

AUDIT REPORT

MUSKOGEE COUNTY RURAL WATER DISTRICT #14
MUSKOGEE COUNTY, OKLAHOMA

DECEMBER 31, 2011

KERSHAW CPA & ASSOCIATES, PC

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MUSKOGEE COUNTY RURAL WATER DISTRICT #14
MUSKOGEE COUNTY, OKLAHOMA
DECEMBER 31, 2011

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MUSKOGEE COUNTY RURAL WATER DISTRICT #14
MUSKOGEE COUNTY, OKLAHOMA
DECEMBER 31, 2011

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>
HUBERT ADKINS	CHAIRMAN
JIM GOINES	VICE CHAIRMAN
KIM MCCLAIN	SECRETARY
DIANA MCCLELLAN	TREASURER
BRUCE REED	MEMBER

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Muskogee County Rural Water District #14
Muskogee County, Oklahoma

We have audited the accompanying financial statements of the Muskogee County Rural Water District #14, 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 #14'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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Muskogee County Rural Water District #14, 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, we have also issued our report dated February 4, 2013, on our consideration of the Muskogee County Rural Water District #14'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 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.

Muskogee County Rural Water District #14 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.

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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

February 4, 2013

**MUSKOGEE COUNTY RURAL WATER DISTRICT #14
MUSKOGEE COUNTY, OKLAHOMA
STATEMENT OF NET ASSETS
DECEMBER 31, 2011**

	2011	Memo Only 2010
<u>ASSETS</u>		
<u>CURRENT ASSETS:</u>		
Cash in Bank - Membership Acct	\$ 552	\$ 552
Cash in Bank - Operating Acct	25,338	24,449
Certificate of Deposit	9,043	9,013
Accounts Receivable - Water billings	2,812	1,608
Prepaid Insurance	568	540
Total Current Assets	38,313	36,161
<u>CAPITAL ASSETS:</u>		
Water System	147,305	147,305
Office Equipment	1,971	1,971
Less: Accumulated Depreciation	(35,729)	(32,046)
Net Capital Assets	113,548	117,230
TOTAL ASSETS	\$ 151,861	\$ 153,392
<u>LIABILITIES & NET ASSETS</u>		
<u>CURRENT LIABILITIES:</u>		
Accounts Payable	\$ 272	\$ 405
Total Current Liabilities	272	405
<u>LONG-TERM LIABILITIES:</u>		
Notes Payable	-	-
Less: Current Portion of Long-Term Debt	-	-
Total Long-Term Liabilities	-	-
TOTAL LIABILITIES	272	405
<u>NET ASSETS:</u>		
Invested in capital assets, net of related debt	113,548	117,230
Restricted for debt service	-	-
Unrestricted	38,042	35,757
TOTAL NET ASSETS	151,589	152,987
TOTAL LIABILITIES AND NET ASSETS	\$ 151,861	\$ 153,392

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

**MUSKOGEE COUNTY RURAL WATER DISTRICT #14
MUSKOGEE COUNTY, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2011**

	<u>2011</u>	<u>Memo Only 2010</u>
<u>OPERATING REVENUES:</u>		
Water Sales	\$ 14,256	\$ 13,273
Installation Fees	-	-
Membership Fees	-	-
	<hr/>	<hr/>
TOTAL OPERATING REVENUES	14,256	13,273
	<hr/>	<hr/>
<u>OPERATING EXPENSES:</u>		
Water Purchases	4,900	4,325
Water Testing Fees	1,202	560
Line & Meter Supplies	117	41
Professional Fees	700	640
Insurance	1,335	1,323
Dues & Memberships	314	492
Office Supplies	469	362
Depreciation	3,683	3,683
Repairs & maintenance, including contract labor	2,759	2,610
Bank Charges	51	25
Bad Debt Expense	-	-
Rent	-	-
Miscellaneous	156	200
	<hr/>	<hr/>
TOTAL OPERATING EXPENSES	15,684	14,260
	<hr/>	<hr/>
NET OPERATING INCOME (LOSS)	(1,428)	(987)
<u>OTHER REVENUES (EXPENSES):</u>		
Miscellaneous Income	-	-
Interest Income	30	54
	<hr/>	<hr/>
CHANGE IN NET ASSETS	(1,398)	(933)
TOTAL NET ASSETS, Beginning of Year	152,987	153,920
TOTAL NET ASSETS, Prior Year Adjustment	-	-
	<hr/>	<hr/>
TOTAL NET ASSETS, End of Year	\$ 151,589	\$ 152,987
	<hr/> <hr/>	<hr/> <hr/>

