

**OTTAWA COUNTY RURAL
WATER DISTRICT NO. 4**

**ANNUAL FINANCIAL STATEMENTS
AND ACCOMPANYING
INDEPENDENT AUDITOR'S REPORTS**

For the Year Ended June 30, 2014

**OBER & ASSOCIATES, INC., PC
CERTIFIED PUBLIC ACCOUNTANTS
124 South Main
Miami, Oklahoma 74354**

**OTTAWA COUNTY RURAL WATER DISTRICT NO. 4
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OTTAWA COUNTY RURAL WATER DISTRICT NO. 4
Water Board Officials
June 30, 2014

Board of Directors

Bill Ankenman

Chairman

LeWayne Clapp

Vice-Chairman

Greg Rendel

Secretary/Treasurer

Jeff Teal

Member

James Leake

Member

**OTTAWA COUNTY RURAL WATER DISTRICT NO. 4
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2014**

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2014. Please read it in conjunction with the District's financial statements beginning on page 8.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at June 30, 2014 by \$1,939,757.62, representing a decrease in net position of \$29,272.19 for the year.
- Total operating revenues were \$361,513.03 this year while operating expenses and other net expenses were \$390,785.22, resulting in the decrease in net position of \$29,272.19.
- The District has \$1,510,822.82 (net of accumulated depreciation) invested in capital assets as of June 30, 2014.

DISTRICT HIGHLIGHTS

- Our customer base has remained steady at approximately 1,304 customers.

USING THIS ANNUAL REPORT

This annual report consists of two parts; Management's Discussion and Analysis and the Financial Statements. The Financial Statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Statements

The Financial Statements of the District report information about the District using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The Statement of Net Position includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine profitability, credit worthiness and whether the District has successfully recovered all its costs through its user fees and other charges. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments and net changes in cash resulting from cooperation, investing, and capital and noncapital financing activities and provides answers to such questions as "from where did cash come?," "for what was cash used?," and "what was the change in cash balance during the reporting period?"

**OTTAWA COUNTY RURAL WATER DISTRICT NO. 4
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2014**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

One of the most important questions asked about the District's finances is "Is the District, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position report information about the District's activities in a way that will help answer this question. These two statements report the net position of the District and changes in them. You can think of the District's net position – the difference between assets and liabilities – as one way to measure financial health or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, population growth and new or changed legislation.

The District's total Net Position decreased from last year by \$29,272.19 or about 1.5%. Our analysis below focuses on the District's net position (Table 1) and changes in net position (Table 2) during the year.

Table 1

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Current Assets	\$ 496,364.94	\$ 446,958.41
Restricted Assets	10,584.00	10,584.00
Fixed Assets	<u>1,510,822.82</u>	<u>1,581,785.64</u>
Total Assets	<u>2,017,771.76</u>	<u>2,039,328.05</u>
Current Liabilities	34,574.09	19,063.62
Noncurrent Liabilities	<u>43,440.05</u>	<u>51,234.62</u>
	<u>78,014.14</u>	<u>70,298.24</u>
Invested in Capital Assets, Net of Related Debt	1,459,194.62	1,522,742.28
Net Position, Restricted	10,584.00	10,584.00
Net Position, Unrestricted	<u>469,979.00</u>	<u>435,703.53</u>
Total Net Position	<u>\$ 1,939,757.62</u>	<u>\$ 1,969,029.81</u>

The District's net assets reflects its investment in capital assets (e.g. water system, buildings, machinery and equipment) less any related debt used to acquire those assets still outstanding. The District uses these capital assets to provide services to citizens and consumers; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay any debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**OTTAWA COUNTY RURAL WATER DISTRICT NO. 4
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2014**

The Balance of unrestricted net position may be used to meet the District's ongoing obligations to citizens, customers and creditors. The District's unrestricted net position increased by \$34,275.47 or 7.9% during the current year.

Changes in the District's net position can be determined by reviewing the following condensed Statement of Revenue, Expenses and Changes in Net Position for the year.

