

# AUDIT REPORT

## MUSKOGEE COUNTY RURAL WATER DISTRICT #10 MUSKOGEE COUNTY, OKLAHOMA

DECEMBER 31, 2011



### KERSHAW CPA & ASSOCIATES, PC

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MUSKOGEE COUNTY RURAL WATER DISTRICT #10  
MUSKOGEE COUNTY, OKLAHOMA  
DECEMBER 31, 2011

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MUSKOGEE COUNTY RURAL WATER DISTRICT #10  
MUSKOGEE COUNTY, OKLAHOMA  
DECEMBER 31, 2011

BOARD OF DIRECTORS

| <u>NAME</u>      | <u>POSITION</u>     |
|------------------|---------------------|
| DR. T.J. HONEA   | CHAIRMAN            |
| ROGER ERICKSON   | VICE-CHAIRMAN       |
| KAREN DAVID      | SECRETARY/TREASURER |
| JOSHUA CHENEY    | MEMBER              |
| ALFORD JOHNSON   | MEMBER              |
| JOHN HEUSMAN     | MEMBER              |
| CLIFFORD GREGORY | MEMBER              |

MANAGEMENT

|                |          |
|----------------|----------|
| SONDRA PIPPIN  | MANAGER  |
| SPECK PLUNKETT | OPERATOR |

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Muskogee County Rural Water District #10  
Muskogee County, Oklahoma

I have audited the accompanying financial statements of the Muskogee County Rural Water District #10, as of and for the fiscal year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the Muskogee County Rural Water District #10's management. 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, and in accordance with Oklahoma Statutes. 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 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Muskogee County Rural Water District #10, Muskogee County, Oklahoma, as of December 31, 2011, and the changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued my report dated February 21, 2012, on my consideration of the Muskogee County Rural Water District #10's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of 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 compliance with Government Auditing Standards and should be considered in assessing the results of my audit.

Muskogee County Rural Water District #10 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

# KERSHAW CPA & ASSOCIATES, PC

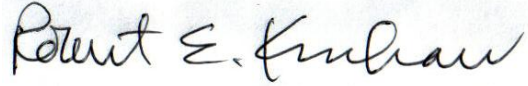
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been subjected to the auditing procedures applied in my audit of the basic financial statements, and accordingly, I do not express an opinion thereon.



Robert E. Kershaw  
Certified Public Accountant

February 21, 2012

**MUSKOGEE COUNTY RURAL WATER DISTRICT #10  
MUSKOGEE COUNTY, OKLAHOMA  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2011**

|  | <u>December 31, 2011</u> | <u>Memorandum Only<br/>December 31, 2010</u> |
|--|--------------------------|--|
| <b><u>ASSETS</u></b>                               |                          |  |
| <b>CURRENT ASSETS:</b>                             |                          |  |
| Cash and Cash Equivalents                          | \$ 49,050                | \$ 43,827                                    |
| Prepaid Insurance                                  | 1,579                    | 1,415  |
| Inventory  | 7,076                    | 7,770  |
| Notes Receivable                                   | -                        | 364  |
| Accounts Receivable, Net of Allowance for Doubtful | 7,219                    | 8,292  |
| <b>Total Current Assets</b>                        | <u>64,925</u>            | <u>61,668</u>                                |
| <b>CAPITAL ASSETS:</b>                             |                          |  |
| Land   | 4,889                    | 4,889  |
| Water System                                       | 325,900                  | 325,900                                      |
| Water System Improvements                          | 226,935                  | 209,885                                      |
| Office Equipment                                   | 1,670                    | 1,670  |
| Storage Building                                   | 1,443                    | 1,443  |
| Construction in Progress                           | -                        | -  |
| Less: Accumulated Depreciation                     | (272,821)                | (258,111)                                    |
| <b>Net Capital Assets</b>                          | <u>288,016</u>           | <u>285,675</u>                               |
| <b>OTHER ASSETS</b>                                |                          |  |
| Reserve Cash                                       | -                        | -  |
| <b>Total Other Assets</b>                          | <u>-</u>                 | <u>-</u>                                     |
| <b>TOTAL ASSETS</b>                                | <u>352,941</u>           | <u>347,343</u>                               |
| <b><u>LIABILITIES</u></b>                          |                          |  |
| <b>CURRENT LIABILITIES:</b>                        |                          |  |
| Accounts Payable                                   | 2,313                    | 2,424  |
| Payroll Taxes Payable                              | 953                      | 752  |
| Customer Deposits                                  | 500                      | 1,250  |
| Current Portion of Long-Term Debt                  | 2,855                    | -  |
| <b>Total Current Liabilities</b>                   | <u>6,621</u>             | <u>4,426</u>                                 |
| <b>LONG TERM DEBT:</b>                             |                          |  |
| Note Payable                                       | 12,990                   | -  |
| Less: Current Portion of Long-Term Debt            | (2,855)                  | -  |
| <b>TOTAL LIABILITIES</b>                           | <u>16,755</u>            | <u>4,426</u>                                 |
| <b><u>NET ASSETS</u></b>                           |                          |  |
| Invested in capital assets, net of related debt    | 275,026                  | 285,675                                      |
| Restricted for debt service                        | 0                        | 0  |
| Unrestricted                                       | 61,159                   | 57,242                                       |
| <b>TOTAL NET ASSETS</b>                            | <u>\$ 336,185</u>        | <u>\$ 342,917</u>                            |

