

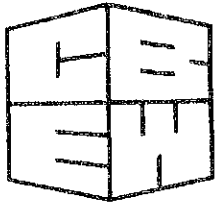
**RURAL WATER DISTRICT NO. 4
PAYNE COUNTY
Yale, Oklahoma**

**BASIC FINANCIAL STATEMENTS
June 30, 2016**

RURAL WATER DISTRICT No. 4
PAYNE COUNTY
Yale, Oklahoma

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INDEPENDENT AUDITOR'S REPORT

May 12, 2017

Board of Directors
Rural Water District No. 4
Payne County
Yale, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Rural Water District No. 4, Payne County, Yale, Oklahoma (the District), as of and for the year ended June 30, 2016 and 2015, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Rural Water District No. 4, Payne County, Yale, Oklahoma as of June 30, 2016 and 2015, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

The District has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires 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 (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 12, 2017, on our consideration of the Rural Water District No. 4's internal control over financial reporting and on 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 results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Rural Water District No. 4's internal control over financial reporting and compliance.

CBEW Professional Group, LLP

CBEW Professional Group, LLP
Certified Public Accountants

RURAL WATER DISTRICT NO. 4
PAYNE COUNTY
Yale, Oklahoma

STATEMENT OF NET POSITION
June 30, 2016 and 2015

	June 30, 2016	June 30, 2015
Current assets:		
Cash and cash equivalents (Note 1)	\$ 97,756	\$ 133,732
Investments	86,601	86,242
Receivables (net of allowance for uncollectible of \$1712)	30,465	22,641
Prepaid insurance	2,711	2,158
Accrued interest receivable	66	70
OWRA reserves	1,000	1,000
Temporarily restricted:		
Cash and cash equivalents (Note 2)	6,192	6,192
Total current assets	<u>224,791</u>	<u>252,035</u>
Capital assets:		
Water system, improvements and equipment, net of depreciation (Note 4)	173,600	172,718
Total capital assets	<u>173,600</u>	<u>172,718</u>
Total assets	<u>398,391</u>	<u>424,753</u>
Deferred outflows of resources:		
Total deferred outflows	<u>-</u>	<u>-</u>
Current liabilities:		
Accounts payable	49	3,231
Accrued water purchases	3,306	6,653
Accrued interest payable	16	28
Current portion of notes payable (Note 3)	6,192	6,192
Unearned Revenue	-	1,375
Total current liabilities	<u>9,563</u>	<u>17,479</u>
Long-term liabilities:		
Notes payable (Note 3)	1,716	7,358
Total long-term liabilities	<u>1,716</u>	<u>7,358</u>
Total liabilities	<u>11,279</u>	<u>24,837</u>
Deferred inflows of resources:		
Total deferred inflows	<u>-</u>	<u>-</u>
Net position:		
Net Investment in capital assets	165,692	159,168
Temporarily restricted (Note 2)	6,192	6,192
Unrestricted	215,225	234,554
Total net position	<u>\$ 387,109</u>	<u>\$ 399,914</u>

The accompanying notes are an integral part of the basic financial statements.

RURAL WATER DISTRICT NO. 4
PAYNE COUNTY
Yale, Oklahoma

STATEMENT OF ACTIVITIES
For the Years Ended June 30, 2016 and 2015

	June 30, 2016	June 30, 2015
Revenues:		
Water sales	\$ 300,814	\$ 317,700
Installation income	-	4,140
Membership income	5,600	7,310
Other Income	226	2,405
Total revenues	306,640	331,555
Expenses:		
Accounting and legal	4,100	4,100
Advertising	228	-
Annual Fees/Support	1,200	1,973
Bad Debt Expense	523	-
Depreciation	15,818	15,623
Dues and subscriptions	-	-
Insurance	5,255	2,745
Lab tests	4,157	4,860
Map Fees	-	-
Miscellaneous	-	-
Office supplies and postage	930	2,635
Repair and maintenance	5,340	15,140
Supplies	3,796	12,432
Subcontractor labor	59,523	55,776
Rent - Building	3,600	3,600
Utilities	4,800	4,800
Water purchases	210,403	227,800
Total expenses	319,673	351,484
Operating income (loss)	(13,033)	(20,158)
Other income and expense:		
Interest income	765	714
Interest expense	(538)	(811)
Total other income and expense	227	(97)
Change in net position - net income (loss)	(12,806)	(20,255)
Net position - beginning of year	399,915	420,170
Net position - end of year	\$ 387,109	\$ 399,915

The accompanying notes are an integral part of the basic financial statements.

