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State Auditor & Inspector

AUDIT REPORT

DELAWARE COUNTY RURAL WATER DISTRICT #1

FEBRUARY 28, 2011

KERSHAW CPA & ASSOCIATES, PC

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DELAWARE COUNTY RURAL WATER DISTRICT #1
FEBRUARY 28, 2011

TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTORY SECTION:	
BOARD OF DIRECTORS	3
FINANCIAL SECTION:	
INDEPENDENT AUDITOR'S REPORT	4-5
BASIC FINANCIAL STATEMENTS:	
EXHIBIT A STATEMENT OF NET ASSETS	6
EXHIBIT B STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS	7
EXHIBIT C STATEMENT OF CASH FLOWS	8
NOTES TO THE FINANCIAL STATEMENTS	9-15
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	16-17
SCHEDULE OF FINDINGS	18

DELAWARE COUNTY RURAL WATER DISTRICT #1
FEBRUARY 28, 2011

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>	<u>TERM EXPIRATION</u>
JOE HUTCHISON	CHAIRMAN	FEBRUARY 2012
GAIL SPERRY	VICE CHAIRMAN	FEBRUARY 2011
CHARLES COTTON WELCH	SECRETARY/TREASURER	FEBRUARY 2012
LARRY SLOAN	MEMBER	FEBRUARY 2011
PATRICK SANDER	MEMBER	FEBRUARY 2012

Unaudited

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INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying financial statements of the Delaware County Rural Water District #1, as of and for the fiscal year ended February 28, 2011, as listed in the table of contents. These financial statements are the responsibility of the Delaware County Rural Water District #1, Delaware County, Oklahoma's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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 I 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. I believe that my audit provides a reasonable basis for my opinion.

The District did not have strong internal controls in place for ensuring validity of financial records and reports. The revenue was not properly divided into categories (i.e. Water Sales, Membership Income, Transfer Fees, etc.). However, other evidence including bank statements and previous year's comparisons were used in audit procedures which show that if there were any discrepancy in total revenue it is of an immaterial amount.

In my opinion, except for the effects, if any, on the financial statements of the improper revenue classifications described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Delaware County Rural Water District #1 as of February 28, 2011, and the changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued my report dated September 30, 2011, on my consideration of the Delaware County Rural Water District #1's internal control over financial reporting and on my 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

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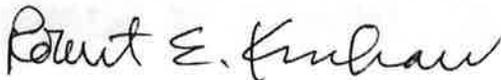
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internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be considered in assessing the results of my audit.

The Delaware County Rural Water District #1 has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34. However the District has not presented the Management's Discussion and Analysis required by the Governmental Accounting Standards Board (GASB) that the GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Delaware County Rural Water District #1's basic financial statements. The introductory and the other supplementary information sections listed in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the City. Such additional information has not been subjected to the auditing procedures applied in my audit of the basic financial statements, and accordingly, I do not express an opinion thereon.



Robert E. Kershaw, CPA

September 30, 2011

**DELAWARE COUNTY RURAL WATER DISTRICT #1
STATEMENT OF NET ASSETS
FEBRUARY 28, 2011**

	<u>Total 2/28/2011</u>	<u>Total (Memo Only) 2/28/2010</u>
<u>ASSETS</u>		
<u>Current Assets:</u>		
Cash in Bank	\$ 73,371	\$ 53,299
Certificates of Deposit	79,702	78,777
Accounts Receivable	13,462	17,051
Inventory	10,366	10,366
Prepaid Insurance	1,845	2,087
Total Current Assets	178,746	161,580
<u>Restricted Assets:</u>		
BOK Reserve Account	32,918	32,918
BOK Debt Service Fund	34	17
Total Restricted Assets	32,952	32,935
<u>Capital Assets:</u>		
Land	8,652	8,652
Building	6,228	6,228
Machinery & Equipment	15,021	15,021
Water System	1,699,923	1,699,923
Construction in Progress	332,347	-
Less: Accumulated Depreciation	(626,662)	(583,359)
Total Capital Assets	1,435,510	1,146,466
TOTAL ASSETS	\$ 1,647,209	\$ 1,340,981
<u>LIABILITIES & NET ASSETS</u>		
<u>LIABILITIES:</u>		
<u>Current Liabilities:</u>		
Accounts Payable	\$ 11,989	\$ 10,482
Accrued Payroll Liabilities	-	-
Current Portion of Long-Term Debt	19,600	18,100
Total Current Liabilities	31,589	28,582
<u>Long-Term Liabilities:</u>		
Note Payable - OWRB	207,900	226,000
Less: Current Portion of Long-Term Debt	(19,600)	(18,100)
Total Long-Term Liabilities	188,300	207,900
TOTAL LIABILITIES	219,889	236,482
<u>NET ASSETS:</u>		
Invested in capital assets, net of related debt	1,227,610	920,466
Restricted for debt service	32,952	32,935
Unrestricted	166,757	151,098
TOTAL NET ASSETS	1,427,319	1,104,499
TOTAL LIABILITIES & NET ASSETS	\$ 1,647,209	\$ 1,340,981

