

# AUDIT REPORT

LEFLORE COUNTY CONSOLIDATED RURAL WATER DISTRICT #1  
(FORMERLY LEFLORE COUNTY RURAL WATER DISTRICT #12)

LEFLORE COUNTY, OKLAHOMA

JUNE 30, 2012

KERSHAW CPA & ASSOCIATES, PC

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LEFLORE COUNTY CONSOLIDATED RURAL WATER DISTRICT #1  
LEFLORE COUNTY, OKLAHOMA  
JUNE 30, 2012

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LEFLORE COUNTY CONSOLIDATED RURAL WATER DISTRICT #1  
LEFLORE COUNTY, OKLAHOMA  
JUNE 30, 2012

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>
PAUL MODE	CHAIRMAN
ROCCO LAROSA	VICE-CHAIRMAN
WEYLIN GROOM	SECRETARY
BRENT THOMPSON	MEMBER
RON DAMERON	MEMBER

STAFF

DREW CHESHER	MAINTENANCE OPERATOR
BETH PECK	MANAGER

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Leflore County Consolidated Rural Water District #1, as of and for the fiscal year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Leflore County Consolidated 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 Consolidated Rural Water District #1, Leflore County, Oklahoma, as of June 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 August 31, 2012, on our consideration of the Leflore County Consolidated 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

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an audit performed in compliance with Government Auditing Standards and should be considered in assessing the results of our audit.

Leflore County Consolidated 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 31, 2012

## EXHIBIT A

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

	Total 2012	Total (Memo Only) 2011
<b><u>ASSETS</u></b>		
<b><u>Current Assets:</u></b>		
<b><u>Cash and Cash Equivalents:</u></b>		
Operation & Maintenance Account	\$ 111,220	\$ 145,174
Deposit Account	23,150	20,284
<b><u>Investments (Restricted):</u></b>		
Debt Service Fund - 1991 Series	1,006	888
DS Reserve Fund - 1991 Series	18,002	17,998
Debt Service Fund - 1993 Series	314	293
DS Reserve Fund - 1993 Series	7,072	7,064
Total Current Assets	<u>160,764</u>	<u>191,701</u>
<b><u>Capital Assets:</u></b>		
Water System	1,327,377	1,123,263
Water System - Monroe	361,424	361,424
Less: Accumulated Depreciation	<u>(110,890)</u>	<u>(95,382)</u>
Total Capital Assets	<u>1,577,911</u>	<u>1,389,304</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 1,738,674</u></u>	<u><u>\$ 1,581,006</u></u>
<b><u>LIABILITIES</u></b>		
<b><u>Current Liabilities:</u></b>		
Accounts Payable	\$ 1,232	\$ 572
Refundable Water Deposits	23,585	20,754
Current Portion of Long-Term Debt	<u>29,776</u>	<u>19,596</u>
Total Current Liabilities	<u>54,593</u>	<u>40,922</u>
<b><u>Long-Term Liabilities:</u></b>		
Notes Payable - Oklahoma Water Resources Board	318,455	341,281
Note Payable - CRG, Inc.	58,180	58,180
Note Payable - CNB	8,384	-
Less: Current Portion of Long-Term Debt	<u>(29,776)</u>	<u>(19,596)</u>
Total Long-Term Liabilities	<u>355,243</u>	<u>379,865</u>
<b>TOTAL LIABILITIES</b>	<u>409,836</u>	<u>420,787</u>
<b><u>NET ASSETS</u></b>		
Invested in capital assets, net of related debt	1,201,276	989,843
Restricted for debt services	26,394	26,243
Restricted for refundable deposits	23,150	20,284
Unrestricted	<u>78,018</u>	<u>123,849</u>
<b>TOTAL NET ASSETS</b>	<u>1,328,838</u>	<u>1,160,219</u>
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<u><u>\$ 1,738,674</u></u>	<u><u>\$ 1,581,006</u></u>

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

## EXHIBIT B

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

	Total FYE 6/30/2012	Total (Memo Only) FYE 6/30/2011
<b><u>Operating Revenues:</u></b>		
Water Sales	\$ 423,781	\$ 403,690
Memberships	4,928	9,725
Other Income	770	848
Total Operating Revenues	<u>429,479</u>	<u>414,262</u>
<b><u>Operating Expenses:</u></b>		
Water Purchased	108,372	104,876
Utilities	14,031	9,004
Contract Labor	7,675	6,461
Payroll Expenses	31,803	23,225
Auto Expenses	9,578	9,804
Supplies	38,225	34,896
Licenses and Permits	108	329
Insurance	6,740	5,592
Maintenance	8,841	12,540
Office and Bookkeeping	19,362	19,567
Meter Reading	-	-
Accounting Fees	1,600	1,600
Trustee Fees	2,162	2,213
Depreciation Expense	15,508	9,160
Other Expenses	1,569	1,602
Total Operating Expenses	<u>265,575</u>	<u>240,867</u>
Operating Income (Loss)	163,905	173,395
<b><u>Non-Operating Revenues (Expenses):</u></b>		
Interest Income	398	535
Interest Expense	(10,641)	(11,223)
Total Non-operating Revenues (Expenses)	<u>(10,242)</u>	<u>(10,688)</u>
Net Income (Loss) Before Contributions	153,662	162,707
Capital Contributions - Grants	14,958	-
Change in Net Assets	168,620	162,707
Total Net Assets - Beginning	1,160,219	997,598
Total Net Assets - Prior Year Adjustment	(1)	(87)
Total Net Assets - Ending	<u>\$ 1,328,838</u>	<u>\$ 1,160,219</u>

