

AUDIT REPORT

WAGONER COUNTY RURAL WATER DISTRICT #1

DECEMBER 31, 2011



KERSHAW CPA & ASSOCIATES, PC

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WAGONER COUNTY RURAL WATER DISTRICT #1
WAGONER COUNTY, OKLAHOMA
DECEMBER 31, 2011

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WAGONER COUNTY RURAL WATER DISTRICT #1
WAGONER COUNTY, OKLAHOMA
DECEMBER 31, 2011

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>	<u>TERM EXPIRATION</u>
Johnny Bybee 8232 N 58 th St E Ft. Gibson, OK 74434 918-683-1795	Chairman	2011
J.P. Hukill 8457 N. 56 th St E Ft. Gibson, OK 74434 918-686-8297	Vice Chairman	2013
Arty Freeman 5560 E. 85 th St N Ft. Gibson, OK 74434 918-683-4741	Secretary/Treasurer	2012
Larry Rogers 6314 E. 81 st St N Ft. Gibson, OK 74434 918-687-3783	Board Member	2011
Shirley Armstrong 8578 N. 56 th St E Ft. Gibson, OK 74434	Board Member	2012

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Wagoner County Rural Water District #1, 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 Wagoner 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Wagoner County Rural Water District #1, Wagoner County, Oklahoma, as of December 31, 2011, and the changes in 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 August 24, 2012, on our consideration of the Wagoner 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 internal control over financial reporting and

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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.

Wagoner 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

August 24, 2012

**WAGONER COUNTY RURAL WATER DISTRICT #1
WAGONER COUNTY, OKLAHOMA
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
DECEMBER 31, 2011**

	2011	Memorandum Only 2010
<u>ASSETS</u>		
<u>CURRENT ASSETS:</u>		
Revenue Cash	\$ 2,782	\$ 13,254
Maintenance Cash	8	2,452
Certificate of Deposit	24,780	24,593
Reserve Cash	918	-
Deposits	40	40
Total Current Assets	28,529	40,340
<u>CAPITAL ASSETS:</u>		
Property, Plant & Equipment	227,078	173,704
Less: Accumulated Depreciation	(108,705)	(104,836)
Net Capital Assets	118,373	68,868
TOTAL ASSETS	\$ 146,902	\$ 109,208
<u>LIABILITIES & NET ASSETS</u>		
<u>LIABILITIES:</u>		
<u>CURRENT LIABILITIES:</u>		
Current Portion of Long-Term Debt	\$ -	\$ -
Payroll Taxes Payable	1,098	1,180
Total Current Liabilities	1,098	1,180
TOTAL LONG-TERM LIABILITIES	45,542	-
TOTAL LIABILITIES	46,639	1,180
<u>NET ASSETS:</u>		
Invested in capital assets, net of related debt	72,831	68,868
Restricted for debt service	-	-
Unrestricted	27,431	39,160
TOTAL NET ASSETS	100,262	108,028
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 146,902	\$ 109,208

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

**WAGONER COUNTY RURAL WATER DISTRICT #1
WAGONER COUNTY, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - MODIFIED CASH BASIS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2011**

	<u>2011</u>	<u>Memorandum Only 2010</u>
<u>OPERATING REVENUES:</u>		
Water Sales	\$ 84,427	\$ 71,120
Tap Fees	-	-
Other Operating Income	276	20
TOTAL OPERATING REVENUES	<u>84,703</u>	<u>71,140</u>
<u>OPERATING EXPENSES:</u>		
Manager's Fees	29,040	28,600
Employee Benefits	-	175
Chemicals	3,920	3,577
Water Purchased	19,337	1,953
Electricity	3,689	4,222
Depreciation	3,869	3,869
Repairs & Maintenance	2,278	6,132
Bonds & Insurance	2,698	2,168
Office Expense	1,441	1,393
Bank Charges	197	18
Dues, Licenses & Fees	145	145
Legal & Accounting	5,754	5,678
Audit Fees	1,850	865
Director's Fees	115	677
Contract Labor	4,625	3,945
Lab Fees	7,341	6,903
Payroll Taxes	2,222	2,188
Travel	2,651	2,201
Miscellaneous	180	-
Total Operating Expenses	<u>91,350</u>	<u>74,709</u>
NET OPERATING INCOME (LOSS)	<u>(6,647)</u>	<u>(3,568)</u>
<u>OTHER REVENUES (EXPENSES):</u>		
Interest Revenue	218	329
Interest Expense	(1,336)	-
Total Other Revenues (Expenses)	<u>(1,119)</u>	<u>329</u>
NET INCOME (LOSS)	<u>(7,766)</u>	<u>(3,239)</u>
TOTAL NET ASSETS, Beginning of Year	108,028	111,267
TOTAL NET ASSETS, Prior Year Adjustment	-	-
TOTAL NET ASSETS, End of Year	<u>\$ 100,262</u>	<u>\$ 108,028</u>

