

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

**Annual Financial Statements
June 30, 2015**

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

TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2015

	Page
Independent Auditor's Report	1-2
Financial Statements	
Statements of Net Position	3
Statements of Activities	4
Statements of Cash Flows	5
Notes to Financial Statements	6-9
Reports Required by <i>Government Auditing Standards</i>:	
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>	10-11
Schedule of Findings and Responses	12

JUDITH K. BALLARD, CPA, PC

*Certified Public Accountant
(Member AICPA & OSCP)*

220 W. Main Street – PO Box 746, Stroud, OK 74079
Phone: 918-968-3511 [Fax: 918-968-3512]

Independent Auditor's Report

August 31, 2015

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

Report on the Financial Statements

I have audited the accompanying financial statements of Rural Water and Sewer District No. 4, Lincoln County, Oklahoma, as of and for the year ended June 30, 2015, 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 accounting principles generally accepted in the United States of America. This includes determining that accounting principles generally accepted in the United States of America 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about 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 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rural Water and Sewer District No. 4, Lincoln County, Oklahoma, as of June 30, 2015, the changes in financial position, and cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Rural Water and Sewer District No. 4, Lincoln County, Oklahoma 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 basic 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 basic financial statements in an appropriate operational, economic, or historical context. My 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*, I have also issued my report dated August 31, 2015 on my consideration of Rural Water and Sewer District No. 4, Lincoln County, Oklahoma's internal control over financial reporting and on my 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 my 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 compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rural Water and Sewer District No. 4, Lincoln County's internal control over financial reporting and compliance.



Judith K. Ballard, CPA, PC
Certified Public Accountant

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

STATEMENT OF NET POSITION
YEAR ENDED JUNE 30, 2015

ASSETS

Current Assets:	
Cash and cash equivalents	\$ 2,844
Accounts receivable, net	102,161
Prepaid expenses	14,961
Total current assets	<u>119,966</u>
Restricted debt service accounts	85,343
Fixed Assets:	
Land	72,441
Construction in progress	408,775
Depreciable property and equipment, net	850,607
Total fixed assets, net	<u>1,331,823</u>
Other assets:	
Meter deposits	255
Total other assets	<u>255</u>
Deferred outflows of resources:	
Total deferred outflows	<u>-</u>
Total assets	<u><u>1,537,387</u></u>

LIABILITIES AND NET POSITION

Current Liabilities:	
Accounts payable	34,055
Payroll liabilities	1,801
Customer meter deposits	800
Notes payable - current portion	61,337
Total current liabilities	<u>97,993</u>
Non-current Liabilities:	
Notes payable, long term	561,438
Total liabilities	<u>659,431</u>
Deferred inflows of resources:	
Total deferred inflows	<u>-</u>
Net position:	
Net investment in capital assets	709,048
Restricted for debt service	85,343
Unrestricted	83,565
Total net position	<u><u>\$ 877,956</u></u>

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

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

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015

Operating Revenue:

Water revenue	\$ 583,854
Sewer revenue	42,457
Late penalties	37,289
Other revenues	14,593
Total operating revenue	<u>678,193</u>

Operating expenses:

Wages	207,025
Payroll taxes	19,788
Employee benefits	40,636
Water costs	183,193
Water exam and permit fees	12,533
Operating supplies	43,904
Chemicals	7,379
Fuel	13,924
Repairs and maintenance	43,252
Insurance	28,680
Rent/lease expense	11,408
Professional fees	6,478
Advertising and promotion	851
Office supplies and postage	7,282
Meetings and training	4,578
Utilities and telephone	38,936
Depreciation	61,031
Bookkeeping and computer expenses	9,780
Miscellaneous	5,845
Outside services	8,500
Fees and Dues	1,994
Franchise tax	2,305

Total operating expenses	<u>759,302</u>
--------------------------	----------------

Income (Loss) from operations	\$ (81,109)
-------------------------------	-------------

Non-operating Revenue (Expense):

Capital improvement income	60,377
Interest income	86
System development fees	38,875
Interest expense	(16,966)
Total non- operating revenue/(expense)	<u>82,372</u>

Change in net position	1,263
------------------------	-------

Net position, beginning of the year	876,693
-------------------------------------	---------

Net position, end of the year	<u>\$ 877,956</u>
-------------------------------	-------------------