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

## EXHIBIT C

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

	June 30, 2012	Memorandum Only June 30, 2011
<b><u>Net Cash Flows from Operating Activities:</u></b>		
Cash Receipts from Customers	\$ 429,479	\$ 414,262
Payments to Suppliers & Laborers for Goods & Services	(249,406)	(231,921)
Receipts of Customer Utility Deposits, Net of Refunds	2,830	2,086
	<u>182,904</u>	<u>184,427</u>
<b>Net Cash Provided (Used) by Operating Activities</b>		
<b><u>Net Cash Flows from Capital &amp; Related Financing Activities:</u></b>		
Additions to Capital Assets	(204,114)	(126,974)
Grant Income	14,958	-
Loan Proceeds	11,040	58,180
Principal paid on Debt	(25,482)	(21,408)
Interest paid on Debt	(10,641)	(11,311)
	<u>(214,239)</u>	<u>(101,514)</u>
<b>Net Cash Provided (Used) by Capital &amp; Related Financing Activities</b>		
<b>Net Cash Flows from Investing Activities:</b>		
Increase in Investments	398	535
	<u>398</u>	<u>535</u>
<b>Net Cash Provided (Used) by Investing Activities</b>		
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(30,937)	83,448
<b>Cash &amp; Cash Equivalents, Beginning of Year</b>	191,701	108,340
<b>Cash &amp; Cash Equivalents, Prior Year Adjustment</b>	-	(87)
	<u>-</u>	<u>(87)</u>
<b>Cash &amp; Cash Equivalents, End of Year</b>	<u>\$ 160,764</u>	<u>\$ 191,701</u>
<b><u>Reconciliation of operating income (loss) to net cash provided operating activities:</u></b>		
Operating Income (Loss)	\$ 163,905	\$ 173,395
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	15,508	9,160
Increase(Decrease) in Accounts Payable	661	(214)
Increase(Decrease) in Refundable Deposits	2,830	2,086
	<u>182,904</u>	<u>184,427</u>
<b>Net Cash Provided (Used) by Operating Activities</b>		

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



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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

On November 13, 2006, the Board of County Commissioners of Leflore County, Oklahoma ordered that Leflore County Rural Water District #9 and Leflore County Rural Water District #12 were to be consolidated into a single water district under the name of "CONSOLIDATED RURAL WATER DISTRICT #1, LEFLORE COUNTY, OKLAHOMA." The consolidated district shall assume and become legally liable for all of the obligations of the districts consolidated into such single district. On December 7, 2006, Leflore County RWD #9's assets, liabilities and equity were transferred to the new consolidated district.

Leflore County Rural Water District #12 (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.

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

As a result of the use 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.

D. Budgetary Data

A budget has not been legally adopted for the District and subsequently a budgetary comparison is not presented.

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.

Capital Assets

Capital assets have been combined and recorded at cost in the financial statements and are not depreciated.

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

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LEFLORE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

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.”

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.

The major source of revenue is from the sale of water. Other revenues are composed primarily of membership fees, late charges, and interest income.

G. Income Taxes

The District is exempt from federal and state income taxes.

H. 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.

Finance-related Legal & Contractual Provisions

Leflore County Consolidated Rural Water District #1 has pledged its revenues from operations and must comply with requirements as defined in the loan agreement with the Oklahoma Water Resources Board for the promissory notes described in Note 6. At June 30, 2012, the District satisfactorily met the Debt Service requirement and the Net Revenue requirement.

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

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

At June 30, 2012, the District held deposits of approximately \$160,764 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 City 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

Under the provisions of the OWRB Loan Agreements, the District is required to establish, fund and maintain a debt service fund account and a debt reserve account with the trustee bank for each of its two loans. As of June 30, 2012, the balance of the debt service fund for the 1991 loan was \$1,005.62 and the balance of the debt reserve fund was \$18,002.00. As of June 30, 2012, the balance of the debt service fund for the 1993 loan was \$314.29 and the balance of the debt reserve fund was \$7,072.29. The Debt Service Fund accounts are funded monthly by the District in an amount sufficient to pay the upcoming semi-annual principal and interest payments on the OWRB loans.

