

RURAL WATER DISTRICT NO. 4
MCINTOSH COUNTY, OKLAHOMA
HITCHITA, OKLAHOMA
ANNUAL FINANCIAL REPORT
DECEMBER 31, 2016

RALPH OSBORN
CERTIFIED PUBLIC ACCOUNTANT
500 SOUTH CHESTNUT
P.O. BOX 1015
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INDEPENDENT AUDITORS' REPORT

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

I have audited the accompanying cash basis financial statements of Rural Water District No. 4, McIntosh County, Oklahoma, Hitchita, Oklahoma, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Rural Water District No. 4, McIntosh County, Oklahoma, Hitchita, Oklahoma's basic 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 the cash basis of accounting described in Note A; this includes determining that the cash basis of accounting is an acceptable basis for the presentation 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 includes performing procedures to obtain audit evidence about amounts and disclosures in the financial statements, whether due to fraud or error. 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 respective cash basis financial position of Rural Water District No. 4, McIntosh County, Oklahoma, Hitchita, Oklahoma as of December 31, 2016, and the respective changes in cash basis financial position and cash flows thereof for the year ended in conformity with the cash basis of accounting described in Note A.

Basis of Accounting

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

Other Information

In accordance with *Government Auditing Standards*, I have also issued my report dated August 11, 2017, on my consideration of Rural Water District No. 4, McIntosh County, Oklahoma, Hitchita, Oklahoma's internal control over financial reporting and 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 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 considered in assessing the results of my audit.



Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
August 11, 2017

RURAL WATER DISTRICT NO. 4
MCINTOSH COUNTY, OKLAHOMA
HITCHITA, OKLAHOMA
STATEMENT OF NET POSITION - CASH BASIS
DECEMBER 31, 2016

ASSETS

Current assets:

Cash and cash equivalents	\$ 16,253
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Total current assets	<u>16,253</u>
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Total assets	<u>16,253</u>
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NET POSITION

Unrestricted	<u>16,253</u>
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Net position	<u><u>\$ 16,253</u></u>
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See accompanying notes to financial statements.

RURAL WATER DISTRICT NO. 4
MCINTOSH COUNTY, OKLAHOMA
HITCHITA, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2016

OPERATING REVENUES

Charges for services:

Water Sales	\$ 191,729
Memberships	2,200
Renter Deposits	850
Lock fees	300
Other	<u>1,340</u>
 Total operating revenues	 <u>196,419</u>

OPERATING EXPENSES

Water Purchases	78,967
Contract fees (Debt service - See Note D)	58,000
Professional fees	2,900
Utilities	6,551
Telephone	579
Repair and maintenance	3,220
Testing	2,025
Contract services	34,850
Office expenses	1,365
Insurance	684
Permits and memberships	<u>2,092</u>
 Total operating expenses	 <u>191,233</u>
 Operating income (loss)	 <u>5,186</u>

NON-OPERATING REVENUE (EXPENSES)

Surcharge (See Note F)	7,770
Lawsuit Settlement (see Note F)	(4,899)
Investment income	<u>8</u>
 Total non-operating revenue (expenses)	 <u>2,879</u>

Net income (loss)	8,065
Total net position, beginning	<u>8,188</u>
Total net position, ending	<u><u>\$ 16,253</u></u>

See accompanying notes to financial statements.

RURAL WATER DISTRICT NO. 4
MCINTOSH COUNTY, OKLAHOMA
HITCHITA, OKLAHOMA
STATEMENT OF CASH FLOWS-CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2016

Cash flows from operating activities	
Cash received from water sales	\$ 196,419
Cash payments to suppliers and for services	<u>(191,233)</u>
Net cash provided (used) by operating activities	<u>5,186</u>
Cash flows from other activities	
Surcharge (See Note F)	7,770
Lawsuit Settlement (see Note F)	<u>(4,899)</u>
Net cash used for other activities	<u>2,871</u>
Cash flows from investing activities	
Interest revenue	<u>8</u>
Net cash used for investing activities	<u>8</u>
Net increase (decrease) in cash and cash equivalents	8,065
Cash and cash equivalents, beginning	<u>8,188</u>
Cash and cash equivalents, ending	<u><u>\$ 16,253</u></u>
Reconciliation of operating income (loss) to net cash provided by (used) by operating activities	
Operating income (loss)	\$ 5,186
Adjustments to reconcile operating income to net cash used by operating activities:	
Changes in assets and liabilities:	
Depreciation	<u>-</u>
Net cash provided by operating activities	<u><u>\$ 5,186</u></u>

See accompanying notes to financial statements.

RURAL WATER DISTRICT NO. 4
MCINTOSH COUNTY, OKLAHOMA
HITCHITA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rural Water District No. 4, McIntosh County, Oklahoma, (the "District") was created May 2, 1966 by the Board of County Commissioners of McIntosh County, Oklahoma under the provisions of the Rural Water District Act (Title 82 Oklahoma Statutes, Sections 1324.1 et. seq. The District is managed by a 5 member Board of Directors. Members of the board are elected by the membership of the District at its annual meeting. Membership in the District is attained by paying membership fees and receiving services from the District. The activities of the District constitute the entire reporting entity. There are no other component or oversight units. The District is a political subdivision of the state of Oklahoma.

Government-Wide and Fund Financial Statements

The District is a special purpose governmental entity engaged only in business type activities. The District prepares financial statements required for enterprise funds.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "how" 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

In the financial statements business-like activities are presented using the economic resources measurement focus, within the limitations of the cash basis of accounting. 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. Fund equity is classified as net position.

Basis of Accounting

In the financial statements, business-like activities are presented using a cash basis of accounting. This basis recognizes assets, liabilities, net position/fund equity, revenues, and expenditures/expenses when they result from cash transactions. 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 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. If the District utilized the basis of accounting recognized as generally accepted, the financial statements would use the accrual basis of accounting.

