

AUDIT REPORT

WAGONER COUNTY RURAL WATER DISTRICT #1

DECEMBER 31, 2012



KERSHAW CPA & ASSOCIATES, PC

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WAGONER COUNTY RURAL WATER DISTRICT #1  
WAGONER COUNTY, OKLAHOMA  
DECEMBER 31, 2012

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WAGONER COUNTY RURAL WATER DISTRICT #1  
WAGONER COUNTY, OKLAHOMA  
DECEMBER 31, 2012

BOARD OF DIRECTORS

| <u>NAME</u>   | <u>POSITION</u>         | <u>TERM EXPIRATION</u> |
|---|-------------------------|------------------------|
| Johnny Bybee<br>8232 N 58 <sup>th</sup> St E<br>Ft. Gibson, OK 74434<br>918-683-1795  | Chairman                | 2014                   |
| J.P. Hukill<br>8457 N. 56 <sup>TH</sup> St E<br>Ft. Gibson, OK 74434<br>918-686-8297  | Vice Chairman           | 2013                   |
| Arty Freeman<br>5560 E. 85 <sup>th</sup> St N<br>Ft. Gibson, OK 74434<br>918-683-4741 | Secretary<br>/Treasurer | 2015                   |
| Larry Rogers<br>6314 E. 81 <sup>st</sup> St N<br>Ft. Gibson, OK 74434<br>918-687-3783 | Board Member            | 2014                   |
| Shirley Armstrong<br>8578 N. 56 <sup>th</sup> St E<br>Ft. Gibson, OK 74434            | Board Member            | 2015                   |

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## INDEPENDENT AUDITOR'S REPORT

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

### *Report on Financial Statements*

We have audited the accompanying modified cash basis financial statements of Wagoner County Rural Water District #1, as of and for the fiscal year ended December 31, 2012, as listed in the table of contents and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1. This includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

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.

# KERSHAW CPA & ASSOCIATES, PC

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of significant accounting estimates made, by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the Wagoner County Rural Water District #1, Wagoner County, Oklahoma, as of December 31, 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.

## *Other Matters*

### *Supplementary and Other Information*

The introductory section listed in the accompanying table of contents is presented for the purpose of additional analysis and is 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 or provide any assurance on it.

# KERSHAW CPA & ASSOCIATES, PC

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## *Other Reporting Required by Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated November 3, 2014, on our consideration of the Wagoner County Rural Water District #1's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in compliance with *Government Auditing Standards* in considering Wagoner County Rural Water District #1's internal control over financial reporting and compliance.

## *Basis of Accounting*

We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

*Kershaw CPA & Associates, P.C.*

Kershaw CPA & Associates, PC

November 3, 2014

## EXHIBIT A

WAGONER COUNTY RURAL WATER DISTRICT #1  
WAGONER COUNTY, OKLAHOMA  
STATEMENT OF NET POSITION - MODIFIED CASH BASIS  
DECEMBER 31, 2012

|  | <u>2012</u>              | Memorandum<br>Only<br><u>2011</u> |
|--|--------------------------|-----------------------------------|
| <b><u>ASSETS</u></b>                             |                          |                                   |
| <b><u>CURRENT ASSETS:</u></b>                    |                          |                                   |
| Revenue Cash                                     | \$ 11,593                | \$ 2,782                          |
| Maintenance Cash                                 | 2,453                    | 8                                 |
| Certificate of Deposit                           | 24,876                   | 24,780                            |
| Reserve Cash                                     | 2,299                    | 918                               |
| Deposits   | <u>40</u>                | <u>40</u>                         |
| Total Current Assets                             | <u>41,261</u>            | <u>28,529</u>                     |
| <b><u>CAPITAL ASSETS:</u></b>                    |                          |                                   |
| Property, Plant & Equipment                      | 227,078                  | 227,078                           |
| Less: Accumulated Depreciation                   | <u>(113,464)</u>         | <u>(108,705)</u>                  |
| Net Capital Assets                               | <u>113,614</u>           | <u>118,373</u>                    |
| <b>TOTAL ASSETS</b>                              | <b><u>\$ 154,875</u></b> | <b><u>\$ 146,902</u></b>          |
| <br><b><u>LIABILITIES &amp; NET POSITION</u></b> |                          |                                   |
| <b><u>LIABILITIES:</u></b>                       |                          |                                   |
| <b><u>CURRENT LIABILITIES:</u></b>               |                          |                                   |
| Current Portion of Long-Term Debt                | \$ 12,187                | \$ 11,354                         |
| Payroll Taxes Payable                            | <u>1,077</u>             | <u>1,098</u>                      |
| Total Current Liabilities                        | <u>13,263</u>            | <u>12,452</u>                     |
| <b>TOTAL LONG-TERM LIABILITIES</b>               | <u>21,819</u>            | <u>34,188</u>                     |
| <b>TOTAL LIABILITIES</b>                         | <u>35,082</u>            | <u>46,639</u>                     |
| <b><u>NET POSITION:</u></b>                      |                          |                                   |
| Net investment in capital assets                 | 91,795                   | 84,185                            |
| Restricted for debt service                      | 2,299                    | 918                               |
| Unrestricted                                     | <u>25,698</u>            | <u>15,159</u>                     |
| <b>TOTAL NET POSITION</b>                        | <u>119,792</u>           | <u>100,262</u>                    |
| <b>TOTAL LIABILITIES AND NET POSITION</b>        | <b><u>\$ 154,875</u></b> | <b><u>\$ 146,902</u></b>          |