RURAL WATER DISTRICT NO. 4
PAYNE COUNTY
Yale, Oklahoma

STATEMENT OF CHANGES IN NET POSITION
For the Years Ended June 30, 2016 and 2015

	Net Position (Unrestricted)	Net Position (Temporarily Restricted)	Total Net Position
Balance - beginning of year 6-30-14	413,978	6,192	420,170
Change in net position	<u>(20,255)</u>	<u>-</u>	<u>(20,255)</u>
Balance - end of year 6-30-15	\$ <u>393,723</u>	\$ <u>6,192</u>	\$ <u>399,915</u>
Balance - beginning of year 6-30-15	393,723	6,192	399,915
Change in net position	<u>(12,806)</u>	<u>-</u>	<u>(12,806)</u>
Balance - end of year 6-30-16	\$ <u>380,917</u>	\$ <u>6,192</u>	\$ <u>387,109</u>

The accompanying notes are an integral part of the basic financial statements.

RURAL WATER DISTRICT NO. 4
PAYNE COUNTY
Yale, Oklahoma

STATEMENT OF CASH FLOWS
For the Years Ended June 30, 2016 and 2015

	June 30, 2016	June 30, 2015
Cash flows from operating activities:		
Cash received from customers	\$ 298,816	\$ 337,532
Cash payments to suppliers for goods and contractors and other services	(312,311)	(329,935)
Net cash provided by operating activities	<u>(13,495)</u>	<u>7,597</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(16,700)	-
Principal paid on debt	(5,642)	(5,368)
Interest paid on debt	(548)	(824)
Net cash used in capital and related financing activities	<u>(22,890)</u>	<u>(6,192)</u>
Cash flows from investing activities:		
Interest income	769	714
Addition to Investments	(359)	(299)
Net cash provided by investing activities	<u>410</u>	<u>415</u>
Net increase (decrease) in cash	(35,975)	1,821
Cash and cash equivalents at beginning of year	<u>133,732</u>	<u>131,912</u>
Cash and cash equivalents at end of year	<u>\$ 97,756</u>	<u>\$ 133,732</u>
Reconciliation of operation income to net cash provided by operating activities:		
Operating income (loss)	\$ (13,033)	\$ (20,158)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	15,818	15,623
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(7,824)	5,978
(Increase) decrease in prepaid expenses	(553)	286
Increase (decrease) in accounts payable	(4,557)	(5,002)
Increase (decrease) in accrued water purchases	(3,347)	10,870
Total adjustments	<u>(462)</u>	<u>27,755</u>
Net cash provided by operating activities	<u>\$ (13,495)</u>	<u>\$ 7,597</u>

The accompanying notes are an integral part of the basic financial statements.

**RURAL WATER DISTRICT NO. 4
PAYNE COUNTY
Yale, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016 and 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rural Water District No. 4, Payne County, Oklahoma (the District), was created under the provisions of Title 82, O.S. 1981, Sections 1324.1-1324.26 inclusive, for the purpose of providing water to the members it serves. Membership in the water district consists of water users who have paid the required membership and connection fees. The District is exempt from federal and state income taxes.

The District is a governed entity administered by a Board of Directors that act as the authoritative and legislative body of the entity. The Board is comprised of elected members, four of which are elected as officers of the District. All Board members serve without pay.

The more significant of the government's accounting policies are described below.

A. Reporting Entity

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

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

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

Financial activity is accounted for on the flow of economic resources measurement focus using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

C. Assets, Liabilities and Equity

1. Deposits and Investments

Oklahoma Statutes authorize the District to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the District can invest in direct debt securities of the United States unless such an investment is expressly prohibited by law.

