

# AUDIT REPORT

DELAWARE COUNTY RURAL WATER DISTRICT #1

FEBRUARY 29, 2012

KERSHAW CPA & ASSOCIATES, PC

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DELAWARE COUNTY RURAL WATER DISTRICT #1  
FEBRUARY 29, 2012

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DELAWARE COUNTY RURAL WATER DISTRICT #1  
FEBRUARY 29, 2012

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>	<u>TERM EXPIRATION</u>
JOE HUTCHISON	CHAIRMAN	FEBRUARY 2013
PATRICK SANDERS	VICE CHAIRMAN	FEBRUARY 2013
GAIL SPERRY	SECRETARY/TREASURER	FEBRUARY 2014
LARRY SLOAN	MEMBER	FEBRUARY 2014
CHARLES WELCH	MEMBER	FEBRUARY 2015

Unaudited

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Delaware County Rural Water District #1, as of and for the fiscal year ended February 29, 2012, as listed in the table of contents. These financial statements are the responsibility of the Delaware County Rural Water District #1, Delaware County, Oklahoma'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 Delaware County Rural Water District #1 as of February 29, 2012, 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 August 27, 2013, on our consideration of the Delaware 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 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.

The Delaware County Rural Water District #1 has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34. However the

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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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Delaware County Rural Water District #1's 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 City. 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 27, 2013

## EXHIBIT A

**DELAWARE COUNTY RURAL WATER DISTRICT #1**  
**STATEMENT OF NET ASSETS**  
**FEBRUARY 29, 2012**

	Total 2/29/2012	Total (Memo Only) 2/28/2011
<b><u>ASSETS</u></b>		
<b><u>Current Assets:</u></b>		
Cash in Bank	\$ 27,964	\$ 73,371
Certificates of Deposit	18,072	79,702
Accounts Receivable	17,076	13,462
Inventory	10,366	10,366
Prepaid Insurance	2,153	1,845
<b>Total Current Assets</b>	<b>75,631</b>	<b>178,746</b>
<b><u>Restricted Assets:</u></b>		
Project Accounts	25,141	-
BOK Reserve Account	32,918	32,918
BOK Debt Service Fund	2	34
<b>Total Restricted Assets</b>	<b>58,061</b>	<b>32,952</b>
<b><u>Capital Assets:</u></b>		
Land	8,652	8,652
Building	6,228	6,228
Machinery & Equipment	15,021	15,021
Water System	1,859,748	1,699,923
Construction in Progress	329,008	332,347
Less: Accumulated Depreciation	(673,960)	(626,662)
<b>Total Capital Assets</b>	<b>1,544,697</b>	<b>1,435,510</b>
<b>TOTAL ASSETS</b>	<b>\$ 1,678,389</b>	<b>\$ 1,647,209</b>
<b><u>LIABILITIES &amp; NET ASSETS</u></b>		
<b><u>LIABILITIES:</u></b>		
<b><u>Current Liabilities:</u></b>		
Accounts Payable	\$ 7,981	\$ 11,989
Current Portion of Long-Term Debt	21,100	19,600
<b>Total Current Liabilities</b>	<b>29,081</b>	<b>31,589</b>
<b><u>Long-Term Liabilities:</u></b>		
Note Payable - OWRB	188,300	207,900
Less: Current Portion of Long-Term Debt	(21,100)	(19,600)
<b>Total Long-Term Liabilities</b>	<b>167,200</b>	<b>188,300</b>
<b>TOTAL LIABILITIES</b>	<b>196,281</b>	<b>219,889</b>
<b><u>NET ASSETS:</u></b>		
Invested in capital assets, net of related debt	1,356,397	1,227,610
Restricted for debt service	58,061	32,952
Unrestricted	67,649	166,757
<b>TOTAL NET ASSETS</b>	<b>1,482,107</b>	<b>1,427,319</b>
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b>\$ 1,678,389</b>	<b>\$ 1,647,209</b>

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

## EXHIBIT B

**DELAWARE COUNTY RURAL WATER DISTRICT #1  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE FISCAL YEAR ENDED FEBRUARY 28, 2012**