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

## EXHIBIT B

**WAGONER COUNTY RURAL WATER DISTRICT #1**  
**WAGONER COUNTY, OKLAHOMA**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - MODIFIED CASH BASIS**  
**FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2012**

|  | 2012              | Memorandum<br>Only<br>2011 |
|--|-------------------|----------------------------|
| <b><u>OPERATING REVENUES:</u></b>                |                   |                            |
| Water Sales                                      | \$ 94,478         | \$ 84,427                  |
| Tap Fees   | -                 | -                          |
| Other Operating Income                           | 2,350             | 276                        |
| <b>TOTAL OPERATING REVENUES</b>                  | <b>96,828</b>     | <b>84,703</b>              |
| <b><u>OPERATING EXPENSES:</u></b>                |                   |                            |
| Manager's Fees                                   | 29,040            | 29,040                     |
| Employee Benefits                                | -                 | -                          |
| Chemicals  | 3,358             | 3,920                      |
| Water Purchased                                  | 871               | 19,337                     |
| Electricity                                      | 4,731             | 3,689                      |
| Depreciation                                     | 4,759             | 3,869                      |
| Repairs & Maintenance                            | 2,926             | 2,278                      |
| Bonds & Insurance                                | 2,657             | 2,698                      |
| Office Expense                                   | 1,573             | 1,441                      |
| Bank Charges                                     | 100               | 197                        |
| Dues, Licenses & Fees                            | -                 | 145                        |
| Legal & Accounting                               | 5,754             | 5,754                      |
| Audit Fees                                       | 513               | 1,850                      |
| Director's Fees                                  | 413               | 115                        |
| Contract Labor                                   | 5,545             | 4,625                      |
| Lab Fees   | 8,625             | 7,341                      |
| Payroll Taxes                                    | 2,222             | 2,222                      |
| Travel   | 2,112             | 2,651                      |
| Miscellaneous                                    | 4                 | 180                        |
| <b>Total Operating Expenses</b>                  | <b>75,200</b>     | <b>91,350</b>              |
| <b>NET OPERATING INCOME (LOSS)</b>               | <b>21,628</b>     | <b>(6,647)</b>             |
| <b><u>OTHER REVENUES (EXPENSES):</u></b>         |                   |                            |
| Interest Revenue                                 | 119               | 218                        |
| Interest Expense                                 | (2,217)           | (1,336)                    |
| <b>Total Other Revenues (Expenses)</b>           | <b>(2,098)</b>    | <b>(1,119)</b>             |
| <b>CHANGE IN NET POSITION</b>                    | <b>19,530</b>     | <b>(7,766)</b>             |
| <b>TOTAL NET POSITION, Beginning of Year</b>     | <b>100,262</b>    | <b>108,028</b>             |
| <b>TOTAL NET POSITION, Prior Year Adjustment</b> | <b>1</b>          | <b>-</b>                   |
| <b>TOTAL NET POSITION, End of Year</b>           | <b>\$ 119,792</b> | <b>\$ 100,262</b>          |

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



## EXHIBIT C

WAGONER COUNTY RURAL WATER DISTRICT #1  
WAGONER COUNTY, OKLAHOMA  
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS  
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2012