All the bank deposits are held at two different financial institutions and are carried at cost. For purposes of statements of cash flows, the District considers cash and all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

RURAL WATER DISTRICT NO. 4
PAYNE COUNTY
Yale, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016 and 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities and Equity (Continued)

1. Deposits and Investments (Continued)

Custodial Credit Risk

At June 30, 2016, the District held deposits of approximately \$190,548 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit, are entirely 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.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

The investments held at June 30, 2016 are as follows:

Type	Weighted Average Maturity (Months)	Credit Rating	Market Value	Cost
Investments				
Certificates of deposit	12.00	N/A	\$ 86,601	\$ 86,601
Total investments			<u>\$ 86,601</u>	<u>\$ 86,601</u>

**RURAL WATER DISTRICT NO. 4
PAYNE COUNTY
Yale, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016 and 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities and Equity (Continued)

1. Deposits and Investments (Continued)

Concentration of Investment Credit Risk

The District places no limit on the amount it may invest in any one issuer. The District has the following of credit risk: 100% in Certificates of Deposit (\$86,601).

2. Fair Value of Financial Instruments

The District's financial instruments include cash and cash equivalents, accounts receivable, accounts payable and notes payable. The District's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of net assets. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

3. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

4. Inventories

Inventories consist primarily of water stored in lines for use in the distribution process. Inventory is expensed when purchased.

5. Capital Assets

Additions to the water storage delivery system and other equipment are recorded at cost or, if contributed property, at their estimated fair value at time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. The District does not currently have a capitalization policy in place.

Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Water system	40 years
Line additions	35 years
Equipment	10 years
Office equipment	10 years

**RURAL WATER DISTRICT NO. 4
PAYNE COUNTY
Yale, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016 and 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities and Equity (Continued)

6. Net Position

In the basic financial statements, net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets.

7. Resource Use Policy

It is in the District's policy for all funds that when an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources, including net positions, are available, the District considers restricted amounts to be spent first before any unrestricted amounts are used.

D. Revenues, Expenses and Other Changes in Net Position

1. Operating Revenues and Expenses

Operating revenues and expenses are principally from water sales and connection fees charged to new system subscribers. Customer water consumption is determined by monthly meter readings taken by District personnel. The water sales from subscriber water consumption billed but unpaid at the District's year-end are recognized as revenue in the current year and reported in the statement of net position as accounts receivable. Operating expense consist of those costs necessary to operate and maintain the water distribution system and for general administration of the District.

2. Non-Operating Revenue and Expenses

Non-operating revenues and expenses consist of investment earnings, interest expense incurred on the District's notes payable and gains and losses on sales or the abandonment of long-lived assets.

3. Bad Debts

The District uses the allowance method for recognizing bad debts. Under the allowance method, the bad debt is written off by removing the amount from accounts receivable. The use of this method does not result in a material difference from the valuation method required by generally accepted accounting principles.

2. TEMPORARILY RESTRICTED ASSETS

Under the terms of the various note indentures with Rural Development, the District is required to make monthly contributions into a reserve account until a minimum balance of \$6,192 has been reached. The funds are temporarily restricted and are to be used for repairing or replacing damaged assets caused by unforeseen catastrophes. With prior written approval from Rural Development, the reserve funds can also be used for making improvements to the water system or for debt service. The balance at the end of the year was \$6,192.

**RURAL WATER DISTRICT NO. 4
PAYNE COUNTY
Yale, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016 and 2015**

3. LONG-TERM DEBT

Long-term debt consists of two notes with the United States Department of Agriculture, Rural Development (RD). The RD notes were issued during November 1978. The notes are secured by the water works system including distribution lines, pump stations and reservoirs. These RD notes are listed as follows:

Loan # 91-04 – Original amount of \$67,000, payable in monthly installments of \$329 for 40 years at 5% interest, maturing in November of 2018.

Loan # 91-06 – Original amount of \$38,000 payable in monthly installments of \$187 for 40 years at 5% interest, maturing in November of 2018.

