RURAL WATER DISTRICT NO. 4
PAWNEE COUNTY
Pawnee, Oklahoma

BASIC FINANCIAL STATEMENTS
June 30, 2016

RURAL WATER DISTRICT #4
PAWNEE COUNTY
Pawnee, Oklahoma

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INDEPENDENT AUDITOR'S REPORT

August 23, 2016

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

Report on the Financial Statements

We have audited the accompanying financial statements of Rural Water District No. 4, Pawnee County, Pawnee, Oklahoma (the District),as of and for the years ended June 30, 2016 and 2015 and the related notes to the 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 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.

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 about whether the financial statements are free from 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, 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Rural Water District No. 4, Pawnee County, Pawnee, Oklahoma as of June 30, 2016 and 2015, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

The District has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires 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 (GASB), 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. Our opinions on the basic financial statements are not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 23, 2016, on our consideration of the 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 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 the Rural Water District No. 4's internal control over financial reporting and compliance.

CBEW Professional Group, LLP

CBEW Professional Group, LLP
Certified Public Accountants
Cushing, Oklahoma

RURAL WATER DISTRICT NO. 4
PAWNEE COUNTY
Pawnee, Oklahoma

STATEMENT OF NET POSITION
June 30, 2016 and 2015

	June 30, 2016	June 30, 2015
Assets:		
Cash and cash equivalents (Note 1)	$ 102,254	$ 114,743
Receivables (net of allowance for uncollectible)	23,876	23,756
Prepaid insurance	2,937	2,904
Capital assets:		
Water system, improvements and equipment, net of depreciation	297,802	317,226
Total assets	426,869	458,629
Deferred outflows of resources:		
Total deferred outflows	-	-
Liabilities:		
Accounts payable	15,141	17,779
Accrued water purchases	-	-
Payroll taxes payable	1,524	1,498
Total liabilities	16,665	19,277
Deferred inflows of resources:		
Total deferred inflows	-	-
Net position:		
Net Investment in capital assets	297,802	317,226
Unrestricted	112,402	122,126
Total net position	$ 410,204	$ 439,352

The accompanying notes are an integral part of the basic financial statements.

RURAL WATER DISTRICT NO. 4
PAWNEE COUNTY
Pawnee, Oklahoma

STATEMENT OF ACTIVITIES
For the Years Ended June 30, 2016 and 2015

	June 30, 2016	June 30, 2015
Revenues:		
Water sales	$ 200,390	$ 190,183
Membership income	5,900	8,240
Miscellaneous income	861	933
Total revenues	207,151	199,356
Expenses:		
Accounting and legal	2,220	3,300
Advertising	93	-
Annual meeting	512	317
Contract services	400	622
Depreciation	19,423	19,423
Dues and subscriptions	755	705
Equipment rental	1,650	4,700
Insurance	4,325	4,227
Lab tests	1,810	2,685
Licenses and permits	46	46
Miscellaneous	-	-
Office supplies and postage	2,141	2,790
Payroll taxes	3,317	3,254
Repair and maintenance	-	-
Salaries	38,775	37,795
Supplies	6,972	12,111
Telephone	348	281
Travel	4,200	4,200
Water purchases	149,459	166,921
Total expenses	236,446	263,377
Operating income (loss)	(29,295)	(64,021)
Other income and expense:		
Interest income	147	184
Interest expense	-	-
Total other income and expense	147	184
Net income (loss)	(29,148)	(63,837)
Net position - beginning of year	439,352	503,189
Net position - end of year	$ 410,204	$ 439,352

The accompanying notes are an integral part of the basic financial statements.

RURAL WATER DISTRICT NO. 4
PAWNEE COUNTY
Pawnee, Oklahoma

STATEMENT OF CHANGES IN NET POSITION
For the Years Ended June 30, 2016 and 2015

	Net Position (Unrestricted)	Net Position (Temporarily Restricted)	Total Net Position
Balance - beginning of year 6-30-14	$ 503,190	$ -	$ 503,190
Change in net position	(63,837)	-	(63,837)
Balance - end of year 6-30-15	$ 439,353	$ -	$ 439,353
Balance - beginning of year 6-30-15	$ 503,190	$ -	$ 503,190
Change in net position	(29,148)	-	(29,148)
Balance - end of year 6-30-16	$ 474,042	$ -	$ 474,042

The accompanying notes are an integral part of the basic financial statements.