	<u>FYE 2/29/12</u>	<u>Total (Memo Only) FYE 2/28/11</u>
<b><u>Operating Revenues:</u></b>		
Water Sales	\$ 222,606	\$ 218,928
Membership Fees	23,750	9,500
Other Income, including late fees	1,075	1,585
<b>Total Operating Revenues</b>	<u>247,431</u>	<u>230,012</u>
<b><u>Operating Expenses:</u></b>		
Water Purchases	103,996	106,556
Accounting & Legal	8,817	4,115
Bank Charges	89	564
Contract Labor	21,705	58,665
Director's Fees	5,025	3,600
Depreciation Expense	47,299	43,303
Dues & Subscriptions	3,367	1,444
Insurance	5,442	5,529
Equipment Rental	72	-
Repairs & Maintenance	13,751	22,059
Miscellaneous	2,116	2,286
Office Expense	4,989	3,757
Postage	2,938	1,751
Salaries & Wages	44,716	-
Payroll Tax Expense	7,061	369
Telephone	4,538	2,281
Utilities	6,243	6,531
<b>Total Operating Expenses</b>	<u>282,165</u>	<u>262,809</u>
<b>Operating Income (Loss)</b>	<u>(34,734)</u>	<u>(32,797)</u>
<b><u>Non-Operating Revenues (Expenses):</u></b>		
Interest Income	675	1,238
Interest Expense	(2,741)	(3,344)
<b>Total Non-operating Revenues (Expenses)</b>	<u>(2,067)</u>	<u>(2,106)</u>
<b>Net Income (Loss) Before Contributions</b>	<u>(36,801)</u>	<u>(34,903)</u>
<b>Capital Contributions</b>	<u>91,589</u>	<u>357,723</u>
<b>Change in Net Assets</b>	<u>54,788</u>	<u>322,820</u>
<b>Total Net Assets - Beginning</b>	1,427,319	1,104,499
<b>Total Net Assets - Prior Year Adjustment</b>	-	-
<b>Total Net Assets - Ending</b>	<u><u>\$ 1,482,107</u></u>	<u><u>\$ 1,427,319</u></u>

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

## EXHIBIT C

**DELAWARE COUNTY RURAL WATER DISTRICT #1  
STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2012**

	<u>2/29/12</u>	<u>Memo Only 2/28/11</u>
<b><u>Net Cash Flows from Operating Activities:</u></b>		
Cash Receipts from Customers	\$ 243,817	\$ 233,602
Payments to Suppliers for Goods & Services	(172,761)	(159,093)
Payments to Employees & Laborers	(66,421)	(58,665)
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>4,635</u>	<u>15,844</u>
<b><u>Net Cash Flows from Capital &amp; Related Financing Activities:</u></b>		
Additions to Capital Assets	(156,486)	(332,347)
Grant Income	91,589	357,723
Principal paid on Debt	(19,600)	(18,100)
Interest paid on Debt	(2,741)	(3,344)
<b>Net Cash Provided (Used) by Capital &amp; Related Financing Activities</b>	<u>(87,238)</u>	<u>3,932</u>
<b><u>Net Cash Flows from Investing Activities:</u></b>		
(Increase) in Restricted Assets	(25,109)	(17)
Interest Income	675	1,238
<b>Net Cash Provided (Used) by Investing Activities</b>	<u>(24,434)</u>	<u>1,221</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(107,037)	20,997
<b>Cash &amp; Cash Equivalents, Beginning of Year</b>	153,073	132,077
<b>Cash &amp; Cash Equivalents, Prior Year Adjustment</b>	-	-
<b>Cash &amp; Cash Equivalents, End of Year</b>	<u>\$ 46,037</u>	<u>\$ 153,073</u>
<b><u>Reconciliation of operating income (loss) to net cash provided operating activities:</u></b>		
Operating Income (Loss)	\$ (34,734)	\$ (32,797)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation Expense	47,299	43,303
(Increase)Decrease in Accounts Receivable	(3,614)	3,589
(Increase)Decrease in Inventory	-	-
(Increase)Decrease in Prepaid Expenses	(307)	241
Increase(Decrease) in Accounts Payable	(4,008)	1,507
Increase(Decrease) in Payroll Liabilities	-	-
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>\$ 4,635</u>	<u>\$ 15,844</u>

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



DELAWARE COUNTY RURAL WATER DISTRICT #1  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 29, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Delaware County Rural Water District #1 is a non-profit governmental organization. The organization was incorporated on February 22, 1977. Its purpose is to provide for the use and benefit of its members a water processing and distribution system, including physical facilities necessary for its operations and maintenance.

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

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The District uses the accrual basis of accounting, which is in accordance with U.S. generally accepted accounting principles. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

D. 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.

DELAWARE COUNTY RURAL WATER DISTRICT #1  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 29, 2012

Capital Assets

The District's fixed assets are stated at cost. Depreciation is computed using the straight-line method over the estimated useful life of the assets. Expenditures for major renewals and betterments which extend the useful lives of the fixed assets are capitalized. Purchases of capital items in excess of \$500.00 that increase the capacity or operation efficiency or extend the useful life of any asset are capitalized. Expenditures for maintenance and repairs are expensed as incurred.

<u>Class of Asset</u>	<u>Estimated Useful Life</u>
Water Distribution Systems	40 years
Buildings	25 years
Equipment	5 years

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."

E. Revenues, expenditures & expenses

Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods and/or services. They also

DELAWARE COUNTY RURAL WATER DISTRICT #1  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 29, 2012

include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

F. 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 reserve requirement for the OWRB Note Payable is \$32,917.78, which the District has set aside in a restricted account.

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 February 29, 2012, the District held deposits of approximately \$71,178 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.

DELAWARE COUNTY RURAL WATER DISTRICT #1  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 29, 2012

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.).

Concentration of Investment Credit Risk

The District places no limit on the amount it may invest in any one issuer. The District has the following credit risk: 100% in certificate of deposit (\$18,072).