The following is a summary of long-term debt transactions during the year:

	Balance June 30, 2015	Additions	Reductions	Balance June 30, 2016
USDA Rural Dev. - 91-04	8,799	-	3,589	5,210
USDA Rural Dev. - 91-06	4,750	-	2,052	2,698
Total	<u>\$ 13,549</u>	<u>\$ -</u>	<u>\$ 5,641</u>	<u>\$ 7,908</u>

	Balance June 30, 2014	Additions	Reductions	Balance June 30, 2015
USDA Rural Dev. - 91-04	12,215	-	3,416	8,799
USDA Rural Dev. - 91-06	6,703	-	1,953	4,750
Total	<u>\$ 18,918</u>	<u>\$ -</u>	<u>\$ 5,369</u>	<u>\$ 13,549</u>

Annual cash requirements to amortize these notes are as follows:

Year Ending June 30,	Payments Due
2017	\$ 6,192
2018	2,000
Total	8,192
Less interest	(284)
Note balance	<u>\$ 7,908</u>

The District's debt service coverage ratios for June 30, 2016 and 2015 are (1.17)% and (3.26)% respectively.

	2016	2015
Net Operating Income	(7,227)	(20,158)
Annual Debt	6,192	6,192
Debt Coverage Ratio	<u>(1.17)</u>	<u>(3.26)</u>

**RURAL WATER DISTRICT NO. 4
PAYNE COUNTY
Yale, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016 and 2015**

4. CAPITAL ASSETS

The following is a summary of changes in property, plant and equipment.

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
Water System	\$ 687,600	\$ 16,700	\$ -	\$ 704,300
Office Equipment	8,388		-	8,388
Total	<u>695,988</u>	<u>16,700</u>	<u>-</u>	<u>712,688</u>
Less accumulated depreciation	523,270	15,818	-	539,088
Net Capital Assets	<u>\$ 172,718</u>	<u>\$ 15,818</u>	<u>\$ -</u>	<u>\$ 173,600</u>

	Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015
Water System	\$ 687,600	\$ -	\$ -	\$ 687,600
Office Equipment	8,388	-	-	8,388
Total	<u>695,988</u>	<u>-</u>	<u>-</u>	<u>695,988</u>
Less accumulated depreciation	507,647	15,623	-	523,270
Net Capital Assets	<u>\$ 188,341</u>	<u>\$ 15,623</u>	<u>\$ -</u>	<u>\$ 172,718</u>

5. RISK MANAGEMENT

Rural Water District No. 4 is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District continues to carry commercial insurance for these risks, including general and auto liability, property damage, and public officials liability. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

6. WATER PURCHASE COMMITMENT

The governing board of Rural Water District No. 4, Payne County, Yale, Oklahoma, together with seven other cities and rural water districts located in Noble, Pawnee, and Payne Counties, Oklahoma, have jointly formed Lone Chimney Water Association. The purpose of the Association is to provide a water system for the benefit of its members and other users. The District has entered into various loan agreements with the United States Department of Agriculture, Rural Development and the Oklahoma Water Resources Board to provide financing for the facility. Under the terms of the agreement regarding Rural Water District No. 4, each member has contracted to purchase a minimum amount of water from the Association during the 40-year term of the notes.

In addition, each individual member is proportionately liable for any debts that exceed the assets of the Association to the extent of one and one-half times the percentage of ownership interest held by the entity pursuant to the agreement. The District is contingently liable for approximately 9.781% of the obligations of the Association, which total approximately \$4,578,180 to OWRB at year-end. The District's contingent share of Lone Chimney Water Association's debt is \$447,788.

At June 30, 2016, Rural Water District No. 4 was obligated to purchase a minimum of 30 million gallons of water annually, currently at a cost of \$225,000. The rates charged for the water can be adjusted every three years as necessary to provide sufficient revenues for the Association.