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

**MUSKOGEE COUNTY RURAL WATER DISTRICT #10  
MUSKOGEE COUNTY, OKLAHOMA  
STATEMENT OF INCOME, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2011**

|  | <u>December 31, 2011</u> | <u>Memo Only<br/>December 31, 2010</u> |
|--|--------------------------|--|
| <b>REVENUE:</b>                                |                          |  |
| Water Sales                                    | \$ 85,741                | \$ 81,504                              |
| Membership Fees (Meter Sales)                  | 2,000                    | 6,000                                  |
| Miscellaneous Income                           | 951                      | 1,136                                  |
| <b>TOTAL REVENUES</b>                          | <u>88,692</u>            | <u>88,640</u>                          |
| Cost of Water                                  | <u>26,968</u>            | <u>23,855</u>                          |
| <b>GROSS PROFIT (LOSS)</b>                     | <u>61,724</u>            | <u>64,785</u>                          |
| <b>EXPENSES:</b>                               |                          |  |
| Legal  | -                        | -                                      |
| Accounting                                     | 1,100                    | 1,540                                  |
| Water Testing                                  | 264                      | 352                                    |
| Depreciation                                   | 14,709                   | 14,154                                 |
| Utilities                                      | 955                      | 1,011                                  |
| Insurance                                      | 2,597                    | 2,606                                  |
| Office Supplies                                | 784                      | 41                                     |
| Contract Labor                                 | 16,025                   | 14,001                                 |
| Water System Supplies                          | 5,865                    | 7,524                                  |
| Returned Checks                                | 562                      | 816                                    |
| Bank Charges                                   | 36                       | 29                                     |
| Dues & Subscriptions                           | 457                      | 457                                    |
| Postage Stamps & Box Rental                    | -                        | 44                                     |
| Donations                                      | 318                      | 100                                    |
| Salary & Wage Expense                          | 17,800                   | 16,200                                 |
| Payroll Taxes                                  | 1,540                    | 1,388                                  |
| Mileage Allowance                              | 3,800                    | 3,000                                  |
| Maintenance Agreement                          | 519                      | 519                                    |
| Miscellaneous Expenses                         | 1,926                    | 1,984                                  |
| <b>TOTAL EXPENSES</b>                          | <u>69,256</u>            | <u>65,767</u>                          |
| <b>OPERATING INCOME (LOSS)</b>                 | <u>(7,532)</u>           | <u>(982)</u>                           |
| Other revenue (& expenses):                    |                          |  |
| Interest income                                | 303                      | 240                                    |
| Interest expense                               | (502)                    | -                                      |
| <b>Total other revenue (&amp; expenses)</b>    | <u>(199)</u>             | <u>240</u>                             |
| <b>NET INCOME (LOSS)</b>                       | <u>(7,732)</u>           | <u>(742)</u>                           |
| <b>CAPITAL CONTRIBUTIONS - REAP GRANT</b>      | <u>-</u>                 | <u>-</u>                               |
| <b>CHANGE IN NET ASSETS</b>                    | <u>(7,732)</u>           | <u>(742)</u>                           |
| <b>TOTAL NET ASSETS, BEGINNING OF YEAR</b>     | 342,917                  | 346,917                                |
| <b>TOTAL NET ASSETS, PRIOR YEAR ADJUSTMENT</b> | 1,000                    | (3,258)                                |
| <b>TOTAL NET ASSETS, END OF YEAR</b>           | <u>\$ 336,185</u>        | <u>\$ 342,917</u>                      |

