

FINANCIAL STATEMENTS

OF

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

December 31, 2015



Clothier & Company CPA's P.C.

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SEQUOYAH CO RWD4
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of assets, liabilities and fund balances- modified cash basis as described in Note 1, of Rural Water District No. 4, Sequoyah County, Oklahoma, as of and for the year ended December 31, 2015 and the revenues, expenses, and changes in fund balance – modified cash basis for the years then ended and the related notes to the financial statements which comprise the District's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than 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.

Auditors' 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 of 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 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 assets, liabilities and fund balances of Rural Water District No.4, as of December 31, 2015, and the revenues, expenses, and changes in fund balance and cash flows for the year then ended, on the basis of accounting described in Note 1.

Other-Matter

Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 13 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 financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the supplementary information in accordance with auditing standards general accepted in the United States of America, which consisted of inquiries of management regarding 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 June 28, 2016, on our consideration of 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 agreement 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 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 Rural Water District No. 4's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Clothier & Company CPA's".

Clothier & Company, CPA's, P.C.

June 28, 2016

SEQUOYAH CO RWD4
Statement of Net Assets – Cash Basis
December 31, 2015

ASSETS

Current Assets

| | |
|--------------------|----------------|
| Petty Cash | \$ 57 |
| Cash O & M account | 1,490 |
| Armstrong Bank | 116,366 |
| Armstrong CD | <u>131,318</u> |

Total Current Assets 249,231

Fixed Assets

| | |
|--------------------------|--------------------|
| Water Systems | 2,152,289 |
| Equipment | 131,861 |
| Building | 64,794 |
| Land | 90,829 |
| Accumulated Depreciation | <u>(1,097,941)</u> |

Total Fixed Assets 1,341,832

Total Assets \$ 1,591,063

LIABILITIES AND EQUITY

Current Liabilities

| | |
|--------------------|------------------|
| Current Maturities | \$ <u>66,604</u> |
|--------------------|------------------|

Total Current Liabilities 66,604

Long Term Liabilities

| | |
|------------------------|---------------|
| N/P Government Capital | 117,552 |
| Loan-M59 | <u>21,538</u> |

Total Long Term Liabilities 139,090

Equity

| | |
|----------------------------|---------------|
| Invested in Capital Assets | 1,136,138 |
| Unrestricted | 208,007 |
| Current Income (Loss) | <u>41,225</u> |

Total Equity 1,385,370

Total Liabilities & Equity \$ 1,591,063

See accompanying footnotes and independent auditors' report.

SEQUOYAH CO RWD4
Statement of Activities – Cash Basis
For the Period Ended December 31, 2015

Revenue

| | |
|----------------------------|--------------|
| Water Revenue | \$ 440,692 |
| Interest Revenue | 720 |
| Membership Dues | 11,110 |
| Other Income | 7,669 |
| Penalties and Late Charges | <u>8,280</u> |

Total Revenue 468,471

Cost of Sales

| | |
|----------------------|--------------|
| Water Purchases | 148,533 |
| Repairs and Supplies | 3,884 |
| Vehicle Expense | 3,860 |
| Lab Fees | <u>4,375</u> |

Total Cost of Sales 160,652

Gross Profit 307,819

Operating Expenses

| | |
|------------------------|------------|
| Salaries | 62,229 |
| Payroll Taxes | 14,414 |
| Insurance | 13,561 |
| Accounting | 3,419 |
| Maintenance Supplies | 38,381 |
| Bank Charges | 2,434 |
| Miscellaneous | 738 |
| Office Supplies | 7,346 |
| Postage | 3,407 |
| Telephone | 4,305 |
| Utilities | 11,250 |
| Trash Service | 829 |
| Depreciation | 96,470 |
| Dues and Subscriptions | <u>530</u> |

Total Operating Expenses 259,313

Operating Income 48,506

Interest Expense 7,281

Total Other Income (7,281)

Net Income (Loss) \$ 41,225

See accompanying footnotes and independent auditors' report.