|   | 2012             | Memorandum<br>Only<br>2011 |
|---|------------------|----------------------------|
| <b><u>Cash Flows from Operating Activities:</u></b>   |                  |                            |
| Cash Receipts from Customers  | \$ 96,828        | \$ 84,703                  |
| Payments to Suppliers for Goods & Services  | (41,421)         | (58,523)                   |
| Payments to Employees & Laborers  | (29,040)         | (29,040)                   |
| Net Cash Provided (Used) by Operating Activities  | <u>26,366</u>    | <u>(2,860)</u>             |
| <b><u>Cash Flows from Capital &amp; Related Financing Activities:</u></b>                               |                  |                            |
| Additions to Capital Assets   | -                | (53,374)                   |
| Conversion or Sale of Fixed Assets  | -                | -                          |
| Loan Proceeds   | -                | 53,374                     |
| Principal paid on Long-Term Debt  | (11,536)         | (7,832)                    |
| Interest paid on Debt   | (2,217)          | (1,336)                    |
| Net Cash Provided (Used) by Capital & Related Financing Activities                                      | <u>(13,753)</u>  | <u>(9,169)</u>             |
| <b><u>Cash Flows from Investing Activities:</u></b>   |                  |                            |
| Interest Income   | <u>119</u>       | <u>218</u>                 |
| Net Cash Provided (Used) by Investing Activities  | <u>119</u>       | <u>218</u>                 |
| Net Increase (Decrease) in Cash and Cash Equivalents  | 12,733           | (11,811)                   |
| Cash & Cash Equivalents, Beginning of Year  | 28,489           | 40,300                     |
| Cash & Cash Equivalents, Prior Year Adjustment  | -                | -                          |
| Cash & Cash Equivalents, End of Year  | <u>\$ 41,221</u> | <u>\$ 28,489</u>           |
| <b><u>Reconciliation of operating income (loss) to net cash provided</u></b>                            |                  |                            |
| <u>operating activities:</u>  |                  |                            |
| Operating Income (Loss)   | \$ 21,628        | \$ (6,647)                 |
| Adjustments to reconcile operating income (loss) to net cash<br>provided (used) by operating activities |                  |                            |
| Depreciation  | 4,759            | 3,869                      |
| (Increase)Decrease in Accounts Receivable   | -                | -                          |
| (Increase)Decrease in Prepaid Insurance   | -                | -                          |
| Increase(Decrease) in Accounts Payable  | -                | -                          |
| Increase(Decrease) in Payroll Taxes Payable   | (20)             | (82)                       |
| Net Cash Provided (Used) by Operating Activities  | <u>\$ 26,366</u> | <u>\$ (2,860)</u>          |

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

WAGONER COUNTY RURAL WATER DISTRICT #1  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 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

Wagoner County Rural Water District #1 was created under the provisions of the laws of the State of Oklahoma. The purpose of the water district is to provide for the use and benefit of its members a water treatment and distribution system, operations and maintenance.

B. Basis of Presentation

The accounts of the District are organized on the basis of proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net position, 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. 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

WAGONER COUNTY RURAL WATER DISTRICT #1  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012

focus are the determination of operating income, changes in net position (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.

WAGONER COUNTY RURAL WATER DISTRICT #1  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012

D. Financial Position

Cash & Cash Equivalents

Cash is comprised of deposits in checking accounts. At December 31, 2012, it appears that all deposits were fully insured by FDIC.

Inventory

The District does not maintain inventory records of parts or supplies, but charges these purchases to maintenance or supplies as they are received.

Capital Assets

Asset acquisitions are recorded and depreciated at historical cost. Depreciation on fixed assets is calculated using the straight-line method of depreciation with useful lives averaging 60 years for major asset purchases. Other asset purchases are depreciated over a period of 10 years. The District has set the capitalization amount at \$1,000.00 for new assets purchased.

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 position and displayed in three components:

1. *Net investment in capital assets*—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 and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt..

WAGONER COUNTY RURAL WATER DISTRICT #1  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012

2. *Restricted*—Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those 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 amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

It is the District's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

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. 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 (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

G. Memorandum Only

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

H. Income Taxes

The District is organized as a not-for-profit entity and is exempt from paying Federal and State Income Taxes.

WAGONER COUNTY RURAL WATER DISTRICT #1  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012

I. Budgetary Data

In accordance with the By-laws of the District, an annual budget is prepared for internal bookkeeping purposes.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

As a local government unit, the District is subject to various federal, state, and local laws and contractual regulations. In accordance with Government Auditing Standards, the auditor has issued a report on his consideration of the District's internal control over financial reporting and tested its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be read in conjunction with this report in considering the results of the audit.

Finance-related Legal & Contractual Provisions

The District has no longer long-term debt and therefore has no reserve requirements.

Deficit Fund Balance or Retained Earnings

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

NOTE 3 - CASH AND INVESTMENTS

Custodial Credit Risk

At December 31, 2012, the District held deposits of approximately \$41,221 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.

