

## AUDIT REPORT

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT,  
DISTRICT NO. 4, ATOKA COUNTY, OKLAHOMA

OCTOBER 31, 2016



### KERSHAW CPA & ASSOCIATES, PC

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ATOKA COUNTY RURAL WATER, SEWER  
AND SOLID WASTE MANAGEMENT, DISTRICT NO.4  
OCTOBER 31, 2016

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ATOKA COUNTY RURAL WATER, SEWER  
AND SOLID WASTE MANAGEMENT, DISTRICT NO.4  
OCTOBER 31, 2016

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>
JAMES BRIGGS	CHAIRMAN
GARY COOPER	VICE-CHAIRMAN
WESLEY MOORE	TREASURER
LARRY OLDHAM	SECRETARY
WILLIE ELDRIDGE	ASST. SECRETARY
ROBERT D. CALVERT	MEMBER
KEVIN FEUERHELM	MEMBER
JIM HARDMAN	MEMBER
JOE DANIEL	MEMBER

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Atoka County Rural Water, Sewer and  
Solid Waste Management, District No.4  
Atoka, Oklahoma

### *Report on the Financial Statements*

We have audited the accompanying financial statements of Atoka County Rural Water, Sewer and Solid Waste Management, District No. 4 as of and for the fiscal year ended October 31, 2016, 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,

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including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## *Basis for Qualified Opinion*

During the fiscal year ending October 31, 2016, accounting principles generally accepted in the United States of America, with the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, began requiring Net Pension Liability information to be included in the financial statements, note disclosures and Required Supplementary Information. The requirements of Statement No. 68 have not been implemented by the District. The amount by which this departure would affect the assets, net position, and expenses of the District has not been determined.

## *Qualified Opinion*

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Atoka County Rural Water, Sewer and Solid Waste Management, District No. 4 as of October 31, 2016, 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.

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## *Other Matters*

### *Required Supplementary Information*

Management has omitted the Management's Discussion and Analysis and Net Pension Liability 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 consider it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operation, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

### *Supplementary and Other Information*

The introductory section listed in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the District. Such additional information has not been subjected to the auditing procedures applied in our audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 4, 2017, on our consideration of the Atoka County Rural Water, Sewer and Solid Waste Management, District No. 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

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considering Atoka County Rural Water, Sewer and Solid Waste Management, District No. 4's internal control over financial reporting and compliance.

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

April 4, 2017

ATOKA COUNTY RURAL WATER, SEWER  
AND SOLID WASTE MANAGEMENT, DISTRICT NO. 4  
STATEMENT OF NET POSITION  
OCTOBER 31, 2016

<u>ASSETS</u>	2016	Memo Only 2015
<u>Current Assets:</u>		
Cash and Cash Equivalents	\$ 475,257	\$ 330,440
Investments	-	28,533
Accounts Receivable-Trade	184,832	174,618
Account Receivable - ODOT	-	132,112
ORWAAG Reserve Certificate	5,000	5,000
Total Current Assets	665,089	670,703
<u>Restricted Assets:</u>		
Rental Deposits	14,763	12,975
USDA RD Reserve	300,304	300,005
SLA Reserve	247,802	286,443
SLA - Certificate of Deposit	109,357	107,737
Construction	-	-
CDBG Reserve	8,332	8,292
Total Restricted Assets	680,558	715,452
<u>Capital Assets:</u>		
Water Distribution Facilities	13,396,280	13,269,537
Water Dist Facility Construction in Progress	34,482	-
Buildings	87,521	87,521
Office Furniture & Equipment	51,116	51,116
Land	38,601	38,601
Less: Accumulated Depreciation	(6,204,879)	(5,831,095)
Total Net Capital Assets	7,403,121	7,615,680
<b>TOTAL ASSETS</b>	<b>8,748,768</b>	<b>9,001,835</b>
<u>LIABILITIES</u>		
<u>Current Liabilities:</u>		
Accounts Payable - Trade	107,879	89,597
Payroll Taxes Payable	3,030	3,741
Accrued Interest Payable	9,944	10,466
Project Payable	-	-
Deferred Revenue - RD Grant	-	-
Rental Deposits	14,763	12,975
Current Maturities of Notes Payable	115,874	111,204
Total Current Liabilities	251,490	227,983
<u>Long-Term Liabilities:</u>		
Notes Payable - USDA Rural Development	4,424,363	4,527,792
Notes Payable - Oklahoma DOC (CDBG)	30,457	38,234
Less: Current Maturities	(115,874)	(111,204)
Total Long-Term Liabilities	4,338,946	4,454,822
<b>TOTAL LIABILITIES</b>	<b>4,590,436</b>	<b>4,682,805</b>
<u>NET POSITION</u>		
Net investment in capital assets	2,948,301	3,049,654
Restricted for debt service	665,795	702,477
Unrestricted	544,236	566,899
<b>TOTAL NET POSITION</b>	<b>\$ 4,158,332</b>	<b>\$ 4,319,030</b>