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

NOTE 5 - CAPITAL ASSETS

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

	Balance at June 30, 2011	Additions	Deductions	Balance at June 30, 2012
Water System	\$ 1,123,262	\$ 204,114	\$ -	\$ 1,327,377
Water System - Monroe	361,424	-	-	361,424
Subtotal	1,484,686	204,114	-	1,688,801
Less: Accum. Depr.	(95,382)	(15,508)	-	(110,890)
Total Capital Assets (Net of Depreciation)	<u>\$ 1,389,304</u>	<u>\$ 188,606</u>	<u>\$ -</u>	<u>\$ 1,577,911</u>

The current year additions included distribution system improvements, a saw, GPS unit, trailer, John Deere Trac Hoe, 2008 Chevy Pickup, & Pump Station Improvements.

NOTE 6 - LONG-TERM DEBT

Oklahoma Water Resources Board

The District has two loans with the Oklahoma Water Resources Board (OWRB). The first loan was for an original amount of \$200,000 for a period of 30 years with a final payment date of August 15, 2019. The interest rate is being reset every six months on March 1 and September 1 of each year. The interest rate for the six-month period ending August 31, 2011 was set at 1.230%.

The second loan was for an original amount of \$80,000 for a period of 30 years with a final payment date of September 15, 2022. The interest rate is being reset every six months on March 1 and September 1 of each year. The interest rate for the six-month period ending August 31, 2010 was set at 1.230%.

As indicated in the "Trust Agreement," JP Morgan, acting as "Local Trustee" for the borrower, will receive monthly loan payments from the borrower on or before the 15<sup>th</sup> of every month. On the 15<sup>th</sup> of February and August of each year, the local Trustee shall remit to OWRB's Trustee the required semi-annual loan payments. The OWRB determines the semi-annual payments and notifies the borrower and the local Trustee on or about March 1 and September 1 of each year.

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.

Effective December 7, 2006, the Leflore County Consolidated Rural Water District #1 assumed control of Leflore County Rural Water District #9's OWRB loan. Leflore County RWD #9 borrowed \$237,000.00 from the Oklahoma Water Resources Board (OWRB) for water system

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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

improvements, during 2005. This note is for a period of 20 years with a final payment date of March 15, 2025. The interest rate is 3.000% with an administrative fee of 0.50%. The OWRB has an amortization schedule for the semi-annual payments which calls for a payment of \$7,640.30 on 9/15/05, \$8,326.74 on 3/15/06, \$7,964.43 on 9/15/06 and equal semi-annual payments of \$8,326.74 thereafter.

During the fiscal year ending June 30, 2011, the District entered into a loan agreement with Community Resource Group, Inc. for \$139,300.00 to be used to pay engineering fees for a system improvement project. The loan is for a term of 2 years with an interest rate of 4.9% with interest only payments until maturity when the principal balance will be due and payable. At fiscal yearend proceeds of \$58,180.00 have been received.

During the fiscal year ending June 20, 2012, the District entered into a loan agreement with Central National Bank for \$11,040.00 with collateral for loan being the new 2008 Chevy pickup which was purchased in December 2011. The loan is for a term of 2 years with an interest rate of 5.750% with monthly payments of \$487.19 until maturity.

Changes in Long-Term Debt

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

	Balance at June 30, 2011	Additions	Deductions	Balance at June 30, 2012
Note Payable - OWRB #1	\$ 106,600.00	\$ -	\$ (9,600.00)	\$ 97,000.00
Note Payable - OWRB #2	52,233.34		(2,975.01)	49,258.33
Note Payable - OWRB #3	182,447.86	-	(10,250.94)	172,196.92
Note Payable - CRG, Inc.	58,180.00	-	-	58,180.00
Note Payable - CNB	-	11,040.00	(2,656.15)	8,383.85
Total Long-Term Debt	<u>\$ 399,461.20</u>	<u>\$ 11,040.00</u>	<u>\$ (25,482.10)</u>	<u>\$ 385,019.10</u>

Debt Services Requirements to Maturity

The annual debt service requirements to maturity, including principal only, for long-term debt, as of June 30, 2012, are as follows:

Year Ending June 30,	OWRB #1	OWRB #2	Total
2013	\$ 10,400	\$ 3,233	\$ 9,683
2014	11,200	3,525	10,483
2015	12,150	3,775	11,383
2016	13,050	4,033	11,383
2017	14,200	4,367	18,567
2018-2022	36,000	28,067	64,067
2023-2027	-	2,258	2,258
Total	<u>\$ 97,000</u>	<u>\$ 49,258</u>	<u>\$ 127,824</u>