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

**MUSKOGEE COUNTY RURAL WATER DISTRICT #10  
MUSKOGEE COUNTY, OKLAHOMA  
STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

|   | <u>2011</u>      | <u>Memorandum<br/>Only<br/>2010</u> |
|---|------------------|-------------------------------------|
| <b><u>Net Cash Flows from Operating Activities:</u></b>   |                  |                                     |
| Cash Receipts from Customers  | \$ 90,129        | \$ 88,331                           |
| Payments to Suppliers for Goods & Services  | (47,070)         | (49,030)                            |
| Payments to Employees & Laborers  | (33,825)         | (30,201)                            |
| Receipts of Customer Utility Deposits, Net of Refunds   | 250              | -                                   |
| <b>Net Cash Provided (Used) by Operating Activities</b>   | <b>9,483</b>     | <b>9,100</b>                        |
| <b><u>Net Cash Flows from Capital &amp; Related Financing Activities:</u></b>                                   |                  |                                     |
| Additions to Capital Assets   | (17,050)         | (10,283)                            |
| Loan Proceeds   | 15,049           | -                                   |
| Principal paid on Debt  | (2,059)          | -                                   |
| Interest paid on Debt   | (502)            | -                                   |
| <b>Net Cash Provided (Used) by Capital &amp; Related Financing Activities</b>                                   | <b>(4,562)</b>   | <b>(10,283)</b>                     |
| <b>Net Cash Flows from Investing Activities:</b>  |                  |                                     |
| (Increase)Decrease in Reserve Cash  | -                | -                                   |
| Interest Income   | 303              | 240                                 |
| <b>Net Cash Provided (Used) by Investing Activities</b>   | <b>303</b>       | <b>240</b>                          |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>   | <b>5,223</b>     | <b>(942)</b>                        |
| Cash & Cash Equivalents, Beginning of Year  | 43,827           | 44,769                              |
| Cash & Cash Equivalents, Prior Year Adjustment  | -                | -                                   |
| <b>Cash &amp; Cash Equivalents, End of Year</b>   | <b>\$ 49,050</b> | <b>\$ 43,827</b>                    |
| <b><u>Reconciliation of operating income (loss) to net cash provided<br/>operating activities:</u></b>          |                  |                                     |
| Operating Income (Loss)   | \$ (7,532)       | \$ (982)                            |
| <b>Adjustments to reconcile operating income (loss) to net cash<br/>provided (used) by operating activities</b> |                  |                                     |
| Depreciation  | 14,709           | 14,154                              |
| (Increase)Decrease in Accounts Receivable - Net of Allowance  | 1,437            | (309)                               |
| (Increase)Decrease in Prepaid Insurance   | (164)            | 34                                  |
| (Increase)Decrease in Inventory   | 694              | (590)                               |
| Increase(Decrease) in Accounts Payable  | (111)            | (3,199)                             |
| Increase(Decrease) in Payroll Taxes Payable   | 201              | (8)                                 |
| Increase(Decrease) in Customer Deposits   | 250              | -                                   |
| <b>Net Cash Provided (Used) by Operating Activities</b>   | <b>\$ 9,483</b>  | <b>\$ 9,100</b>                     |

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



MUSKOGEE COUNTY RURAL WATER DISTRICT #10  
MUSKOGEE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Muskogee County Rural Water District #10 (the "District") is a public trust created August 22, 1983, as an agency of the State of Oklahoma. The District was organized for the purpose of constructing and maintaining a water distribution system in Muskogee County, Oklahoma. The following is a summary of the more significant accounting policies employed by the District.

Enterprise Fund Accounting

The accompanying financial statements reflect the District's financial condition, results of operations and cash flows within the framework of "enterprise fund" accounting. As defined, enterprise funds are established to account for the financing of self supporting activities of governmental units which render services on a user charge basis to the general public.

Basis of Accounting

The District utilizes the accrual basis of accounting. Revenues are recognized when earned and expenses when incurred.

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.

Inventory

The District keeps an inventory of the supply parts purchased and still on hand at yearend.

Capital Assets

Capital Assets (Property and equipment) are recorded at cost, with depreciation provided on a straight-line method over the estimated useful lives of the assets. The dollar threshold for capitalization has been set at \$150.00.

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.

