

# AUDIT REPORT

LEFLORE COUNTY RURAL WATER DISTRICT #1  
LEFLORE COUNTY, OKLAHOMA

NOVEMBER 30, 2011

## KERSHAW CPA & ASSOCIATES, PC

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LEFLORE COUNTY RURAL WATER DISTRICT #1  
LEFLORE COUNTY, OKLAHOMA  
NOVEMBER 30, 2011

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LEFLORE COUNTY RURAL WATER DISTRICT #1  
LEFLORE COUNTY, OKLAHOMA  
NOVEMBER 30, 2011

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>
GARRY IVEY	CHAIRMAN
KEITH WRIGHT	VICE - CHAIRMAN
DEWEY HARRISON	SECRETARY/TREASURER
SAM GENTRY	MEMBER
JEAN WHIGHAM	MEMBER
BARBARA CAUDELL	MEMBER
ROBERT JORDAN	MEMBER

STAFF

GLENN MIZE	MAINTENANCE/OPERATOR
ELIZABETH PECK, CPA	MANAGER

# KERSHAW CPA & ASSOCIATES, PC

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Leflore County Rural Water District #1  
Leflore County, Oklahoma

We have audited the accompanying financial statements of the Leflore County Rural Water District #1, as of and for the fiscal year ended November 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Leflore County Rural Water District #1's management. Our responsibility is to express an opinion 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, and in accordance with Oklahoma Statutes. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

The modified cash basis of accounting requires that items, having substantial support in U.S. generally accepted accounting principles, such as capitalizing assets at historical cost and recording depreciation, be recorded in the financial statements. The District does not depreciate its capital assets. The amount by which this departure would affect the assets, net assets, and expenses of the District is not readily determinable.

In our opinion, except for the effects, if any, on the financial statements of the exclusion of depreciation described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the Leflore County Rural Water District #1, Leflore County, Oklahoma, as of November 30, 2011, and the respective changes in modified cash basis financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated October 31, 2012, on our consideration of the Leflore County Rural Water District #1'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

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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 compliance with Government Auditing Standards and should be considered in assessing the results of our audit.

Leflore County Rural Water District #1 has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34. However the District has not presented the Management's Discussion and Analysis required by the Governmental Accounting Standards Board (GASB) that the GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The introductory and the other supplementary information sections listed in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the District. Such additional information has not been subjected to the auditing procedures applied in our audit of the basic financial statements, and accordingly, we do not express an opinion thereon.

*Kershaw CPA & Associates, P.C.*

Kershaw CPA & Associates, PC

October 31, 2012

LEFLORE COUNTY RURAL WATER DISTRICT #1  
LEFLORE COUNTY, OKLAHOMA  
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS  
NOVEMBER 30, 2011

	Total 2011	Total (Memo Only) 2010
<b><u>ASSETS</u></b>		
<b><u>Current Assets:</u></b>		
<b>Cash and Cash Equivalents:</b>		
Operations & Maintenance Account	\$ 7,156	\$ 7,628
Revenue Account	106,009	66,334
Water Deposit Account	9,975	8,276
<b>Investments:</b>		
Certificates of Deposit	-	42,231
Total Current Assets	123,141	124,470
<b><u>Capital Assets:</u></b>		
Construction Assets	1,211,737	1,202,954
Donated Assets	43,391	43,391
Less: Accumulated Depreciation	(271,434)	(271,434)
Total Capital Assets	983,693	974,910
<b><u>Other Assets:</u></b>		
ORWA Assurance	1,000	1,000
Total Other Assets	1,000	1,000
<b>TOTAL ASSETS</b>	<b>\$ 1,107,833</b>	<b>\$ 1,100,380</b>
<b><u>LIABILITIES</u></b>		
<b><u>Current Liabilities:</u></b>		
Refundable Water Deposits	\$ 37,232	\$ 35,428
Current Portion of Long-Term Debt	34,054	-
Total Current Liabilities	71,286	35,428
<b><u>Long-Term Liabilities:</u></b>		
Unclaimed Refundable Water Deposits	3,659	3,659
Notes Payable	34,054	92,102
Less: Current Portion of Long-Term Debt	(34,054)	-
Total Long-Term Liabilities	3,659	95,760
<b>TOTAL LIABILITIES</b>	74,945	131,188
<b><u>NET ASSETS</u></b>		
Invested in capital assets, net of related debt	949,639	882,808
Restricted for refundable deposits	9,975	8,276
Unrestricted	73,274	78,107
<b>TOTAL NET ASSETS</b>	1,032,888	969,192
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b>\$ 1,107,833</b>	<b>\$ 1,100,380</b>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

LEFLORE COUNTY RURAL WATER DISTRICT #1  
LEFLORE COUNTY, OKLAHOMA  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
- MODIFIED CASH BASIS -  
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2011