Table 2

	June 30, 2014	June 30, 2013
Total Operating Revenues	\$ 361,513.03	\$ 360,792.35
Operating Expenses	(264,075.97)	(277,315.29)
Depreciation Expense	(138,274.27)	(135,678.89)
Other Non-Operating Revenues (Expenses)	<u>11,565.02</u>	<u>44,123.18</u>
Increase (Decrease) in Net Assets	(29,272.19)	(8,078.65)
Net Position, Beginning of Year	<u>1,969,029.81</u>	<u>1,977,108.46</u>
Net Position, End of Year	<u>\$ 1,939,757.62</u>	<u>\$ 1,969,029.81</u>

The District's primary source of revenue is the sale of water which comprises most of the operating revenues. Operating revenues increased by \$720.68 or 0.2% from the prior year.

Total operating expenses decreased by \$13,239.32 or 4.8% from the prior year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2014, the District had \$1,510,822.82 (net of accumulated depreciation) invested in capital assets, including the water storage and distribution system, improvements, machinery and equipment. The District added capital assets totaling \$67,311.45 during the year. The net capital assets decreased by \$70,962.82 or 4.5% from the prior year.

Debt

The District had two notes payable outstanding to Berkadia Commercial Mortgage as of June 30, 2014. Total long-term obligations decreased by \$7,415.16 during the year as a result of normal repayment. The balances of the notes are \$27,189.56 and \$24,438.64 at the end of the year. More information about the long-term debt can be found in Notes 2D and 2E to the financial statements.

**OTTAWA COUNTY RURAL WATER DISTRICT NO. 4
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2014**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

A product of an ongoing examination of how the District does business, our budget emphasizes outcomes or results for the community and allows for longer-term financial planning decisions.

In considering the District's budget for the fiscal year 2014/2015, the Board estimates that revenues and expenses in the coming year will approximate actual revenues and expenses for the past fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Board of Directors at Ottawa County Rural Water District No. 4, P.O. Box 616, Fairland, Oklahoma 74343.

OBER & ASSOCIATES INC., PC

CERTIFIED PUBLIC ACCOUNTANTS
124 South Main
Miami, Oklahoma 74354
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INDEPENDENT AUDITORS REPORT

To the Board of Directors
Ottawa County Rural Water District No.4
Fairland, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Ottawa County Rural Water District No. 4 as of and for the year ended June 30, 2014, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management.

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.

Accountant's Responsibility

Our responsibility is to express opinions 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 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes 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 audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Ottawa County Rural Water District No. 4 as of June 30, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 5 be presented to supplement the basic financial statements. Such 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2015 on our consideration of Ottawa County 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 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* in considering Ottawa County Rural Water District No. 4's internal control over financial reporting.

OBER & ASSOCIATES, INC., PC

OBER & ASSOCIATES, INC., PC
CERTIFIED PUBLIC ACCOUNTANTS
February 17, 2015

OTTAWA COUNTY RURAL WATER DISTRICT NO. 4

STATEMENT OF NET POSITION

June 30, 2014

ASSETS

Current Assets:

Cash and cash equivalents	\$ 259,788.04
Investments	204,243.51
Accounts receivable	27,712.10
Accrued interest receivable	30.22
Prepaid insurance	<u>4,591.07</u>
Total Current Assets	<u>496,364.94</u>

Noncurrent Assets:

Restricted Assets	
Cash and cash equivalents	10,584.00
Capital assets, net of accumulated depreciation	<u>1,510,822.82</u>
Total Noncurrent Assets	<u>1,521,406.82</u>

Total ASSETS 2,017,771.76

LIABILITIES

Current Liabilities:

Accounts payable - trade	11,342.12
Accrued interest payable	35.36
Prepaid water sales	15,008.46
Current portion of long-term debt	<u>8,188.15</u>
Total Current Liabilities	<u>34,574.09</u>

Noncurrent Liabilities:

Notes payable, net of current portion	<u>43,440.05</u>
Total Liabilities	<u>78,014.14</u>

NET POSITION

Invested in capital assets, net of related debt	1,459,194.62
Restricted	10,584.00
Unrestricted	<u>469,979.00</u>
Total NET POSITION	<u>\$1,939,757.62</u>

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

OTTAWA COUNTY RURAL WATER DISTRICT NO. 4
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended June 30, 2014

Operating Revenues:

Water revenues	\$ 322,788.30
Connection and transfer fees	18,600.00
Penalties	17,695.60
Other revenues	2,429.13
Total Operating Revenues	<u>361,513.03</u>

Operating Expenses:

