

**RURAL WATER DISTRICT NO. 4,
KAY COUNTY, OKLAHOMA**

ANNUAL FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2015 AND 2014

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KAY COUNTY, OKLAHOMA
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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the Rural Water District No. 4, Kay County, Oklahoma, as of and for the years ended September 30, 2015 and 2014, and the related notes to the financial statements which collectively comprise the District's basic 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 the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 audits. We conducted our audits 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. Those standards require that we plan and perform the audits to obtain reasonable assurance 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 District'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 District's internal control. Accordingly, we express no such an opinion. An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above, present fairly, in all material respects, the modified cash basis financial position of the Rural Water District No. 4, Kay County, Oklahoma as of September 30 and 2015 and 2014, and the changes in its modified cash basis financial position and its cash flows for the years then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated January 6, 2016 on our consideration of the Rural Water District No. 4, Kay County, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Kimberly R. Mayer, CPA, P.C.

Kimberly R. Mayer, CPA, P.C.
Blackwell, Oklahoma
January 6, 2016

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

The Board of Directors
Rural Water District No. 4, Kay County, Oklahoma

We have audited the financial statements of Rural Water District No. 4, Kay County, Oklahoma as of and for the year ended September 30, 2015 and have issued our report thereon dated January 6, 2016. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements were prepared on the modified cash basis of accounting which is a basis of accounting other than 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 Rural Water District No. 4, Kay County, Oklahoma'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 Rural Water District No. 4, Kay County, Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of the Rural Water District No. 4, Kay County, Oklahoma's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of control deficiencies, in internal control that there is reasonable possibility that a material misstatement of the District'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 was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water District No. 4, Kay County, Oklahoma'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 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*.

Response to Findings

Rural Water District No. 4, Kay County, Oklahoma's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Rural Water District No. 4, Kay County, Oklahoma's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

 Kimberlye R. Mayer, CPA, P.C.

Blackwell, Oklahoma
January 6, 2016

RURAL WATER DISTRICT NO. 4, KAY COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED SEPTEMBER 30, 2015

Material Weakness Communicated In Prior Year:

Material Weakness in Internal Control Over Financial Reporting: Inadequate design of controls over the financial statements:

Criteria:

An independent review of the documentation and transactions for the financial statements is an important control activity needed to prevent or detect and correct misstatements in the financial statements and to ensure accurate financial reporting.

Condition:

Presently, there is no independent review of the transactions recorded in the financial statements or the documentation supporting the transactions.

Cause:

The entity's limited size has made it difficult for management to perform independent reviews of the transactions and supporting documentation.

Effect or Potential Effect:

Without sufficient independent reviews, the risk significantly increases that errors and/or misstatements could occur and not be detected and corrected within a timely basis.

Recommendation:

The district should evaluate the risks associated with this lack of independent reviews and consider implementing controls that could mitigate these risks.

Board's Response:

The directors concur with the recommendation and will strive to develop a control procedure to correct this deficiency.

FINANCIAL STATEMENTS

AND

NOTES

RURAL WATER DISTRICT NO. 4
 KAY COUNTY, OKLAHOMA
 STATEMENTS OF ASSETS, LIABILITIES AND NET POSITION
 MODIFIED CASH BASIS
 SEPTEMBER 30, 2015 AND 2014

ASSETS

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 30,418	\$ 28,614
Capital assets (net of accumulated depreciation) (Note 2)	<u>66,826</u>	<u>69,981</u>
Total Assets	<u>\$ 97,244</u>	<u>\$ 98,595</u>

LIABILITIES AND NET POSITION

Liabilities	\$	\$
Net Position:		
Net investment in capital assets	66,826	69,981
Unrestricted	<u>30,418</u>	<u>28,614</u>
Total Net Position	<u>97,244</u>	<u>98,595</u>
Total Liabilities and Net Position	<u>\$ 97,244</u>	<u>\$ 98,595</u>

