

**RURAL WATER DISTRICT NO. 4,
GARVIN COUNTY**

ANNUAL FINANCIAL STATEMENTS

YEAR ENDED OCTOBER 31, 2015

RURAL WATER DISTRICT NO. 4, GARVIN COUNTY
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Independent Auditor's Report

Board of Directors
Rural Water District No. 4, Garvin County

Report on the Financial Statements

We have audited the accompanying financial statements of Rural Water District No. 4, Garvin County, which comprise the statement of net position as of October 31, 2015 and the related statements of revenues and expenses and changes in net position and cash flows for the year then ended, 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. 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 audit. 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. 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 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 opinion.

Basis for Qualified Opinion

The amounts reported in the financial statements for capital assets and accumulated depreciation are based on estimates and may not represent a complete accounting of all capital assets in service as required by accounting principles generally accepted in the United States of America. Capital asset records necessary to provide reasonable assurance that these amounts are not materially misstated are not readily available as explained in Note 4.

Opinion

In our opinion, except for the effects of any adjustments that might have been necessary had we been able to obtain sufficient evidence related to capital assets and related accounts, the financial statements referred to above, present fairly, in all material respects, the financial position of Rural Water District No. 4, Garvin County, as of October 31, 2015; the changes in financial position; and, cash flows thereof, for the year then ended in conformity with the accounting principles generally accepted in the United States of America.

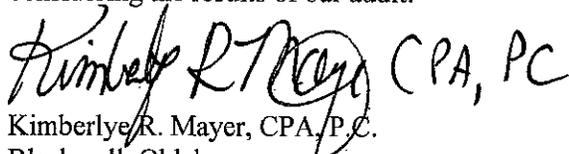
Other Matters

Required Supplementary Information

Rural Water District No. 4, Garvin County has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basis financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basis 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 a report dated January 18, 2016 on our consideration of Rural Water District No. 4, Garvin County's internal control over financial reporting and on our tests of its compliance with certain laws, regulations, contracts and 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.


Kimberly R. Mayer, CPA, P.C.
Blackwell, Oklahoma
January 18, 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

Board of Directors
Rural Water District No. 4, Garvin County

We have audited the financial statements of Rural Water District No. 4, Garvin County as of and for the year ended October 31, 2015 and have issued our report thereon dated January 18, 2016. 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. The auditor's report for the year ended October 31, 2015 is qualified due to the lack of records related to the value of the capital assets.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Rural Water District No. 4, Garvin County'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, Garvin County's internal control. Accordingly, we do not express an opinion on the effectiveness of the Rural Water District No. 4, Garvin County'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 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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. 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.

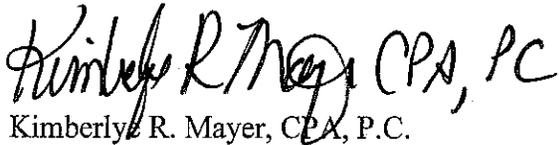
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water District No. 4, Garvin 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 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*.

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.



Kimberly R. Mayer, CPA, P.C.

Blackwell, Oklahoma

January 18, 2016

FINANCIAL STATEMENTS

AND

NOTES

RURAL WATER DISTRICT NO. 4, GARVIN COUNTY
STATEMENT OF NET POSITION
OCTOBER 31, 2015

ASSETS

Current Assets:	
Operating accounts	\$ 118,329
Certificate of deposits	338,190
Total cash and cash equivalents	<u>456,519</u>
Certificates of deposit	201,504
Accounts receivable (Note 3)	61,811
Prepaid insurance	3,728
Inventory	4,126
Contracts receivable (current portion) (Note 9)	96,473
Total Current Assets	<u>824,161</u>
Contract receivables (Note 9)	314,055
Reserve certificate	1,000
Water system (net of accumulated depreciation) (Note 4)	434,861
Work in progress	<u>1,464,839</u>
Total Assets	<u><u>\$ 3,038,916</u></u>

LIABILITIES AND NET POSITION

Current Liabilities:	
Accounts payable	\$ 294,567
Payroll taxes due	768
Customer deposits	500
Notes payable (current portion)(Note 10)	19,724
Total Current Liabilities	<u>315,559</u>
Notes payable (long-term)(Note 10)	<u>799,690</u>
Total Liabilities	1,115,249
Net Position:	
Net investment in capital assets	818,241
Unrestricted	1,105,426
Total Net Position	<u>1,923,667</u>
Total Liabilities and Net Position	<u><u>\$ 3,038,916</u></u>

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

RURAL WATER DISTRICT NO. 4, GARVIN COUNTY
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED OCTOBER 31, 2015

Operating Revenue:	
Water sales	\$ 328,744
Late fees	3,607
Other income	5,570
Total Operating Revenue	337,921
Operating Expense:	
Water costs	96,473
Payroll	37,104
Payroll taxes	3,108
Employee benefits	16,574
Meetings and training	4,181
Insurance	8,533
Postage and supplies	4,675
Dues, licenses and fees	5,787
Professional fees	6,514
Repairs and maintenance	74,538
Contract labor	35,390
Vehicle expenses	2,152
Telephone	1,529
Utilities	6,499
Other expenses	928
Depreciation	25,327
Total Operating Expense	329,312
Income (Loss) From Operations	8,609
Non-operating Revenue (Expense):	
Interest expense	(3,344)
Benefit units	16,700
Advertising income	6,823
Interest income	4,911
Total Non-operating Revenue (Expense)	25,090
Change in Net Position	33,699
Net Position, beginning of year	1,889,968
Net Position, end of year	\$ 1,923,667