SEQUOYAH CO RWD4
Statement of Cash Flows
December 31, 2015

Cash Flows From Operating Activities:

| | |
|---|----------------|
| Cash received from customers | \$ 460,082 |
| Cash received from other sources | 0 |
| Cash paid to employees | (76,643) |
| Cash paid to suppliers | (160,652) |
| Other operating payments | (79,472) |
| Net Cash Flows from Operating Activities | 143,315 |

Cash Flows From Capital and Related

Financing Activities:

| | |
|--|-----------------|
| Proceeds from debt | 0 |
| Payment of debt | (59,137) |
| Acquisition and construction of capital assets | (6,194) |
| Payment of Interest | (7,281) |
| Net Cash (Used) By Capital and Related Financing Activities | (72,612) |

Cash Flows From Investing Activities:

| | |
|---|------------|
| Receipt of interest and dividends | 720 |
| Net Cash Provided (Used) By Investing Activities | 720 |

| | |
|--|-------------------|
| Net Increase (Decrease) In Cash | 71,423 |
| Cash Beginning of Year | 177,808 |
| Cash End of Year | \$ 249,231 |

**Reconciliation of Operating Income to Net Cash Flows from
from Operating Activities:**

| | |
|---|-------------------|
| Operating income (loss) | \$ 47,786 |
| Add depreciation expense | 96,470 |
| (Increase)/Decrease in Current Assets: | |
| Accounts receivables, net | 0 |
| Prepaid expenses | 0 |
| Increase/(Decrease) in Current Liabilities: | |
| Accounts payable | 0 |
| Accrued expenses | (941) |
| Net Cash Flows from Operating Activities | \$ 143,315 |

See accompanying footnotes and independent auditors' report.

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Sequoyah County Rural Water District #4 (the District) was organized to provide suitable water to customers in Sequoyah County, Oklahoma. Treated water is acquired solely from the City of Sallisaw and transmitted in District water lines to the customers.

Basis of Accounting

The financial statements of the District are prepared using the modified cash basis of accounting where revenues are recognized when received and expenses are recognized when paid. Other modifications to the cash basis of accounting include recording depreciation on property and equipment and accruing for payroll taxes. This is a comprehensive basis of accounting other than generally accepted accounting principles.

The District's financial statements are prepared using a method other than generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the District had the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, it has chosen not to do so.

Cash and Cash Equivalents

For the purpose of these financial statements, the District considers cash and cash equivalents to be cash on hand and all demand deposits with banks.

Funds on Deposit

The District maintains the following accounts for funds deposited with a fully insured bank:

Operating account- Gross revenues of the District are to be deposited to this account. The reasonable and necessary current expenses of operating and maintaining the District for each month are also paid from this account.

Savings and certificates of deposit – A cash reserve is set aside in this account for unforeseen catastrophes, extensions and improvements to the water system.

Property and Equipment

Property and equipment are recorded at cost, with depreciation provided on a straight-line method over the estimated useful lives of the assets. Expenditures for maintenance, repairs and renewals of relatively minor items are charged to expense as incurred. The estimated useful lives of the assets are as follows:

Sequoyah County RWD4

| | |
|-------------------------|-------------|
| Building | 20 years |
| Equipment | 3-10 years |
| Water System and towers | 10-40 years |

It is the Districts policy to capitalize assets purchased for \$500 or more and to expense assets purchased for less than \$500.

Income Tax

The District is exempt from income taxes as a governmental agency.

Use of Estimates

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

2. PROPERTY AND EQUIPMENT

| | Balance 12/31/14 | Additions/ (Deletions) | Accumulated Depreciation | Balance 12/31/15 |
|---------------|---------------------|---------------------------|-----------------------------|---------------------|
| Water Systems | 2,152,289 | 0 | (1,012,120) | 1,140,169 |
| Equipment | 125,667 | 6,194 | (63,142) | 68,719 |
| Building | 64,794 | 0 | (22,679) | 42,115 |
| Land | 90,829 | 0 | 0 | 90,829 |
| | <u>2,433,579</u> | <u>6,194</u> | <u>(1,097,941)</u> | <u>1,341,832</u> |

3. CONCENTRATION OF CREDIT RISK

The District maintains cash balances at Firststar Bank and Armstrong Bank in Sallisaw, Oklahoma. As of December 31, 2015 the District's deposits in Firststar were \$1,490 and in Armstrong, \$116,164. The bank balances were covered completely by Federal Depository Insurance Corporation and \$0 was collateralized. Investments are certificates of deposit at Armstrong total \$131,318 which were also covered by FDIC.

