

# AUDIT REPORT

NOWATA COUNTY RURAL WATER AND SEWER DISTRICT #1  
NOWATA COUNTY, OKLAHOMA

APRIL 30, 2012

## KERSHAW CPA & ASSOCIATES, PC

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NOWATA COUNTY RURAL WATER AND SEWER DISTRICT #1  
NOWATA COUNTY, OKLAHOMA  
APRIL 30, 2012

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NOWATA COUNTY RURAL WATER AND SEWER DISTRICT #1  
NOWATA COUNTY, OKLAHOMA  
APRIL 30, 2012

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>	<u>TERM EXPIRATION</u>
WILLIAM HAYDEN	CHAIRMAN	JULY 2013
DON MEEKER	VICE-CHAIRMAN	JULY 2012
DAVID SEIGEL	SECRETARY	JULY 2012
STEVE BRINKER	MEMBER	JULY 2014
DUSTIN PERDUE	MEMBER	JULY 2013

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Nowata County Rural Water and Sewer District #1  
Nowata County, Oklahoma

We have audited the accompanying financial statements of the Nowata County Rural Water and Sewer District #1, as of and for the fiscal year ended April 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Nowata County Rural Water and Sewer 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.

Because of the inadequacy of accounting records related to fixed assets prior to May 1, 1997, we were unable to form an opinion regarding the amounts at which property, plant and equipment and accumulated depreciation are recorded in the accompanying statement of net assets at April 30, 2012 (stated at \$1,165,870 and \$687,749, respectively) or the amount of depreciation expense for the year then ended (stated at \$31,726).

In our opinion, except for the effects, if any, on the financial statements of improper capital asset recordkeeping described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Nowata County Rural Water and Sewer District #1, Nowata County, Oklahoma, as of April 30, 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 20, 2012, on our consideration of the Nowata County Rural Water and Sewer 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

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

Nowata County Rural Water and Sewer 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 20, 2012

## EXHIBIT A

NOWATA COUNTY RURAL WATER AND SEWER DISTRICT #1  
 NOWATA COUNTY, OKLAHOMA  
 STATEMENT OF NET ASSETS  
 APRIL 30, 2012

	2012	Memo Only 2011
<b><u>ASSETS</u></b>		
<b><u>Current Assets:</u></b>		
Cash and cash equivalents (Note 1)	\$ 123,241	\$ 122,562
Investments (Note 1)	57,415	56,728
Accounts Receivable (Note 1)	13,479	14,508
Interest Receivable	34	107
Accrued water sales	1,159	1,122
Prepaid Insurance	2,462	2,418
<b>Total Current Assets</b>	<b>197,791</b>	<b>197,445</b>
<b><u>Fixed Assets:</u></b>		
Land	22,012	22,012
Water Distribution System	1,143,858	1,068,056
Less: Accumulated Depreciation	(687,749)	(656,023)
<b>Total Fixed Assets</b>	<b>478,122</b>	<b>434,045</b>
<b><u>Other Assets:</u></b>		
Cash held in trust (Note 1)	21,966	21,877
Rural Development Reserve Account	-	-
Loan origination fees, net of accumulated amortization (Note 5)	1,528	2,056
<b>Total Other Assets</b>	<b>23,494</b>	<b>23,933</b>
<b>TOTAL ASSETS</b>	<b>\$ 699,406</b>	<b>\$ 655,423</b>
<b><u>LIABILITIES &amp; NET ASSETS</u></b>		
<b><u>Current Liabilities:</u></b>		
Accounts Payable	\$ 9,219	\$ 8,020
Accrued water purchases	3,022	2,464
Accrued interest payable	248	316
Current Portion of Long-Term Debt	10,400	9,600
<b>Total Current Liabilities</b>	<b>22,888</b>	<b>20,400</b>
<b><u>Long-Term Liabilities:</u></b>		
Long-Term Debt	121,000	130,600
Less: Current Portion of Long-Term Debt	(10,400)	(9,600)
<b>Total Long-Term Debt</b>	<b>110,600</b>	<b>121,000</b>
<b>TOTAL LIABILITIES</b>	<b>133,488</b>	<b>141,400</b>
<b><u>NET ASSETS:</u></b>		
Invested in capital assets, net of related debt	357,122	303,445
Restricted for debt service	21,966	21,877
Unrestricted	186,830	188,702
<b>TOTAL NET ASSETS</b>	<b>565,918</b>	<b>514,024</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 699,406</b>	<b>\$ 655,423</b>

