

AUDIT REPORT

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

OCTOBER 31, 2017



KERSHAW CPA & ASSOCIATES, PC

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ATOKA COUNTY RURAL WATER, SEWER
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OCTOBER 31, 2017

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ATOKA COUNTY RURAL WATER, SEWER
AND SOLID WASTE MANAGEMENT, DISTRICT NO.4
OCTOBER 31, 2017

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>
JAMES BRIGGS	CHAIRMAN
GARY COOPER	VICE-CHAIRMAN
WESLEY MOORE	TREASURER
JIM HARDMAN	SECRETARY
WILLIE ELDRIDGE	ASST. SECRETARY
JOE DANIEL	MEMBER
ROBERT D. CALVERT	MEMBER
KEVIN FEUERHELM	MEMBER
ROGER PITTMAN	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, 2017, 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, 2017, 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, 2017, 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, 2018, 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 solely 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 effectiveness of Atoka County Rural Water, Sewer and Solid Waste Management, District No. 4's internal control over financial reporting or on compliance. That report is an

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integral part of an audit performed in accordance with *Government Auditing Standards* in 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, 2018

ATOKA COUNTY RURAL WATER, SEWER
AND SOLID WASTE MANAGEMENT, DISTRICT NO. 4
STATEMENT OF NET POSITION
OCTOBER 31, 2017

<u>ASSETS</u>	<u>2017</u>	<u>Memo Only 2016</u>
<u>Current Assets:</u>		
Cash and Cash Equivalents	\$ 851,614	\$ 475,257
Investments	21,600	-
Accounts Receivable-Trade	183,027	184,832
Account Receivable - ODOT	13,203	-
ORWAAG Reserve Certificate	5,000	5,000
Total Current Assets	<u>1,074,444</u>	<u>665,089</u>
<u>Restricted Assets:</u>		
Rental Deposits	15,500	14,763
USDA RD Reserve	300,604	300,304
SLA Reserve	249,043	247,802
SLA - Certificate of Deposit	110,998	109,357
Construction	-	-
CDBG Reserve	8,373	8,332
Total Restricted Assets	<u>684,518</u>	<u>680,558</u>
<u>Capital Assets:</u>		
Water Distribution Facilities	13,521,568	13,396,280
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	<u>(6,575,400)</u>	<u>(6,204,879)</u>
Total Net Capital Assets	<u>7,123,406</u>	<u>7,403,121</u>
TOTAL ASSETS	<u>8,882,368</u>	<u>8,748,768</u>
<u>LIABILITIES</u>		
<u>Current Liabilities:</u>		
Accounts Payable - Trade	84,033	107,879
Payroll Taxes Payable	3,084	3,030
Accrued Interest Payable	9,891	9,944
Project Payable	-	-
Deferred Revenue - RD Grant	-	-
Rental Deposits	15,500	14,763
Current Maturities of Notes Payable	<u>140,112</u>	<u>115,874</u>
Total Current Liabilities	<u>252,620</u>	<u>251,490</u>
<u>Long-Term Liabilities:</u>		
Notes Payable - USDA Rural Development	4,361,264	4,424,363
Notes Payable - Oklahoma DOC (CDBG)	22,681	30,457
Less: Current Maturities	<u>(140,112)</u>	<u>(115,874)</u>
Total Long-Term Liabilities	<u>4,243,833</u>	<u>4,338,946</u>
TOTAL LIABILITIES	<u>4,496,453</u>	<u>4,590,436</u>
<u>NET POSITION</u>		
Net investment in capital assets	2,739,461	2,948,301
Restricted for debt service	669,018	665,795
Unrestricted	<u>977,436</u>	<u>544,236</u>
TOTAL NET POSITION	<u>\$ 4,385,915</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
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2017**

