

AUDIT REPORT

MUSKOGEE COUNTY RURAL WATER DISTRICT #4
MUSKOGEE COUNTY, OKLAHOMA

DECEMBER 31, 2013



KERSHAW CPA & ASSOCIATES, PC

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MUSKOGEE COUNTY, OKLAHOMA
DECEMBER 31, 2013

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MUSKOGEE COUNTY RURAL WATER DISTRICT #4
MUSKOGEE COUNTY, OKLAHOMA
DECEMBER 31, 2013

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>	<u>TERM EXPIRATION</u>
DICK SHEFFIELD	CHAIRMAN	FEBRUARY 2016
GARY COOK	VICE-CHAIRMAN	FEBRUARY 2014
MARK DIEMAN	SECRETARY	FEBRUARY 2015
SCOTT ABBOTT	TREASURER	FEBRUARY 2015
RONNIE DARDEN	MEMBER	FEBRUARY 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Muskogee County Rural Water District #4
Muskogee County, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Muskogee County Rural Water District #4, as of and for the fiscal year ended December 31, 2013, as listed in the table of contents and the related notes to the financial statements.

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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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

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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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Muskogee County Rural Water District #4 as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Muskogee County Rural Water District #4 has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34. However the District has not presented the Management's Discussion and Analysis required by the Governmental Accounting Standards Board (GASB) that the GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Supplementary and Other Information

The introductory and the other supplementary information sections listed in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the District. Such additional information has not been subjected to the auditing procedures applied

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in our audit of the basic financial statements, and accordingly, we do not express an opinion or provide an assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 28, 2014, on our consideration of the Muskogee County Rural Water District #4's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements 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* in considering Muskogee County Rural Water District #4's internal control over financial reporting and compliance.

Kershaw CPA & Associates, P.C.
Kershaw, CPA & Associates, PC

February 28, 2014

**MUSKOGEE COUNTY RURAL WATER DISTRICT #4
MUSKOGEE COUNTY, OKLAHOMA
STATEMENT OF NET POSITION
DECEMBER 31, 2013**

	<u>ASSETS</u>	<u>2013</u>	Memorandum Only <u>2012</u>
<u>CURRENT ASSETS:</u>			
Cash in Checking		\$ 65,886	\$ 54,846
Certificates of Deposit		99,736	97,974
Accounts Receivable - Water billings		6,089	6,371
Supply inventory, at cost		4,675	3,333
Prepaid expenses		1,700	1,669
Total Current Assets		<u>178,087</u>	<u>164,193</u>
<u>CAPITAL ASSETS:</u>			
Property Easements		1,500	1,500
Construction-in-progress		2,083	2,083
Other capital assets, net of accumulated depreciation		339,388	351,171
Net Capital Assets		<u>342,971</u>	<u>354,754</u>
TOTAL ASSETS		<u><u>\$ 521,058</u></u>	<u><u>\$ 518,948</u></u>
	<u>LIABILITIES & NET POSITION</u>		
<u>CURRENT LIABILITIES:</u>			
Accounts Payable - Trade		\$ 3,964	\$ 4,002
Current Portion of Long-Term Debt		-	-
Total Current Liabilities		<u>3,964</u>	<u>4,002</u>
<u>LONG-TERM LIABILITIES:</u>			
Notes Payable		-	-
Less: Current Portion		-	-
Total Long-Term Liabilities		<u>-</u>	<u>-</u>
TOTAL LIABILITIES		<u>3,964</u>	<u>4,002</u>
<u>NET POSITION:</u>			
Net investment in capital assets		342,971	354,754
Restricted for debt service		-	-
Unrestricted		174,123	160,191
TOTAL NET POSITION		<u>517,094</u>	<u>514,946</u>
TOTAL LIABILITIES AND NET POSITION		<u><u>\$ 521,058</u></u>	<u><u>\$ 518,948</u></u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