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



**ATOKA COUNTY RURAL WATER, SEWER  
AND SOLID WASTE MANAGEMENT, DISTRICT NO.4  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2016**

	2016	Memo Only 2015
<b><u>Operating Revenues:</u></b>		
Water Sales	\$ 1,577,665	\$ 1,562,107
Membership Dues and Connection Fees	26,200	41,100
Materials and Line Extensions	34,502	51,609
Miscellaneous Fees	2,850	1,825
<b>Total Operating Revenues</b>	<b>1,641,217</b>	<b>1,656,641</b>
<b><u>Operating Expenses:</u></b>		
Salaries	146,241	145,541
Contract Labor/Operator Fees	230,203	200,825
Employee Expense Allowance	34,031	34,090
Retirement Plan Expense	17,079	16,686
Water Purchases	294,332	244,741
Utilities	51,840	62,494
Repairs and Maintenance	254,469	239,172
Payroll Taxes	11,929	12,149
Office Supplies and Printing	17,357	16,429
Insurance	29,885	21,830
Accounting and Legal	8,295	8,010
Depreciation Expense	373,784	381,119
Permits and Fees	8,701	13,518
Administrative Expense	2,478	1,456
Supplies and Chemicals	106,857	102,005
Bad Debt	422	4,610
Miscellaneous	129,341	162,979
<b>Total Operating Expenses</b>	<b>1,717,244</b>	<b>1,667,654</b>
<b>Operating Income (Loss)</b>	<b>(76,027)</b>	<b>(11,013)</b>
<b><u>Non-Operating Revenues (Expenses):</u></b>		
Interest Income	4,081	4,089
Miscellaneous Income	1,798	2,574
Rental Income	-	2,400
Interest Expense	(193,241)	(197,760)
FEMA	92,804	-
<b>Total Non-operating Revenues (Expenses)</b>	<b>(94,558)</b>	<b>(188,697)</b>
<b>Net Income (Loss) Before Contributions</b>	<b>(170,585)</b>	<b>(199,710)</b>
Capital Contributions - Grant Income	9,888	132,112
Change in Net Position	(160,697)	(67,598)
<b>Total Net Position - Beginning</b>	<b>4,319,030</b>	<b>4,386,628</b>
<b>Total Net Position - Prior Year Adjustment</b>	<b>-</b>	<b>-</b>
<b>Total Net Position - Ending</b>	<b>\$ 4,158,332</b>	<b>\$ 4,319,030</b>

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

**ATOKA COUNTY RURAL WATER, SEWER  
AND SOLID WASTE MANAGEMENT, DISTRICT NO.4  
STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2016**