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

EXHIBIT C

**MUSKOGEE COUNTY RURAL WATER DISTRICT #14
MUSKOGEE COUNTY, OKLAHOMA
STATEMENT OF CASH FLOWS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2011**

	<u>2011</u>	<u>Memorandum Only 2010</u>
<u>Net Cash Flows from Operating Activities:</u>		
Cash Receipts from Customers	\$ 13,052	\$ 13,686
Payments to Suppliers for Goods & Services	(12,163)	(10,933)
Net Cash Provided (Used) by Operating Activities	<u>890</u>	<u>2,753</u>
<u>Net Cash Flows from Capital & Related Financing Activities:</u>		
Additions to Capital Assets	-	-
Proceeds from sale of Capital Assets	-	-
Principal Payments on Long-Term Debt	-	-
Interest Expense	-	-
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>-</u>	<u>-</u>
<u>Net Cash Flows from Investing Activities:</u>		
Miscellaneous Income	-	-
Interest Income	30	54
Net Cash Provided (Used) by Investing Activities	<u>30</u>	<u>54</u>
Net Increase (Decrease) in Cash and Cash Equivalents	920	2,807
Cash & Cash Equivalents, Beginning of Year	34,014	31,207
Cash & Cash Equivalents, Prior Year Adjustment	-	-
Cash & Cash Equivalents, End of Year	<u>\$ 34,933</u>	<u>\$ 34,014</u>
<u>Reconciliation of operating income (loss) to net cash provided</u>		
<u>operating activities:</u>		
Net Operating Income (Loss)	\$ (1,428)	\$ (987)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	3,683	3,683
(Increase)Decrease in Accounts Receivable	(1,204)	412
(Increase)Decrease in Prepaid Insurance	(28)	28
Increase(Decrease) in Accounts Payable	(133)	(383)
Net Cash Provided (Used) by Operating Activities	<u>\$ 890</u>	<u>\$ 2,753</u>

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

MUSKOGEE COUNTY RURAL WATER DISTRICT #14
MUSKOGEE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 1 -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Muskogee County Rural Water District No. 14 (the "District") was created under the provisions of the laws of the State of Oklahoma in 2001 as a non-profit corporation. The District was formed for the purpose of acquiring water and water rights and to build and acquire pipelines and other facilities, to serve the needs of owners and occupants of land located within the district, and others as authorized by the bylaws.

Fund Accounting

The District is accounted for within the framework of enterprise fund accounting. Enterprise funds are used to account for operations that are operated in a manner similar to private business enterprises wherein the intent of the District's Board of Directors is to recover the cost of providing goods and services through user charges.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. The District utilizes the accrual basis of accounting, which is in accordance with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses when incurred.

Cash and Cash Equivalents

Cash is comprised of deposits in checking accounts. At December 31, 2011, it appears that all deposits were fully insured by FDIC.

Budgetary Data

The District is required by Article 8 of its by-laws to prepare annually an estimated budget.

Assets, Liabilities, & Equity

Cash and Cash Equivalents

Cash and short-term investments (those having an original maturity date of three months or less) are considered cash and cash equivalents for purposes of preparation of the statement of cash flows.

MUSKOGEE COUNTY RURAL WATER DISTRICT #14
MUSKOGEE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

Allowance for Uncollectible Accounts

No provision for an allowance for uncollectible accounts has been made as all accounts deemed uncollectible are written off against revenues upon Board approval.