EXHIBIT B

**MUSKOGEE COUNTY RURAL WATER DISTRICT #4
MUSKOGEE COUNTY, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2013**

	2013	Memo Only 2012
<u>OPERATING REVENUES:</u>		
Water Sales	\$ 107,858	\$ 116,114
Connection Fees	3,000	1,000
Miscellaneous Income	-	-
TOTAL OPERATING REVENUES	110,858	117,114
<u>OPERATING EXPENSES:</u>		
<u>SYSTEM DISTRIBUTION EXPENSES:</u>		
Cost of Water Sold	57,152	63,652
System Repairs and Maintenance	8,325	6,353
Depreciation and Amortization	11,783	11,783
TOTAL SYSTEM DISTRIBUTION EXPENSES	77,261	81,788
<u>SELLING, GENERAL & ADMINISTRATIVE EXPENSES:</u>		
Billing & Collections	20,541	19,166
Legal and accounting	1,200	3,600
Office Expense	4,236	2,693
Meeting Expense	400	500
Insurance	2,453	2,412
Depreciation and Amortization	-	690
Bank Charges	50	50
Dues & Memberships	492	482
Rent Expense	3,750	3,300
Bad Debt	59	127
Other	-	965
TOTAL SELLING, GENERAL & ADMINISTRATIVE EXPENSES	33,182	33,985
TOTAL OPERATING EXPENSES	110,443	115,773
OPERATING INCOME (LOSS)	416	1,341
<u>OTHER REVENUES (EXPENSES):</u>		
Interest Income	1,783	2,310
Interest Expense	-	-
Donations	-	-
Total Other Revenues (Expenses)	1,783	2,310
CHANGE IN NET POSITION	2,199	3,652
TOTAL NET POSITION, Beginning of Year	514,946	511,294
TOTAL NET POSITION, Prior Year Adjustment	(50)	-
TOTAL NET POSITION, End of Year	\$ 517,094	\$ 514,946

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**MUSKOGEE COUNTY RURAL WATER DISTRICT #4
MUSKOGEE COUNTY, OKLAHOMA
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013**

	<u>12/31/13</u>	<u>Memorandum Only 12/31/12</u>
<u>Cash Flows from Operating Activities:</u>		
Receipts from Customers	\$ 111,140	\$ 117,664
Payments to Suppliers for Goods & Services	<u>(100,071)</u>	<u>(103,499)</u>
Net Cash Provided (Used) by Operating Activities	<u>11,069</u>	<u>14,165</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>		
Acquisition and construction of capital assets	-	(2,083)
Proceeds from sale of Capital Assets	-	-
Principal paid on Debt	-	-
Interest paid on Debt	<u>-</u>	<u>-</u>
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>-</u>	<u>(2,083)</u>
<u>Cash Flows from Investing Activities:</u>		
Investments in Certificate of Deposit	(1,762)	(2,096)
Interest Income	<u>1,783</u>	<u>2,310</u>
Net Cash Provided (Used) by Investing Activities	<u>21</u>	<u>214</u>
Net Increase (Decrease) in Cash and Cash Equivalents	11,090	12,296
Cash & Cash Equivalents, Beginning of Year	54,846	42,550
Cash & Cash Equivalents, Prior Year Adjustment	<u>(50)</u>	<u>-</u>
Cash & Cash Equivalents, End of Year	<u><u>\$ 65,886</u></u>	<u><u>\$ 54,846</u></u>
<u>Reconciliation of operating income (loss) to net cash provided operating activities:</u>		
Operating Income (Loss)	\$ 416	\$ 1,341
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation & Amortization	11,783	12,473
Donated professional services	-	-
(Increase)Decrease in Accounts Receivable	282	550
(Increase)Decrease in Supply Inventory	(1,342)	(716)
(Increase)Decrease in Prepaid Expenses	(31)	3
Increase(Decrease) in Accounts Payable	<u>(39)</u>	<u>514</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 11,069</u></u>	<u><u>\$ 14,165</u></u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

MUSKOGEE COUNTY RURAL WATER DISTRICT #4
MUSKOGEE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

Organization & Reporting Entity

Muskogee County Rural Water District No. 4 (the "District") was originally incorporated under the laws of the State of Oklahoma in June 1966 as a nonprofit, public corporation. The District was formed for the purpose of providing a water distribution system to its membership. As a public corporation, organized and operated under the laws of the State of Oklahoma, the District functions as a special-purpose governmental entity. The accounting and reporting policies of the District are therefore formulated to conform to generally accepted accounting principles applicable to special-purpose governmental entities.

Basis of Presentation

The District is accounted for within the framework of enterprise fund accounting. Enterprise funds are used to account for operations that are operated in a manner similar to private business enterprises wherein the intent of the District's Board of Directors is to recover the cost of providing goods and services through user charges.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses when incurred.

Budgetary Data

The District does not prepare an annual budget.

Assets, Liabilities, & Equity

Cash & Cash Equivalents

Cash and short-term investments (those having an original maturity date of three months or less) are considered cash and cash equivalents for purposes of preparation of the statement of cash flows.

MUSKOGEE COUNTY RURAL WATER DISTRICT #4
MUSKOGEE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
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Accounts Receivable

The District does not have an allowance for doubtful accounts because it believes the ultimate amount received will be materially similar to the amount accrued.

Inventory

Supply inventories are stated at the lower of first-in, first-out cost or market.