Advertising	432.20
Audit fee	3,700.00
Casual labor	5,500.00
DEQ expenses	4,625.18
Depreciation	138,274.27
Electric power	66,610.02
Insurance & bonds	5,138.64
Legal & accounting	20,038.00
Miscellaneous	1,661.30
Office expense and postage	5,940.09
Operator fees	77,031.25
Repairs & maintenance	37,054.73
Operating supplies	30,454.21
Telephone	2,880.00
Travel & conference expense	3,010.35
Total Operating Expenses	<u>402,350.24</u>

Operating Income (Loss) (40,837.21)

Non-Operating Revenues (Expenses):

Interest income	920.70
Meter taps	3,200.00
Membership fees	3,200.00
Installation fees	7,400.00
Interest expense	(3,155.68)

Total Non-operating Revenues (Expenses) 11,565.02

Change in net position (29,272.19)

Total net position, beginning 1,969,029.81
Total net position, ending \$1,939,757.62

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

OTTAWA COUNTY RURAL WATER DISTRICT NO. 4
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2014

Cash flows from operating activities:	
Cash received from customers	\$ 371,773.44
Cash received from other revenues	2,429.13
Cash paid to suppliers for goods and services	<u>(263,809.97)</u>
Net cash provided by operating activities	<u>110,392.60</u>
Cash flows from investing activities:	
Interest income	940.68
Investments purchased	(679.74)
Purchases of capital assets	<u>(67,311.45)</u>
Net cash used by investing activities	<u>(67,050.51)</u>
Cash flows from capital and related financing activities:	
Principal payments on long-term debt	(7,415.16)
Interest payments on long-term debt	(3,168.84)
Memberships purchased	3,200.00
Meter taps received	3,200.00
Installation fees	<u>7,400.00</u>
Net cash provided by financing activities	<u>3,216.00</u>
Net decrease in cash and cash equivalents	46,558.09
Beginning cash and cash equivalents	<u>223,813.95</u>
Ending cash and cash equivalents	<u>\$ 270,372.04</u>
Reconciliation of net income to net cash provided by operating activities:	
Net Operating Income (Loss)	\$ (40,837.21)
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	138,274.27
(Increase) decrease in accounts receivable	(2,318.92)
(Increase) decrease in prepaid insurance	130.24
Increase (decrease) in accounts payable	135.76
Increase (decrease) in prepaid water sales	<u>15,008.46</u>
Total adjustments	<u>151,229.81</u>
Net cash provided by operating activities	<u>\$ 110,392.60</u>

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

OTTAWA COUNTY RURAL WATER DISTRICT NO. 4
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1 - Summary of Significant Accounting Policies

Ottawa County Rural Water District No. 4, (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 of the District 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 membership consists of approximately 1,304 users, each entitled one vote. The Board of Directors consists of five (5) members serving one to three-year terms. The vacant Board seats are elected at the annual meeting in January, and following, the Board of Directors meet and elect a chairman, vice-chairman, secretary and treasurer. All Board members serve without pay.

The accounting policies of the District conform to generally accepted accounting principles applicable to governmental units. The District complies with generally accepted accounting principles and applies all relevant Government Accounting Standards Board (GASB) pronouncements. In addition, the District applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The District has elected not to follow FASB pronouncements issued since that date.

1.A. Financial Reporting Entity

The District complies with GASB Statement No. 14, "*The Financial Reporting Entity*." This statement establishes standards for defining and reporting on the financial reporting entity. It defines component units as legally separate organizations for which the elected officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The District considered all potential component units determining what organizations should be included in the financial statements. Based on these criteria, there are no component units to include in the District's financial statements.

1.B. Basis of Presentation

The accounts of the District are organized into funds, each of which is considered to be a separate accounting entity. The District uses the following fund types:

Proprietary Funds

Enterprise Funds

The District's fund is an enterprise fund. Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

OTTAWA COUNTY RURAL WATER DISTRICT NO. 4
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1 – Summary of Significant Accounting Policies: continued

1.C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe *which* transactions are recorded within the various financial statements. Basis of accounting refers to *when* transactions are recorded regardless of the measurement focus applied.

Measurement Focus

The proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

Basis of Accounting

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund’s principal ongoing operations. The principal operating revenue of the District’s enterprise fund is charges to customers for sales and services. The District also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

1.D. Assets, Liabilities and Net Position

Cash and Cash Equivalents

For the purposes of cash flows, the District considers all cash on hand, demand deposits, and highly liquid investments, with an original maturity of three months or less when purchased, to be cash and cash equivalents.

Fair Value of Financial Instruments

The District’s financial statements include cash and investments. The District’s estimates of the fair value of all financial instruments do 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.