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

## EXHIBIT B

**NOWATA COUNTY RURAL WATER AND SEWER DISTRICT #1  
NOWATA COUNTY, OKLAHOMA  
STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET ASSETS  
FOR THE TWELVE MONTHS ENDED APRIL 30, 2012**

	<u>2012</u>	<u>Memo Only 2011</u>
<b><u>Operating Revenue:</u></b>		
Water sales	\$ 112,966	\$ 108,435
Sewer sales	23,079	22,255
Other	55,374	4,838
<b>Total Operating Revenue</b>	<u>191,420</u>	<u>135,527</u>
<b><u>Operating Expenses:</u></b>		
Water purchases	43,130	41,784
Management fees	39,600	39,271
Utilities	5,648	5,870
Professional fees	1,050	2,450
Maintenance and repair	13,706	11,798
Insurance	1,978	2,025
Miscellaneous expense	4,706	2,526
Bad Debt Expense	1,405	-
Depreciation Expense	31,726	29,821
Amortization expense	528	528
<b>Total Operating Expenses</b>	<u>143,477</u>	<u>136,073</u>
<b>Net Operating Income (Loss)</b>	<u>47,943</u>	<u>(547)</u>
<b><u>Non-operating Income (Expense):</u></b>		
Interest Income	656	608
New units	5,000	7,000
Interest Expense	(1,705)	(2,032)
<b>Total Non-operating Income (Expense)</b>	<u>3,951</u>	<u>5,575</u>
<b>Net Income (Loss)</b>	51,894	5,029
<b>Total Net Assets, Beginning of Year</b>	514,024	508,995
<b>Total Net Assets, Prior Year Adjustment</b>	<u>-</u>	<u>-</u>
<b>Total Net Assets, End of Year</b>	<u><u>\$ 565,918</u></u>	<u><u>\$ 514,024</u></u>

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

**NOWATA COUNTY RURAL WATER AND SEWER DISTRICT #1  
NOWATA COUNTY, OKLAHOMA  
STATEMENT OF CASH FLOWS  
FOR THE TWELVE MONTHS ENDED APRIL 30, 2012**

	<u>2012</u>	<u>Memo Only 2011</u>
<b><u>Net Cash Flows from Operating Activities:</u></b>		
Cash Receipts from Customers	\$ 192,411	\$ 135,890
Payments to Suppliers for Goods & Services	(109,509)	(106,444)
Net Cash Provided (Used) by Operating Activities	<u>82,902</u>	<u>29,446</u>
<b><u>Net Cash Flows from Capital &amp; Related Financing Activities:</u></b>		
Additions to Capital Assets	(75,803)	(16,879)
Proceeds from Sale of Capital Assets	-	-
Capital Contributions	-	-
Issuance of benefit units	5,000	7,000
Loan Proceeds	-	-
Principal paid on long-term debt	(9,600)	(8,900)
Interest paid on Debt	(1,773)	(2,077)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(82,176)</u>	<u>(20,856)</u>
<b><u>Net Cash Flows from Investing Activities:</u></b>		
(Increase) Decrease in investments	(687)	(587)
(Increase) Decrease in trust fund cash accounts	(89)	236
Interest Income	729	569
Net Cash Provided (Used) by Investing Activities	<u>(48)</u>	<u>217</u>
Net Increase (Decrease) in Cash and Cash Equivalents	679	8,807
Cash & Cash Equivalents, Beginning of Year	122,562	113,755
Cash & Cash Equivalents, Prior Year Adjustment	-	-
Cash & Cash Equivalents, End of Year	<u>\$ 123,241</u>	<u>\$ 122,562</u>
<b><u>Reconciliation of operating income (loss) to net cash provided operating activities:</u></b>		
Operating Income (Loss)	\$ 47,943	\$ (547)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation & Amortization	32,254	30,349
(Increase)Decrease in Accounts Receivable	1,029	(14,508)
(Increase)Decrease in Prepaid Insurance	(43)	(2,418)
(Increase)Decrease in Accrued water sales	(37)	(1,122)
(Increase)Decrease in Utility Deposit	-	-
Increase(Decrease) in Accounts Payable	1,199	8,020
Increase(Decrease) in Accrued Water Purchases	557	2,464
Net Cash Provided (Used) by Operating Activities	<u>\$ 82,902</u>	<u>\$ 22,238</u>

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



NOWATA COUNTY RURAL WATER AND SEWER DISTRICT #1  
NOWATA COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
APRIL 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies employed by Nowata County Rural Water and Sewer District #1 (the District) are consistent with accounting principles generally accepted in the United States of America. Significant policies are described below.