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

EXHIBIT B

**DELAWARE COUNTY RURAL WATER DISTRICT #1
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED FEBRUARY 28, 2011**

	<u>FYE 2/28/11</u>	<u>Total (Memo Only) FYE 2/28/10</u>
<u>Operating Revenues:</u>		
Water Sales	\$ 218,928	\$ 245,544
Membership Fees	9,500	1,250
Other Income, including late fees	1,585	-
Total Operating Revenues	230,012	246,794
<u>Operating Expenses:</u>		
Water Purchases	106,556	104,666
Accounting & Legal	4,115	2,632
Bank Charges	564	1,064
Contract Labor	58,665	52,678
Director's Fees	3,600	2,025
Depreciation Expense	43,303	43,303
Dues & Subscriptions	1,444	614
Employee Gifts	-	-
Insurance	5,529	5,604
Equipment Lease	-	-
Repairs & Maintenance	22,059	20,911
Miscellaneous	2,286	2,875
Office Expense	3,757	2,865
Postage	1,751	1,819
Printing & Reproduction	-	-
Salaries & Wages	-	-
Payroll Tax Expense	369	223
Telephone	2,281	1,891
Utilities	6,531	4,152
Total Operating Expenses	262,809	247,322
Operating Income (Loss)	(32,797)	(528)
<u>Non-Operating Revenues (Expenses):</u>		
Interest Income	1,238	4,483
Interest Expense	(3,344)	(4,744)
Total Non-operating Revenues (Expenses)	(2,106)	(261)
Net Income (Loss) Before Contributions	(34,903)	(789)
Capital Contributions	357,723	-
Change in Net Assets	322,820	(789)
Total Net Assets - Beginning	1,104,499	1,104,531
Total Net Assets - Prior Year Adjustment	-	757
Total Net Assets - Ending	\$ 1,427,319	\$ 1,104,499

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

**DELAWARE COUNTY RURAL WATER DISTRICT #1
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED FEBRUARY 28, 2011**

	<u>2/28/11</u>	<u>Memo Only 2/28/10</u>
<u>Net Cash Flows from Operating Activities:</u>		
Cash Receipts from Customers	\$ 233,602	\$ 238,647
Payments to Suppliers for Goods & Services	(159,093)	(148,655)
Payments to Employees & Laborers	(58,665)	(52,678)
Net Cash Provided (Used) by Operating Activities	<u>15,844</u>	<u>37,315</u>
<u>Net Cash Flows from Capital & Related Financing Activities:</u>		
Additions to Capital Assets	(332,347)	(1,980)
Grant Income	357,723	-
Principal paid on Debt	(18,100)	(16,700)
Interest paid on Debt	(3,344)	(4,744)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>3,932</u>	<u>(23,424)</u>
<u>Net Cash Flows from Investing Activities:</u>		
(Increase) in Restricted Assets	(17)	305
Interest Income	1,238	4,483
Net Cash Provided (Used) by Investing Activities	<u>1,221</u>	<u>4,788</u>
Net Increase (Decrease) in Cash and Cash Equivalents	20,997	18,679
Cash & Cash Equivalents, Beginning of Year	132,077	113,398
Cash & Cash Equivalents, Prior Year Adjustment	-	-
Cash & Cash Equivalents, End of Year	<u>\$ 153,073</u>	<u>\$ 132,077</u>
<u>Reconciliation of operating income (loss) to net cash provided operating activities:</u>		
Operating Income (Loss)	\$ (32,797)	\$ (528)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation Expense	43,303	43,303
(Increase)Decrease in Accounts Receivable	3,589	(8,146)
(Increase)Decrease in Inventory	-	-
(Increase)Decrease in Prepaid Expenses	241	(226)
Increase(Decrease) in Accounts Payable	1,507	2,912
Increase(Decrease) in Payroll Liabilities	-	-
Net Cash Provided (Used) by Operating Activities	<u>\$ 15,844</u>	<u>\$ 37,315</u>

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

DELAWARE COUNTY RURAL WATER DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Delaware County Rural Water District #1 is a non-profit governmental organization. The organization was incorporated on February 22, 1977. Its purpose is to provide for the use and benefit of its members a water processing and distribution system, including physical facilities necessary for its 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 assets, revenues and expenses. Enterprise Funds account for activities (1) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (2) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (3) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The District uses the accrual basis of accounting, which is in accordance with U.S. generally accepted accounting principles. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

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.