	<u>2016</u>	<u>Memo Only 2015</u>
<b><u>Cash Flows from Operating Activities:</u></b>		
Cash Receipts from Customers	\$ 1,661,325	\$ 1,598,072
Payments to Suppliers for Goods & Services	(949,445)	(918,509)
Payments to Employees & Laborers	(376,444)	(346,365)
Net Cash Provided (Used) by Operating Activities	<u>335,436</u>	<u>333,198</u>
<b><u>Cash Flows from Non-Capital Financing Activities:</u></b>		
FEMA	234,803	-
Transfers to restricted funds	(3,748)	102,408
Transfer from restricted funds	38,641	-
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>269,696</u>	<u>102,408</u>
<b><u>Cash Flows from Capital &amp; Related Financing Activities:</u></b>		
Capital Grant received for construction/purchase of capital assets	-	-
Capital Grant - Deferred Revenue	-	-
Additions to Capital Assets	(161,225)	(3,914)
Proceeds from sale of Capital Assets	-	-
Loan Proceeds	-	-
Principal paid on Debt	(111,206)	(106,740)
Interest paid on Debt	(193,763)	(198,228)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(466,194)</u>	<u>(308,882)</u>
<b><u>Cash Flows from Investing Activities:</u></b>		
Interest Income	4,081	4,089
Rental Income	-	2,400
Miscellaneous Income	1,799	2,574
Net Cash Provided (Used) by Investing Activities	<u>5,880</u>	<u>9,063</u>
Net Increase (Decrease) in Cash and Cash Equivalents	144,817	135,787
Cash & Cash Equivalents, Beginning of Year	330,440	194,653
Cash & Cash Equivalents, Prior Year Adjustment	-	-
Cash & Cash Equivalents, End of Year	<u>\$ 475,257</u>	<u>\$ 330,440</u>
<b><u>Reconciliation of operating income (loss) to net cash provided operating activities:</u></b>		
Operating Income (Loss)	\$ (76,027)	\$ (11,013)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	373,784	381,119
Allowance for Uncollectable Accounts	(46)	4,610
(Increase)Decrease in Accounts Receivable-Trade	(17,754)	(58,172)
(Increase)Decrease in Other Assets	28,534	-
Increase(Decrease) in Customer Deposits	1,788	925
Increase(Decrease) in Accounts Payable	25,869	15,821
Increase(Decrease) in Other Payable	(712)	(92)
Net Cash Provided (Used) by Operating Activities	<u>\$ 335,436</u>	<u>\$ 333,198</u>

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

ATOKA COUNTY RURAL WATER, SEWER  
AND SOLID WASTE MANAGEMENT, DISTRICT NO.4  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Atoka County Rural Water, Sewer and Solid Waste Management, District No.4 of Atoka County, Oklahoma was formed in 1979, pursuant to the Oklahoma Rural Water, Sewer, and Solid Waste Management District Act. The District operates as a nontaxable government entity to serve residents of a portion of rural Atoka County.

Accounting

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.).
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 July 1, 2003 as provided by GASB standards.

ATOKA COUNTY RURAL WATER, SEWER  
AND SOLID WASTE MANAGEMENT, DISTRICT NO.4  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2016

Basis of Presentation

The accounts of the District are organized on the basis of proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net assets, revenues and expenses. Enterprise Funds account for activities (1) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (2) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (3) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Basis of Accounting

The proprietary fund type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. Fund equity consists of contributed capital and retained earnings. Proprietary fund type operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in net total assets. The accrual basis of accounting is utilized by the proprietary fund type. Under this basis of accounting revenues are recognized when earned and expenses are recognized when the related liability is incurred.

Cash and Cash Equivalents

GASB Statement No. 9, paragraph 9, defines cash equivalents as "short-term, highly liquid investments that are both readily convertible to known amounts of cash" and "so near their maturity that they present insignificant risk of changes in value because of changes in interest rates." Investments with a remaining maturity of three months or less at the date of purchase by the entity holding the investment meet this definition of a cash equivalent.

ATOKA COUNTY RURAL WATER, SEWER  
AND SOLID WASTE MANAGEMENT, DISTRICT NO.4  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2016

Accounts Receivable

Accounts receivable consist of the utilities billed that had not been collected at October 31, 2016.

Inventory

Inventory of supplies is not reported on the financial statements of the District. The amount of inventory on hand is not material to the financial statements.

Property and Equipment

Water distribution facilities, office furniture and equipment purchased or constructed by the District are stated at cost. Depreciation is computed on the straight-line method based on the estimated useful lives of the assets ranging from five to forty years.

Construction in progress is recorded at cost. No depreciation is recognized until contracts are complete and the applicable facilities become operational.

Capitalization Policy:

Purchases of capital items in excess of \$1,000.00 that increase the capacity or operation efficiency or extend the useful life of any asset are capitalized. Repairs and maintenance are expensed as incurred

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.

ATOKA COUNTY RURAL WATER, SEWER  
AND SOLID WASTE MANAGEMENT, DISTRICT NO.4  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2016

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 amounts 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.

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 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.

ATOKA COUNTY RURAL WATER, SEWER  
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NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2016

Finance-related Legal & Contractual Provisions

The loan agreement with the United States Department of Agriculture Rural Development (USDA) requires the District to set aside into a Reserve Account an accumulated amount equal to the sum of the annual installment for all RD loans \$297,192.00 (\$38,748, \$27,540, \$94,812, \$9,900 & \$126,192), after which deposits may be suspended, except to replace withdrawals. The District cannot withdraw funds from the reserve account without USDA approval.