	2017	Memo Only 2016
<u>Operating Revenues:</u>		
Water Sales	\$ 1,727,515	\$ 1,577,665
Membership Dues and Connection Fees	51,150	26,200
Materials and Line Extensions	51,492	34,502
Miscellaneous Fees	2,116	2,850
Total Operating Revenues	1,832,273	1,641,217
<u>Operating Expenses:</u>		
Salaries	148,180	146,241
Contract Labor/Operator Fees	258,558	230,203
Employee Expense Allowance	34,142	34,031
Retirement Plan Expense	16,659	17,079
Water Purchases	307,197	294,332
Utilities	51,860	51,840
Repairs and Maintenance	242,566	254,469
Payroll Taxes	12,225	11,929
Office Supplies and Printing	20,999	17,357
Insurance	29,565	29,885
Accounting and Legal	9,330	8,295
Depreciation Expense	370,521	373,784
Permits and Fees	8,088	8,701
Administrative Expense	2,795	2,478
Supplies and Chemicals	64,434	106,857
Bad Debt	6,195	422
Miscellaneous	53,500	129,341
Total Operating Expenses	1,636,814	1,717,244
Operating Income (Loss)	195,459	(76,027)
<u>Non-Operating Revenues (Expenses):</u>		
Interest Income	4,204	4,081
Miscellaneous Income	960	1,798
Rental Income	-	-
Interest Expense	(189,040)	(193,241)
FEMA	216,000	92,804
Total Non-operating Revenues (Expenses)	32,124	(94,558)
Net Income (Loss) Before Contributions	227,583	(170,585)
Capital Contributions - Grant Income	-	9,888
Change in Net Position	227,583	(160,697)
Total Net Position - Beginning	4,158,332	4,319,030
Total Net Position - Prior Year Adjustment	-	-
Total Net Position - Ending	\$ 4,385,915	\$ 4,158,332

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, 2017**

	<u>2017</u>	<u>Memo Only 2016</u>
<u>Cash Flows from Operating Activities:</u>		
Cash Receipts from Customers	\$ 1,834,816	\$ 1,661,325
Payments to Suppliers for Goods & Services	(896,550)	(949,445)
Payments to Employees & Laborers	(406,738)	(376,444)
Net Cash Provided (Used) by Operating Activities	<u>531,528</u>	<u>335,436</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>		
FEMA	194,400	234,803
Transfers to restricted funds	(3,961)	(3,748)
Transfer from restricted funds	-	38,641
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>190,439</u>	<u>269,696</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>		
Capital Grant received for construction/purchase of capital assets	-	-
Capital Grant - Deferred Revenue	-	-
Additions to Capital Assets	(90,806)	(161,225)
Proceeds from sale of Capital Assets	-	-
Loan Proceeds	54,000	-
Principal paid on Debt	(124,876)	(111,206)
Interest paid on Debt	(189,092)	(193,763)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(350,774)</u>	<u>(466,194)</u>
<u>Cash Flows from Investing Activities:</u>		
Interest Income	4,204	4,081
Rental Income	-	-
Miscellaneous Income	960	1,799
Net Cash Provided (Used) by Investing Activities	<u>5,164</u>	<u>5,880</u>
Net Increase (Decrease) in Cash and Cash Equivalents	376,357	144,817
Cash & Cash Equivalents, Beginning of Year	475,257	330,440
Cash & Cash Equivalents, Prior Year Adjustment	-	-
Cash & Cash Equivalents, End of Year	<u>\$ 851,614</u>	<u>\$ 475,257</u>
<u>Reconciliation of operating income (loss) to net cash provided operating activities:</u>		
Operating Income (Loss)	\$ 195,459	\$ (76,027)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	370,521	373,784
Allowance for Uncollectable Accounts	2,549	(46)
(Increase)Decrease in Accounts Receivable-Trade	6,781	(17,754)
(Increase)Decrease in Other Assets	(13,203)	28,534
Increase(Decrease) in Customer Deposits	737	1,788
Increase(Decrease) in Accounts Payable	(31,370)	25,869
Increase(Decrease) in Other Payable	54	(712)
Net Cash Provided (Used) by Operating Activities	<u>\$ 531,528</u>	<u>\$ 335,436</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, 2017

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, 2017

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
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NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2017

Accounts Receivable

Accounts receivable consist of the utilities billed that had not been collected at October 31, 2017.

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
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NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2017

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
AND SOLID WASTE MANAGEMENT, DISTRICT NO.4
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2017

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, 2017:

	Water District	Water Plant	Total
CURRENT	\$ 114,608	\$ 24,851	\$ 139,459
01-30 DAYS	24,632	-	24,632
31-60 DAYS	8,299	-	8,299
61+ DAYS	54,700	-	54,700
Overpayments/Prepayments	(13,090)	-	(13,090)
Total Accounts Receivable	<u>189,149</u>	<u>24,851</u>	<u>214,000</u>
Less: Allowance for Doubtful Accounts	(30,973)	-	(30,973)
Total Accounts Receivable	<u>\$ 158,176</u>	<u>\$ 24,851</u>	<u>\$ 183,027</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, 2017

NOTE 5 - CUSTODIAL CREDIT RISK RELATED TO DEPOSITS

Custodial Credit Risk

At October 31, 2017, the District held deposits of approximately \$1,541,133 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, 2017

- 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, 2017, was as follows:

	Balance at Oct. 31, 2016	Additions	Deductions	Balance at Oct. 31, 2017
Water Distribution Facilities	\$ 13,396,280	\$ 125,288	\$ -	\$ 13,521,568
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	<u>13,608,000</u>	<u>125,288</u>	<u>34,482</u>	<u>13,698,806</u>
Less: Accum. Depr.	(6,204,879)	(370,521)	-	(6,575,400)
Total Capital Assets (Net of Depreciation)	<u>\$ 7,403,121</u>	<u>\$ (245,233)</u>	<u>\$ 34,482</u>	<u>\$ 7,123,406</u>

ATOKA COUNTY RURAL WATER, SEWER
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NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2017

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.

