

AUDIT REPORT

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

APRIL 30, 2014

KERSHAW CPA & ASSOCIATES, PC

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NOWATA COUNTY RURAL WATER AND SEWER DISTRICT #1
NOWATA COUNTY, OKLAHOMA
APRIL 30, 2014

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NOWATA COUNTY RURAL WATER AND SEWER DISTRICT #1
NOWATA COUNTY, OKLAHOMA
APRIL 30, 2014

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>	<u>TERM EXPIRATION</u>
STEVE BRINKER	CHAIRMAN	JULY 2014
DUSTIN PERDUE	VICE-CHAIRMAN	JULY 2016
DAVID SEIGEL	SECRETARY	JULY 2015
DON MEEKER	MEMBER	JULY 2015
ROBERT BAILEY	MEMBER	JULY 2016

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Nowata County Rural Water and Sewer District #1, as of and for the fiscal year ended April 30, 2014, 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 accounting principles generally accepted in the United States of America; this includes 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.

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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of

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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.

Basis for Qualified Opinion

Because of the inadequacy of accounting records related to capital 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 position at April 30, 2014 (stated at \$1,260,646 and \$755,415, respectively) or the amount of depreciation expense for the year then ended (stated at \$35,312).

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Nowata County Rural Water and Sewer District #1, Washington County, as of April 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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.

Supplementary and Other Information

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

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the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 16, 2014, on our consideration of the Nowata County Rural Water and Sewer District #1's internal control over financial reporting and 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 accordance with *Government Auditing Standards* in considering Nowata County Rural Water and Sewer District #1's internal control over financial reporting and compliance.

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

October 16, 2014

EXHIBIT A

NOWATA COUNTY RURAL WATER AND SEWER DISTRICT #1
 NOWATA COUNTY, OKLAHOMA
 STATEMENT OF NET POSITION
 APRIL 30, 2014

	2014	Memo Only 2013
<u>ASSETS</u>		
<u>Current Assets:</u>		
Cash and cash equivalents (Note 1)	\$ 43,352	\$ 129,054
Investments (Note 1)	-	57,809
Accounts Receivable (Note 1)	13,664	13,058
Interest Receivable	-	30
Accrued water sales	2,090	1,621
Prepaid Insurance	2,377	2,406
Total Current Assets	61,483	203,977
<u>Fixed Assets:</u>		
Land	22,012	22,012
Water Distribution System	1,238,634	1,180,928
Less: Accumulated Depreciation	(755,415)	(720,103)
Total Fixed Assets	505,230	482,837
<u>Other Assets:</u>		
Cash held in trust (Note 1)	-	21,975
Loan origination fees, net of accumulated amortization (Note 5)	-	1,000
Total Other Assets	-	22,975
TOTAL ASSETS	\$ 566,713	\$ 709,789
<u>LIABILITIES & NET POSITION</u>		
<u>Current Liabilities:</u>		
Accounts Payable	\$ 13,498	\$ 36,094
Accrued water purchases	3,341	2,648
Accrued interest payable	-	311
Current Portion of Long-Term Debt	-	11,200
Total Current Liabilities	16,839	50,253
<u>Long-Term Liabilities:</u>		
Long-Term Debt	-	110,600
Less: Current Portion of Long-Term Debt	-	(11,200)
Total Long-Term Debt	-	99,400
TOTAL LIABILITIES	16,839	149,653
<u>NET POSITION:</u>		
Net investment in capital assets	505,230	372,237
Restricted for debt service	-	21,975
Unrestricted	44,644	165,924
TOTAL NET POSITION	549,874	560,136
TOTAL LIABILITIES AND NET POSITION	\$ 566,713	\$ 709,789

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 POSITION
FOR THE TWELVE MONTHS ENDED APRIL 30, 2014

	<u>2014</u>	<u>Memo Only 2013</u>
<u>Operating Revenue:</u>		
Water sales	\$ 114,292	\$ 121,148
Sewer sales	22,845	22,915
Other	4,754	4,223
Total Operating Revenue	<u>141,890</u>	<u>148,286</u>
<u>Operating Expenses:</u>		
Water purchases	41,207	49,785
Management fees	39,600	39,600
Utilities	6,061	6,316
Professional fees	1,270	1,535
Maintenance and repair	19,019	18,662
Insurance	1,736	1,760
Miscellaneous expense	8,465	4,825
Bad Debt Expense	-	624
Depreciation Expense	35,312	32,354
Amortization expense	1,000	528
Total Operating Expenses	<u>153,672</u>	<u>155,989</u>
Net Operating Income (Loss)	<u>(11,782)</u>	<u>(7,704)</u>
<u>Non-operating Income (Expense):</u>		
Interest Income	278	434
New units	3,000	3,000
Interest Expense	(1,759)	(1,511)
Total Non-operating Income (Expense)	<u>1,519</u>	<u>1,922</u>
Net Income (Loss)	(10,262)	(5,781)
Total Net Position, Beginning of Year	560,136	565,918
Total Net Position, Prior Year Adjustment	<u>-</u>	<u>-</u>
Total Net Position, End of Year	<u><u>\$ 549,874</u></u>	<u><u>\$ 560,136</u></u>

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

EXHIBIT C

NOWATA COUNTY RURAL WATER AND SEWER DISTRICT #1
 NOWATA COUNTY, OKLAHOMA
 STATEMENT OF CASH FLOWS
 FOR THE TWELVE MONTHS ENDED APRIL 30, 2014