	Total FYE 11/30/2011	Total (Memo Only) FYE 11/30/2010
<b><u>Operating Revenues:</u></b>		
Water Sales	\$ 276,128	\$ 254,887
Meter Tap Fees	12,750	18,750
Other Income	880	3,261
<b>Total Operating Revenues</b>	<b>289,758</b>	<b>276,898</b>
<b><u>Operating Expenses:</u></b>		
Water Purchased	102,610	96,008
Labor	26,636	31,393
Supplies	14,468	17,117
Bookkeeping	36,707	34,803
Office	1,184	1,671
Meter Reading	14,174	13,361
Utilities	14,056	13,792
Professional Fees	4,180	3,668
Insurance and Bond	2,589	2,436
Minute Clerk	480	480
Board of Directors Fees	160	180
Miscellaneous	2,663	2,339
Returned Checks	1,144	1,354
Dues	511	-
Repairs & Maintenance	646	-
Depreciation Expense	-	-
<b>Total Operating Expenses</b>	<b>222,206</b>	<b>218,602</b>
<b>Operating Income (Loss)</b>	<b>67,551</b>	<b>58,296</b>
<b><u>Non-Operating Revenues (Expenses):</u></b>		
Interest Income	781	2,106
Interest Expense	(4,635)	(2,291)
<b>Total Non-operating Revenues (Expenses)</b>	<b>(3,855)</b>	<b>(185)</b>
<b>Net Income (Loss) Before Contributions</b>	<b>63,697</b>	<b>58,111</b>
Donated Assets	-	-
<b>Change in Net Assets</b>	<b>63,697</b>	<b>58,111</b>
<b>Total Net Assets - Beginning</b>	<b>969,192</b>	<b>911,081</b>
<b>Total Net Assets - Prior Year Adjustment</b>	<b>-</b>	<b>-</b>
<b>Total Net Assets - Ending</b>	<b>\$ 1,032,888</b>	<b>\$ 969,192</b>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

LEFLORE COUNTY RURAL WATER DISTRICT #1  
LEFLORE COUNTY, OKLAHOMA  
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS  
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2011

	<u>Nov. 30, 2011</u>	<u>Memorandum Only Nov. 30, 2010</u>
<b><u>Net Cash Flows from Operating Activities:</u></b>		
Cash Receipts from Customers	\$ 289,758	\$ 276,898
Payments to Suppliers for Goods & Services	(195,570)	(187,208)
Payments to Employees & Laborers	(26,636)	(31,393)
Receipts of Customer Utility Deposits, Net of Refunds	1,805	2,097
	<u>69,356</u>	<u>60,393</u>
<b><u>Net Cash Flows from Capital &amp; Related Financing Activities:</u></b>		
Additions to Capital Assets	(8,783)	(366,715)
Loan Proceeds	-	99,867
Principal paid on Debt	(58,048)	(7,766)
Interest paid on Debt	(4,635)	(2,291)
	<u>(71,466)</u>	<u>(276,904)</u>
<b><u>Net Cash Flows from Investing Activities:</u></b>		
Interest Income	781	2,106
(Increase)Decrease in Investments	42,231	188,004
	<u>43,012</u>	<u>190,111</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>40,902</b>	<b>(26,401)</b>
<b>Cash &amp; Cash Equivalents, Beginning of Year</b>	<b>82,239</b>	<b>108,640</b>
<b>Cash &amp; Cash Equivalents, Prior Year Adjustment</b>	<b>-</b>	<b>-</b>
<b>Cash &amp; Cash Equivalents, End of Year</b>	<b><u>\$ 123,141</u></b>	<b><u>\$ 82,239</u></b>
<b><u>Reconciliation of operating income (loss) to net cash provided</u></b>		
<b><u>operating activities:</u></b>		
Operating Income (Loss)	\$ 67,551	\$ 58,296
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	-	-
Increase(Decrease) in Accounts Payable	-	-
Increase(Decrease) in Renters Deposits	1,805	2,097
	<u>1,805</u>	<u>2,097</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<b><u>\$ 69,356</u></b>	<b><u>\$ 60,393</u></b>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements



LEFLORE COUNTY RURAL WATER DISTRICT #1  
LEFLORE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Leflore County Rural Water District #1 (the District), organized as a non-profit organization, adopted a modified cash basis of accounting as reflected in these financial statements. The activities of the District constitute the entire reporting entity. There are no component or oversight units. The District is a political subdivision of the state of Oklahoma.

B. Basis of Presentation

The accounts of the District are organized on the basis of proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net assets, revenues and expenses. Enterprise Funds account for activities (1) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (2) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (3) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

C. Basis of Accounting

The District has elected to present its financial statements on a modified cash basis of accounting. This modified cash basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and their related assets and liabilities. Under the District's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from cash transactions, except for the recording of depreciation expense on capital assets.

As a result of the used of this modified 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 expense and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this financial report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

LEFLORE COUNTY RURAL WATER DISTRICT #1  
LEFLORE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2011

D. Budgetary Data

The District is required by Article 8, Section 1(g) of its by-laws to prepare annually an estimated budget for each coming year.

E. Assets, Liabilities, & Equity

Cash & Cash Equivalents

For the purpose of financial reporting, "cash & cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less.

Investments

Investments classified in the financial statements consist entirely of certificates of deposit whose original maturity term exceeds three months. Investments are carried at cost, which approximates fair value.