Capital Assets

The District has not maintained adequate records to support the recorded balances in its property, plant and equipment accounts. Depreciation and amortization has been provided over the estimated useful lives of the recorded long-lived assets, as follows:

	<u>Life (In Years)</u>
Water lines	50
Furniture, Fixtures & Equipment	5

It is the District's policy to capitalize asset purchases greater than \$250 and expense asset purchases less than \$250.

Long-Term Debt

Long-term debt is reported at face value, net of applicable discounts and deferred loss on refunding. Costs related to the issuance of debt are deferred and amortized over the lives of various debt issues.

Equity Classification

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

1. 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 and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.

MUSKOGEE COUNTY RURAL WATER DISTRICT #4
MUSKOGEE COUNTY, OKLAHOMA
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2. Restricted – Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted - Net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

It is the District's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

Revenues, expenditures & expenses

Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

Governmental Accounting Standards Board Statement No. 34

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Certain of the significant changes in the Statement include the following:

1. For the first time the financial statement should include:
 - a. A Management Discussion and Analysis (MD&A) section providing analysis of the District's overall financial position and results of operations. However, the District has chosen not to present the required MD&A for the current year.
 - b. Financial statements prepared using full accrual accounting for all of the District's activities, except for including the General capital assets or infrastructure (lines, pump stations, etc.).

MUSKOGEE COUNTY RURAL WATER DISTRICT #4
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NOTES TO FINANCIAL STATEMENTS
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2. A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The District has elected to implement the general provisions of the Statement and report infrastructure acquired after December 31, 2003 as provided by GASB standards.

Compensated Absences

The District has no vacation or sick leave policy.

Connection fees

Connection fees (benefit units) are charged for new water line taps, are non-refundable and recognized as revenue when the new connection is completed and service is commenced.

Income Taxes

As an instrumentality of the State of Oklahoma, the District is exempt from federal and state income taxes.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

Memorandum Totals

The "Memorandum Only" captions above the total columns mean that totals are presented for overview information purposes only.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

As a local government unit, the District is subject to various federal, state, and local laws and contractual regulations. In accordance with Government Auditing Standards, the auditor has issued a report on his consideration of the District's internal control over financial reporting and tested its compliance with certain provisions

MUSKOGEE COUNTY RURAL WATER DISTRICT #4
MUSKOGEE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

of laws, regulations, contracts and grants. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be read in conjunction with this report in considering the results of the audit.

Finance-related Legal & Contractual Provisions

The District does not have any loans which would require reserve accounts or budget preparation.

Deficit Fund Balance or Retained Earnings

As indicated in the financial statements, there are no fund balance or retained earnings deficits for the District for this fiscal year.

NOTE 3 - CASH AND INVESTMENTS

Custodial Credit Risk

At December 31, 2013, the District held deposits of approximately \$165,623 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name.

Investment Interest Rate Risk

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.

Investment Credit Risk

The District has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.

MUSKOGEE COUNTY RURAL WATER DISTRICT #4
MUSKOGEE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
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- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

NOTE 4 - RESTRICTED ASSETS

The District has no restricted assets.

NOTE 5 - CAPITAL ASSETS

The District has not maintained detailed accounting records of its long-lived asset accounts. Management is currently planning a comprehensive program to develop and maintain the records necessary to support its property, plant and equipment accumulated depreciation and related annual depreciation charges.

Capital asset activity, for the fiscal year ended December 31, 2013, was as follows:

	Balance at Dec. 31, 2012	Additions	Deductions	Balance at Dec. 31, 2013
Property Easements	\$ 1,500	\$ -	\$ -	\$ 1,500
Water Distribution System	589,141	-	-	589,141
Office Furniture, Fixtures & Equipment	11,942	-	-	11,942
Construction-in-progress	2,083	-	-	2,083
Subtotal	604,666	-	-	604,666
Less: Accum. Depr.	(249,912)	(11,783)	-	(261,695)
Total Capital Assets (Net of Depreciation)	<u>\$ 354,754</u>	<u>\$ (11,783)</u>	<u>\$ -</u>	<u>\$ 342,971</u>

MUSKOGEE COUNTY RURAL WATER DISTRICT #4
MUSKOGEE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
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NOTE 6 - LONG-TERM DEBT

The District currently has no long-term debt.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended December 31, 2013:

	Balance at December 31, 2012	Additions	Deductions	Balance at December 31, 2013
Notes Payable	\$ -	\$ -	\$ -	\$ -
Total Long-Term Debt	\$ -	\$ -	\$ -	\$ -

Debt Services Requirements to Maturity

The annual debt service requirements to maturity, including principal and interest, for long-term debt, as of December 31, 2013, are as follows:

Year Ending December 31,	
2014	\$ -
2015	-
2016	-
2017	-
2018	-
2019-2023	-
Total	\$ -

NOTE 7 - FUND EQUITY

As described in Note 1 above, equity is classified as net position and displayed in three components:

1. Net investment in capital assets
2. Restricted
3. Unrestricted

MUSKOGEE COUNTY RURAL WATER DISTRICT #4
MUSKOGEE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 8 - CONTINGENCIES

Litigation

According to management there were no known contingent liabilities at December 31, 2013, which would have a material effect on the financial statements.