WATER TECH INC. (SOUTHWEST CHEMICAL SERVICES)

During fiscal year 2017 the plant entered into a lease purchase agreement with Southwest Chemical Services now known as Water Tech Inc. for the lease purchase of a generator in the amount of \$54,000. The generator can be purchased by the Atoka County Rural Water, Sewer and Solid Waste Management, District No. 4 at the end of the lease for \$1.00. The payment amount of the lease purchase is \$1,500.00 per month at 0% for thirty-six months.

ATOKA COUNTY RURAL WATER, SEWER
AND SOLID WASTE MANAGEMENT, DISTRICT NO.4
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2017

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended October 31, 2017:

	Balance at October 31, 2016	Additions	Deductions	Balance at October 31, 2017
Note Payable - USDA RD 91-11	\$ 407,681.87	\$ -	\$ (18,790.87)	\$ 388,891.00
Note Payable - USDA RD 91-13	\$ 346,070.49	\$ -	\$ (12,216.89)	\$ 333,853.60
Note Payable - USDA RD 91-15	\$ 1,279,127.29	\$ -	\$ (38,029.79)	\$ 1,241,097.50
Note Payable - USDA RD 91-18	\$ 222,109.43	\$ -	\$ (4,397.44)	\$ 217,711.99
Note Payable - USDA RD 91-20	\$ 2,169,374.11	\$ -	\$ (34,664.38)	\$ 2,134,709.73
Note Payable - DOC (CDBG)	\$ 30,457.21	\$ -	\$ (7,776.36)	\$ 22,680.85
Note Payable - Water Tech	\$ -	\$ 54,000.00	\$ (9,000.00)	\$ 45,000.00
Total Long-Term Debt	<u>\$ 4,454,820.40</u>	<u>\$ 54,000.00</u>	<u>\$ (124,875.73)</u>	<u>\$ 4,383,944.67</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
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	24,115	14,633	38,748
2023-2027	140,394	53,346	193,740
2028-2031	139,101	14,526	153,627
Total	<u>\$ 388,891</u>	<u>\$ 152,216</u>	<u>\$ 541,107</u>

Year Ending October 31,	Notes Payable - RD #91-13		
	Principal	Interest	Total
2018	\$ 12,839	\$ 14,701	\$ 27,540
2019	13,368	14,172	27,540
2020	13,982	13,558	27,540
2021	14,624	12,916	27,540
2022	15,296	12,244	27,540
2023-2027	87,689	50,011	137,700
2028-2032	109,769	27,931	137,700
2033-2035	66,287	3,999	70,286
Total	<u>\$ 333,854</u>	<u>\$ 149,532</u>	<u>\$ 483,386</u>

ATOKA COUNTY RURAL WATER, SEWER
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NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2017

Year Ending October 31,	Notes Payable - RD #91-15		Total
	Principal	Interest	
2018	\$ 39,456	\$ 55,356	\$ 94,812
2019	41,589	53,223	94,812
2020	43,500	51,312	94,812
2021	45,498	49,314	94,812
2022	47,588	47,224	94,812
2023-2027	272,812	201,248	474,060
2028-2032	341,505	132,555	474,060
2033-2037	409,149	46,593	455,742
Total	<u>\$ 1,241,098</u>	<u>\$ 636,825</u>	<u>\$ 1,877,922</u>

Year Ending October 31,	Notes Payable - RD #91-18		Total
	Principal	Interest	
2018	\$ 4,515	\$ 5,385	\$ 9,900
2019	4,623	5,277	9,900
2020	4,740	5,160	9,900
2021	4,860	5,040	9,900
2022	4,982	4,918	9,900
2023-2027	26,867	22,633	49,500
2028-2032	30,441	19,059	49,500
2033-2037	34,489	15,011	49,500
2038-2042	39,076	10,424	49,500
2043-2047	44,274	5,227	49,500
2048-2049	18,846	483	19,328
Total	<u>\$ 217,712</u>	<u>\$ 98,616</u>	<u>\$ 316,328</u>