RURAL WATER DISTRICT NO. 4
PAWNEE COUNTY
Pawnee, Oklahoma

STATEMENT OF CASH FLOWS
For the Years Ended June 30, 2016 and 2015

	June 30, 2016	June 30, 2015
Cash flows from operating activities:		
Cash received from customers	$ 207,031	$ 195,218
Cash payments to suppliers for goods and contractors and other services	(219,667)	(240,867)
Net cash provided by operating activities	(12,636)	(45,649)
Cash flows from capital and related financing activities:		
Acquisition & construction of capital assets	-	-
Net cash used in capital and related financing activities	-	-
Cash flows from investing activities:		
Interest income	147	184
Net cash provided by investing activities	147	184
Net increase (decrease) in cash	(12,489)	(45,465)
Cash and cash equivalents at beginning of year	114,743	160,208
Cash and cash equivalents at end of year	$ 102,254	$ 114,743
Reconciliation of operation income to net cash provided by operating activities:		
Operating income (loss)	$ (29,295)	$ (64,021)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	19,423	19,423
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(120)	(4,138)
(Increase) decrease in prepaid expenses	(33)	(111)
Increase (decrease) in accounts payable	(2,638)	3,141
Increase (decrease) in accrued water purchases	-	-
Increase (decrease) in payroll taxes payable	27	57
Total adjustments	16,659	18,372
Net cash provided by operating activities	$ (12,636)	$ (45,649)

The accompanying notes are an integral part of the basic financial statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016 and 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rural Water District No. 4, Pawnee County, Oklahoma (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 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 approximately333 users, each entitled to one vote. The Board of Directors consists of 5 members serving 3-year terms. The vacant Board seats are elected at the annual meeting in July, and following, the Board of Directors meet and elect a chairman, vice-chairman, and secretary-treasurer. All Board members serve without pay.

The more significant of the government's accounting policies are described below.

A. Reporting Entity

Rural Water District No. 4 is an independent, self-contained reporting entity with no associated component units. It is operated in a manner similar to a private business enterprise where the cost (expenses, including depreciation) of providing water services is financed through user charges. The District purchases all of its water from Lone Chimney Water Association.

B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with Generally Accepted Accounting Principles (GAAP) promulgated in the United States of America. The accounting and financial reporting treatment is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation are included on the statement of net position. The operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Depreciation expense is provided for capital assets based upon estimated useful lives.

Financial activity is accounted for on the flow of economic resources measurement focus using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

C. Assets, Liabilities and Equity

1. Deposits and Investments

Oklahoma Statutes authorize the District to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the District can invest in direct debt securities of the United States unless such an investment is expressly prohibited by law.

All the bank deposits are held at one financial institution and are carried at cost. For purposes of statements of cash flows, the District considers cash and all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities and Equity (Continued)

1. Deposits and Investments (Continued)

Custodial Credit Risk

At June 30, 2016, the District held deposits of approximately $102,254 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit, are entirely covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name.

Investment Interest Rate Risk

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.

Investment Credit Risk

The District has no policy that limits its investment choices other than the limitation of state law as follows:

a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
c. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations.
d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

The investments held at June 30, 2016 are as follows:

Type	Weighted Average Maturity (Months)	Credit Rating	Market Value	Cost
Investments				
Money Market	N/A	AAAm	$ 102,254	$ 102,254
Total investments			$ 102,254	$ 102,254

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities and Equity (Continued)

1. Deposits and Investments (Continued)

Concentration of Investment Credit Risk

The District places no limit on the amount it may invest in any one issuer. The District has the following of credit risk: 100% in Money Market funds ($102,254).

2. Fair Value of Financial Instruments

The District's financial instruments include cash and cash equivalents, accounts receivable, accounts payable and notes payable. The District's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying 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.

3. Estimates

The preparation of financial statements in conformity with 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. Accordingly, actual results could differ from those estimates.

4. Inventories

Inventories consist primarily of water stored in lines for use in the distribution process. Inventory is expensed when purchased.

5. Capital Assets

Additions to the water storage delivery system and other equipment are recorded at cost or, if contributed property, at their estimated fair value at time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. The District maintains a capitalization threshold of $500 and an estimated useful life in excess of two (2) years.

Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Water system	40 years
Equipment	10 years
Office equipment	10 years

6. Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused vacation time. Full-time employees are granted vacation and sick leave benefits in varying amounts to specified maximums depending on tenure. The District has not accrued compensated absences because the amount, if any, would not be material to the financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities and Equity (Continued)

7. Net Position

In the basic financial statements, net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets.

8. Resource Use Policy

It is in the District's policy for all funds that when an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources, including net positions, are available, the District considers restricted amounts to be spent first before any unrestricted amounts are used.

D. Revenues, Expenses and Other Changes in Net Position

1. Operating Revenues and Expenses

Operating revenues and expenses are principally from water sales and connection fees charged to new system subscribers. Customer water consumption is determined by monthly meter readings taken by the customer and once annually by District personnel. The water sales from subscriber water consumption billed but unpaid at the District's year-end are recognized as revenue in the current year and reported in the statement of net position as accounts receivable. Operating expense consist of those costs necessary to operate and maintain the water distribution system and for general administration of the District.