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

RURAL WATER DISTRICT NO. 4, GARVIN COUNTY
STATEMENT OF CASH FLOWS
YEAR ENDED OCTOBER 31, 2015

Cash Flows From Operating Activities:	
Cash received from customers	\$ 305,825
Cash payments to employees	(37,104)
Cash payments to suppliers for goods and services	(138,327)
Net cash provided (used) by operating activities	130,394
Cash flows from non-capital financing activities:	
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(158,143)
Increase in work in progress	(1,136,462)
Amount due from loan	262,045
Loan proceeds	819,414
Interest paid	(3,344)
Advertising income	6,823
New memberships	16,700
Net cash provided (used) by financing activities	(192,967)
Cash flows from investing activities:	
Interest on cash and investments	4,911
(Increase) decrease in CD's	(1,504)
Net cash provided (used) by investing activities	3,407
Net increase (decrease) in cash and cash equivalents	(59,166)
Beginning cash and cash equivalents	515,685
Ending cash and cash equivalents	\$ 456,519
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ 8,609
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	25,327
Changes in assets and liabilities:	
(Increase) decrease in receivables	64,377
(Increase) decrease in prepaids	1,154
(Increase) decrease in inventory	
Increase (decrease) in customer deposits	
Increase (decrease) in payables	30,927
Net cash provided (used) by operating activities	\$ 130,394

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

RURAL WATER DISTRICT NO. 4, GARVIN COUNTY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED OCTOBER 31, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

Rural Water District No. 4, Garvin County was organized and established under the provisions of Title 82 of 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 and related facilities and services.

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 board members.

Basis of Accounting

The accounting policies of Rural Water District No. 4, Garvin County 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.

Cash and Deposits

Cash and deposits are 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 are 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.

NOTE 2 – CASH AND CASH EQUIVALENTS:

For the purpose of the Statement of Cash Flows, the District considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

RURAL WATER DISTRICT NO. 4, GARVIN COUNTY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED OCTOBER 31, 2015

NOTE 3 – ACCOUNTS RECEIVABLES:

The accounts receivable balance at October 31, 2015 includes amounts due from customers for water service.

NOTE 4 – WATER SYSTEM:

The District did not maintain accurate records of the original cost of the waterline system. The amounts reported in the financial statements for the original waterline system are based on estimates.

The District was given land during the year ended October 31, 2007 for an office building, which was constructed during the year ended October 31, 2008. The value of this land has not been determined and therefore has not been recorded in the financial statements.

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 October 31, 2015 was \$25,327. The following is a summary by category of changes in property and equipment:

Category	10/31/14	Additions	Deletions	10/31/15
Machinery and equipment	\$ 66,854	\$ 1,500	\$	\$ 68,354
Buildings	122,172	5,400		127,572
Waterline system	647,840	151,243		799,083
Accumulated depreciation	(534,821)	(25,327)		(560,148)
Net	<u>\$ 302,045</u>	<u>\$ 132,816</u>	<u>\$</u>	<u>\$ 434,861</u>

NOTE 5 – DEPOSITS:

The District maintains deposits in excess of the FDIC limit. These excess deposits are insured through an irrevocable letter of credit carried by the financial institution for \$700,000. This letter of credit expires September 23, 2016.

RURAL WATER DISTRICT NO. 4, GARVIN COUNTY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED OCTOBER 31, 2015

NOTE 6 – ESTIMATES:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of 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 7 – 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.

NOTE 8 – COMMITMENTS AND CONTINGENCIES:

As of October 31, 2015, 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 9 – CONTRACT RECEIVABLES:

The District and the PVMA reached an agreement effective February 1, 2007 in which the District transferred certain customers and infrastructure located in the Pauls Valley city limits to the PVMA. The agreement set forth the District and the PVMA would each obtain an appraisal of the infrastructure transferred to the PVMA. Then, a third appraiser would be obtained and the three appraisers would reach an agreement as to the value of the infrastructure transferred. During the year ended October 31, 2011, the District and PVMA had reached an agreement on the value of the infrastructure. The amount due from PVMA for the purchase of this infrastructure has been recorded as contracts receivable. As payment for the infrastructure, the water costs for the water supplied to the District by PVMA will be credited against the amount due until the debt is reduced to zero. As of October 31, 2015, total credits for the water purchases were \$956,809. The PVMA will also pay the District an amount equal to an average of five years net income for those customers transferred to the PVMA. This additional

RURAL WATER DISTRICT NO. 4, GARVIN COUNTY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED OCTOBER 31, 2015

NOTE 9 – CONTRACT RECEIVABLES (continued):

compensation is to be paid in sixty equal installments to the District. At the date of this report, no installments on this additional compensation had been received. In the agreement, the District has also given PVMA the right to serve current and future customers within a given area for a period of 99 years. The balance of the contract receivables at October 31, 2015 was \$410,528.

NOTE 10 – NOTES PAYABLE:

In March 2015, the District entered into a \$1,183,456 note payable agreement with OWRB for construction projects. The interest rate is 2.31% and the administration fee is .5%. Monthly payments will be remitted to a trustee bank who administers the semiannual payments. Payments will begin at the earliest of completion of the project or March 15, 2016 at which time a principal payment of \$19,724 will be due. At October 31, 2015, \$819,414 had been advanced from this loan.

NOTE 11 – FAIR VALUES OF FINANCIAL INSTRUMENTS:

The definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosure about the use of fair value measurements in an effort to make the measurement of fair value more consistent and comparable.

Level 1: Quoted prices in active markets for identical securities.

Level 2: Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment spread and credit risk).

Level 3: Significant unobservable inputs (including the District's own assumptions in determining the fair value of investments).

The District's financial instruments include cash and cash equivalents, certificates of deposit, inventory, 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 value 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 12 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through January 18, 2016, the date which the financial statements were available to be issued.