

AUDIT REPORT

PITTSBURG COUNTY RURAL WATER DISTRICT #11
PITTSBURG COUNTY, OKLAHOMA

OCTOBER 31, 2012

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

PITTSBURG COUNTY RURAL WATER DISTRICT #11
PITTSBURG COUNTY, OKLAHOMA
OCTOBER 31, 2012

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Pittsburg County Rural Water District #11
Pittsburg County, Oklahoma

We have audited the accompanying financial statements of the Pittsburg County Rural Water District #11, as of and for the fiscal year ended October 31, 2012, as listed in the table of contents. These financial statements are the responsibility of the Pittsburg County Rural Water District #11'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 maintain capital asset records. 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 improper capital asset recordkeeping 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 Pittsburg County Rural Water District #11, Pittsburg County, Oklahoma, as of October 31, 2012, and the respective changes in modified cash basis financial position thereof for the year

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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 November 21, 2013, on our consideration of the Pittsburg County Rural Water District #11'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.

Pittsburg County Rural Water District #11 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.

Kershaw CPA & Associates, P.C.

Kershaw CPA & Associates, PC

November 21, 2013

PITTSBURG COUNTY RURAL WATER DISTRICT #11
PITTSBURG COUNTY, OKLAHOMA
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
OCTOBER 31, 2012

	<u>10/31/2012</u>
<u>ASSETS</u>	
<u>Current Assets:</u>	
Cash and Cash Equivalents	\$ 109,426
Investments	41,227
Total Current Assets	<u>150,653</u>
<u>Non-current Assets:</u>	
Restricted Cash	59,735
Capital Assets, Net of Depreciation	473,117
Total Non-current Assets	<u>532,852</u>
TOTAL ASSETS	<u><u>\$ 683,505</u></u>
<u>LIABILITIES</u>	
<u>Current Liabilities:</u>	
Current Portion of Long-Term Debt	\$ 14,277
Total Current Liabilities	<u>14,277</u>
<u>Non-current Liabilities:</u>	
Notes Payable	210,199
Less: Current Portion of Long-Term Debt	<u>(14,277)</u>
Total Long-Term Liabilities	195,922
TOTAL LIABILITIES	210,199
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	262,918
Restricted for debt service	59,735
Unrestricted	<u>150,653</u>
TOTAL NET ASSETS	<u>473,306</u>
TOTAL LIABILITIES & NET ASSETS	<u><u>\$ 683,505</u></u>

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

PITTSBURG COUNTY RURAL WATER DISTRICT #11
PITTSBURG COUNTY, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
- MODIFIED CASH BASIS -
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2012

	Total FYE 10/31/2012
<u>Operating Revenues:</u>	
Water Sales	\$ 190,685
Meter Tap Fees	2,750
Other Income	6,756
Total Operating Revenues	200,191
<u>Operating Expenses:</u>	
Water Purchased	66,029
Salaries & Wages	43,700
Payroll Taxes	3,339
Employee Benefits	9,631
Office	2,675
Utilities & Telephone	1,276
Insurance	3,503
Repairs & Maintenance	-
Miscellaneous	4,346
Memberships, Dues & Licenses	4,441
Professional Fees	3,746
Contract Services	12,123
Field Supplies	17,883
Travel	28
Depreciation Expense	25,783
Total Operating Expenses	198,504
Operating Income (Loss)	1,687
<u>Non-Operating Revenues (Expenses):</u>	
Interest Income	420
Interest Expense	(9,958)
Total Non-operating Revenues (Expenses)	(9,537)
Net Income (Loss) Before Contributions	(7,851)
Capital Contributions	-
Change in Net Assets	(7,851)
Total Net Assets - Beginning	481,156
Total Net Assets - Prior Year Adjustment	-
Total Net Assets - Ending	\$ 473,306

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

**PITTSBURG COUNTY RURAL WATER DISTRICT #11
PITTSBURG COUNTY, OKLAHOMA
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2012**

	<u>October 31, 2012</u>
<u>Cash Flows from Operating Activities:</u>	
Cash Receipts from Customers	\$ 200,191
Payments to Suppliers for Goods & Services	(129,021)
Payments to Employees & Laborers	(43,700)
Receipts of Customer Utility Deposits, Net of Refunds	-
	<hr/>
Net Cash Provided (Used) by Operating Activities	<u>27,470</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>	
Additions to Capital Assets	-
Loan Proceeds	-
Principal paid on Debt	(13,466)
Interest paid on Debt	(9,958)
	<hr/>
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(23,424)</u>
<u>Cash Flows from Investing Activities:</u>	
Interest Income	420
(Increase)Decrease in Investments	(256)
	<hr/>
Net Cash Provided (Used) by Investing Activities	<u>165</u>
Net Increase (Decrease) in Cash and Cash Equivalents	4,210
Cash & Cash Equivalents, Beginning of Year	164,950
Cash & Cash Equivalents, Prior Year Adjustment	-
	<hr/>
Cash & Cash Equivalents, End of Year	<u><u>\$ 169,161</u></u>
<u>Reconciliation of operating income (loss) to net cash provided</u>	
<u>operating activities:</u>	
Operating Income (Loss)	\$ 1,687
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation	25,783
Increase(Decrease) in Renters Deposits	-
	<hr/>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 27,470</u></u>