RURAL WATER DISTRICT NO. 4
PAYNE COUNTY
Yale, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016 and 2015

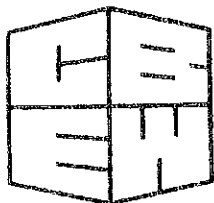
6. WATER PURCHASE COMMITMENT (Continued)

Future purchase commitments at current rates are as follows:

<u>June 30,</u>	<u>Amounts</u>
	<u>Due</u>
2017	\$ 225,000
2018	225,000
2019	225,000
2020	225,000
2021	225,000
2022-2026	1,125,000
2027-2031	1,125,000
2032-3035	900,000
Total	<u>\$ 4,275,000</u>

**RURAL WATER DISTRICT NO. 4
PAYNE COUNTY
Yale, Oklahoma**

**REPORT REQUIRED BY *GOVERNMENT AUDITING STANDARDS*
June 30, 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**

May 12, 2017

Board of Directors
Rural Water District No. 4
Payne County
Yale, 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, the financial statements of the business-type activities of the Rural Water District No. 4, Payne County, Yale, Oklahoma (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 12, 2017. The District did not present the Management's Discussion and Analysis required by the Governmental Accounting Standards Board.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses as findings 2016-001 and 2016-002.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, according, 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.

CBEW Professional Group, LLP

CBEW Professional Group, LLP
Certified Public Accountants

**RURAL WATER DISTRICT NO. 4
PAYNE COUNTY
Yale, Oklahoma**

**SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2016**

2016-001. Internal Control – Segregation of Duties

Criteria: The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets and reconciliation of those asset accounts is an important control activity needed to adequately protect the district's assets and ensure accurate financial reporting.

Condition: Presently the same individual that receives utility service related cash payments is also responsible for service billing and adjustments, balances the daily cash drawer, posts payments to subsidiary accounts receivable ledger and reconciles the monthly bank statements. In addition, only limited oversight is provided over this individual in the conduct of their daily functions. This finding was also noted in 2015.

Cause: The district's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

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

Recommendation: We recommend that management and the board should consider a formal evaluation of their risks associated with this lack of duties segregation over utility cash and receivables. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with lack of segregation of duties, such as providing increased management oversight and an independent reconciliation of accounts. For example, the entity might consider soliciting the assistance of independent volunteer labor to perform certain functions including performing compensating procedures where applicable.

Responsible Official's Response: The district concurs with the recommendation, although, the cost to correct this condition might exceed the benefit, the district has made certain changes in procedures that will improve the overall lack of segregation of duties and has implemented compensating procedures as appropriate.

2016-002. Internal Control – Material Adjusting Journal Entries

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

Condition: The district's trial balances for the year ended June 30, 2015, required a number of material adjusting journal entries in order for the financial statements to be prepared in accordance with GAAP. These necessary adjusting entries, identified solely as a result of the financial statement audit, included such adjustments as the following: Capitalize asset expenditures, interest payments on notes, depreciation, and accounts receivable. This finding was also noted in 2015.

Cause: The district's accounting and financial reporting staff does not possess the formal knowledge, expertise and education, relative to the complex nature of applying GAAP applicable to state and local governments, sufficient to provide reasonable assurance that the trial balances used for preparing the GAAP financial statements are complete and accurate prior to audit. As a result, management has had to rely on the external auditors to identify and correct a number of material misstatements in the trial balances. However, as required by professional standards, management had the capacity to review, understand and accept the adjusting entries proposed by the auditor in order to take full responsibility for them and the related financial statements.

**RURAL WATER DISTRICT NO. 4
PAYNE COUNTY
Yale, Oklahoma**

**SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2016**

Effect or Potential Effect: As a result of this condition, without assistance from its external auditors, the district lacks the necessary internal controls over the completeness and accuracy of the trial balances that are used in the preparation of its financial statements in accordance with GAAP. This condition can result in undetected and uncorrected material misstatements in the financial statements that are not detected by management and may also not be detected by the financial statement audit. In addition, if management's intentions are to continue to rely on the external auditor to detect and correct material misstatements, this condition could place the auditor in a questionable position regarding auditor independence since management is responsible for the completeness and accuracy of the financial statements.

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

Responsible Official's Response: The district concurs with the recommendation, and will strive to expand their knowledge and understanding to identify and correct material misstatements timely in order to prepare complete and accurate financial statements.