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 - AGED ACCOUNTS RECEIVABLE

Accounts receivable of the Atoka County Rural Water, Sewer and Solid Waste Management, District No.4, and the Treatment Water Plant are aged as follows at October 31, 2016:

	Water District	Water Plant	Total
CURRENT	\$ 111,355	\$ 25,708	\$ 137,063
01-30 DAYS	23,838	-	23,838
31-60 DAYS	9,939	-	9,939
61+ DAYS	52,055	-	52,055
Overpayments/Prepayments	(9,640)	-	(9,640)
Total Accounts Receivable	<u>187,548</u>	<u>25,708</u>	<u>213,256</u>
Less: Allowance for Doubtful Accounts	(28,424)	-	(28,424)
Total Accounts Receivable	<u><u>\$ 159,124</u></u>	<u><u>\$ 25,708</u></u>	<u><u>\$ 184,832</u></u>

NOTE 4 - ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS

Accumulated unpaid vacation benefits have not been shown as a liability in the financial statements. The District's position is that any accrued benefits are not significant and would not materially affect the financial statements.

ATOKA COUNTY RURAL WATER, SEWER  
AND SOLID WASTE MANAGEMENT, DISTRICT NO.4  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2016

NOTE 5 - CUSTODIAL CREDIT RISK RELATED TO DEPOSITS

Custodial Credit Risk

At October 31, 2016, the District held deposits of approximately \$1,160,815 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.
- 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.



ATOKA COUNTY RURAL WATER, SEWER  
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NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2016

- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

NOTE 6 - RESTRICTED ASSETS

The District maintains a reserve account at First Bank, Atoka, Oklahoma that funds the reserve contributions as required by the USDA Rural Development Loan Resolution Security Agreements. During the fiscal year 1999, the District received a loan from the Stringtown Public Facilities Authority through the Oklahoma Department of Commerce which requires a reserve fund. The District designated a savings account to fully fund the required reserve.

Restrictions on restricted assets are as follows:

Reserve Funds	-Use is Restricted for Debt Service per USDA & DOC loan agreements
Security Deposits	-Use is Restricted to deposit and refund water meter security deposits
Construction	-Use is Restricted to unforeseen repairs
SLA Accounts	-Use is Restricted for replacement of Short Lived Assets

NOTE 7 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended October 31, 2016, was as follows:

	Balance at Oct. 31, 2015	Additions	Deductions	Balance at Oct. 31, 2016
Water Distribution Facilities	\$ 13,269,537	\$ 126,743	\$ -	\$ 13,396,280
Buildings	87,521	-	-	87,521
Office Furniture and Equipment	51,116	-	-	51,116
Construction in Progress	-	34,482	-	34,482
Land	38,601	-	-	38,601
Subtotal	13,446,775	161,225	-	13,608,000
Less: Accum. Depr.	(5,831,095)	(373,784)	-	(6,204,879)
Total Capital Assets (Net of Depreciation)	<u>\$ 7,615,680</u>	<u>\$ (212,559)</u>	<u>\$ -</u>	<u>\$ 7,403,121</u>

ATOKA COUNTY RURAL WATER, SEWER  
AND SOLID WASTE MANAGEMENT, DISTRICT NO.4  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2016

The capital assets additions included new water meters and a 24" waterline. There was also construction in progress that has yet to be placed in service.

NOTE 8 - LONG-TERM DEBT

USDA RURAL DEVELOPMENT (RD)

The District is indebted to USDA Rural Development under the terms of five forty year installment note which are collateralized by the District's plant and distribution facilities. One note is payable in monthly installments of \$3,229.00 at an interest rate of 5.0% for forty years. The second is payable in monthly installments of \$2,295.00 at an interest rate of 4.5% for forty years. The third is payable in monthly installments of \$7,901.00 with an interest rate at 4.5% for forty years. The fourth note is payable in monthly installments of \$825.00 with an interest rate of 2.5% for forty years. The fifth note is payable in monthly installments of \$10,516.00 with an interest rate of 4.25% for forty years. The notes will mature in 2031, 2035, 2042, 2049 and 2049, respectively.