The annual debt service requirements to maturity, including principal and interest, for loan #3, as of June 30, 2012, are as follows:

LEFLORE COUNTY CONSOLIDATED RURAL WATER DISTRICT #1  
LEFLORE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
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<u>OWRB #3:</u>				
<u>Year Ending</u>				
<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Admin. Fee</u>	<u>Total</u>
2013	\$ 10,635	\$ 5,159	\$ 860	\$ 16,653
2014	11,016	4,832	805	16,653
2015	11,410	4,494	720	16,624
2016	11,806	4,155	693	16,653
2017	12,241	3,782	630	16,653
2018-2022	68,095	13,005	2,167	83,267
2023-2027	46,993	2,543	424	49,960
Total	<u>\$ 172,197</u>	<u>\$ 37,970</u>	<u>\$ 6,299</u>	<u>\$ 216,466</u>

The annual debt service requirements to maturity, including principal and interest, for the Central National Bank loan, as of June 30, 2012, are as follows:

<u>CNB</u>			
<u>Year Ending</u>			
<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 5,508	\$ 338	\$ 5,846
2014	2,876	48	2,924
2015	-	-	-
2016	-	-	-
2017	-	-	-
2018-2022	-	-	-
Total	<u>\$ 8,384</u>	<u>\$ 387</u>	<u>\$ 8,771</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 restricted for the repayment of refundable water deposits and the restricted assets listed in Note 4 above.

NOTE 8 - CONTINGENCIES

Litigation

The District currently has no pending litigation.

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

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 August 31, 2012, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending June 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 Consolidated Rural Water District #1  
Leflore County, Oklahoma

We have audited the financial statements of the Leflore County Consolidated 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 June 30, 2012 and have issued our report thereon dated August 31, 2012, which was qualified for the exclusion of depreciation. The Leflore County Consolidated 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 Consolidated 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 County Consolidated Rural Water District #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 County Consolidated Rural Water District #1's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Leflore County Consolidated 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 weaknesses. We did not identify any deficiencies in internal control over financial reporting that I 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 Consolidated 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 Consolidated 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

August 31, 2012

LEFLORE COUNTY CONSOLIDATED RURAL WATER DISTRICT #1  
LEFLORE COUNTY, OKLAHOMA  
SCHEDULE OF WATER RATES AND CUSTOMERS  
JUNE 30, 2012

Water Rates

Minimum Charge (includes 1,000 gal)	\$30.00
1,000-2,000 Gallons	\$3.20 per Thousand Gallons
2,000-4,000 Gallons	\$3.30 per Thousand Gallons
4,000-6,000 Gallons	\$3.40 per Thousand Gallons
6,000-8,000 Gallons	\$3.50 per Thousand Gallons
8,000-10,000 Gallons	\$3.70 per Thousand Gallons
10,000 & up Gallons	\$3.75 per Thousand Gallons

Total Gallons Pumped        83,213,710

Total Gallons Sold         60,682,400

Percentage of Loss         27.04%

Customers

The Leflore County Consolidated Rural Water District #1 had 658 customers at the close of this fiscal year.

Unaudited

**LEFLORE COUNTY CONSOLIDATED RWD #1  
OWRB NET REVENUE REQUIREMENT  
YEAR ENDED JUNE 30, 2012**

**COMPUTATION OF NET REVENUE REQUIREMENT**

<b>Net Operating Income (Loss)</b>	<b>\$ 163,905</b>
<b>Plus: Non-cash expenses</b>	
Depreciation Expense	15,508
Amortization Expense	-
<b>Total Non-Cash Expenses</b>	<u><b>15,508</b></u>
<b>Operating Income Available for Debt Coverage</b>	<u><b>\$ 179,413</b></u>
 <b>OWRB #1 Principal Obligation for FYE 6/30/13</b>	 <b>\$ 10,400</b>
<b>OWRB #1 Interest Obligation for FYE 6/30/13 (Variable Rate, Currently 1.230%)</b>	<b>1,192</b>
<b>OWRB #2 Principal Obligation for FYE 6/30/13</b>	<b>3,233</b>
<b>OWRB #2 Interest Obligation for FYE 6/30/13 (Variable Rate, Currently 1.230%)</b>	<b>605</b>
<b>OWRB #3 Principal &amp; Interest Obligation 6/30/13 (Fixed Rate Loan)</b>	<u><b>16,653</b></u>
<b>Annual Principal &amp; Interest Obligation</b>	<u><b>\$ 32,082</b></u>
 <b>Net Revenue Requirement</b>	 <b>125%</b>
 <b>Operating Income Required for Debt Coverage</b>	 <u><b>\$ 40,103</b></u>
 <b>Operating Income Excess (Deficiency)</b>	 <u><b>\$ 139,310</b></u>

Unaudited