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

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

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2015

Cash flows from (used for) operating activities:	
Cash received from customers	\$ 674,400
Cash payments to suppliers	(466,941)
Cash payments to employees	(217,793)
Net cash provided (used) by operating activities	<u>(10,334)</u>
Cash flows from non-capital financing activities:	-
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(201,037)
Principal paid on notes and loans	(59,887)
New borrowings	134,310
Interest paid on notes and loans	(16,966)
System development and capital fees	99,252
Net cash provided (used) by financing activities	<u>(44,328)</u>
Cash flows from (used for) investing activities:	
Interest on cash and investments	86
(Increase) decrease in restricted accounts	266
Net cash provided (used) by investing activities	<u>352</u>
Net increase (decrease) in cash and cash equivalents	(54,310)
Cash and cash equivalents, beginning of year	<u>57,154</u>
Cash and cash equivalents, end of year	<u><u>\$ 2,844</u></u>
Reconciliation of income (loss) from operation to net cash provided (used) by operating activities:	
Income (loss) from operations	\$ (81,109)
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:	
Depreciation	61,031
Changes in assets and liabilities:	
(Increase) decrease in account receivable	(3,793)
(Increase) decrease in prepaid expenses	5,072
Increase (decrease) in accounts payable	19,233
Increase (decrease) in payroll liabilities	(10,768)
Net cash provided (used) by operating activities	<u><u>\$ (10,334)</u></u>

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

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

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

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

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

Basis of Accounting

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

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

Restricted Assets

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

Net 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.

NOTE 2: CASH AND CASH EQUIVALENTS

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

NOTE 3: PROPERTY AND EQUIPMENT

Depreciable assets are recorded at cost when purchased or constructed. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not. Depreciation is calculated on a straight-line basis over the estimated useful lives of the depreciable assets. Total depreciation for the year ended June 30, 2015 was \$61,031. The following is a summary by category of changes in property and equipment:

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

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

NOTE 3: PROPERTY AND EQUIPMENT (Continued)

Category	6/30/2014	Additions	Deletions	6/30/2015
Land	\$ 72,441	\$ -	\$ -	\$ 72,441
Vehicles	81,414	-	-	81,414
Buildings and improvements	50,871	3,908	-	54,779
Waterline system	1,557,297	-	-	1,557,297
Sewer system	151,391	42,000	-	193,391
Meter installation	26,701	-	-	26,701
Office equipment	66,638	1,600	-	68,238
Machinery and equipment	242,757	11,884	-	254,641
Construction in progress	267,130	141,645	-	408,775
Accumulated depreciation	(1,324,823)	(61,031)	-	(1,385,854)
Net	\$ 1,191,817	\$ 140,006	\$ -	\$ 1,331,823

NOTE 4: NOTES AND LOANS PAYABLE

During the year ended June 30, 2012, the District entered into a note agreement with the Oklahoma Water Resources Board for \$465,000 to refinance two earlier OWRB loans. The interest rate is 3.14% and the term of the note is 9 ½ years. At June 30, 2014 the balance of the loan was \$395,000. During the fiscal year, principle payments of \$45,000 were made resulting in a loan balance of \$350,000 at June 30, 2015.

During the year ended June 30, 2014, the District began a water tower construction project to be financed, in part, through the Oklahoma Water Resources Board. The total loan was for \$410,000. The balance of the loan at June 30, 2014 was \$153,352. During the current fiscal year, the District drew additional funds on the loan in the amount of \$134,310 and made principle payments of \$14,887, resulting in a loan balance of \$272,775 at June 30, 2015. The interest rate is 2.07% and the term of the note is 10 years. The project was still in progress as of June 30, 2015.

The following is a summary of the District's future annual debt requirements of the loan balances at June 30, 2015:

Year Ending	Principle	Interest	Total
6/30/2016	\$ 61,337	\$ 17,470	\$ 78,807
6/30/2017	60,380	15,970	76,350
6/30/2018	64,648	14,185	78,833
6/30/2019	66,743	12,109	78,852
6/30/2020	66,370	9,978	76,348
6/30/21 - 6/30/25	303,297	14,843	318,140
Net	\$ 622,775	\$ 84,555	\$ 707,330

NOTE 5: WATER PURCHASE COMMITMENT

The governing board of the Rural Water and Sewer District No. 4, Lincoln Oklahoma, together with seven other cities and rural water districts located in Noble, Pawnee, and Payne Counties have jointly formed Lone Chimney Water Association (Association). The purpose of the Association is to provide a water

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

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

NOTE 5: WATER PURCHASE COMMITMENT (Continued)

system for the benefit of its members and other users. The Association has entered into various loan agreements with the Oklahoma Water Resource Board to provide financing for the facility.