MUSKOGEE COUNTY RURAL WATER DISTRICT #10  
MUSKOGEE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011

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.”

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.

Governmental Accounting Standards Board Statement No. 34

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Certain of the significant changes in the Statement include the following:

1. For the first time the financial statement should include:
  - a. A Management Discussion and Analysis (MD&A) section providing analysis of the District's overall financial position and results of operations. However, the District has chosen not to present the required MD&A for the current year.
  - b. Financial statements prepared using full accrual accounting for all of the District's activities, except for including the General capital assets or infrastructure (lines, pump stations, etc.).
2. A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The District has elected

MUSKOGEE COUNTY RURAL WATER DISTRICT #10  
MUSKOGEE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011

to implement the general provisions of the Statement and report infrastructure acquired after December 31, 2003 as provided by GASB standards.

Income Tax

As a political subdivision of the State of Oklahoma, the District is exempt from income taxes.

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. In accordance with Government Auditing Standards, the auditor has issued a report on his consideration of the District's internal control over financial reporting and tested its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be read in conjunction with this report in considering the results of the audit.

Finance-related Legal & Contractual Provisions

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

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 December 31, 2011, the District held deposits of approximately \$49,050 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.

MUSKOGEE COUNTY RURAL WATER DISTRICT #10  
MUSKOGEE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 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 - RESTRICTED ASSETS

The District has no restricted assets.

NOTE 5 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended December 31, 2011, was as follows:

MUSKOGEE COUNTY RURAL WATER DISTRICT #10  
MUSKOGEE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011

|   | Balance at<br>Dec. 31, 2010 | Additions       | Deductions  | Balance at<br>Dec. 31, 2011 |
|---|-----------------------------|-----------------|-------------|-----------------------------|
| Land  | \$ 4,889                    | \$ -            | \$ -        | \$ 4,889                    |
| Water System & Equipment                      | 325,900                     | -               | -           | 325,900                     |
| Water System Improvements                     | 209,885                     | 17,050          | -           | 226,935                     |
| Office Equipment                              | 1,670                       | -               | -           | 1,670                       |
| Storage Building                              | 1,443                       | -               | -           | 1,443                       |
| Construction in Progress                      | -                           | -               | -           | -                           |
| Subtotal                                      | 543,786                     | 17,050          | -           | 560,836                     |
| Less: Accum. Depr.                            | (258,111)                   | (14,709)        | -           | (272,821)                   |
| Total Capital Assets<br>(Net of Depreciation) | <u>\$ 285,675</u>           | <u>\$ 2,341</u> | <u>\$ -</u> | <u>\$ 288,016</u>           |

The addition for the year was the Freeman Project.

NOTE 6 - LONG-TERM DEBT

The District currently has a note payable to American Bank of Oklahoma. The original principal amount was \$15,048.50. The loan is to be paid in 59 monthly payments of \$279.13 with an interest rate of 4.230% and one final payment of the full amount of principal and all interest remaining due and payable on March 9, 2016. Loan proceeds were used for the Freeman Project.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended December 31, 2011:

|                      | Balance at<br>December 31, 2010 | Additions           | Deductions           | Balance at<br>December 31, 2011 |
|----------------------|---------------------------------|---------------------|----------------------|---------------------------------|
| Notes Payable        | \$ -                            | \$ 15,048.50        | \$ (2,058.64)        | \$ 12,989.86                    |
| Total Long-Term Debt | <u>\$ -</u>                     | <u>\$ 15,048.50</u> | <u>\$ (2,058.64)</u> | <u>\$ 12,989.86</u>             |

Debt Services Requirements to Maturity

The annual debt service requirements to maturity, including principal and interest, for long-term debt, as of December 31, 2011, are as follows:

| Year Ending<br>December 31, | Principal        | Interest        | Total            |
|-----------------------------|------------------|-----------------|------------------|
| 2012                        | \$ 2,855         | \$ 495          | \$ 3,350         |
| 2013                        | 2,978            | 371             | 3,350            |
| 2014                        | 3,107            | 243             | 3,350            |
| 2015                        | 3,241            | 109             | 3,350            |
| 2016                        | 810              | 6               | 815              |
| 2017-2021                   | -                | -               | -                |
| Total                       | <u>\$ 12,990</u> | <u>\$ 1,224</u> | <u>\$ 14,213</u> |

MUSKOGEE COUNTY RURAL WATER DISTRICT #10  
MUSKOGEE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011

NOTE 7 - 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

NOTE 8 - 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 reasonably determined at this time, although it is believed the amount, if any, would not be material.