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

PITTSBURG COUNTY RURAL WATER DISTRICT #11
PITTSBURG COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1.C, these financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) established by the Governmental Accounting Standards Board (GASB). These modified cash-basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

A. Reporting Entity

Rural Water District #11, Pittsburg County, Oklahoma (the "District") was formed July 9, 1975 by the Board of County Commissioners of Pittsburg County, Oklahoma under provisions of the Rural Water District Act (Title 82 Oklahoma Statutes 1961, Sections 1301 to 1321). The District is managed by a five member Board of Directors. Members of the Board are elected by the membership of the District at its annual meeting. Membership in the District is attained by paying membership dues and receiving services from the District. The activities of the District constitute the entire reporting entity. There are no other 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).

PITTSBURG COUNTY RURAL WATER DISTRICT #11
PITTSBURG COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2012

C. Measurement Focus and Basis of Accounting

Measurement Focus

The District utilizes an economic resources measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), net financial position, and cash flows. All assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent or financial or nonfinancial) associated with their activities are generally reported within the limitations of the modified cash basis of accounting.

Basis of Accounting

The financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modifications to the cash basis of accounting to report in the statements of net position cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include investments, capital assets and related depreciation, and short-term and long-term liabilities arising from cash transactions or events.

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue billed or provided services not yet collected and other accrued revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

If the District utilized the basis of accounting recognized as generally accepted in the United States, the fund financial statements for proprietary fund types would use the accrual basis of accounting.

PITTSBURG COUNTY RURAL WATER DISTRICT #11
PITTSBURG COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2012

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.

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

The District has not maintained capital assets records. However, an amount has been carried forward in the financial statements. New purchases of capital items in excess of \$2,000.00 that increase the capacity or operation efficiency or extend the useful life of any asset are capitalized. Repairs and maintenance are expensed as incurred. Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	20-50 years
Water system	30-50 years
Equipment	5-10 years
Improvements	10-20 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:

PITTSBURG COUNTY RURAL WATER DISTRICT #11
PITTSBURG COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2012

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

F. Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting used by the District requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

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.

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.

PITTSBURG COUNTY RURAL WATER DISTRICT #11
PITTSBURG COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2012

NOTE 3 - CASH AND INVESTMENTS

Custodial Credit Risk

At October 31, 2012, the District held deposits of approximately \$210,388 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name.

Investment Interest Rate Risk

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

Investment Credit Risk

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

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

PITTSBURG COUNTY RURAL WATER DISTRICT #11
PITTSBURG COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2012

NOTE 4 - RESTRICTED ASSETS

The loan agreement with the United States Department of Agriculture (USDA) Rural Development requires the District to set aside into a Reserve Account an accumulated amount equal to the sum of the annual installment (\$12,264), after which deposits may be suspended, except to replace withdrawals. The District cannot withdraw funds from the reserve account without USDA approval. As of October 31, 2012, the District had a balance of \$17,949.63 in the account, which complies with the covenants of the loan agreement.

The promissory note with Berkadia requires that the District shall establish a reserve fund. Such reserve fund is to be used and held as a reserve for operating losses as well as for emergency repairs to the system. The reserve fund shall be kept in force and effect during the full term of the loan. Monthly contributions are to be made to the reserve until the balance reaches \$13,334. As of October 31, 2012, the District had a balance of \$14,131.57 in the account, which complies with the reserve requirements.

NOTE 5 - CAPITAL ASSETS

Capital asset activity, resulting from the modified cash basis transactions, for the fiscal year ended October 31, 2012, was as follows:

	Balance at Oct. 31, 2011	Additions	Deductions	Balance at Oct. 31, 2012
Capital assets not being depreciated:				
Construction in Progress	\$ -	\$ -	\$ -	\$ -
Total capital assets not being depreciated	\$ -	\$ -	\$ -	\$ -
Other capital assets:				
Water Facilities	1,026,343	-	-	1,026,343
Equipment	3,983	-	-	3,983
Total depreciable assets	1,030,326	-	-	1,030,326
Less Accum. Depreciation for:				
Water Facilities	528,003	25,659	-	553,662
Equipment	3,423	124	-	3,547
Total accumulated depreciation	531,426	25,783	-	557,209
Other capital assets, net	498,900	(25,783)	-	473,117
Total Capital Assets, Net	\$ 498,900	\$ (25,783)	\$ -	\$ 473,117

PITTSBURG COUNTY RURAL WATER DISTRICT #11
PITTSBURG COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2012

NOTE 6 - LONG-TERM DEBT

The District has a note payable to USDA Rural Development. The note had an original principal balance of \$225,000.00 payable at 4.50% interest with monthly payments of \$1,022 for 40 years.