	2014	Memo Only 2013
<u>Cash Flows from Operating Activities:</u>		
Cash Receipts from Customers	\$ 140,815	\$ 148,245
Payments to Suppliers for Goods & Services	(139,234)	(96,550)
Net Cash Provided (Used) by Operating Activities	<u>1,581</u>	<u>51,696</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>		
Additions to Capital Assets	(57,705)	(37,070)
Proceeds from Sale of Capital Assets	-	-
Capital Contributions	-	-
Issuance of benefit units	3,000	3,000
Loan Proceeds	-	-
Principal paid on long-term debt	(110,600)	(10,400)
Interest paid on Debt	(2,070)	(1,448)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(167,375)</u>	<u>(45,918)</u>
<u>Cash Flows from Investing Activities:</u>		
(Increase) Decrease in investments	57,809	(394)
(Increase) Decrease in trust fund cash accounts	21,975	(10)
Interest Income	308	438
Net Cash Provided (Used) by Investing Activities	<u>80,092</u>	<u>35</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(85,702)	5,813
Cash & Cash Equivalents, Beginning of Year	129,054	123,241
Cash & Cash Equivalents, Prior Year Adjustment	-	-
Cash & Cash Equivalents, End of Year	<u>\$ 43,352</u>	<u>\$ 129,054</u>
<u>Reconciliation of operating income (loss) to net cash provided operating activities:</u>		
Operating Income (Loss)	\$ (11,782)	\$ (7,704)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation & Amortization	36,312	32,882
(Increase)Decrease in Accounts Receivable	(607)	420
(Increase)Decrease in Prepaid Insurance	29	56
(Increase)Decrease in Accrued water sales	(469)	(461)
(Increase)Decrease in Utility Deposit	-	-
Increase(Decrease) in Accounts Payable	(22,597)	26,876
Increase(Decrease) in Accrued Water Purchases	694	(374)
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,581</u>	<u>\$ 51,696</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, 2014

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

NOWATA COUNTY RURAL WATER AND SEWER DISTRICT #1
NOWATA COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2014

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.

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, 2014 and April 30, 2013 were \$0 and \$57,809, 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, 2014 and April 30, 2013, the District had \$0 and \$21,975, respectively on deposit with The Bank of New York Trust Company,

NOWATA COUNTY RURAL WATER AND SEWER DISTRICT #1
NOWATA COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2014

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 \$0 and \$21,975 for the years ended April 30, 2014 and April 30, 2013, respectively. The accounts have been closed and the restrictions removed because the related loan was paid in full during the current fiscal year.

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. 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, 2014 and 2013 are considered fully collectible.

K. Equity Classification:

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

NOWATA COUNTY RURAL WATER AND SEWER DISTRICT #1
NOWATA COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2014

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.
2. Restricted – Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction 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.

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

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

NOWATA COUNTY RURAL WATER AND SEWER DISTRICT #1
NOWATA COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2014

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, 2014, the District held deposits of approximately \$43,352 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

NOWATA COUNTY RURAL WATER AND SEWER DISTRICT #1
 NOWATA COUNTY, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
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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 no longer has investments.

NOTE 4 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended April 30, 2014, was as follows:

	Balance at April 30, 2013	Additions	Deductions	Balance at April 30, 2014
Land	\$ 22,012	\$ -	\$ -	\$ 22,012
Water System	452,543	5,755	-	458,297
Extension	361,753	-	-	361,753
Water system equipment	6,861	-	-	6,861
Sewer system	359,773	51,950	-	411,723
Subtotal	1,202,940	57,705	-	1,260,646
Less: Accum. Depr.	(720,103)	(35,312)	-	(755,415)
Total Capital Assets (Net of Depreciation)	<u>\$ 482,837</u>	<u>\$ 22,393</u>	<u>\$ -</u>	<u>\$ 505,230</u>

NOWATA COUNTY RURAL WATER AND SEWER DISTRICT #1
 NOWATA COUNTY, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 APRIL 30, 2014

NOTE 5 - LOAN ORIGINATION 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. The related loan was paid off during the current year, therefore, the remaining amortization was expensed and the related accounts removed.

	<u>April 30, 2014</u>	<u>April 30, 2013</u>
Amortized asset:		
Loan origination costs	\$ -	\$ 9,895
Accumulated amortization	-	(8,895)
Total	<u>\$ -</u>	<u>\$ 1,000</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 (1.687% at April 30, 2014), 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. This loan was paid off during the current year.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended April 30, 2014:

	Balance at April 30, 2013	Additions	Deductions	Balance at April 30, 2014
Long-Term Note - OWRB	<u>110,600</u>	<u>-</u>	<u>(110,600)</u>	<u>-</u>
Total Long-Term Debt	<u>\$ 110,600</u>	<u>\$ -</u>	<u>\$ (110,600)</u>	<u>\$ -</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, 2014, are as follows:

NOWATA COUNTY RURAL WATER AND SEWER DISTRICT #1
 NOWATA COUNTY, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
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Long-Term Note - OWRB

Year Ending April 30,	Principal	Interest	Total
2015	\$ -	\$ -	\$ -
2016	-	-	-
2017	-	-	-
2018	-	-	-
2019	-	-	-
2020-2024	-	-	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

NOTE 8 - CONTINGENCIES

Litigation

According to management there were no known contingent liabilities at April 30, 2014, 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.

NOWATA COUNTY RURAL WATER AND SEWER DISTRICT #1
NOWATA COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2014

NOTE 10 - SUBSEQUENT EVENTS

The District did not have any subsequent events through October 16, 2014, 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, 2014.

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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, 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 financial statements of the Nowata County Rural Water and Sewer District #1, as of and for the year ended April 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated October 16, 2014, which was qualified for the improper capital asset recordkeeping. The Nowata County Rural Water and Sewer District #1 has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, except that the District did not present the required MD&A.

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 (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 Nowata County Rural Water and Sewer District #1's internal control. Accordingly, we do not express an opinion on the effectiveness of Nowata County Rural Water and Sewer 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 that

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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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

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.

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October 16, 2014