DEPARTMENT OF COMMERCE-CDBG/STRINGTOWN PUBLIC FACILITIES AUTHORITY

During fiscal year 1999 a Community Development Block Grant-Community Development (CDBG-CD) loan in the amount of \$155,527.00 was approved for water systems improvements. The Atoka County Board of Commissioners is the Applicant for the grant/loan with the Stringtown Public Facilities Authority as the designated Lender and Atoka County Rural Water, Sewer, and Solid Waste Management District No.4 designated as the Borrower. Payments on behalf of the Stringtown Public Facilities Authority are \$648.03 per month at an interest rate of 0% for twenty years.

ATOKA COUNTY RURAL WATER, SEWER  
AND SOLID WASTE MANAGEMENT, DISTRICT NO.4  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2016

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended October 31, 2016:

	Balance at October 31, 2015	Additions	Deductions	Balance at October 31, 2016
Note Payable - USDA RD 91-11	\$ 425,558.17	\$ -	\$ (17,876.30)	\$ 407,681.87
Note Payable - USDA RD 91-13	\$ 357,750.80	\$ -	\$ (11,680.31)	\$ 346,070.49
Note Payable - USDA RD 91-15	\$ 1,315,486.77	\$ -	\$ (36,359.48)	\$ 1,279,127.29
Note Payable - USDA RD 91-18	\$ 226,398.43	\$ -	\$ (4,289.00)	\$ 222,109.43
Note Payable - USDA RD 91-20	\$ 2,202,598.59	\$ -	\$ (33,224.48)	\$ 2,169,374.11
Note Payable - DOC (CDBG)	\$ 38,233.57	\$ -	\$ (7,776.36)	\$ 30,457.21
Total Long-Term Debt	<u>\$ 4,566,026.33</u>	<u>\$ -</u>	<u>\$ (111,205.93)</u>	<u>\$ 4,454,820.40</u>

A summary of future maturities of principal and interest are as follows:

Year Ending October 31,	Notes Payable - RD #91-11		
	Principal	Interest	Total
2017	\$ 18,791	\$ 19,957	\$ 38,748
2018	19,752	18,996	38,748
2019	20,763	17,985	38,748
2020	21,825	16,923	38,748
2021	22,941	15,807	38,748
2022-2026	133,561	60,179	193,740
2027-2031	170,049	22,326	192,375
Total	<u>\$ 407,682</u>	<u>\$ 172,173</u>	<u>\$ 579,855</u>

Year Ending October 31,	Notes Payable - RD #91-13		
	Principal	Interest	Total
2017	\$ 12,217	\$ 15,323	\$ 27,540
2018	12,778	14,762	27,540
2019	13,365	14,175	27,540
2020	13,979	13,561	27,540
2021	14,621	12,919	27,540
2022-2026	83,820	53,880	137,700
2027-2031	104,926	32,774	137,700
2032-2035	90,365	7,589	97,954
Total	<u>\$ 346,070</u>	<u>\$ 164,983</u>	<u>\$ 511,054</u>

ATOKA COUNTY RURAL WATER, SEWER  
 AND SOLID WASTE MANAGEMENT, DISTRICT NO.4  
 NOTES TO FINANCIAL STATEMENTS  
 OCTOBER 31, 2016

Year Ending October 31,	Notes Payable - RD #91-15		Total
	Principal	Interest	
2017	\$ 38,029	\$ 56,783	\$ 94,812
2018	39,776	55,036	94,812
2019	41,604	53,208	94,812
2020	43,515	51,297	94,812
2021	45,514	49,298	94,812
2022-2026	260,922	213,138	474,060
2027-2031	326,621	147,439	474,060
2032-2036	408,863	65,197	474,060
2037	74,284	1,469	75,753
Total	<u>\$ 1,279,127</u>	<u>\$ 692,865</u>	<u>\$ 1,971,993</u>

Year Ending October 31,	Notes Payable - RD #91-18		Total
	Principal	Interest	
2017	\$ 4,397	\$ 5,503	\$ 9,900
2018	4,509	5,391	9,900
2019	4,623	5,277	9,900
2020	4,740	5,160	9,900
2021	4,859	5,041	9,900
2022-2026	26,204	23,296	49,500
2027-2031	29,689	19,811	49,500
2032-2036	33,637	15,863	49,500
2037-2041	38,111	11,389	49,500
2042-2046	43,180	6,320	49,500
2047-2049	28,161	1,081	29,242
Total	<u>\$ 222,109</u>	<u>\$ 104,133</u>	<u>\$ 326,242</u>