OTTAWA COUNTY RURAL WATER DISTRICT NO. 4
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1 – Summary of Significant Accounting Policies: continued

1.D. Assets, Liabilities and Net Position: continued

Accounts Receivable

Accounts receivable consists primarily of charges for water sales. Management has not established a provision for uncollectible accounts. Such amounts are written off in the month in which management determines they are uncollectible.

Restricted Assets

Restricted assets include cash that is legally restricted as to its use. Financial requirements of the promissory notes require that funds be held in reserve. The District must maintain reserves in the amount of the total annual payments of \$10,584.00.

Capital Assets

The water storage and delivery system and equipment are recorded at cost. Donated capital assets are reported at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

All reported capital assets are depreciated on the straight-line basis over the estimated useful lives ranging from five (5) to forty (40) years.

Equity Classification

Equity is classified as net position and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- b. Restricted net position – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position – All other net position that do not meet the definitions of “restricted” or “invested in capital assets, net of related debt”.

OTTAWA COUNTY RURAL WATER DISTRICT NO. 4
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1 – Summary of Significant Accounting Policies: continued

1.D. Assets, Liabilities and Net Position: continued

Income Taxes

The District is a not-for-profit organization that is exempt from income taxes under Section 501(c)(12) of the Internal Revenue Code and classified by the Internal Revenue Services as other than a private foundation.

The District's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending 2012, 2011, and 2010 are subject to examination by the IRS, generally for three years after they were filed.

Use of Estimates

The preparation of financial statements in conformity with U.S. 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. Actual results could differ from those estimates.

Recent Accounting Pronouncements

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63). The objective of GASB 63 is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The pronouncement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statements elements by providing guidance where none previously existed. The provisions of this statement were effective for financial statements for periods beginning after December 15, 2011. The District adopted GASB 63 effective July 1, 2012. The adoption of the statement required the District to adopt the term "net position" as required. In addition, as required by GASB 63, the District determined as of June 30, 2014, there were no items of deferred inflows or outflows of resources, as presently defined, to be reported.

OTTAWA COUNTY RURAL WATER DISTRICT NO. 4
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 2 – Detailed Notes Concerning Accounts

2.A. Deposits and Investments

State statutes govern the District's investment policy. Permissible investments include direct obligations of the United States Government and Agencies; certificates of deposit of savings and loan associations, and bank and trust companies; and savings accounts or savings certificates of savings and loan associations and trust companies. Collateral is required for demand deposits and certificates of deposit for all amounts not covered by federal deposit insurance. Investments are stated at cost. Currently the District invests entirely in certificates of deposit.

Credit Risk: The District's investment policy is to apply the "prudent investor" standard. "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."

Custodial Credit Risk – Deposits: Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's cash deposits, including interest-bearing certificates of deposit, are maintained in financial institutions. As of June 30, 2014, none of the District's investments were exposed to custodial credit risk because they were either insured or collateralized.

Interest rate risk: This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. 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.

2.B. Accounts Receivable

Aged accounts receivable are as follows:

Current billings	\$ 22,097.45
31 – 60 days arrears	4,016.95
61 – 90 days arrears	851.95
Over 90 days arrears	<u>745.75</u>
	<u>\$ 27,712.10</u>

OTTAWA COUNTY RURAL WATER DISTRICT NO. 4
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 2 – Detailed Notes Concerning Accounts: continued

2.C. Changes in Capital Assets

Capital asset activity for the fiscal year ended June 30, 2014 was as follows:

	Beginning of Year	Additions	Deletions	End of Year
Capital Assets				
Non-depreciable assets:				
Land	\$ 30,654.00	\$ 60.00	\$ -	\$ 30,714.00
Work in Process	-	24,255.00	-	24,255.00
Total Non-depreciable assets	<u>30,654.00</u>	<u>24,315.00</u>	<u>-</u>	<u>54,969.00</u>
Depreciable Assets:				
Equipment	89,715.53	3,976.00	-	93,691.53
Lines, Meters, Buildings	3,296,885.69	25,079.40	-	3,321,965.09
Water Tanks and Wells	636,384.87	13,941.05	-	650,325.92
Total Depreciable Assets	<u>4,022,986.09</u>	<u>42,996.45</u>	<u>-</u>	<u>4,065,982.54</u>
Total Capital Assets	4,053,640.09	67,311.45	-	4,120,951.54
Less: Accumulated Depreciation	<u>(2,471,854.45)</u>	<u>(138,274.27)</u>	<u>-</u>	<u>(2,610,128.72)</u>
Net Book Value	<u>\$1,581,785.64</u>	<u>\$ (70,962.82)</u>	<u>\$ -</u>	<u>\$1,510,822.82</u>

2.D. Long-Term Debt

The District executed a note payable (#01-050320-2) to GMAC in January of 1981 in the principal amount of \$97,500.00 for additional construction on the water system. The note has a forty-year term and bears interest at 5% with monthly installments of \$479.00.