In June 1999, the GASB issued Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. The statement established a new reporting model for governments that is substantially different from prior reporting standards. Nowata County Rural Water and Sewer District #1 began reporting during fiscal year ending 2004 under the new reporting model, which includes the following segments:

*Management's Discussion & Analysis* - provides introductory information on basic financial statements and an analytical overview of the District's financial activities.

*Fund financial statements* - provide information about the District's proprietary fund. The proprietary fund utilizes the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of net income, financial position and cash flows. All assets and liabilities (whether current or non-current) associated with their activities are reported. Proprietary fund equity is classified as net assets.

A. Purpose:

Nowata County Rural Water and Sewer District #1 is a State of Oklahoma chartered public nonprofit water district. Its purpose is to maintain and operate a water distribution system to serve the needs of owners and occupants of land within the Water District.

B. Basis of Accounting:

The financial statements are presented on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenditures are recorded when the liability is incurred.

C. Income Taxes:

Nowata County Rural Water and Sewer District #1 is exempt from federal income tax under section 501(c)(12) of the Internal Revenue Code.

NOWATA COUNTY RURAL WATER AND SEWER DISTRICT #1  
NOWATA COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
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D. Estimates:

The preparation of financial statements in conformity with accounting principles generally in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

E. Membership Benefit Units:

Members purchase benefit units for the right to obtain services from the Water District. Fees paid for benefit units are considered donations to the Water District and are nonrefundable. Benefit units sold are reflected as non-operating income in the period the services are established.

F. Cash and Cash Equivalents:

Cash and cash equivalents include amounts in demand deposits, money market funds, and certificates of deposit with and original maturity of three months or less.

G. Investments:

The District's investments are FDIC insured certificate of deposit of financial institutions. Investment totals at April 30, 2012 and April 30, 2011 were \$57,415 and \$56,728, respectively.

H. Cash Held in Trust:

Provisions of the loan payable to Oklahoma Water Resources Board require the District to set aside with a Trustee certain amounts for debt service and repair and replacement expenses. At April 30, 2012 and April 30, 2011, the District had \$21,966 and \$21,877, respectively on deposit with The Bank of New York Trust Company, N.A. as Trustee. These amounts were invested in U.S. Treasury Money Funds. The District makes payments monthly to the Trustee to service the semi-annual loan and interest payments. The amount of the payments is adjusted semi-annually to reflect changes in interest rates.

The cash restricted for loan with the Oklahoma Water Resources Board is designated as restricted retained earnings of \$21,966 and \$21,877 for the years ended April 30, 2012 and April 30, 2011, respectively.

I. Property and Equipment:

Property and equipment consisting of a water distribution system are stated at cost and depreciated over the estimated useful lives of the assets.

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NOWATA COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
APRIL 30, 2012

Depreciation is computed using the straight-line method. A capitalization policy was adopted in July 2005. This policy stated that purchases of capital items in excess of \$350 that increase the capacity or operation efficiency or extend the useful life of any asset are capitalized. Repairs and maintenance are expensed as incurred.

Useful life will be categorized as follows:

- A. 40 years - Meter sets and related equipment, road crossings, pipe in the ground that is not a repair or ordinary maintenance, and any new water line extensions.
- B. 15 years - Pump stations, buildings, tank painting and other structures
- C. 7 years - Motors, pumps, panel boxes, and other related items

J. Accounts Receivable:

The direct write-off method is used to account for uncollectible receivables. The balances at April 30, 2012 and 2011 are considered fully collectible.

K. 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.”

L. 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.

M. Memorandum Totals

NOWATA COUNTY RURAL WATER AND SEWER DISTRICT #1  
NOWATA COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
APRIL 30, 2012

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

See Note 1(H) above.

