RURAL WATER AND SEWER DISTRICT NO. 4
LINCOLN COUNTY, OKLAHOMA

ANNUAL FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

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LINCOLN COUNTY, OKLAHOMA
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Independent Auditor's Report

Board of Directors
Rural Water and Sewer District No. 4,
Lincoln County, Oklahoma

We have audited the accompanying financial statements of the Rural Water and Sewer District No. 4, Lincoln County, Oklahoma as of June 30, 2012. These financial statements are the responsibility of the District's management. 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 for 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 whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Rural Water and Sewer District No. 4, Lincoln County, Oklahoma, as of June 30, 2012, and the changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 11, 2012 on our consideration of Rural Water and Sewer District No. 4, Lincoln County, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants 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* and should be read in conjunction with this report in considering the results of our audit.

Rural Water and Sewer District No. 4, Lincoln County, Oklahoma has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board requires to supplement, although, not be a part of the basic financial statements.

Kimberlye R Mayer

Kimberlye R. Mayer, CPA, P.C.
Blackwell, Oklahoma
September 11, 2012

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Rural Water and Sewer District No. 4, Lincoln County, Oklahoma

We have audited the financial statements of Rural Water and Sewer District No. 4, Lincoln County, Oklahoma as of and for the year ended June 30, 2012 and have issued our report thereon dated September 11, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and in *Government Auditing Standards*, issued by the Comptroller General of the United States. Rural Water and Sewer District No. 4, Lincoln County, Oklahoma has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board requires to supplement, although, not be a part of the basic financial statements.

Internal Control Over Financial Reporting
Management of Rural Water and Sewer District No. 4, Lincoln County, Oklahoma is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Rural Water and Sewer District No. 4, Lincoln County Oklahoma's internal control over financial reporting as a basis for designing our auditing procedures 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 Rural Water and Sewer District No. 4, Lincoln County Oklahoma's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Rural Water and Sewer District No. 4, Lincoln County, Oklahoma's internal control over financial reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether Rural Water and Sewer District No. 4, Lincoln County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 audits and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Rural Water and Sewer District No. 4, Lincoln County, Oklahoma's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the board of directors, and others within the District and is not intended to be and should not be used by anyone other than these specified parties.

Kimberlye R Mayer

Kimberlye R. Mayer, CPA, P.C.
Blackwell, Oklahoma
September 11, 2012

RURAL WATER AND SEWER DISTRICT NO. 4, LINCOLN COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012

Material Weakness Communicated In Prior Year:

Material Weakness in Internal Control Over Financial Reporting: Inadequate Segregation of Duties:

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

Condition:
Presently, the same individual is responsible for water service billings and receiving payments; making and recording deposits; and maintaining billing registers. Only limited oversight is provided over this individual in the conduct of their daily functions.

Cause:
The entity's limited size has made it difficult for management to fully segregate the duties.

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

Recommendation:
The board should evaluate the risks associated with the lack of segregation of duties and consider implementing controls that could mitigate these risks.

Board's Response:
The board has concluded that due to the limited number of personnel, an adequate segregation of duties is not achievable and that the cost of correcting the weakness would exceed the benefits that would be derived from it.

FINANCIAL STATEMENTS

AND

NOTES

RURAL WATER AND SEWER DISTRICT NO. 4
LINCOLN COUNTY, OKLAHOMA
STATEMENT OF NET ASSETS
JUNE 30, 2012

ASSETS

Current Assets:	
Cash and cash equivalents (Note 2)	$ 51,450
Certificates of deposit	20,065
Accounts receivable (less allowance for doubtful accounts of $5,900)	42,608
Prepaid insurance	16,435
Total Current Assets	130,558
Restricted Assets:	
OWRB restricted accounts	70,093
Other Assets:	
Loan fees (net of accumulated amortization) (Note 7)	46,265
Meter deposits	255
Total Other Assets	46,520
Non-current Assets:	
Property and equipment (net of accumulated depreciation) (Note 3)	914,119
Construction in progress	25,667
Total Assets	$ 1,186,957

LIABILITIES AND NET ASSETS

Current Liabilities:	
Accounts payable	$ 21,401
Payroll taxes due	4,458
Customer and rental deposits	2,885
Notes payable (current portion) (Note 4)	25,000
Loans payable (current portion) (Note 4)	5,560
Total Current Liabilities	59,304
Non-current Liabilities:	
Loans payable, long term (Note 4)	9,069
Notes payable, long term (Note 4)	440,000
Total Non-current Liabilities	449,069
Total Liabilities	508,373
Net Assets:	
Invested in capital assets, net of related debt	460,157
Restricted for debt service	70,093
Unrestricted	148,334
Total Net Assets	678,584
Total Liabilities and Net Assets	$ 1,186,957

The accompanying report and notes are an integral part of these financial statements.