2. Non-Operating Revenue and Expenses

Non-operating revenues and expenses consist of investment earnings, interest expense incurred on the District's notes payable and gains and losses on sales or the abandonment of long-lived assets.

3. Bad Debts

The District uses the direct write-off method for recognizing bad debts. Under the direct write-off method, accounts receivable are charged to income during the period they are determined to be uncollectible. The use of this method does not result in a material difference from the valuation method required by generally accepted accounting principles.

2. CAPTIAL ASSETS

The following is a summary of changes in property, plant and equipment.

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
Water system	$ 776,939	$ -	$ -	$ 776,939
Equipment	11,201	-	-	11,201
Office equipment	6,271	-	-	6,271
Total	794,411	-	-	794,411
Less accumulated depreciation	477,185	19,424	-	496,609
Net	$ 317,226	$ (19,424)	$ -	$ 297,802

	Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015
Water system	$ 776,939	$ -	$ -	$ 776,939
Equipment	11,201	-	-	11,201
Office equipment	6,271	-	-	6,271
Total	794,411	-	-	794,411
Less accumulated depreciation	457,762	19,423	-	477,185
Net	$ 336,649	$ (19,423)	$ -	$ 317,226

3. RISK MANAGEMENT

Rural Water District No. 4 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 continues to carry commercial insurance for these risks, including general and auto liability, property damage, and public officials liability. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

4. WATER PURCHASE COMMITMENT

The governing board of Rural Water District No. 4, Pawnee County, Pawnee, Oklahoma, together with seven other cities and rural water districts located in Noble, Pawnee, and Payne Counties, Oklahoma, have jointly formed Lone Chimney Water Association. The purpose of the Association is to provide a water system for the benefit of its members and other users. The District has entered into various loan agreements with the United States Department of Agriculture, Rural Development and the Oklahoma Water Resources Board to provide financing for the facility. Under the terms of the agreement regarding Rural Water District No. 4, 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 6.7% of the obligations of the Association, which total approximately $4,578,180 to the Bank of Oklahoma at the year-end. The District's contingent share of Lone Chimney Water Association's debt is $304,496.

6. WATER PURCHASE COMMITMENT (Continued)

At June 30, 2016, Rural Water District No. 4 was obligated to purchase a minimum of 20.4 million gallons of water annually, currently at a cost of $83,640. The rates charged for the water can be adjusted every three years as necessary to provide sufficient revenues for the Association.

Future purchase commitments at current rates are as follows:

June 30,	Amounts Due
2017	$ 83,640
2018	83,640
2019	83,640
2020	83,640
2021	83,640
2022-2026	418,200
2027-2031	418,200
2032	83,640
Total	$ 1,338,240

RURAL WATER DISTRICT NO. 4
PAWNEE COUNTY
Pawnee, Oklahoma

REPORT REQUIRED BY *GOVERNMENT AUDITING STANDARDS*
June 30, 2016

CBEW Professional Group, LLP
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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 23, 2016

Board of Directors
Rural Water District No. 4
Pawnee County
Pawnee, 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 the Rural Water District No. 4, Pawnee County, Pawnee, Oklahoma (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated August 23, 2016. The District did not present the Management's Discussion and Analysis required by the Governmental Accounting Standards Board.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District'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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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.

Our 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses as finding 2016-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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.*

District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The District'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 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.

CBEW Professional Group, LLP

CBEW Professional Group, LLP
Certified Public Accountants
Cushing, Oklahoma

RURAL WATER DISTRICT NO. 4
PAWNEE COUNTY
Pawnee, Oklahoma

SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2016

2016-001. Internal Control – Segregation of Duties

Criteria: The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets and reconciliation of those asset accounts is an important control activity needed to adequately protect the district's assets and ensure accurate financial reporting.

Condition: Presently the same individual that receives utility service related cash payments is also responsible for service billing and adjustment, also balances the daily cash drawer, posts payments to subsidiary accounts receivable ledger and reconciles the monthly bank statements. In addition, only limited oversight is provided over this individual in the conduct of their daily functions. This finding was also noted in 2015.

Cause: The district's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

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

Recommendation: We recommend that management and the board should consider a formal evaluation of their risks associated with this lack of duties segregation over utility cash and receivables. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with lack of segregation of duties, such as providing increased management oversight and an independent reconciliation of accounts. For example, the entity might consider soliciting the assistance of independent volunteer labor to perform certain functions including performing compensating procedures where applicable.

Responsible Official's Response: The district concurs with the recommendation, although, the cost to correct this condition might exceed the benefit, the district has made certain changes in procedures that will improve the overall lack of segregation of duties and has implemented compensating procedures as appropriate.