

AUDIT REPORT

LEFLORE COUNTY RURAL WATER DISTRICT #1
LEFLORE COUNTY, OKLAHOMA

NOVEMBER 30, 2012

KERSHAW CPA & ASSOCIATES, PC

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LEFLORE COUNTY RURAL WATER DISTRICT #1
LEFLORE COUNTY, OKLAHOMA
NOVEMBER 30, 2012

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LEFLORE COUNTY RURAL WATER DISTRICT #1
LEFLORE COUNTY, OKLAHOMA
NOVEMBER 30, 2012

BOARD OF DIRECTORS

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

STAFF

GLENN MIZE	MAINTENANCE/OPERATOR
ELIZABETH PECK, CPA	MANAGER

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Leflore County Rural Water District #1, as of and for the fiscal year ended November 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Leflore County Rural Water District #1's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, except for the effects, if any, on the financial statements of the exclusion of depreciation described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the Leflore County Rural Water District #1, Leflore County, Oklahoma, as of November 30, 2012, and the respective changes in modified cash basis financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated July 3, 2013, on our consideration of the Leflore County Rural Water District #1's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of

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internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

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

Kershaw CPA & Associates, P.C.

Kershaw CPA & Associates, PC

July 3, 2013

EXHIBIT A

LEFLORE COUNTY RURAL WATER DISTRICT #1
LEFLORE COUNTY, OKLAHOMA
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
NOVEMBER 30, 2012

	Total 2012	Total (Memo Only) 2011
<u>ASSETS</u>		
<u>Current Assets:</u>		
Cash and Cash Equivalents:		
Operations & Maintenance Account	\$ 17,399	\$ 7,156
Revenue Account	119,546	106,009
Water Deposit Account	11,955	9,975
Investments:		
Certificates of Deposit	-	-
Total Current Assets	148,899	123,141
<u>Capital Assets:</u>		
Construction Assets	1,229,222	1,211,737
Donated Assets	43,391	43,391
Less: Accumulated Depreciation	(271,434)	(271,434)
Total Capital Assets	1,001,178	983,693
<u>Other Assets:</u>		
ORWA Assurance	1,000	1,000
Total Other Assets	1,000	1,000
TOTAL ASSETS	\$ 1,151,077	\$ 1,107,833
<u>LIABILITIES</u>		
<u>Current Liabilities:</u>		
Refundable Water Deposits	\$ 39,396	\$ 37,232
Current Portion of Long-Term Debt	-	34,054
Total Current Liabilities	39,396	71,286
<u>Long-Term Liabilities:</u>		
Unclaimed Refundable Water Deposits	3,659	3,659
Notes Payable	-	34,054
Less: Current Portion of Long-Term Debt	-	(34,054)
Total Long-Term Liabilities	3,659	3,659
TOTAL LIABILITIES	43,054	74,945
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	1,001,178	949,639
Restricted for refundable deposits	11,955	9,975
Unrestricted	94,890	73,274
TOTAL NET ASSETS	1,108,023	1,032,888
TOTAL LIABILITIES & NET ASSETS	\$ 1,151,077	\$ 1,107,833

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

EXHIBIT B

LEFLORE COUNTY RURAL WATER DISTRICT #1
 LEFLORE COUNTY, OKLAHOMA
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 - MODIFIED CASH BASIS -
 FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2012

	Total FYE 11/30/2012	Total (Memo Only) FYE 11/30/2011
<u>Operating Revenues:</u>		
Water Sales	\$ 271,515	\$ 276,128
Meter Tap Fees	6,000	12,750
Other Income	825	880
Total Operating Revenues	278,340	289,758
<u>Operating Expenses:</u>		
Water Purchased	94,346	102,610
Labor	21,006	26,636
Supplies	6,630	14,468
Bookkeeping	36,180	36,707
Office	1,242	1,184
Meter Reading	13,830	14,174
Utilities	15,947	14,056
Professional Fees	5,260	4,180
Insurance and Bond	2,952	2,589
Minute Clerk	480	480
Board of Directors Fees	180	160
Miscellaneous	2,246	2,663
Returned Checks	1,747	1,144
Dues	1,035	511
Repairs & Maintenance	-	646
Depreciation Expense	-	-
Total Operating Expenses	203,081	222,206
Operating Income (Loss)	75,258	67,551
<u>Non-Operating Revenues (Expenses):</u>		
Interest Income	245	781
Interest Expense	(369)	(4,635)
Total Non-operating Revenues (Expenses)	(124)	(3,855)
Net Income (Loss) Before Contributions	75,135	63,697
Donated Assets	-	-
Change in Net Assets	75,135	63,697
Total Net Assets - Beginning	1,032,888	969,192
Total Net Assets - Prior Year Adjustment	-	-
Total Net Assets - Ending	\$ 1,108,023	\$ 1,032,888

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

EXHIBIT C

**LEFLORE COUNTY RURAL WATER DISTRICT #1
LEFLORE COUNTY, OKLAHOMA
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2012**