4. LONG TERM DEBT

The District maintains a note payable with Security State Bank – monthly payments are made in the amount of \$5,311 and include interest of 3.26%. The note is secured by the revenues and property of the District. The note will be paid in full in 2018. The balance as of December 31, 2015 is

\$176,270

Sequoyah County RWD4

The District secured a note with Armstrong Bank on July 14, 2014 for the purchase of a Kubota Tractor. The monthly payments are \$727.22 for 60 months at 3.25% interest. The balance as of December 31, 2014 is

29,424

| | |
|-------------------------|-----------------|
| Total Long Term Debt | 205,694 |
| Less Current Maturities | <u>(66,604)</u> |

| | |
|----------------|------------------|
| Long Term Debt | <u>\$139,090</u> |
|----------------|------------------|

Current maturities and debt service are as follows:

| | <u>Current Maturities</u> | <u>Debt Service</u> |
|-----------|-------------------------------|-------------------------|
| 2016 | 66,604 | 72,453 |
| 2017 | 68,862 | 72,453 |
| 2018 | 65,254 | 66,518 |
| 2019 | 4,974 | 5,028 |
| 2020-2024 | <u>0</u> | <u>0</u> |
| | <u>205,694</u> | <u>216,452</u> |

5. SUBSEQUENT EVENTS

On the May 12th 2016, the Board passed a motion to pay down the principle on the Security State Bank Loan (709858) by \$4,000 each month. On May 13th, 2006 the District deposited \$10,832.21 check from FEMA for flooding repairs. Other Subsequent Events have been evaluated through the date the financial statements were available to be issued and no significant items were noted.



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**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
Sequoyah County, Oklahoma

We have audited, 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, the financial statements of Rural Water District No. 4 Sequoyah County, Oklahoma, as of and for the years ended December 31, 2015, and the related notes to the financial statements, which collective comprise Rural Water District No. 4's basic financial statements, and have issued our report thereon dated June 28, 2016.

As described in Note 1, the District prepares its financial statements on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Rural Water District No. 4's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstance for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 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 over financial reporting that might be material weaknesses or, significant deficiencies. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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.

A handwritten signature in dark ink that reads "Clothier & Company CPA's". The signature is written in a cursive, flowing style.

Clothier & Company, CPA's, P.C.
June 28, 2016

SUPPLEMENTAL INFORMATION

Sequoyah County RWD4
BUDGET TO ACTUAL COMPARISON
December 31, 2015

| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | <u>Variance</u> |
|-----------------------------|-------------------|-------------------|----------------|--------------------|
| WATER SALES | 473,000 | 473,000 | 440,692 | (32,308) |
| PENALTIES | 20,900 | 20,900 | 8,280 | (12,620) |
| MEMBERSHIPS | 14,300 | 14,300 | 11,110 | (3,190) |
| OTHER INCOME | 10,560 | 10,560 | 7,669 | (2,891) |
| ADJUSTMENT TO CHARGES | (9,900) | (9,900) | 0 | 9,900 |
| INTEREST INCOME | 11,000 | 11,000 | 720 | (10,280) |
| TOTALS | <u>519,860</u> | <u>519,860</u> | <u>468,471</u> | <u>(51,389)</u> |
| COST OF WATER PURCHASED | 192,500 | 192,500 | 148,533 | (43,967) |
| WAGES/PR TAXES | 82,360 | 82,360 | 76,643 | (5,717) |
| UTILITIES | 13,200 | 13,200 | 11,250 | (1,950) |
| INUSRANCE EXPENSE | 7,150 | 7,150 | 13,561 | 6,411 |
| EQUIPMENT RENTAL | 0 | 0 | 0 | 0 |
| REPAIRS & MAINTENANCE | 3,300 | 3,300 | 3,884 | 584 |
| MATERIALS & SUPPLIES | 49,500 | 49,500 | 38,381 | (11,119) |
| VEHICLE EXPENSE | 0 | 0 | 3,860 | 3,860 |
| OFFICE SUPPLIES/POSTAGE | 8,250 | 8,250 | 16,625 | 8,375 |
| LAB FEES | 18,700 | 18,700 | 4,375 | (14,325) |
| DUES & MEMBERSHIPS | 770 | 770 | 530 | (240) |
| PROFESSIONAL FEES | 3,850 | 3,850 | 3,419 | (431) |
| INTEREST EXPENSE | 23,100 | 23,100 | 7,281 | (15,819) |
| BANK CHARGES | 1,650 | 1,650 | 2,434 | 784 |
| DEPRECIATION | 59,950 | 59,950 | 96,470 | 36,520 |
| CONTRACT LABOR LINE MAINT. | 0 | 0 | 0 | 0 |
| CAPITAL OUTLAY | 11,000 | 11,000 | 3,565 | (7,435) |
| TOTAL OPERATING | <u>475,280</u> | <u>475,280</u> | <u>430,811</u> | <u>(44,469)</u> |
| Net Income (Loss) | <u>44,580</u> | <u>44,580</u> | 37,660 | <u>(6,920)</u> |
| Add back capital outlay | | | <u>3,565</u> | |
| Change in Fund Balance | | | <u>41,225</u> | |

See accompanying footnotes and independent auditors' report.