WAGONER COUNTY RURAL WATER DISTRICT #1  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012

Investment Credit Risk

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

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

NOTE 4 - RESTRICTED ASSETS

In accordance with the loan agreement with CRG, Inc., the District is required to set aside into an established Debt Reserve Account the sum of \$114.60 each month until there is accumulated in that account the sum of \$13,752.84 after which deposits may be suspended, except to replace withdrawals, when necessary, disbursements may be used for payments due on the Note if sufficient funds are not available in the General Account. As of December 31, 2012, the District is required to have a balance of \$2,292.00 in the Debt Reserve Account. As of that date, the balance in the account is \$2,299.13 which satisfies the requirements of the loan.

NOTE 5 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended December 31, 2011, was as follows:

WAGONER COUNTY RURAL WATER DISTRICT #1  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012

|   | Balance at<br>Dec. 31,<br>2011 | Additions         | Deductions  | Balance at<br>Dec. 31,<br>2012 |
|---|--------------------------------|-------------------|-------------|--------------------------------|
| Property, Plant & Equipment                   | \$ 227,078                     | \$ -              | \$ -        | \$ 227,078                     |
| Subtotal                                      | 227,078                        | -                 | -           | 227,078                        |
| Less: Accum. Depr.                            | (108,705)                      | (4,759)           | -           | (113,464)                      |
| Total Capital Assets<br>(Net of Depreciation) | <u>\$ 118,373</u>              | <u>\$ (4,759)</u> | <u>\$ -</u> | <u>\$ 113,614</u>              |

NOTE 6 - LONG-TERM DEBT

On April 17, 2011, the District entered into a loan agreement with Community Resource Group, Inc. The loan is for \$61,000.00 with an interest rate of 5.5% payable in 60 (sixty) equal monthly installments of \$1,146.07 beginning May 28, 2011. The loan was to be used to replace two raw water pumps and the electrical components. As of December 31, 2012, loan proceeds of \$53,373.83 have been received.

Changes in Long-Term Debt

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

|                      | Balance at<br>December 31,<br>2011 | Additions   | Deductions         | Balance at<br>December 31,<br>2012 |
|----------------------|------------------------------------|-------------|--------------------|------------------------------------|
| Notes Payable        | \$ 45,542                          | \$ -        | \$ (11,536)        | \$ 34,006                          |
| Total Long-Term Debt | <u>\$ 45,542</u>                   | <u>\$ -</u> | <u>\$ (11,536)</u> | <u>\$ 34,006</u>                   |

Debt Services Requirements to Maturity

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

| Year Ending<br>December 31, | Principal        | Interest        | Total            |
|-----------------------------|------------------|-----------------|------------------|
| 2013                        | \$ 12,187        | \$ 1,566        | \$ 13,753        |
| 2014                        | 12,874           | 879             | 13,753           |
| 2015                        | 8,945            | 185             | 9,130            |
| 2016                        | -                | -               | -                |
| 2017                        | -                | -               | -                |
| 2018-2022                   | -                | -               | -                |
| Total                       | <u>\$ 34,006</u> | <u>\$ 2,630</u> | <u>\$ 36,635</u> |



WAGONER COUNTY RURAL WATER DISTRICT #1  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012

NOTE 7 - FUND EQUITY

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

1. Net investment in capital assets
2. Restricted
3. Unrestricted

Restricted amounts are described in Note 4 above.

NOTE 8 - CONTINGENCIES

Litigation

According to management there were no known contingent liabilities at December 31, 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 - INSURANCE

The Wagoner County Rural Water District #1 has the following insurance coverage in effect at December 31, 2012:

Employee Dishonesty and Crime Coverage - Blanket  
Coverage  
Property Coverage - Building and Personal Property  
Comprehensive General Liability  
Auto Liability  
Workers Compensation

WAGONER COUNTY RURAL WATER DISTRICT #1  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012

NOTE 10 - WATER PURCHASES

The District purchases its water from the Grand River Dam Authority.

NOTE 11 - WATER FOR BOARD MEMBERS

At the April 10, 2001 board meeting, the members of the Board voted to give themselves & the Manager free water up to \$50. This change took effect May 1, 2001 and will continue unless the District gets into financial trouble.

NOTE 12 - SUBSEQUENT EVENTS

The District did not have any subsequent events through November 3, 2014, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending December 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  
Wagoner County Rural Water District #1  
Wagoner County, Oklahoma

We have audited, in accordance with the 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, the modified cash basis financial statements of the Wagoner County Rural Water District #1, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles, and have issued our report thereon dated November 3, 2014.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Wagoner County Rural Water District #1's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Wagoner County Rural Water District #1's internal control. Accordingly, we do not express an opinion on the effectiveness of Wagoner County Rural Water District #1's internal control.

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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control

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that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

## Compliance and Other Matters

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

## Purpose of this Report

This report is intended solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

November 3, 2014