Federally Assisted Programs

In the normal course of operations, the District participates in various federal or state/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

NOTE 9 - CONCENTRATIONS OF RISK

The District purchases 100% of its water from the City of Ft. Gibson, Oklahoma, resulting in the District's economic dependence on the City of Ft. Gibson, Oklahoma for continued water service.

The District extends credit to its member-customers, all of whom are located in Muskogee County, Oklahoma. The District does not believe that it is exposed to any significant credit risk in connection with the extension of credit to its customers.

NOTE 10 - SUBSEQUENT EVENTS

The District did not have any subsequent events through February 28, 2014, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending December 31, 2013.

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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
Muskogee County Rural Water District #4
Muskogee County, Oklahoma

We 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, and in accordance with Oklahoma Statutes, the financial statements of the Muskogee County Rural Water District #4, as of and for the year ended December 31, 2013, and the related notes to the financial statements, and have issued our report thereon dated February 28, 2014. The Muskogee County Rural Water District #4 has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, except that the District did not present the required MD&A.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Muskogee County Rural Water District #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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Muskogee County Rural Water District #4's internal control. Accordingly, we do not express an opinion on the effectiveness of Muskogee County Rural Water District #4'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 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.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control

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that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings that we consider to be significant deficiencies. Those deficiencies are listed as Items 13-01 and 13-02.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Muskogee County Rural Water District #4's financial statements are free of material misstatement, we performed tests of 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.

Muskogee County Rural Water District #4's Response to Findings

Muskogee County Rural Water District #4's response to the findings identified in our audit is described in the accompanying Schedule of Findings. Muskogee County Rural Water District #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

This report is intended 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.

Kershaw CPA & Associates, P.C.

Kershaw, CPA & Associates, PC

February 28, 2014

MUSKOGEE COUNTY RURAL WATER DISTRICT #4
MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS
DECEMBER 31, 2013

Item 13-01: Segregation of Duties

Criteria: A good system of internal control requires a proper segregation of duties to prevent one person from being in a position to authorize, execute, and record the same transaction.

Condition: Due to the size of the District's major areas of internal control, that would be prevalent in a larger District, such segregation of duties is not available for this size operation. Duties are concentrated in the hands of a few individuals, who are responsible for all phases of the accounting functions. Because of this lack of division of responsibility, internal control is determined to be weak, and in some instances, non-existent.

Cause/Effect: Due to the limited number of personnel, a breach of internal controls could occur and not be detected in the normal course of operations.

Recommendation: The Board should continue to be actively involved in the operations of the organization.

Response: The Board continues to be actively involved in the operations of the District.

Item 13-02: Capital Assets

Criteria: Internal control refers to the methods and procedures used to provide reasonable assurance regarding the achievement of objectives in the following categories: Safeguarding assets, Ensuring validity of financial records and reports, Promoting adherence to policies, procedures, regulations and laws, and Promoting effectiveness and efficiency of operations. Internal control also refers to how an entity processes, summarizes and records the financial transactions. In general terms, internal controls are simply good business practices.

Condition: The District does not have strong internal controls in place for ensuring validity of financial records and reports, and in some instances is virtually non-existent.

Cause/Effect: Due to the weak internal control system, only minimal capital assets records are being maintained.

Recommendation: Periodic physical inventories required for good internal control should be conducted.

Response: The District is aware of the problem and currently does not have the resources to correct this problem.

MUSKOGEE COUNTY RURAL WATER DISTRICT #4
MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF WATER RATES AND CUSTOMERS
DECEMBER 31, 2013

Water Rates

0 - 2,000 gallons	=	\$14.42 Minimum Bill
Over 2,000 gallons	=	\$ 4.12 per 1,000 gallons

Total Gallons Purchased	21,105,400
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Total Gallons Sold	19,387,900
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Percentage of Loss	8.14%
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Customers

The Rural Water District #4 had approximately 294 customers at the close of this fiscal year.

Current membership/tap fee \$1,000 per meter sign-up.