Debt service requirements for the note are as follows:

Year ending June 30,	Principal	Interest	Total
2015	\$ 4,490.29	\$ 1,257.71	\$ 5,748.00
2016	4,717.29	1,030.71	5,748.00
2017	4,961.37	786.63	5,748.00
2018	5,215.17	532.83	5,748.00
2019	5,482.00	266.00	5,748.00
2020	2,323.44	28.88	2,352.32
	<u>\$ 27,189.56</u>	<u>\$ 3,902.76</u>	<u>\$ 31,092.32</u>

OTTAWA COUNTY RURAL WATER DISTRICT NO. 4
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 2 – Detailed Notes Concerning Accounts: continued

2.D. Long-Term Debt: continued

The District executed a note payable (#01-050320-4) to GMAC in January of 1981 in the principal amount of \$82,000.00 for additional construction on the water system. The note has a forty year term and bears interest at 5% with monthly installments of \$403.00.

Year ending June 30,	Principal	Interest	Total
2015	\$ 3,697.86	\$ 1,138.14	\$ 4,836.00
2016	3,884.52	951.48	4,836.00
2017	4,085.78	750.22	4,836.00
2018	4,294.84	541.16	4,836.00
2019	4,514.55	321.45	4,836.00
2020	3,961.09	92.20	4,053.29
	<u>\$ 24,438.64</u>	<u>\$ 3,794.65</u>	<u>\$ 28,233.29</u>

2.E. Changes in General Long-Term Debt

Long-term debt consists of notes payable. The following is a summary of the changes in general long-term of the District for the fiscal year.

Beginning of Year	Advances	Payments	End of Year
<u>\$ 59,043.36</u>	<u>\$ -</u>	<u>\$ 7,415.16</u>	<u>\$ 51,628.20</u>

Note 3 – Other Information

3.A. Risk Management

The District 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 purchases commercial insurance to cover these risks, including general and auto liability, property damage, and public officials liability. There were no significant reductions in insurance coverage from the prior year. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

OTTAWA COUNTY RURAL WATER DISTRICT NO. 4
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 3 – Other Information: continued

3.B. Rates and Fees

The minimum charge for water service is \$10.00 per month, which includes 1,000 gallons of water. If more than 1,000 gallons are used, the rates are as follows:

<u>Base Amount</u>	<u>From</u>	<u>To</u>	<u>Rate per Thousand</u>
\$10.00	1,000 Gallons	2,000 Gallons	\$2.50
\$12.50	2,000 Gallons	4,000 Gallons	\$2.00
\$16.50	4,000 Gallons	6,000 Gallons	\$1.50
\$19.50	6,000 Gallons	8,000 Gallons	\$1.25
\$22.00	8,000 Gallons	10,000 Gallons	\$1.00
\$24.00	10,000 Gallons and over		\$0.90

3.C. Evaluation of Subsequent Events

The District has evaluated subsequent events through February 17, 2015, the date which the financial statements were available to be issued.

REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS

OBER & ASSOCIATES INC., PC

CERTIFIED PUBLIC ACCOUNTANTS

124 South Main

Miami, Oklahoma 74354

918-542-4401

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

To the Board of Directors
Ottawa County Rural Water District No. 4
Fairland, 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 Ottawa County Rural Water District No. 4, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 17, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Ottawa County Rural Water District No. 4'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 Ottawa County Rural Water District No. 4's internal control. Accordingly, we do not express an opinion on the effectiveness of Ottawa County Rural Water District No. 4'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 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 the 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. 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.

To the Board of Directors
Ottawa County Rural Water District No. 4

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Compliance and Other Matters

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

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.

OBER & ASSOCIATES, INC., PC

OBER & ASSOCIATES, INC., PC
CERTIFIED PUBLIC ACCOUNTANTS
February 17, 2015