previously required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also needs to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government’s management determines that it would be misleading to exclude them, GASB 61 clarifies the matter in which that determination should be made and the types of relationships that generally should be considered in making the determination.

GASB 61 amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended based on the “substantially the same governing body” criterion, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility for the activities of the component unit.

The District adopted GASB 61 on July 1, 2012, which did not have a significant impact on the District’s financial statements.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63). The objective of GASB 63 is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The pronouncement will improve financial

Rural Water District No. 4
Mayes County, Oklahoma
Notes to the Financial Statements
For the Year Ended August 31, 2013

I. Summary of Significant Accounting Policies (continued)

C. Recent Accounting Pronouncements (continued)

7. Recent Accounting Pronouncements (continued)

reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. The provisions of this statement were effective for financial statements for periods beginning after December 15, 2011. The District adopted GASB 63 effective July 1, 2012. The adoption of the statement required the District to adopt the term "net position" as required. In addition, as required by GASB 63, the District determined as of June 30, 2013, there were no items of deferred inflows or outflows of resources, as presently defined, to be reported.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). The objective of GASB 65 is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets or liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this statement were effective for financial statements for periods beginning after December 15, 2012.

8. Equity Classifications

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt --- Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- b. Restricted net assets --- Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets --- All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

9. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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. Actual results could differ from those estimates.

10. Subsequent Events

Subsequent events have been evaluated through December 20, 2013, which is the date the financial statements were available to be issued.

Rural Water District No. 4
Mayes County, Oklahoma
Notes to the Financial Statements
For the Year Ended August 31, 2013

II. Detailed Notes Concerning the Funds

A. Cash and Investments

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's cash deposits, including interest-bearing certificates of deposit, are maintained in financial institutions. As of August 31, 2013, none of the District's investments were exposed to custodial credit risk because they were either insured or collateralized.

Interest rate risk: This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

B. Accounts Receivable

Accounts Receivable is composed of unpaid billings for services rendered as of the end of the fiscal year. The District has implemented a deferred time payment plan for customer's who can demonstrate a financial hardship. The majority of the past due balances are a result of water leaks on the customer's property who have been granted a deferred time payment plan.

Following is an aged schedule of accounts receivable as of August 31, 2013:

<u>0-30</u>	<u>31-60</u>	<u>61-90</u>	<u>Total</u>
\$ 50,646.91	\$ 1,945.69	\$ 2,709.30	\$ 55,301.90

Rural Water District No. 4
Mayes County, Oklahoma
Notes to the Financial Statements
For the Year Ended August 31, 2013

II. Detailed Notes Concerning the Funds (continued)

A. Changes in Capital Assets

Capital asset activity for the year was as follows:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Capital Assets				
Non-depreciable assets:				
Land	\$ 7,000.00	\$ 7,000.00	\$ -	\$ 14,000.00
Depreciable assets:				
Buildings	31,146.70	-	-	31,146.70
Office Equipment	12,613.00	-	-	12,613.00
Transportation Equipment	63,048.00	-	-	63,048.00
Construction Equipment	54,631.74	-	-	54,631.74
Pump Stations	277,329.09	93,808.43	-	371,137.52
Water Towers	230,609.77	-	-	230,609.77
Water Lines	2,708,002.65	112,833.94	-	2,820,836.59
	<u>3,377,380.95</u>	<u>206,642.37</u>	<u>-</u>	<u>3,584,023.32</u>
Total	3,384,380.95	206,642.37	-	3,598,023.32
Accumulated Depreciation:	<u>(1,931,937.18)</u>	<u>(101,331.56)</u>	<u>-</u>	<u>(2,033,268.74)</u>
Net Capital Assets	<u>\$ 1,452,443.77</u>	<u>\$ 105,310.81</u>	<u>\$ -</u>	<u>\$ 1,564,754.58</u>

III. Other Information

A. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District purchases commercial insurance to cover these risks, including general and auto liability, property damage, and public officials liability. There were no significant reductions in insurance coverage from the prior year. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past four fiscal years.