The District also has a note payable to Berkadia (originally GMAC Commercial Mortgage) in the original loan amount of \$221,223 payable at 5.00% interest with monthly payments of \$930 until December 2014.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended October 31, 2012:

	Balance at Oct. 31, 2011	Additions	Deductions	Balance at Oct. 31, 2012
Note Payable - Berkadia	\$ 188,016.69		\$ 3,882.68	\$ 184,134.01
Note Payable - USDA	\$ 35,648.71	\$ -	\$ 9,583.70	\$ 26,065.01
Total Long-Term Debt	<u>\$ 223,665.40</u>	<u>\$ -</u>	<u>\$ 13,466.38</u>	<u>\$ 210,199.02</u>

Debt Services Requirements to Maturity

The annual debt service requirements to maturity, including principal and interest, for long-term debt, as of October 31, 2012, are as follows:

Note Payable - USDA:

Year Ended October 31,	Principal	Interest	Annual Payment
2013	\$ 4,176	\$ 8,088	\$ 12,264
2014	4,365	7,899	12,264
2015	4,563	7,701	12,264
2016	4,769	7,495	12,264
2017	4,985	7,279	12,264
2018-2022	28,526	32,794	61,320
2023-2027	35,599	25,721	61,320
2028-2032	44,426	16,894	61,320
2033-2037	52,726	5,887	58,613
Total	<u>\$ 184,134</u>	<u>\$ 119,759</u>	<u>\$ 303,893</u>

PITTSBURG COUNTY RURAL WATER DISTRICT #11
PITTSBURG COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2012

Note Payable - Berkadia:

Year Ended October 31,	Principal	Interest	Annual Payment
2013	\$ 10,101	\$ 1,059	\$ 11,160
2014	10,610	550	11,160
2015	5,354	76	5,429
2016	-	-	-
2017	-	-	-
2018-2022	-	-	-
Total	<u>\$ 26,065</u>	<u>\$ 1,684</u>	<u>\$ 27,749</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 are described in Note 4 above.

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 - ECONOMIC DEPENDENCE

The District and the Kiowa Public Works Authority have jointly negotiated a contract whereby the District agrees to purchase its water needs from the Kiowa Public Works Authority. The current price is \$2.737 per 1,000 gallons used. This contract for the sale and purchase of water was entered into November 2006 and shall extend for

PITTSBURG COUNTY RURAL WATER DISTRICT #11
PITTSBURG COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2012

a term of 45 years from the date of the initial delivery of any water as shown by first bill submitted by the seller to the purchaser and thereafter shall be automatically extended for successive like terms until terminated by mutual consent of the seller and purchaser.

NOTE 10 - SUBSEQUENT EVENTS

The District did not have any subsequent events through November 21, 2013, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending October 31, 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
Pittsburg County Rural Water District #11

We have audited the financial statements of the Pittsburg County Rural Water District #11, 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 October 31, 2012 and have issued our report thereon dated November 21, 2013, which was qualified for improper capital asset recordkeeping. The Pittsburg County Rural Water District #11 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 Pittsburg County Rural Water District #11 is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Pittsburg County Rural Water District #11'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 Pittsburg County Rural Water District #11's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Pittsburg County Rural Water District #11'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.

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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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings that we consider to be significant deficiencies in internal control over financial reporting. Those deficiencies are listed as Item 12-01. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Pittsburg County Rural Water District #11'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*.

The District's response to the findings identified in our audit is described in the accompanying Schedule of Findings. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors and management of the Pittsburg County Rural Water District #11 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

November 21, 2013

PITTSBURG COUNTY RURAL WATER DISTRICT #11
PITTSBURG COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS
OCTOBER 31, 2012

INTERNAL CONTROL FINDINGS:

Item 12-01: Segregation of Duties

Criteria: A good system of internal control requires a proper segregation of duties to prevent one person from being in a position to authorize, execute, and record the same transaction.

Condition: Due to the size of the District's major areas of internal control, that would be prevalent in a larger District, such segregation of duties is not available for this size operation. Duties are concentrated in the hands of a few individuals, who are responsible for all phases of the accounting functions. Because of this lack of division of responsibility, internal control is determined to be weak, and in some instances, non-existent.

Cause/Effect: Due to the limited number of personnel, a breach of internal controls could occur and not be detected in the normal course of operations.

Recommendation: The Board should continue to be actively involved in the operations of the organization.

Response: The Board continues to be actively involved in the operations