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

RURAL WATER DISTRICT NO. 4
 KAY COUNTY, OKLAHOMA
 STATEMENTS OF REVENUES, EXPENSES AND
 CHANGES IN NET POSITION - MODIFIED CASH BASIS
 YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Operating Revenues		
Water service	\$ 70,614	\$ 65,773
Benefit units	3,000	3,750
Total Operating Revenues	<u>73,614</u>	<u>69,523</u>
Operating Expenses		
Water purchases	39,715	36,953
Repairs and maintenance	5,123	5,491
Mowing	350	975
Insurance	1,384	1,380
Licenses, dues and memberships	618	180
Water samples and fees	3,009	1,865
Director fees	810	585
Meetings and administration	1,750	1,327
Office and postage	122	78
Manager fees	15,868	13,784
Telephone and answering service	1,199	1,014
Professional fees	1,055	1,055
Other expenses	807	730
Depreciation	3,155	3,155
Total Operating Expenses	<u>74,965</u>	<u>68,572</u>
Change in Net Position	(1,351)	951
Net Position, beginning of year	<u>98,595</u>	<u>97,644</u>
Net Position, end of year	<u>\$ 97,244</u>	<u>\$ 98,595</u>

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

RURAL WATER DISTRICT NO. 4
 KAY COUNTY, OKLAHOMA
 STATEMENTS OF CASH FLOWS
 MODIFIED CASH BASIS
 YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	2015	2014
Cash Flows From Operating Activities:		
Cash received from customers	\$ 73,614	\$ 69,523
Cash payments to suppliers for goods and services	(71,810)	(65,417)
Net cash provided (used) by operating activities	1,804	4,106
Cash flows from non-capital financing activities:		
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	—	—
Net cash provided (used) by financing activities	—	—
Cash flows from investing activities:	—	—
Net increase (decrease) in cash and cash equivalents	1,804	4,106
Beginning cash and cash equivalents	28,614	24,508
Ending cash and cash equivalents	\$ 30,418	\$ 28,614
Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:		
Increase (decrease) in net position	\$ (1,351)	\$ 951
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation	3,155	3,155
Net cash provided (used) by operating activities	\$ 1,804	\$ 4,106

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

RURAL WATER DISTRICT NO. 4,
KAY COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2015 AND 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

The Rural Water District No. 4, Kay County, Oklahoma, was incorporated on November 22, 1976, under Title 82, Section 1324.1 as amended, of the laws of the State of Oklahoma. The District is exempt from Federal and State income tax. The purpose of the District is to provide water services to the owners and occupants of property located within the District, and other as authorized by law.

The District is a governed entity by a Board of Directors that acts as the authoritative and legislative body of the entity. The Board of Directors is comprised of elected board members.

Basis of Accounting

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 modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

Cash and Deposits

Cash is maintained in financial institutions, which provide coverage to depositors through the Federal Deposit Insurance Corporation.

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.

Net Position

Net position presents the difference between assets and liabilities in the statement of net position. Net investment in capital assets is reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is 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.

RURAL WATER DISTRICT NO. 4
 KAY COUNTY, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED SEPTEMBER 30, 2015 AND 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Statement of Cash Flows

For the purposes of the Statement of Cash Flows, the District considers all checking accounts and deposits with a maturity of three months or less to be cash equivalents.

NOTE 2 – PROPERTY, PLANT, AND EQUIPMENT:

Depreciable assets are recorded at cost when purchased or constructed. Depreciation is calculated on a straight-line basis over the estimated useful lives of the depreciable assets. Total depreciation for the years ended September 30, 2015 and 2014 was \$3,155 and \$3,155. The balances for depreciable assets at September 30, 2015 and 2014 by major category are as follows:

	<u>Balance at</u> <u>Sept. 30, 2014</u>	<u>Additions</u>	<u>Balance at</u> <u>Sept. 30, 2015</u>
Waterline system	\$ 145,652	\$	\$ 145,652
Accumulated depreciation	(75,671)	(3,155)	(78,826)
Net	<u>\$ 69,981</u>	<u>\$ (3,155)</u>	<u>\$ 66,826</u>

NOTE 3- ESTIMATES.

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

NOTE 4 – RISK MANAGEMENT:

The District is exposed to various risks of loss related to torts; thefts of, damages 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 probably 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.

RURAL WATER DISTRICT NO. 4,
KAY COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2015 AND 2014

NOTE 5 - FAIR VALUE OF INSTRUMENTS:

The District's financial instruments include cash and cash equivalents. 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 position. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

NOTE 6 - CONTINGENCIES:

As of September 30, 2015, the District did not have any pending litigation or potential non-disclosed liabilities that management believes would have a material effect of the financial statements.

NOTE 7 - EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through January 6, 2016, the date which the financial statements were available to be issued.