NOTE 4 - RESTRICTED ASSETS

The loan agreement with the Oklahoma Water Resources Board for the District's basic financing requires that certain monies be put in a trust type account. These funds are restricted to servicing the loan with the OWRB. Monthly payments are made to a debt service account and then invested upon receipt by the loan trustee, Bank of Oklahoma NA. Semi-annual payments are then made by the trustee from this account to OWRB. Additionally, another account was required to be maintained from which note payments could be made if the District was unable to make its scheduled monthly payments. This is the debt service reserve account. When funds are received by the Trustee they are immediately invested in securities guaranteed by the United States Government. The earnings from the debt service and the debt service reserve account are accumulated in the debt service reserve account.

DELAWARE COUNTY RURAL WATER DISTRICT #1  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 29, 2012

The District opened two new accounts during FYE February 29, 2012. The accounts are both for the Ross Acres Project, one is a construction account and the other is a special account.

Balance of each account at February 29, 2012 is:

Debt Service Reserve Fund	\$32,918.21
Debt Service Fund	\$ 2.38
Construction Account	\$ 1.00
Special Account	<u>\$25,139.66</u>
Total Restricted Funds	<u>\$58,061.25</u>

NOTE 5 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended February 29, 2012, was as follows:

	2/28/2011	Additions	Deductions	Balance at 2/29/2012
Land	\$ 8,652	\$ -	\$ -	\$ 8,652
Buildings	6,228	-	-	6,228
Machinery, equipment, furniture and fixtures	15,021	-	-	15,021
Water Systems	1,699,923	159,825	-	1,859,748
Construction in Progress	332,347	156,486	(159,825)	329,008
Subtotal	<u>2,062,172</u>	<u>316,311</u>	<u>(159,825)</u>	<u>2,218,658</u>
Less: Accum. Depr.	(626,662)	(47,299)	-	(673,961)
Total Capital Assets (Net of Depreciation)	<u>\$ 1,435,510</u>	<u>\$ 269,012</u>	<u>\$ (159,825)</u>	<u>\$ 1,544,697</u>

NOTE 6 - LONG-TERM DEBT

The District has a loan with Oklahoma Water Resources Board with an original loan amount of \$360,000.00. Substantially, all fixed assets, accounts receivable and assignment revenues are pledged as security on this note. The loan has a variable interest rate determined every 6 months. On February 29, 2012, the variable interest rate was 1.50%. The note will mature August 2024.

Effective February 26, 2009, the payment mode for Variable Rate Borrowers has changed from a semi-annual to a quarterly basis. OWRB made this change as a result of market conditions and to take advantage of low short-term interest rates.

On December 15, 2011, the District entered into a 2<sup>nd</sup> loan agreement with Oklahoma Water Resource Board. This loan is a Series 2011 Drinking Water SRF Promissory Note with an original loan amount of \$260,000.00. The proceeds of this Note will be used by the District to construct improvements to the drinking water system benefiting the customers of the District. The fixed assets, accounts receivable and assignment revenues are pledged as security on this note. The loan has an interest rate of

DELAWARE COUNTY RURAL WATER DISTRICT #1  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 29, 2012

2.86% per annum plus an administrative fee at the rate of 0.5% per annum on the outstanding balance of disbursed loan proceeds. This loan will mature March 15, 2042. As of February 29, 2012, the District has not received any loan proceeds for the new loan.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended February 29, 2012:

	Balance at 2/28/11	Additions	Deductions	Balance at 2/29/12
OWRB Loan #1	\$ 207,900.00	\$ -	\$ 19,600.00	\$ 188,300.00
OWRB Loan #2	\$ -	\$ -	\$ -	\$ -
Total Long-Term Debt	<u>\$ 207,900.00</u>	<u>\$ -</u>	<u>\$ 19,600.00</u>	<u>\$ 188,300.00</u>

Debt Services Requirements to Maturity

The annual debt service requirements to maturity, including principal only, for long-term debt, as of February 29, 2012, are as follows:

Year Ended February 28,	Principal
2013	\$ 21,100
2014	22,800
2015	24,700
2016	26,700
2017	29,000
2018-2022	43,500
2023-2025	20,500
Total	<u>\$ 188,300</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

The restricted net assets include assets related to Note 4 above.

DELAWARE COUNTY RURAL WATER DISTRICT #1  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 29, 2012

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 - SUBSEQUENT EVENTS

The District did not have any subsequent events through the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending February 29, 2012.

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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  
Delaware County RWD #1  
Delaware County, Oklahoma

We have audited the financial statements of the Delaware County RWD #1, as of February 29, 2012 and have issued our report thereon dated August 27, 2013. The Delaware County RWD #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 Delaware County RWD #1 is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Delaware County 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 Delaware County RWD #1's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Delaware County 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 Delaware County RWD #1's financial statements are free of material misstatement, we performed tests of compliance with certain 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 Delaware County RWD #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

August 27, 2013