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 - DEPOSITS AND INVESTMENTS

Custodial Credit Risk

At April 30, 2012, the District held deposits of approximately \$180,656 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:

NOWATA COUNTY RURAL WATER AND SEWER DISTRICT #1  
 NOWATA COUNTY, OKLAHOMA  
 NOTES TO FINANCIAL STATEMENTS  
 APRIL 30, 2012

- 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 (\$57,415).

NOTE 4 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended April 30, 2012, was as follows:

	Balance at April 30, 2011	Additions	Deductions	Balance at April 30, 2012
Land	\$ 22,012	\$ -	\$ -	\$ 22,012
Water System	339,670	75,803	-	415,472
Extension	361,753	-	-	361,753
Water system equipment	6,861	-	-	6,861
Sewer system	359,773	-	-	359,773
Subtotal	1,090,068	75,803	-	1,165,870
Less: Accum. Depr.	(656,023)	(31,726)	-	(687,749)
Total Capital Assets (Net of Depreciation)	<u>\$ 434,045</u>	<u>\$ 44,076</u>	<u>\$ -</u>	<u>\$ 478,122</u>

NOWATA COUNTY RURAL WATER AND SEWER DISTRICT #1  
 NOWATA COUNTY, OKLAHOMA  
 NOTES TO FINANCIAL STATEMENTS  
 APRIL 30, 2012

NOTE 5 - LOAN ORIGATION FEES

Loan origination fees were costs incurred in connection with the note issued by the Oklahoma Water Resources Board. These costs are being amortized over the remaining term of the note.

	<u>April 30, 2012</u>	<u>April 30, 2011</u>
Amortized asset:		
Loan origination costs	\$ 9,895	\$ 9,895
Accumulated amortization	(8,367)	(7,839)
Total	<u>\$ 1,528</u>	<u>\$ 2,056</u>

NOTE 6 - LONG-TERM DEBT

The District has a loan with Oklahoma Water Resources Board bearing interest based on the Board's Series 1994 A Bonds (1.450% at April 30, 2011), collateralized by the revenue and assets of the water and sewer system. The loan will mature in August 2020. This note is due in semi-annual installments of principal and interest.

Changes in Long-Term Debt

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

	<u>Balance at April 30, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at April 30, 2012</u>
Long-Term Note - OWRB	130,600	-	(9,600)	121,000
Total Long-Term Debt	<u>\$ 130,600</u>	<u>\$ -</u>	<u>\$ (9,600)</u>	<u>\$ 121,000</u>

Debt Services Requirements to Maturity

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

Long-Term Note - OWRB

Year Ending April

<u>30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 10,400	\$ 1,488	\$ 11,888
2014	11,200	1,360	12,560
2015	12,200	1,223	13,423
2016	13,200	1,073	14,273
2017	14,300	910	15,210
2018-2021	59,700	734	60,434
Total	<u>\$ 121,000</u>	<u>\$ 6,788</u>	<u>\$ 127,788</u>

NOWATA COUNTY RURAL WATER AND SEWER DISTRICT #1  
NOWATA COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
APRIL 30, 2012

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 April 30, 2012, 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 - ECONOMIC DEPENDENCE

Nowata County Rural Water and Sewer District #1 is dependent upon the City of Dewey, Oklahoma, for the District's water supply.

NOTE 10 - SUBSEQUENT EVENTS

The District did not have any subsequent events through August 20, 2012, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending April 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  
Nowata County Rural Water and Sewer District #1  
Nowata County, Oklahoma

We have audited the financial statements of the Nowata County Rural Water and Sewer District #1, as of April 30, 2012, and have issued our report thereon dated August 20, 2012, which was qualified because we were unable to form an opinion regarding the amount recorded in the accounting records for property, plant and equipment and accumulated depreciation acquired prior to May 1, 1997. Also, the District 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. Except as discussed in the preceding sentences, 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

In planning and performing our audit, we considered the Nowata County Rural Water and Sewer 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 Nowata County Rural Water and Sewer District #1's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Nowata County Rural Water and Sewer 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



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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 Nowata County Rural Water and Sewer 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 Nowata County Rural Water and Sewer District #1, Nowata 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.*  
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August 20, 2012