Property, Plant and Equipment

Asset acquisitions of more than \$300.00 are capitalized and depreciated at historical cost. Purchases under \$300.00 are expensed in the year of purchase. Depreciation on fixed assets is calculated using the straight-line method of depreciation with useful lives as follows:

	Life <u>(in years)</u>
Water System	40
Furniture, fixtures and equipment	5

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.”

MUSKOGEE COUNTY RURAL WATER DISTRICT #14
MUSKOGEE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

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

Income Taxes

The District is organized as a not-for-profit entity and is exempt from paying Federal and State Income Taxes.

Memorandum Totals

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

MUSKOGEE COUNTY RURAL WATER DISTRICT #14
MUSKOGEE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

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 EQUIVALENTS

Custodial Credit Risk

At December 31, 2011, the District held deposits of approximately \$34,933 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.

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.

MUSKOGEE COUNTY RURAL WATER DISTRICT #14
MUSKOGEE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

- 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:

	Balance at Dec. 31, 2010	Additions	Deductions	Balance at Dec. 31, 2011
Water System	\$ 147,305	\$ -	\$ -	\$ 147,305
Office Equipment	1,971	-	-	1,971
Subtotal	149,276	-	-	149,276
Less: Accum. Depr.	(32,046)	(3,683)	-	(35,729)
Total Capital Assets (Net of Depreciation)	<u>\$ 117,230</u>	<u>\$ (3,683)</u>	<u>\$ -</u>	<u>\$ 113,547</u>

Depreciation expense for 2011 was \$3,683.

NOTE 6 - LONG-TERM DEBT

The District currently has no long-term debt.

Changes in Long-Term Debt

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

MUSKOGEE COUNTY RURAL WATER DISTRICT #14
MUSKOGEE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

	Balance at December 31, 2010	Additions	Deductions	Balance at December 31, 2011
Notes Payable	\$ -	\$ -	\$ -	\$ -
Total Long-Term Debt	\$ -	\$ -	\$ -	\$ -

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 December 31,		
2012	\$	-
2013		-
2014		-
2015		-
2016		-
2017-2021		-
Total	\$	-

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

According to management there were no known contingent liabilities at December 31, 2011, which would have a material effect on the financial statements.

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.

MUSKOGEE COUNTY RURAL WATER DISTRICT #14
MUSKOGEE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 9 - ECONOMIC DEPENDANCE

The District purchases 100% of the water sold to its membership from the Boynton Public Works Authority.

NOTE 10 - SUBSEQUENT EVENTS

The District did not have any subsequent events through February 4, 2013, 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 #14
Muskogee County, Oklahoma

We have audited the financial statements of the Muskogee County Rural Water District #14, as of December 31, 2011, and have issued our report thereon dated February 4, 2013. The Muskogee County Rural Water District #14 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 the Muskogee County Rural Water District #14 is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Muskogee County Rural Water District #14'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 Muskogee County Rural Water District #14's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Muskogee County Rural Water District #14'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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of

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Findings that we consider to be significant deficiencies in internal control over financial reporting. Those deficiencies are listed as Item 11-01. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Muskogee County Rural Water District #14'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*.

Muskogee Co. RWD #14's response to the findings identified in our audit is described in the accompanying Schedule of Findings. We did not audit Muskogee Co. RWD #14's response and, accordingly, we 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 #14, Muskogee County, Oklahoma 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

February 4, 2013

MUSKOGEE COUNTY RURAL WATER DISTRICT #14
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 the Manager, who is 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 organization.

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

MUSKOGEE COUNTY RURAL WATER DISTRICT #14
MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF WATER RATES AND CUSTOMERS
DECEMBER 31, 2011

Water Rates

0 - 1,000 gallons	=	\$25.00 Minimum Bill
Next 1,000 gallons	=	\$ 4.61
Over 2,000 gallons	=	\$ 4.61 per 1,000 gallon

Customers

The Rural Water District #14 had 25 customers at the close of this fiscal year.

Current benefit unit cost is \$400.00 which includes installation cost.