RURAL WATER AND SEWER DISTRICT NO. 4
LINCOLN COUNTY, OKLAHOMA
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2012

Operating Revenue:	
Water service	$ 519,042
Sewer Revenues	37,995
Late penalties	21,906
Other revenues	13,828
Total Operating Revenue	592,771
Operating Expense:	
Wages	209,387
Payroll taxes	14,649
Employee benefits	46,082
Water costs	57,556
Water exam and permit fees	5,810
Operating supplies	37,167
Chemicals	12,529
Fuel	20,493
Repairs and maintenance	34,096
Insurance	22,111
Uniform rental	2,814
Professional fees	2,925
Advertising and promotion	2,886
Office supplies and postage	11,075
Meetings and training	2,475
Utilities and telephone	41,897
Trustee fees	1,500
Other expenses	7,759
Depreciation and amortization	52,434
Total Operating Expense	585,645
Income (Loss) From Operations	7,126
Non-operating Revenue (Expense):	
Capital improvement income	32,779
Interest income	136
System development fees	7,661
Interest expense	(5,509)
Total Non-operating Revenue (Expense)	35,067
Change in Net Assets	42,193
Net Assets, beginning of year	636,391
Net Assets, end of year	$ 678,584

The accompanying report and notes are an integral part of these financial statements.

RURAL WATER AND SEWER DISTRICT NO. 4
LINCOLN COUNTY, OKLAHOMA
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2012

Cash Flows From Operating Activities:	
Cash received from customers	$ 578,638
Other operating cash receipts	13,828
Cash payments to suppliers for goods and services	(327,324)
Cash payments to employees for services	(209,387)
Net cash provided (used) by operating activities	55,755
Cash flows from non-capital financing activities:	
Cash flows from capital and related financing activities:	
Increase in loan fees	(4,835)
Acquisition and construction of capital assets	(60,962)
Principal paid on notes and loans	(20,989)
New borrowings	10,700
Interest paid on notes and loans	(5,509)
System development and capital fees	40,440
Net cash provided (used) by financing activities	(41,155)
Cash flows from investing activities:	
Interest on cash and investments	136
Decrease in Certificates of Deposit	38,557
(Increase) decrease in restricted accounts	(21,071)
Net cash provided (used) by investing activities	17,622
Net increase (decrease) in cash and cash equivalents	32,222
Beginning cash and cash equivalents	19,228
Ending cash and cash equivalents	$ 51,450

Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:	
Income (Loss) from operations	$ 7,126
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:	
Depreciation and amortization	52,434
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(305)
(Increase) decrease in prepaids	(6,556)
Increase (decrease) in payables	3,056
Net cash provided (used) by operating activities	$ 55,755

The accompanying report and notes are an integral part of these financial statements.

RURAL WATER AND SEWER DISTRICT NO. 4,
LINCOLN COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

The Rural Water and Sewer District No. 4, Lincoln County, Oklahoma was created under the provisions of Title 82 of the Oklahoma Statues, Section 1324.1 – 1324.35 and the laws of the State of Oklahoma. The purpose of this District is to furnish and supply to owners and occupants of property within the corporate limits water, sewer and related facilities and services.

The District is a governed entity administered by a Board of Directors that acts as the authoritative and legislative body of the entity. The Board is comprised of seven elected board members. Of the seven, four are elected as officers of the District.

Basis of Accounting

The accounting policies of Rural Water and Sewer District No. 4, Lincoln County, Oklahoma conform to the basic principles of governmental accounting and financial reporting set forth by the Governmental Accounting Standards Board.

The District is classified as an Enterprise Fund. The costs of providing the water services to the public are financed mainly through user charges. The financial statements of the District have been prepared using the accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred.

Restricted Assets

Restricted assets are cash and cash equivalents, whose use is limited by legal requirements. Restricted cash with fiscal agent represents amounts required by debt covenant to be segregated for debt payments and accrued interest on the notes.

Net Assets

Net assets present the difference between assets and liabilities in the statement of net assets. Net assets invested in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by District legislation or external restrictions by creditors, grantors, laws or regulations of other governments.

NOTE 2 – CASH AND CASH EQUIVALENTS:

The District considers all checking and savings accounts (except restricted accounts) and deposits with a maturity of three months or less to be cash equivalents.

NOTE 3 - PROPERTY AND EQUIPMENT:

Depreciable assets are recorded at cost when purchased or constructed. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not. Depreciation is calculated on a straight-line basis over the estimated useful lives of the depreciable assets. Total depreciation for the year ended June 30, 2012 was $51,184. The following is a summary by category of changes in property and equipment:

Category	6/30/11	Additions	Deletions	6/30/21
Land	$ 72,441	$	$	$ 72,441
Vehicles	81,414			81,414
Buildings and improvements	48,771	950		49,721
Waterline system	1,451,319	51,750		1,503,069
Sewer system	151,391			151,391
Meter installation	26,701			26,701
Office equipment	35,286	120		35,406
Machinery and equipment	207,303	297		207,600
Accumulated depreciation	(1,162,440)	(51,184)		(1,213,624)
Net	$ 912,186	$ 1,933	$	$ 914,119

NOTE 4 – NOTES AND LOANS PAYABLE:

OWRB Notes

During the year ended June 30, 2003, the District entered into a note agreement with the Oklahoma Water Resources Board for $335,000. The proceeds from this note were used to pay loan costs, set up a debt reserve fund, and to pay for construction costs for the improvement and expansion of its waterline system. The payments are semiannual with a variable interest rate adjusted every six months. The interest rate is currently 1.35% and the term of the note is 30 years.