Year Ending October 31,	Notes Payable - RD #91-20		Total
	Principal	Interest	
2017	\$ 34,664	\$ 91,528	\$ 126,192
2018	36,166	90,026	126,192
2019	37,733	88,459	126,192
2020	39,369	86,823	126,192
2021	41,075	85,117	126,192
2022-2026	233,668	397,292	630,960
2027-2031	288,885	342,075	630,960
2032-2036	357,149	273,811	630,960
2037-2041	441,544	189,416	630,960
2042-2046	545,881	85,079	630,960
2047	113,242	2,383	115,625
Total	<u>\$ 2,169,374</u>	<u>\$ 1,732,011</u>	<u>\$ 3,901,385</u>

ATOKA COUNTY RURAL WATER, SEWER  
AND SOLID WASTE MANAGEMENT, DISTRICT NO.4  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2016

Year Ending October 31,	Notes Payable - DOC (CDBG)		Total
	Principal	Interest	
2017	\$ 7,776	\$ -	\$ 7,776
2018	7,776	-	7,776
2019	7,776	-	7,776
2020	7,128	-	7,128
2021	-	-	-
Total	<u>\$ 30,457</u>	<u>\$ -</u>	<u>\$ 30,457</u>

NOTE 9 - 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

NOTE 10 - RELATED PARTY TRANSACTIONS

The construction of a treatment water plant was completed and became operational by the District in fiscal year 1993. The Board of Directors for the District is the governing body for the treatment plant. The treatment plant buys water from the McGee Creek Authority and in turn sells water to Rural Water, Sewer, and Solid Waste Management, District No 4 at a rate of \$3.40 per 1,000 gallons of water. The sales to Atoka County Rural Water, Sewer and Solid Waste Management, District No.4 have been eliminated by interfund blending. The treatment plant sells water to other water districts at a negotiated rate of \$3.40 to \$3.47 per 1,000 gallons of water.

NOTE 11 - INTERFUND ACTIVITY

In the process of aggregating the financial information for the Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows, some amounts reported as related activity and balances in the combining financial statements have been eliminated or reclassified.

Interfund activity between Atoka County Rural Water, Sewer and Solid Waste Management, District No.4 and the water treatment plant have been eliminated in the basic financial statements. The interfund activities consist of sales or purchases of water between the funds

ATOKA COUNTY RURAL WATER, SEWER  
AND SOLID WASTE MANAGEMENT, DISTRICT NO.4  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2016

and are reported as revenues and expenditures and/or accounts receivable and accounts payable in the supplemental schedules.

NOTE 12 - ESTIMATES

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

NOTE 13 - RISK MANAGEMENT

The District's risk management of loss consists of commercial insurance for property and liability losses, an employee's bond for employee dishonesty, and worker's compensation. There have been no significant reductions in insurance coverage during the year ended October 31, 2016.

NOTE 14 - CONTINGENCIES

Litigation

The management of the Atoka County Rural Water, Sewer and Solid Waste Management, District No. 4 is not aware of any contingent liabilities at October 31, 2016 which would materially affect the District's 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 15 - RETIREMENT PLAN

During the fiscal year 2016, the District participated in the Oklahoma Public Employees Retirement System. The minimum contribution is 18%

ATOKA COUNTY RURAL WATER, SEWER  
AND SOLID WASTE MANAGEMENT, DISTRICT NO.4  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2016

with the District contributing 11.5% of the minimum. Four out of five employees are in the Step-Up Program.

The total contributions for the fiscal year ending October 31, 2016, for employer and employee were \$16,817.76 and \$16,176.79, respectively, on total wages of \$146,241.45.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* took effect for governments in fiscal years beginning after June 30, 2014 (that is, for years ended June 30, 2015 or later). Management has determined that it would not be cost effective to compile the required information for implementing Statement No. 68 and the amounts are not expected to be material to the financial statements and therefore, the required information has not been included in the financial statements.

NOTE 16 - SUBSEQUENT EVENTS

The District did not have any subsequent events through April 4, 2017, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending October 31, 2016.