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

FUND TYPES AND MAJOR FUNDS

The District reports all activity within a single fund.

Investments

The District follows Governmental Accounting Standards Board (GASB) Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which requires marketable securities to be carried at fair value. The District considers highly liquid investments with a maturity of 4 months or less when purchased to be cash equivalents. As of December 31, 2016, the District did not report any investments.

Capital Assets, Depreciation, and Amortization

The District's financial statements are reported on the cash basis of accounting which does not recognize capital assets or depreciation. The District expenses capital assets as they are purchased.

Compensated Absences

The District does not currently have any employees. Therefore, the District has not accrued any vacation, sick leave, or other compensated absences.

Reserves and Designations

Reserves represent those portions of fund balance not available for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

Use of Estimates

The preparation of financial statements in conformity with the cash basis requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

RURAL WATER DISTRICT NO. 4
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE B - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Custodial Credit Risk

Custodial credit risk is the risk that in the event of failure of counterparty, the District will not be able to recover the value of its deposits or investments. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Investment securities are exposed to custodial credit risk if they are uninsured, are not registered in the name of the District, and are held by counterparty or the counterparty's trust department but not in the name of the District. The District's policy requires that all deposits and investments in excess of amounts covered by federal deposit insurance be fully collateralized by the entity holding the deposits or investments. As of December 31, 2016, all of the District's deposits and investments were either covered by federal deposit insurance or were fully collateralized.

Deposits

The District had deposits at financial institutions with a carrying amount of approximately \$16,253 at December 31, 2016. The bank balance of the deposits at December 31, 2016 was approximately \$16,355.

Credit Risk

Fixed-income securities are subject to credit risk. However, the District did not have fixed income securities at December 31, 2016.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board of Directors monitors the investment performance on an ongoing basis to limit the District's interest rate risk. As of December 31, 2016, the District's deposits consisted of demand deposits and certificates of deposit with a maturity of 12 months or less.

NOTE C - NOTES PAYABLE PROPRIETARY FUND

The District's financial statements are reported on the cash basis of accounting which does not recognize long term debt. Also see note D.

NOTE D - CONTRACTS

The District entered into a thirty (30) year contract with the Muskogee County Rural Water District No. 3 (Seller) for the purchase of water on October 17th, 2008, which was last amended on November 1, 2014. The McIntosh County Rural Water District No. 4 (Purchaser) agrees to pay the Seller the following amounts, on or before the 10th day of each month, for water delivered to the Purchaser (going through the Master Meter) in accordance with the agreement:

- \$4,833.33 per month which shall serve as the Purchaser's share of the monthly debt service payment.
- \$4.74 per 1,000 gallons of water for all gallons of water passing through the Purchaser's Master Meter. This rate was increased to \$5.00 per 1,000 gallons beginning December 2016.

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DECEMBER 31, 2016

The payment of \$4,833.33 per month (\$57,999.96 annually) for debt service has been included on the Statement of Revenue, Expense and Changes in Net Position in the Operating Expenses Section as Contract Fees (Debt Service).

The Rural Water District No. 3 \$1,755,000 Revenue Bonds, Series 2008 are secured by the "Pledged Revenues" of the Seller (as defined by the Bond Indenture) and amounts held by the bond trustee bank. The proceeds were used to retire the Seller's Rural Development Loan, upgrade the Seller's plant, purchase certain meters and meter reading equipment for both Districts, and pay miscellaneous financing fees and services. Per the contract between the Purchaser and the Seller, the total proceeds transferred to the Purchaser was to be in the amount of \$125,000.

NOTE E - 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; and natural disasters. The District carries commercial insurance for risk of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE F - LAWSUIT

The District was made party to a Worker's Compensation suit filed February 27, 2016 for an injury which occurred on April 4, 2103. The District was ordered to pay a total of \$20,022.85 in award to the plaintiff and other costs to be paid out with initial lump sum payments totaling \$7,145.50 and then monthly payments of \$227.90 for 56.5 weeks. The District paid a total of \$4,899 for this settlement during the year. The settlement was paid in full as of May 2016.

The District imposed a surcharge of \$6 per month per meter in addition to regular billing beginning August of 2016. This surcharge was eliminated after the settlement was paid in full.

NOTE G - EVALUATION OF SUBSEQUENT EVENTS

The District has evaluated subsequent events through August 11, 2017, the date which the financial statements were available to be issued. The District raised the rates charged to customers effective July 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

To the Board of Directors
Rural Water District No. 4
McIntosh County, Oklahoma,
Hitchita, 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 *Governmental Auditing Standards* issued by the Comptroller General of the United States, the cash basis financial statements of Rural Water District No. 4, McIntosh County, Oklahoma, Hitchita, Oklahoma, as of and for the years ended December 31, 2016, and the related notes to the financial statements, which collectively comprise Rural Water District No. 4, McIntosh County, Oklahoma, Hitchita, Oklahoma's basic financial statements, and have issued my report thereon dated August 11, 2017.

Internal Control over Financial Reporting

In planning and performing my audit of the cash basis financial statements, I considered Rural Water District No. 4, McIntosh County, Oklahoma, Hitchita, 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 Rural Water District No. 4, McIntosh County, Oklahoma, Hitchita, Oklahoma's internal control. Accordingly, I do not express an opinion on the effectiveness of Rural Water District No. 4, McIntosh County, Oklahoma, Hitchita, 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 over financial reporting 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 identified one deficiency in internal control that I consider to be a material weaknesses. I consider lack of segregation of duties to be a material weakness.

Compliance and Other Matters

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

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.

Sincerely,

A handwritten signature in cursive script that reads "Ralph Osborn".

Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
August 11, 2017