

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

**ANNUAL FINANCIAL STATEMENTS**

**YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

RURAL WATER DISTRICT NO. 4,  
KAY COUNTY, OKLAHOMA  
TABLE OF CONTENTS  
YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	Page
<b>INTRODUCTORY SECTION:</b>	
Table of Contents	i
<b>FINANCIAL SECTION:</b>	
Independent Auditor's Report	1-2
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 <i>Government Auditing Standards.</i>	3-5
Financial Statements:	6
Statements of Assets, Liabilities, and Net Position – Modified Cash Basis	7
Statements of Revenues, Expenses and Changes in Net Position - Modified Cash Basis	8
Statements of Cash Flows – Modified Cash Basis	9
Notes to Financial Statements	10-12

# Kimberlye R. Mayer, CPA, P.C.

723 West Doolin

Blackwell, OK 74631

(580) 363-1453

Fax (580) 363-0068

## 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, 2016 and 2015, 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

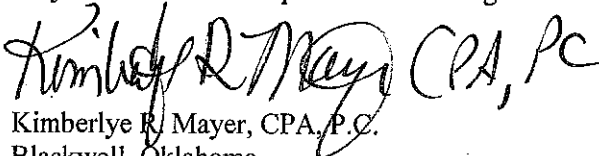
In our opinion, the financial statements referred to above, present fairly, in all material respects, the modified cash basis financial position of the Rural Water District No. 4, Kay County, Oklahoma as of September 30 and 2016 and 2015, and the changes in its modified cash basis financial position 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 20, 2017 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.

 CPA, PC  
Kimberlye R. Mayer, CPA, P.C.  
Blackwell, Oklahoma  
January 20, 2017

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, 2016 and have issued our report thereon dated January 20, 2017. 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**

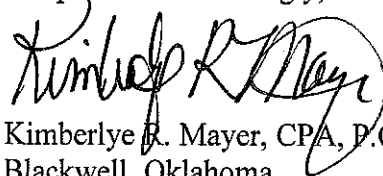
As part of obtaining reasonable assurance about whether Rural Water District No. 4, Kay County, Oklahoma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have 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.

 CPA, PC  
Kimberly R. Mayer, CPA, P.C.  
Blackwell, Oklahoma  
January 20, 2017

RURAL WATER DISTRICT NO. 4, KAY COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED SEPTEMBER 30, 2016

**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, 2016 AND 2015

ASSETS

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 21,206	\$ 30,418
Capital assets (net of accumulated depreciation) (Note 2)	<u>63,671</u>	<u>66,826</u>
Total Assets	<u>\$ 84,877</u>	<u>\$ 97,244</u>

LIABILITIES AND NET POSITION

Liabilities	\$	\$
Net Position:		
Net investment in capital assets	63,671	66,826
Unrestricted	<u>21,206</u>	<u>30,418</u>
Total Net Position	<u>84,877</u>	<u>97,244</u>
Total Liabilities and Net Position	<u>\$ 84,877</u>	<u>\$ 97,244</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, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Operating Revenues		
Water service	\$ 66,948	\$ 70,614
Benefit units		3,000
Total Operating Revenues	<u>66,948</u>	<u>73,614</u>
Operating Expenses		
Water purchases	43,233	39,715
Repairs and maintenance	5,213	5,123
Mowing	1,750	350
Insurance	1,014	1,384
Licenses, dues and memberships	645	618
Water samples and fees	2,507	3,009
Director fees	540	810
Meetings and administration	2,082	1,750
Office and postage	99	122
Manager fees	15,861	15,868
Telephone and answering service	1,408	1,199
Professional fees	1,055	1,055
Other expenses	753	807
Depreciation	3,155	3,155
Total Operating Expenses	<u>79,315</u>	<u>74,965</u>
Change in Net Position	(12,367)	(1,351)
Net Position, beginning of year	<u>97,244</u>	<u>98,595</u>
Net Position, end of year	<u><u>\$ 84,877</u></u>	<u><u>\$ 97,244</u></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, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash Flows From Operating Activities:		
Cash received from customers	\$ 66,948	\$ 73,614
Cash payments to suppliers for goods and services	<u>(76,160)</u>	<u>(71,810)</u>
Net cash provided (used) by operating activities	(9,212)	1,804
Cash flows from non-capital financing activities:		
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	<u>          </u>	<u>          </u>
Net cash provided (used) by financing activities		
Cash flows from investing activities:	<u>          </u>	<u>          </u>
Net increase (decrease) in cash and cash equivalents	(9,212)	1,804
Beginning cash and cash equivalents	<u>30,418</u>	<u>28,614</u>
Ending cash and cash equivalents	<u><u>\$ 21,206</u></u>	<u><u>\$ 30,418</u></u>
Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:		
Increase (decrease) in net position	\$ (12,367)	\$ (1,351)
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation	<u>3,155</u>	<u>3,155</u>
Net cash provided (used) by operating activities	<u><u>\$ (9,212)</u></u>	<u><u>\$ 1,804</u></u>

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, 2016 AND 2015

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, 2016 AND 2015

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, 2016 and 2015 was \$3,155 and \$3,155. The balances for depreciable assets at September 30, 2016 and 2015 by major category are as follows:

	Balance at Sept. 30, 2015	Additions	Balance at Sept. 30, 2016
Waterline system	\$ 145,652	\$	\$ 145,652
Accumulated depreciation	(78,826)	(3,155)	(81,981)
Net	<u>\$ 66,826</u>	<u>\$ (3,155)</u>	<u>\$ 63,671</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, 2016 AND 2015

**NOTE 5 – 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. 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 6 – CONTINGENCIES:**

As of September 30, 2016, 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 20, 2017, the date which the financial statements were available to be issued.