	Nov. 30, 2012	Memorandum Only Nov. 30, 2011
<u>Net Cash Flows from Operating Activities:</u>		
Cash Receipts from Customers	\$ 278,340	\$ 289,758
Payments to Suppliers for Goods & Services	(182,075)	(195,570)
Payments to Employees & Laborers	(21,006)	(26,636)
Receipts of Customer Utility Deposits, Net of Refunds	2,163	1,805
Net Cash Provided (Used) by Operating Activities	77,421	69,356
<u>Net Cash Flows from Capital & Related Financing Activities:</u>		
Additions to Capital Assets	(17,485)	(8,783)
Loan Proceeds	-	-
Principal paid on Debt	(34,054)	(58,048)
Interest paid on Debt	(369)	(4,635)
Net Cash Provided (Used) by Capital & Related Financing Activities	(51,908)	(71,466)
<u>Net Cash Flows from Investing Activities:</u>		
Interest Income	245	781
(Increase)Decrease in Investments	-	42,231
Net Cash Provided (Used) by Investing Activities	245	43,012
Net Increase (Decrease) in Cash and Cash Equivalents	25,759	40,902
Cash & Cash Equivalents, Beginning of Year	123,141	82,239
Cash & Cash Equivalents, Prior Year Adjustment	-	-
Cash & Cash Equivalents, End of Year	\$ 148,899	\$ 123,141
<u>Reconciliation of operating income (loss) to net cash provided operating activities:</u>		
Operating Income (Loss)	\$ 75,258	\$ 67,551
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	-	-
Increase(Decrease) in Accounts Payable	-	-
Increase(Decrease) in Renters Deposits	2,163	1,805
Net Cash Provided (Used) by Operating Activities	\$ 77,421	\$ 69,356

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

LEFLORE COUNTY RURAL WATER DISTRICT #1
LEFLORE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

B. Basis of Presentation

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

C. Basis of Accounting

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

As a result of the used of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expense and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this financial report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

LEFLORE COUNTY RURAL WATER DISTRICT #1
LEFLORE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2012

D. Budgetary Data

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

E. Assets, Liabilities, & Equity

Cash & Cash Equivalents

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

Investments

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

Capital Assets

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

Long-Term Debt

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

Equity Classification

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

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

LEFLORE COUNTY RURAL WATER DISTRICT #1
LEFLORE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2012

F. Revenues, expenditures & expenses

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

G. Reclassifications

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

H. Memorandum Totals

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

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

Finance-related Legal & Contractual Provisions

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

Deficit Fund Balance or Retained Earnings

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

NOTE 3 - CASH AND INVESTMENTS

Custodial Credit Risk

At November 30, 2012, the District held deposits of approximately \$148,899 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name.

LEFLORE COUNTY RURAL WATER DISTRICT #1
LEFLORE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2012

Investment Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The District has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

NOTE 4 - CAPITAL ASSETS

Capital asset activity, resulting from the modified cash basis transactions, for the fiscal year ended November 30, 2012, was as follows:

	Balance at Nov. 30, 2011	Additions	Deductions	Balance at Nov. 30, 2012
Construction Costs	\$ 1,211,737	\$ 17,485	\$ -	\$ 1,229,222
Donated Assets	43,391	-	-	43,391
Subtotal	1,255,128	17,485	-	1,272,613
Less: Accum. Depr.	(271,434)	-	-	(271,434)
Total Capital Assets (Net of Depreciation)	<u>\$ 983,693</u>	<u>\$ 17,485</u>	<u>\$ -</u>	<u>\$ 1,001,178</u>

LEFLORE COUNTY RURAL WATER DISTRICT #1
LEFLORE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2012

NOTE 5 - LONG-TERM DEBT

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

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended November 30, 2012:

	Balance at Nov. 30, 2011	Additions	Deductions	Balance at Nov. 30, 2012
Notes Payable	\$ 34,053.91	\$ -	\$ 34,053.91	\$ -
Total Long-Term Debt	<u>\$ 34,053.91</u>	<u>\$ -</u>	<u>\$ 34,053.91</u>	<u>\$ -</u>

NOTE 6 - FUND EQUITY

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

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

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

NOTE 7 - CONTINGENCIES

Litigation

The District currently has no pending litigation.

Federally Assisted Programs

In the normal course of operations, the District participates in various federal or state/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

LEFLORE COUNTY RURAL WATER DISTRICT #1
LEFLORE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2012

NOTE 8 - SUBSEQUENT EVENTS

The District did not have any subsequent events through July 3, 2013, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending November 30, 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
Leflore County Rural Water District #1
Leflore County, Oklahoma

We have audited the financial statements of the Leflore County Rural Water District #1, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles, as of November 30, 2012 and have issued our report thereon dated July 3, 2013, which was qualified for the exclusion of depreciation. The Leflore County Rural Water District #1 has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, except that the District did not present the required MD&A. We conducted our audit in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weakness, as defined above.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Leflore County Rural Water District #1's financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

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

July 3, 2013