Year Ending October 31,	Notes Payable - RD #91-20		Total
	Principal	Interest	
2018	\$ 36,274	\$ 89,918	\$ 126,192
2019	37,738	88,454	126,192
2020	39,373	86,819	126,192
2021	41,080	85,112	126,192
2022	42,860	83,332	126,192
2023-2027	243,825	387,135	630,960
2028-2032	301,442	329,518	630,960
2033-2037	372,673	258,287	630,960
2038-2042	460,736	170,224	630,960
2043-2047	558,708	61,316	620,024
Total	<u>\$ 2,134,710</u>	<u>\$ 1,640,115</u>	<u>\$ 3,774,824</u>

ATOKA COUNTY RURAL WATER, SEWER
AND SOLID WASTE MANAGEMENT, DISTRICT NO.4
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2017

Year Ending October 31,	Notes Payable - DOC (CDBG)		
	Principal	Interest	Total
2018	\$ 7,776	\$ -	\$ 7,776
2019	7,776	-	7,776
2020	7,128	-	7,128
2021	-	-	-
2022	-	-	-
Total	<u>\$ 22,681</u>	<u>\$ -</u>	<u>\$ 22,681</u>

Year Ending October 31,	Notes Payable - Water Tech Inc.		
	Principal	Interest	Total
2018	\$ 19,500	\$ -	\$ 19,500
2019	18,000	-	18,000
2020	7,500	-	7,500
2021	-	-	-
2022	-	-	-
Total	<u>\$ 45,000</u>	<u>\$ -</u>	<u>\$ 45,000</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.

ATOKA COUNTY RURAL WATER, SEWER
AND SOLID WASTE MANAGEMENT, DISTRICT NO.4
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2017

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 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, 2017.

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, 2017 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

ATOKA COUNTY RURAL WATER, SEWER
AND SOLID WASTE MANAGEMENT, DISTRICT NO.4
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2017

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% 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, 2017, for employer and employee were \$17,037.24 and \$16,352.60, respectively, on total wages of \$148,149.80.

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, 2018, 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, 2017.

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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, 2017, and the related notes to the financial statements, and have issued our report thereon dated April 4, 2018, 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 17-01.

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, 2018

ATOKA COUNTY RURAL WATER, SEWER
AND SOLID WASTE MANAGEMENT, DISTRICT NO.4
SCHEDULE OF FINDINGS
OCTOBER 31, 2017

INTERNAL CONTROL FINDINGS:

Item 17-01: 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, 2017

	Enterprise Funds			
	Water District	Water Plant	Consolidation	Total
<u>ASSETS</u>				
<u>Current Assets:</u>				
Cash in Bank: Operating	\$ 624,431	\$ 227,183	\$ -	\$ 851,614
Accounts Receivable - Choctaw Nation	-	21,600	-	21,600
Accounts Receivable-Trade	158,176	64,926	(40,075)	183,027
Accounts Receivable-Plant	88,457	-	(88,457)	-
ODOT Receivable	13,203	-	-	13,203
ORWAAG Reserve Certificate	5,000	-	-	5,000
Total Current Assets	<u>889,267</u>	<u>313,709</u>	<u>(128,532)</u>	<u>1,074,444</u>
<u>Restricted Assets:</u>				
Rental Deposits	15,500	-	-	15,500
USDA RD Reserve	300,604	-	-	300,604
SLA Reserve	249,043	-	-	249,043
SLA - Certificate of Deposit	110,998	-	-	110,998
Construction	-	-	-	-
CDBG Reserve	8,373	-	-	8,373
Total Restricted Assets	<u>684,518</u>	<u>-</u>	<u>-</u>	<u>684,518</u>
<u>Capital Assets:</u>				
Water Distribution Facilities	7,266,533	6,255,035	-	13,521,568
Water Dist Facility Construction in Progress	-	-	-	-
Buildings	87,521	-	-	87,521
Office Furniture & Equipment	51,116	-	-	51,116
Land	38,601	-	-	38,601
Less: Accumulated Depreciation	(4,531,293)	(2,044,107)	-	(6,575,400)
Total Net Capital Assets	<u>2,912,478</u>	<u>4,210,928</u>	<u>-</u>	<u>7,123,406</u>
TOTAL ASSETS	<u>4,486,263</u>	<u>4,524,637</u>	<u>(128,532)</u>	<u>8,882,368</u>
<u>LIABILITIES</u>				
<u>Current Liabilities:</u>				
Accounts Payable - Trade	84,202	39,906	(40,075)	84,033
Accounts Payable - District	-	88,457	(88,457)	-
Project Payable	-	-	-	-
Payroll Taxes Payable	2,410	674	-	3,084
Accrued Interest Payable	3,520	6,371	-	9,891
Deferred Revenue - RD Grant	-	-	-	-
Current Maturities of Notes Payable	60,251	79,861	-	140,112
Total Current Liabilities	<u>150,383</u>	<u>215,269</u>	<u>(128,532)</u>	<u>237,120</u>
<u>Other Liabilities:</u>				
Rental Deposits	15,500	-	-	15,500
<u>Long-Term Liabilities:</u>				
Notes Payable - USDA Rural Development	1,691,378	2,669,886	-	4,361,264
Notes Payable - Oklahoma DOC (CDBG)	22,681	-	-	22,681
Less: Current Maturities	(60,251)	(79,861)	-	(140,112)
Total Long-Term Liabilities	<u>1,653,808</u>	<u>2,590,025</u>	<u>-</u>	<u>4,243,833</u>
TOTAL LIABILITIES	<u>1,819,691</u>	<u>2,805,294</u>	<u>(128,532)</u>	<u>4,496,453</u>
<u>NET POSITION</u>				
Net investment in capital assets	1,198,419	1,541,042	-	2,739,461
Restricted for debt service	669,018	-	-	669,018
Unrestricted	799,135	178,301	-	977,436
TOTAL NET POSITION	<u>\$ 2,666,572</u>	<u>\$ 1,719,343</u>	<u>\$ -</u>	<u>\$ 4,385,915</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, 2017**