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## 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  
Atoka County Rural Water, Sewer and  
Solid Waste Management, District No. 4  
Atoka, 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 Atoka County Rural Water, Sewer and Solid Waste Management, District No. 4, as of and for the year ended October 31, 2016, and the related notes to the financial statements, and have issued our report thereon dated April 4, 2017, which was qualified because the District has not implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions. Management has omitted the MD&A and Net Pension Liability Information required by accounting principles generally accepted in the United States of America.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Atoka County Rural Water, Sewer and Solid Waste Management, 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Atoka County Rural Water, Sewer and Solid Waste Management, District No. 4's internal control. Accordingly, we do not express an opinion on the effectiveness of Atoka County Rural Water, Sewer and Solid Waste Management, District No. 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



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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 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 Item 16-01.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Atoka County Rural Water, Sewer and Solid Waste Management, District No. 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*.

## Atoka County Rural Water, Sewer and Solid Waste Management, District No. 4's Response to Findings

Atoka County Rural Water, Sewer and Solid Waste Management, District No. 4's response to the findings identified in our audit is described in the accompanying Schedule of Findings. Atoka County Rural Water, Sewer and Solid Waste Management, District No. 4's response was not

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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 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

April 4, 2017

ATOKA COUNTY RURAL WATER, SEWER  
AND SOLID WASTE MANAGEMENT, DISTRICT NO.4  
SCHEDULE OF FINDINGS  
OCTOBER 31, 2016

INTERNAL CONTROL FINDINGS:

Item 16-01: 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: Some compensating controls have been implemented by requiring the Boards approval and signature for all expenditures. 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.

ATOKA COUNTY RURAL WATER, SEWER  
AND SOLID WASTE MANAGEMENT, DISTRICT NO. 4  
COMBINING STATEMENT OF NET POSITION  
OCTOBER 31, 2016

	Enterprise Funds			Total
	Water District	Water Plant	Consolidation	
<b><u>ASSETS</u></b>				
<b><u>Current Assets:</u></b>				
Cash in Bank: Operating	\$ 400,314	\$ 74,943	\$ -	\$ 475,257
Accounts Receivable - Choctaw Nation	-	-	-	-
Accounts Receivable-Trade	159,124	73,308	(47,600)	184,832
Accounts Receivable-Plant	109,271	-	(109,271)	-
Grants Receivable	-	-	-	-
ORWAAG Reserve Certificate	5,000	-	-	5,000
Total Current Assets	<u>673,709</u>	<u>148,251</u>	<u>(156,871)</u>	<u>665,089</u>
<b><u>Restricted Assets:</u></b>				
Rental Deposits	14,763	-	-	14,763
USDA RD Reserve	300,304	-	-	300,304
SLA Reserve	247,802	-	-	247,802
SLA - Certificate of Deposit	109,357	-	-	109,357
Construction	-	-	-	-
CDBG Reserve	8,332	-	-	8,332
Total Restricted Assets	<u>680,558</u>	<u>-</u>	<u>-</u>	<u>680,558</u>
<b><u>Capital Assets:</u></b>				
Water Distribution Facilities	7,266,533	6,129,747	-	13,396,280
Water Dist Facility Construction in Progress	-	34,482	-	34,482
Buildings	87,521	-	-	87,521
Office Furniture & Equipment	51,116	-	-	51,116
Land	38,601	-	-	38,601
Less: Accumulated Depreciation	(4,327,213)	(1,877,666)	-	(6,204,879)
Total Net Capital Assets	<u>3,116,558</u>	<u>4,286,563</u>	<u>-</u>	<u>7,403,121</u>
<b>TOTAL ASSETS</b>	<u>4,470,825</u>	<u>4,434,814</u>	<u>(156,871)</u>	<u>8,748,768</u>
<b><u>LIABILITIES</u></b>				
<b><u>Current Liabilities:</u></b>				
Accounts Payable - Trade	91,267	64,212	(47,600)	107,879
Accounts Payable - District	-	109,271	(109,271)	-
Project Payable	-	-	-	-
Payroll Taxes Payable	2,400	630	-	3,030
Accrued Interest Payable	3,663	6,281	-	9,944
Deferred Revenue - RD Grant	-	-	-	-
Current Maturities of Notes Payable	58,119	57,755	-	115,874
Total Current Liabilities	<u>155,449</u>	<u>238,149</u>	<u>(156,871)</u>	<u>236,727</u>
<b><u>Other Liabilities:</u></b>				
Rental Deposits	14,763	-	-	14,763
<b><u>Long-Term Liabilities:</u></b>				
Notes Payable - USDA Rural Development	1,741,722	2,682,641	-	4,424,363
Notes Payable - Oklahoma DOC (CDBG)	30,457	-	-	30,457
Less: Current Maturities	(58,119)	(57,755)	-	(115,874)
Total Long-Term Liabilities	<u>1,714,060</u>	<u>2,624,886</u>	<u>-</u>	<u>4,338,946</u>
<b>TOTAL LIABILITIES</b>	<u>1,884,272</u>	<u>2,863,035</u>	<u>(156,871)</u>	<u>4,590,436</u>
<b><u>NET POSITION</u></b>				
Net investment in capital assets	1,344,379	1,603,922	-	2,948,301
Restricted for debt service	665,795	-	-	665,795
Unrestricted	576,379	(32,143)	-	544,236
<b>TOTAL NET POSITION</b>	<u>\$ 2,586,553</u>	<u>\$ 1,571,779</u>	<u>\$ -</u>	<u>\$ 4,158,332</u>