Under the terms of the agreement regarding the Lone Chimney Water Association, each member has contracted to purchase a minimum amount of water from the Association during the 40 year term of the notes.

In addition, each individual member is proportionately liable for any debts that exceed the assets of the Association to the extent of one and one-half times the percentage of ownership interest held by the entity pursuant to the agreement. The District is contingently liable for approximately 8% of the obligations of the Association. At June 30, 2015, the Association's debts did not exceed its assets, according to the entity's June 30, 2015 financial statements audited by other certified public accountants.

At June 30, 2015, the Rural Water and Sewer District No. 4, Lincoln County, Oklahoma, was obligated to purchase a minimum of 21.6 million gallons of water annually, currently at a cost of \$162,000. The rate charged for the water can be adjusted every three years to provide sufficient revenues for the Association. Future purchase commitments at current rates are as follows:

Year Ending	Rate
6/30/2016	\$ 162,000
6/30/2017	162,000
6/30/2018	162,000
6/30/2019	162,000
6/30/2020	162,000
6/30/21 - 6/30/35	2,430,000
Total	\$ 3,240,000

During the year ended June 30, 2004 the District contracted with the Town of Chandler, Oklahoma to purchase water. The District is obligated to purchase a minimum of 250,000 gallons annually at a rate of \$8,820 annually. Future purchase commitments are as follows:

Year Ending	Rate
6/30/2016	\$ 8,820
6/30/2017	8,820
6/30/2018	8,820
6/30/2019	8,820
6/30/2020	8,820
6/30/21 - 6/30/35	132,300
Total	\$ 176,400

NOTE 6: ACCOUNTS RECEIVABLE

The accounts receivable at June 30, 2015 consist of amounts due from customers for water and sewer services. The gross amount of accounts receivable, \$108,061, has been reduced by an estimated allowance for bad debts of \$5,900.

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

**NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015**

NOTE 7: RETIREMENT PLAN

The District maintains a retirement plan for its qualified employees. The District contributes 7% of the employees' gross wages to this plan. The amount contributed by the District during the year ended June 30, 2015 was \$12,169.

NOTE 8: INVESTMENTS

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

NOTE 9: DEPOSITS, INVESTMENTS AND COLLATERAL

At June 30, 2015, all of the District's deposits were covered by federal deposit insurance.

NOTE 10: ESTIMATES

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

NOTE 11: RISK MANAGEMENT

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

NOTE 12: CONTINGENCIES

As of June 30, 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 13: EVALUATION OF SUBSEQUENT EVENTS

The District has evaluated subsequent events through August 31, 2015, the date which the financial statements were available to be issued.

JUDITH K. BALLARD, CPA, PC

*Certified Public Accountant
(Member AICPA & OSCP)*

220 W. Main Street – PO Box 746, Stroud, OK 74079
Phone: 918-968-3511 [Fax: 918-968-3512]

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

August 31, 2015

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

I 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 Rural Water and Sewer District No. 4, Lincoln County, Oklahoma, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Rural Water and Sewer District No. 4, Lincoln County's basic financial statements, and have issued my report thereon dated August 31, 2015.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Rural Water and Sewer District No. 4, Lincoln 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 my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Rural Water and Sewer District No. 4, Lincoln County, Oklahoma's internal control. Accordingly, I do not express an opinion on the effectiveness of the Rural Water and Sewer District No. 4, Lincoln 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 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 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.

My consideration of 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. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified. As described in the accompanying schedule of findings and responses, I did identify a deficiency in internal control that I consider to be a significant deficiency as finding 2015-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Rural Water and Sewer District No. 4, Lincoln County, Oklahoma's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Management's Response to Findings

Management's response to the finding identified in my audit is described in the accompanying schedule of findings and responses. Management's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my 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.

A handwritten signature in blue ink that reads "Judith K. Ballard, CPA, PC". The signature is written in a cursive, flowing style.

Judith K. Ballard, CPA, PC
Certified Public Accountant

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

SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2015

2015-1: MATERIAL WEAKNESS COMMUNICATED IN PRIOR YEAR

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

Criteria:

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

Condition:

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

Cause:

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

Effect of Potential Effect:

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

Recommendation:

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

Board's Response:

The board will implement an additional control feature of the district manager directly involved in reviewing bank deposits and comparing to the utility collection reports.