	Enterprise Funds			
	Water District	Water Plant	Consolidation	Total
<u>Operating Revenues:</u>				
Water Sales	\$ 1,421,329	\$ 803,567	\$ (497,381)	\$ 1,727,515
Membership Dues and Connection Fees	51,150	-	-	51,150
Materials and Line Extensions	51,492	-	-	51,492
Miscellaneous Fees	2,116	-	-	2,116
Total Operating Revenues	<u>1,526,087</u>	<u>803,567</u>	<u>(497,381)</u>	<u>1,832,273</u>
<u>Operating Expenses:</u>				
Salaries	111,495	36,685	-	148,180
Contract Labor/Operator Fees	156,050	102,508	-	258,558
Employee Expense Allowance	34,031	111	-	34,142
Retirement Plan Expense	13,047	3,612	-	16,659
Water Purchases	497,381	307,197	(497,381)	307,197
Utilities	11,131	40,729	-	51,860
Repairs and Maintenance	228,711	13,855	-	242,566
Payroll Taxes	9,167	3,058	-	12,225
Office Supplies and Printing	20,999	-	-	20,999
Insurance	21,714	7,851	-	29,565
Accounting and Legal	9,330	-	-	9,330
Depreciation Expense	204,080	166,441	-	370,521
Permits and Fees	258	7,830	-	8,088
Mileage	762	-	-	762
Administrative Expense	-	2,795	-	2,795
Chemicals	-	51,687	-	51,687
Lab Supplies	-	10,586	-	10,586
Janitorial Supplies	1,942	219	-	2,161
Testing Fees	141	-	-	141
Returned Checks	1,530	4,665	-	6,195
Credit Card Charges	11,948	-	-	11,948
Engineering Fees	-	-	-	-
Dues and Memberships	2,162	-	-	2,162
Advertising	-	-	-	-
Small Tools	439	-	-	439
Materials	3,886	-	-	3,886
Line Extension Expense	34,162	-	-	34,162
Disaster Expense	-	-	-	-
Total Operating Expenses	<u>1,374,366</u>	<u>759,829</u>	<u>(497,381)</u>	<u>1,636,814</u>
Operating Income (Loss)	151,721	43,738	-	195,459
<u>Non-Operating Revenues (Expenses):</u>				
Interest Income	4,103	101	-	4,204
Miscellaneous Income	960	-	-	960
Interest Expense	(76,765)	(112,275)	-	(189,040)
Grants	-	216,000	-	216,000
Total Non-operating Revenues (Expenses)	<u>(71,702)</u>	<u>103,826</u>	<u>-</u>	<u>32,124</u>
Net Income (Loss) Before Contributions	80,019	147,564	-	227,583
Capital Contributions - Grant Income	-	-	-	-
Change in Net Position	80,019	147,564	-	227,583
Total Net Position - Beginning	2,586,553	1,571,779	-	4,158,332
Total Net Position - Prior Year Adjustment	-	-	-	-
Total Net Position - Ending	<u>\$ 2,666,572</u>	<u>\$ 1,719,343</u>	<u>\$ -</u>	<u>\$ 4,385,915</u>

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