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

**ATOKA COUNTY RURAL WATER, SEWER  
AND SOLID WASTE MANAGEMENT, DISTRICT NO.4  
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2016**

	Enterprise Funds			
	Water District	Water Plant	Consolidation	Total
<b><u>Operating Revenues:</u></b>				
Water Sales	\$ 1,304,003	\$ 811,987	\$ (538,325)	\$ 1,577,665
Membership Dues and Connection Fees	26,200	-	-	26,200
Materials and Line Extensions	34,502	-	-	34,502
Miscellaneous Fees	2,850	-	-	2,850
Total Operating Revenues	<u>1,367,555</u>	<u>811,987</u>	<u>(538,325)</u>	<u>1,641,217</u>
<b><u>Operating Expenses:</u></b>				
Salaries	110,025	36,216	-	146,241
Contract Labor/Operator Fees	133,346	96,857	-	230,203
Employee Expense Allowance	34,031	-	-	34,031
Retirement Plan Expense	12,877	4,202	-	17,079
Water Purchases	538,325	294,332	(538,325)	294,332
Utilities	10,170	41,670	-	51,840
Repairs and Maintenance	225,843	28,626	-	254,469
Payroll Taxes	8,948	2,981	-	11,929
Office Supplies and Printing	17,357	-	-	17,357
Insurance	22,692	7,193	-	29,885
Accounting and Legal	8,295	-	-	8,295
Depreciation Expense	216,479	157,305	-	373,784
Permits and Fees	50	8,651	-	8,701
Mileage	762	-	-	762
Administrative Expense	-	2,478	-	2,478
Chemicals	-	97,278	-	97,278
Lab Supplies	-	6,736	-	6,736
Janitorial Supplies	2,233	610	-	2,843
Testing Fees	1,200	4,115	-	5,315
Returned Checks	422	-	-	422
Credit Card Charges	11,293	-	-	11,293
Engineering Fees	2,470	-	-	2,470
Dues and Memberships	365	-	-	365
Advertising	506	-	-	506
Small Tools	626	-	-	626
Materials	5,165	-	-	5,165
Line Extension Expense	62,298	-	-	62,298
Disaster Expense	21,464	19,077	-	40,541
Total Operating Expenses	<u>1,447,242</u>	<u>808,327</u>	<u>(538,325)</u>	<u>1,717,244</u>
Operating Income (Loss)	(79,687)	3,660	-	(76,027)
<b><u>Non-Operating Revenues (Expenses):</u></b>				
Interest Income	3,972	109	-	4,081
Miscellaneous Income	1,363	435	-	1,798
Interest Expense	(79,113)	(114,128)	-	(193,241)
FEMA	-	92,804	-	92,804
Total Non-operating Revenues (Expenses)	<u>(73,778)</u>	<u>(20,780)</u>	<u>-</u>	<u>(94,558)</u>
Net Income (Loss) Before Contributions	<u>(153,465)</u>	<u>(17,120)</u>	<u>-</u>	<u>(170,585)</u>
Capital Contributions - Grant Income	9,888	-	-	9,888
Change in Net Position	<u>(143,577)</u>	<u>(17,120)</u>	<u>-</u>	<u>(160,697)</u>
Total Net Position - Beginning	2,730,131	1,588,899	-	4,319,030
Total Net Position - Prior Year Adjustment	-	-	-	-
Total Net Position - Ending	<u>\$ 2,586,553</u>	<u>\$ 1,571,779</u>	<u>\$ -</u>	<u>\$ 4,158,332</u>

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