On June 26, 2006 the District entered into a note agreement with the Oklahoma Water Resources Board for $300,000. The proceeds of this note are to be used to pay for costs of drilling a new well. The payments are semiannual with a variable interest rate adjusted every six months. The interest rate is currently 1.755% and the term of the note is 30 years.

During the year ended June 30, 2012, the District entered into a note agreement with the Oklahoma Water Resources Board for $465,000 to refinance the above two notes. The interest rate is 3.14% and the term of the note is 9½ years.

NOTE 4 – NOTES AND LOANS PAYABLE (Continued):

On January 6, 2011 the District borrowed $30,670 to purchase a vehicle. The note matures on August 1, 2016 and carries an interest rate of 3.03%. Monthly payments are $500. The principle payments made during the year ended June 30, 2012 were $11,439. Collateral for this loan is the certificates of deposit.

The following is a summary of the District's future annual debt requirements:

Year Ending	OWRB	Loans	Totals
6/30/13	$ 37,592	$ 6,000	$ 43,592
6/30/14	57,260	6,000	63,260
6/30/15	56,540	3,520	60,060
6/30/16	55,480		55,480
6/30/17	54,380		54,380
6/30/18-6/30/22	282,610		282,610
	$ 543,862	$ 15,520	$ 559,382
Less interest	(78,862)	(891)	(79,753)
Net	$ 465,000	$ 14,629	$ 479,629

NOTE 5 – WATER PURCHASE COMMITMENT:

The governing board of the Rural Water and Sewer District No. 4, Lincoln Oklahoma, together with seven other cities and rural water districts located in Noble, Pawnee, and Payne Counties have jointly formed Lone Chimney Water Association (Association). The purpose of the Association is to provide a water system for the benefit of its members and other users. The Association has entered into various loan agreements with the USDA-Rural Development to provide financing for the facility. Under the terms of the agreement regarding the Lone Chimney Water Association, 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 8% of the obligations of the Association. At June 30, 2012, the Association's debts did not exceed its assets.

NOTE 5 – WATER PURCHASE COMMITMENT (Continued):

At June 30, 2012, the Rural Water and Sewer District No. 4, Lincoln County, Oklahoma, was obligated to purchase a minimum of 21.6 million gallons of water annually, currently at a cost of $43,200. The rate charged for the water can be adjusted every three years to provide sufficient revenues for the Association. Future purchase commitments at current rates are as follows:

6/30/13	$ 43,200
6/30/14	43,200
6/30/15	43,200
6/30/16	43,200
6/30/17	43,200
Thereafter	579,960
Total	$ 795,960

During the year ended June 30, 2004 the District entered into a water purchase contract with the Town of Chandler. The District is obligated to purchase a minimum of 250,000 gallons annually at a rate of $700 per month. Future purchase commitments are as follows.

6/30/13	$ 8,400
6/30/14	8,400
6/30/15	8,400
6/30/16	8,400
6/30/17	8,400
Thereafter	218,400
Total	$ 260,400

NOTE 6 – ACCOUNTS RECEIVABLE:

The accounts receivable at June 30, 2012 consist of amounts due from customers for water and sewer services.

NOTE 7 – AMORTIZATION OF LOAN COSTS:

The loan costs are being amortized over the life of the loan. Total amortization for the year ended June 30, 2012 was $1,250.

NOTE 8 – RETIREMENT PLAN:

The District maintains a retirement plan for its qualified employees. The District contributes 7% of the employees gross wages to this plan. The amount contributed by the District during the year ended June 30, 2012 was $14,472.

NOTE 9 – INVESTMENTS:

The State of Oklahoma allows government entities to invest in the following: direct obligations of the United State Government, its agencies or instrumentalities; collateralized or insured certificates of deposit; insured savings accounts or savings certificates; or county, municipal or school district direct debt.

NOTE 10 – DEPOSITS, INVESTMENTS AND COLLATERAL:

At June 30, 2012, all of the District's deposits were covered by Federal Depository Insurance Corporation.

NOTE 11 – ESTIMATES:

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

NOTE 12 – RISK MANAGEMENT:

The District is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District manages this risk through the purchase of commercial insurance policies. Claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. The District has had no claims that exceeded its insurance coverage.

NOTE 13 – CONTINGENCIES:

As of June 30, 2012, the District did not have any pending litigation or potential non-disclosed liabilities that management believes would have a material effect on the financial statements.

NOTE 14 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through September 11, 2012, the date which the financial statements were available to be issued.