Capital Assets

Capital assets have been combined and recorded at cost in the financial statements and are not depreciated. The capitalization threshold has been set at \$1,000.00.

Long-Term Debt

Long-term debt is reported at face value, net of applicable discounts and deferred loss on refunding. Costs related to the issuance of debt are deferred and amortized over the lives of various debt issues.

Equity Classification

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

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

LEFLORE COUNTY RURAL WATER DISTRICT #1  
LEFLORE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2011

F. Revenues, expenditures & expenses

Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

G. Reclassifications

Certain categories on the financial statements have been reclassified from prior years to correctly present financial position.

H. Memorandum Totals

The "Memorandum Only" captions above the total columns mean that totals are presented for overview information purposes only.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

As a local government unit, the District is subject to various federal, state, and local laws and contractual regulations.

Finance-related Legal & Contractual Provisions

The District does not have any loan agreements which would require budget preparation or reserve accounts.

Deficit Fund Balance or Retained Earnings

As indicated in the financial statements, there are no fund balance or retained earnings deficits for the District for this fiscal year.

NOTE 3 - CASH AND INVESTMENTS

Custodial Credit Risk

At November 30, 2011, the District held deposits of approximately \$123,141 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit are 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.

LEFLORE COUNTY RURAL WATER DISTRICT #1  
 LEFLORE COUNTY, OKLAHOMA  
 NOTES TO FINANCIAL STATEMENTS  
 NOVEMBER 30, 2011

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.).

NOTE 4 - CAPITAL ASSETS

Capital asset activity, resulting from the modified cash basis transactions, for the fiscal year ended November 30, 2011, was as follows:

	Balance at Nov. 30, 2010	Additions	Deductions	Balance at Nov. 30, 2011
Construction Costs	\$ 1,202,954	\$ 8,783	\$ -	\$ 1,211,737
Donated Assets	43,391	-	-	43,391
Subtotal	1,246,345	8,783	-	1,255,127
Less: Accum. Depr.	(271,434)	-	-	(271,434)
Total Capital Assets (Net of Depreciation)	<u>\$ 974,910</u>	<u>\$ 8,783</u>	<u>\$ -</u>	<u>\$ 983,693</u>

LEFLORE COUNTY RURAL WATER DISTRICT #1  
LEFLORE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2011

NOTE 5 - LONG-TERM DEBT

The District has a note payable to Central National Bank. The note is for a maximum principal balance of \$150,000.00 payable at 6.00% interest with monthly payments of \$1,662.32 maturing on May 14, 2020. As of November 30, 2010, loan proceeds of \$99,867.41 have been received. The project for which this money was borrowed came in under budget and no further loan proceeds were required.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended November 30, 2011:

	Balance at Nov. 30, 2010	Additions	Deductions	Balance at Nov. 30, 2011
Notes Payable	\$ 92,101.71	\$ -	\$ 58,047.80	\$ 34,053.91
Total Long-Term Debt	<u>\$ 92,101.71</u>	<u>\$ -</u>	<u>\$ 58,047.80</u>	<u>\$ 34,053.91</u>

Debt Services Requirements to Maturity

The District has paid this loan down in excess of required amounts and the loan will be paid in full in the next fiscal year.

NOTE 6 - FUND EQUITY

As described in Note 1 above, equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt
2. Restricted net assets
3. Unrestricted net assets

The restricted net assets include assets restricted for the repayment of refundable water deposits.

NOTE 7 - CONTINGENCIES

Litigation

The District currently has no pending litigation.

Federally Assisted Programs

In the normal course of operations, the District participates in various federal or state/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that may arise as a result of these audits cannot be

LEFLORE COUNTY RURAL WATER DISTRICT #1  
LEFLORE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2011

reasonably determined at this time, although it is believed the amount, if any, would not be material.

NOTE 8 - SUBSEQUENT EVENTS

The District did not have any subsequent events through October 31, 2012, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending November 30, 2011.

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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  
Leflore County Rural Water District #1  
Leflore County, Oklahoma

We have audited the financial statements of the Leflore County Rural Water District #1, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles, as of November 30, 2011 and have issued our report thereon dated October 31, 2012, which was qualified for the exclusion of depreciation. The Leflore County Rural Water District #1 has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, except that the District did not present the required MD&A. We conducted our audit in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes.

### Internal Control Over Financial Reporting

Management of Leflore County Rural Water District #1 is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Leflore Co. RWD #1's internal control over financial reporting as a basis for designing our auditing procedures 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 Leflore Co. RWD #1's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Leflore Co. RWD #1's internal control over financial reporting.

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.

Our 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 over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weakness, as defined above.

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## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Leflore County Rural Water District #1's financial statements are free of material misstatement, we performed tests of 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*.

This report is intended solely for the information and use of the Board of Directors and management of the Leflore County Rural Water District #1 and is not intended to be and should not be used by anyone other than these specified parties.

*Kershaw CPA & Associates, P.C.*  
Kershaw CPA & Associates, PC

October 31, 2012