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

**WAGONER COUNTY RURAL WATER DISTRICT #1
WAGONER COUNTY, OKLAHOMA
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
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	\$ 84,703	\$ 71,140
Payments to Suppliers for Goods & Services	(58,523)	(42,142)
Payments to Employees & Laborers	(29,040)	(28,600)
Net Cash Provided (Used) by Operating Activities	<u>(2,860)</u>	<u>399</u>
<u>Net Cash Flows from Capital & Related Financing Activities:</u>		
Additions to Capital Assets	(53,374)	-
Conversion or Sale of Fixed Assets	-	-
Loan Proceeds	53,374	-
Principal paid on Long-Term Debt	(7,832)	-
Interest paid on Debt	(1,336)	-
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(9,169)</u>	<u>-</u>
<u>Net Cash Flows from Investing Activities:</u>		
Interest Income	218	329
Net Cash Provided (Used) by Investing Activities	<u>218</u>	<u>329</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(11,811)	728
Cash & Cash Equivalents, Beginning of Year	40,300	39,572
Cash & Cash Equivalents, Prior Year Adjustment	-	-
Cash & Cash Equivalents, End of Year	<u>\$ 28,489</u>	<u>\$ 40,300</u>
<u>Reconciliation of operating income (loss) to net cash provided</u>		
<u>operating activities:</u>		
Operating Income (Loss)	\$ (6,647)	\$ (3,568)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	3,869	3,869
(Increase)Decrease in Accounts Receivable	-	-
(Increase)Decrease in Prepaid Insurance	-	-
Increase(Decrease) in Accounts Payable	-	-
Increase(Decrease) in Payroll Taxes Payable	(82)	98
Net Cash Provided (Used) by Operating Activities	<u>\$ (2,860)</u>	<u>\$ 399</u>

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

WAGONER COUNTY RURAL WATER DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Wagoner County Rural Water District #1 was created under the provisions of the laws of the State of Oklahoma. The purpose of the water district is to provide for the use and benefit of its members a water treatment and distribution system, operations and maintenance.

Basis of Presentation

The Enterprise Fund is used to account for the operations of the District that are financed and operated in a manner similar to private business enterprises where the intent is that costs or providing goods or services be recovered in whole or in part through user fees or charges.

Basis of Accounting

The District utilizes the modified cash basis of accounting. Such basis is not in accordance with U.S. generally accepted accounting principles. Under the modified cash basis of accounting, revenues are recorded when received and expenditures are recorded when paid. In accordance with generally accepted accounting principles, the District would utilize the accrual method, which recognizes revenues when earned, and expenditures when incurred.

Budgetary Data

In accordance with the By-laws of the District, an annual budget is prepared for internal bookkeeping purposes.

Assets, Liabilities, & Equity

Cash & Cash Equivalents

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

Inventory

The District does not maintain inventory records of parts or supplies, but charges these purchases to maintenance or supplies as they are received.

Capital Assets

Asset acquisitions are recorded and depreciated at historical cost. Depreciation on fixed assets is calculated using the straight-line method of depreciation with useful lives averaging 60 years for major

WAGONER COUNTY RURAL WATER DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

asset purchases. Other asset purchases are depreciated over a period of 10 years. The District has set the capitalization amount at \$1,000.00 for new assets purchased.