NOTE 9 - WATER SUPPLY

The Muskogee County Rural Water District #10 purchases water from the City of Muskogee and the Haskell Public Works Authority. After an improvement project in 2004, the District began purchasing water from the City of Muskogee for a much lower rate than they were purchasing from the Haskell Public Works Authority. The District still purchases a small amount of water from the Haskell Public Works Authority.

NOTE 10 - CUSTOMER DEPOSITS

Effective for the year ending December 31, 2002, the membership fee which increased from \$750.00 to \$1,000.00 is no longer refundable. However, the \$250.00 renter's deposit is still refundable.

The District had two accounts with refundable renter's deposits at the end of the year.

NOTE 11 - PRIOR YEAR ADJUSTMENT

A prior year adjustment was made to remove \$1,000 from the balance of the refundable meter deposits. The deposits were applied to final customer bills in past years and should be removed from the liability.

MUSKOGEE COUNTY RURAL WATER DISTRICT #10  
MUSKOGEE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011

NOTE 12 - SUBSEQUENT EVENTS

The District did not have any subsequent events through February 21, 2012, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending December 31, 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  
Muskogee County Rural Water District #10, Oklahoma

I have audited the financial statements of the Muskogee County Rural Water District #10, Muskogee County, Oklahoma, as of December 31, 2011, and have issued my report thereon dated February 21, 2012. The Muskogee County Rural Water District #10 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. I conducted my 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

In planning and performing my audit, I considered the Muskogee County Rural Water District #10's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Muskogee County Rural Water District #10's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Muskogee Rural Water District #10'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.

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 over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weakness, as defined above. However, I identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings that I consider to be significant deficiencies in internal control over financial reporting. Those deficiencies are listed as Item 11-01. A significant



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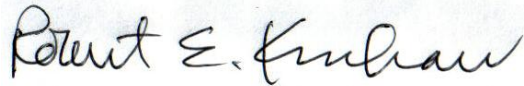
deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Muskogee County Rural Water District #10's financial statements are free of material misstatement, I 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 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*.

Muskogee Co. RWD #10's response to the findings identified in my audit is described in the accompanying Schedule of Findings. I did not audit Muskogee Co. RWD #10's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of the board of directors and management of the Muskogee County Rural Water District #10, Oklahoma and is not intended to be and should not be used by anyone other than these specified parties.



Robert E. Kershaw, CPA

February 21, 2012

MUSKOGEE COUNTY RURAL WATER DISTRICT #10  
MUSKOGEE COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS  
DECEMBER 31, 2011

Item 11-01: Segregation of Duties

Criteria: A good system of internal control requires a proper segregation of duties to prevent one person from being in a position to authorize, execute, and record the same transaction.

Condition: Due to the size of the District's major areas of internal control, that would be prevalent in a larger District, such segregation of duties is not available for this size operation. Duties are concentrated in the hands of a few individuals, who are responsible for all phases of the accounting functions. Because of this lack of division of responsibility, internal control is determined to be weak, and in some instances, non-existent.

Cause/Effect: Due to the limited number of personnel, a breach of internal controls could occur and not be detected in the normal course of operations.

Recommendation: The Board should continue to be actively involved in the operations of the District.

Response: The Board continues to be actively involved in the operations of the District.

MUSKOGEE COUNTY RURAL WATER DISTRICT #10  
MUSKOGEE COUNTY, OKLAHOMA  
SCHEDULE OF WATER RATES AND CUSTOMERS  
DECEMBER 31, 2011

Water Rates

|                         |   |                              |
|-------------------------|---|------------------------------|
| 0 - 1,000 gallons       | = | \$22.00 Minimum Bill         |
| 2,000 - 4,000 gallons   | = | \$ 7.25 Per Thousand Gallons |
| 5,000 - 14,000 gallons  | = | \$ 7.50 Per Thousand Gallons |
| 15,000 gallons and over | = | \$ 8.00 Per Thousand Gallons |

Total Gallons Purchased 11,676,956

Total Gallons Sold 8,476,000

Percentage of Loss 27.41%

Customers

The Rural Water District #10 had 151 meters at the close of this fiscal year.

Current membership/tap fee \$1,000.00. (The fee is an additional \$250.00 for a tap with a road crossing.)

Renters Deposit \$250.00.