B. Rates and Fees

Minimum Charge for Water Service is \$16.00 per month, which includes 1,000 gallons of water. Each additional 1,000 gallons is \$3.50 for residential and \$4.00 for commercial.

<u>Service</u>	<u>Amount</u>
New Tap Fee	\$1,500.00
Sun Prairie Tap Fees	\$2,500.00
Road Bores	\$400.00
Cost to Move Meter	\$325.00
Reconnect Fee	\$100.00
Returned Check Fee	\$25.00

Rural Water District No. 4
Mayes County, Oklahoma
Notes to the Financial Statements
For the Year Ended August 31, 2013

III. Other Information (continued)

C. Correction of and Error

Beginning net position was overstated the prior year by \$783.23. This was due to interest income of \$578.44 that was incorrectly recorded and accounts payable of \$1,213.72 that was not adjusted. The client also made an adjustment to cash of \$1,008.93 to correct reconciled balances. To correct this error, the beginning net position of \$2,429,841.26, as originally reported, has been decreased to \$2,429,058.03.

Rural Water District No. 4
Mayes County, Oklahoma
Notes to the Financial Statements
For the Year Ended August 31, 2013

2013-1 Material Adjusting Journal Entries

Criteria:

The government's management is responsible for internal controls over accounting and financial reporting. This responsibility includes the design and implantation of controls over the fair and complete presentation of the government's annual financial statements in accordance with generally accepted accounting principles (GAAP) from trial balances derived from the government's accounting records. For trial balances to be both complete and accurate, the government must have effective internal controls over recording, processing, summarizing, and adjusting accounting data. As evidence of effective internal controls over accounting and financial reporting, there should generally be few, if any, material adjustments to the trial balances required that are detected and corrected solely as a result of the financial statement audit. In other words, government management should not rely on the external auditor to detect and correct material misstatements in the books and records as part of its internal control, but rather should have its own procedures designed and in place that are independent of the external auditor to provide reasonable, although not absolute, assurance that material misstatements will be detected and corrected in its trial balances prior to audit.

Condition:

The government's trial balances for the year ended August 31, 2013, required a number of material adjusting journal entries in order for the financial statements to be prepared in accordance with GAAP. These necessary adjusting entries, identified solely as a result of the financial statement audit, included such adjustments as the following: adjusting accounts receivable/accounts payable, reclassify income/expense accounts, reclassifying petty cash activity, adjusting outstanding checks, adjusting payroll taxes and employee deductions, and recording activity for a certificate of deposit. This is a repeat finding.

Cause:

The government's accounting and financial reporting staff lacks the necessary knowledge, expertise and education, relative to the complex nature of applying GAAP applicable to state and local governments, sufficient to provide reasonable assurance that the trial balances used for preparing the GAAP financial statements are complete and accurate prior to audit. As a result, management has had to rely on the external auditors to identify and correct a number of material misstatements in the trial balances.

Effect:

As a result of this condition, without reliance on its external auditors, the government lacks the necessary internal controls over the completeness and accuracy of the trial balances that are used in the preparation of its financial statements in accordance with GAAP. This condition can result in undetected and uncorrected material misstatements in the financial statements that are not detected by management and may also not be detected by the financial statement audit. In addition, if management's intentions are to continue to rely on the external auditor to detect and correct material misstatements, this condition could place the auditor in a questionable position regarding auditor independence as a result of the auditor performing part of management's functions regarding to the trial balances.

Rural Water District No. 4
Mayes County, Oklahoma
Schedule of Findings and Responses
For the Year Ended August 31, 2013

2013-1 Material Adjusting Journal Entries (continued)

Recommendation:

The government should consider designing and implementing sufficient internal controls over the completeness and accuracy of trial balances by obtaining the necessary knowledge, expertise, and continuing education to apply GAAP in the development of working trial balances that will be used to prepare the government's annual financial statements. This could be achieved through employment of qualified accounting staff or the outsourcing of these control activities to a qualified accounting firm other than the external auditor.

Client Response:

Rural Water District No. 4 makes every effort to comply with the development of GAAP procedures.