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.”

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

WAGONER COUNTY RURAL WATER DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

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.). However, the District utilizes the modified cash basis of accounting.
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 Only

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 has no longer long-term debt and therefore has no reserve requirements.

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.

WAGONER COUNTY RURAL WATER DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 3 - CASH AND INVESTMENTS

Custodial Credit Risk

At December 31, 2011, the District held deposits of approximately \$28,489 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.
- 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

In accordance with the loan agreement with CRG, Inc., the District is required to set aside into an established Debt Reserve Account the sum of \$114.60 each month until there is accumulated in that account the sum of \$13,752.84 after which deposits may be suspended, except to replace withdrawals, when

WAGONER COUNTY RURAL WATER DISTRICT #1
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2011

necessary, disbursements may be used for payments due on the Note if sufficient funds are not available in the General Account. As of December 31, 2011, the District is required to have a balance of \$916.80 in the Debt Reserve Account. As of that date, the balance in the account is \$918.49 which satisfies the requirements of the loan.

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
Property, Plant & Equipment	\$ 173,704	\$ 53,374	\$ -	\$ 227,078
Subtotal	173,704	53,374	-	227,078
Less: Accum. Depr.	(104,836)	(3,869)	-	(108,705)
Total Capital Assets (Net of Depreciation)	<u>\$ 68,868</u>	<u>\$ 49,505</u>	<u>\$ -</u>	<u>\$ 118,373</u>

NOTE 6 - LONG-TERM DEBT

On April 17, 2011, the District entered into a loan agreement with Community Resource Group, Inc. The loan is for \$61,000.00 with an interest rate of 5.5% payable in 60 (sixty) equal monthly installments of \$1,146.07 beginning May 28, 2011. The loan was to be used to replace two raw water pumps and the electrical components. As of December 31, 2011, loan proceeds of \$53,373.83 have been received.

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 December 31, 2010	Additions	Deductions	Balance at December 31, 2011
Notes Payable	\$ -	\$ 53,374	\$ (7,832)	\$ 45,542
Total Long-Term Debt	<u>\$ -</u>	<u>\$ 53,374</u>	<u>\$ (7,832)</u>	<u>\$ 45,542</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:

WAGONER COUNTY RURAL WATER DISTRICT #1
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2011

Year Ending December 31,	Principal	Interest	Total
2012	\$ 11,536	\$ 2,217	\$ 13,753
2013	12,187	1,566	13,753
2014	12,874	879	13,753
2015	8,945	185	9,130
2016	-	-	-
2017-2021	-	-	-
Total	<u>\$ 45,542</u>	<u>\$ 4,847</u>	<u>\$ 50,388</u>

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.

NOTE 9 - INSURANCE

The Wagoner County Rural Water District #1 has the following insurance coverage in effect at December 31, 2011:

- Employee Dishonesty and Crime Coverage - Blanket Coverage
- Property Coverage - Building and Personal Property
- Comprehensive General Liability
- Auto Liability
- Workers Compensation

WAGONER COUNTY RURAL WATER DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 10 - WATER PURCHASES

The District purchases its water from the Grand River Dam Authority.

NOTE 11 - WATER FOR BOARD MEMBERS

At the April 10, 2001 board meeting, the members of the Board voted to give themselves & the Manager free water up to \$50. This change took effect May 1, 2001 and will continue unless the District gets into financial trouble.

NOTE 12 - SUBSEQUENT EVENTS

The District did not have any subsequent events through August 24, 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
Wagoner County Rural Water District #1
Wagoner County, Oklahoma

We have audited the financial statements of the Wagoner County Rural Water District #1, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles, as of December 31, 2011, and have issued our report thereon dated August 24, 2012. The Wagoner 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 Wagoner 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 Wagoner County Rural Water District #1 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 Wagoner County Rural Water District #1's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Wagoner County Rural Water District #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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Wagoner 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 Wagoner County Rural Water District #1, Wagoner 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

August 24, 2012