DELAWARE COUNTY RURAL WATER DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2011

Capital Assets

The District's fixed assets are stated at cost. Depreciation is computed using the straight-line method over the estimated useful life of the assets. Expenditures for major renewals and betterments which extend the useful lives of the fixed assets are capitalized. Purchases of capital items in excess of \$500.00 that increase the capacity or operation efficiency or extend the useful life of any asset are capitalized. Expenditures for maintenance and repairs are expensed as incurred.

<u>Class of Asset</u>	<u>Estimated Useful Life</u>
Water Distribution Systems	40 years
Buildings	25 years
Equipment	5 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:

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

DELAWARE COUNTY RURAL WATER DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2011

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

F. Memorandum Only

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

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

As a local government unit, the District is subject to various federal, state, and local laws and contractual regulations. 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 reserve requirement for the OWRB Note Payable is \$32,917.78, which the District has set aside in a restricted account.

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 February 28, 2011, the District held deposits of approximately \$153,073 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.

DELAWARE COUNTY RURAL WATER DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2011

Investment Credit Risk

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

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

Concentration of Investment Credit Risk

The District places no limit on the amount it may invest in any one issuer. The District has the following credit risk: 100% in certificate of deposit (\$79,702).

NOTE 4 - RESTRICTED ASSETS

The loan agreement with the Oklahoma Water Resources Board for the District's basic financing requires that certain monies be put in a trust type account. These funds are restricted to servicing the loan with the OWRB. Monthly payments are made to a debt service account and then invested upon receipt by the loan trustee, Bank of Oklahoma NA. Semi-annual payments are then made by the trustee from this account to OWRB. Additionally, another account was required to be maintained from which note payments could be made if the District was unable to make its scheduled monthly payments. This is the debt service reserve account. When funds are received by the Trustee they are immediately invested in securities guaranteed by the United States Government. The earnings from the debt service and the debt service reserve account are accumulated in the debt service reserve account.

Balance of each account at February 28, 2011 is:

DELAWARE COUNTY RURAL WATER DISTRICT #1
 NOTES TO FINANCIAL STATEMENTS
 FEBRUARY 28, 2011

Debt Service Reserve Fund	\$32,918.21
Debt Service Fund	<u>\$ 34.22</u>
Total Restricted Funds	\$32,952.43

NOTE 5 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended February 28, 2011, was as follows:

	<u>2/28/2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at 2/28/11</u>
Land	\$ 8,652	\$ -	\$ -	\$ 8,652
Buildings	6,228	-	-	6,228
Machinery, equipment, furniture and fixtures	15,021	-	-	15,021
Water Systems	1,699,923	-	-	1,699,923
Construction in Progress	-	332,347	-	332,347
Subtotal	<u>1,729,825</u>	<u>332,347</u>	<u>-</u>	<u>2,062,172</u>
Less: Accum. Depr.	(583,359)	(43,303)	-	(626,662)
Total Capital Assets (Net of Depreciation)	<u>\$ 1,146,466</u>	<u>\$ 289,044</u>	<u>\$ -</u>	<u>\$ 1,435,510</u>

NOTE 6 - LONG-TERM DEBT

The District has a loan with Oklahoma Water Resources Board with an original loan amount of \$360,000.00. Substantially, all fixed assets, accounts receivable and assignment revenues are pledged as security on this note. The loan has a variable interest rate determined every 6 months. On February 28, 2011, the variable interest rate was 1.45%. The note will mature August 2024.

Effective February 26, 2009, the payment mode for Variable Rate Borrowers has changed from a semi-annual to a quarterly basis. OWRB made this change as a result of market conditions and to take advantage of low short-term interest rates.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended February 28, 2011:

	<u>Balance at 2/28/10</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at 2/28/11</u>
OWRB Loan	\$ 226,000.00	\$ -	\$ 18,100.00	\$ 207,900.00
Total Long-Term Debt	<u>\$ 226,000.00</u>	<u>\$ -</u>	<u>\$ 18,100.00</u>	<u>\$ 207,900.00</u>

DELAWARE COUNTY RURAL WATER DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2011

Debt Services Requirements to Maturity

The annual debt service requirements to maturity, including principal only, for long-term debt, as of February 28, 2011, are as follows:

<u>Year Ended</u> <u>February 28,</u>	<u>Principal</u>
2012	\$ 19,600
2013	21,100
2014	22,800
2015	24,700
2016	26,700
2017-2021	65,400
2022-2025	27,600
Total	<u>\$ 207,900</u>

NOTE 7 - FUND EQUITY

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

1. Invested in capital assets, net of related debt
2. Restricted net assets
3. Unrestricted net assets

The restricted net assets include assets related to 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.

DELAWARE COUNTY RURAL WATER DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2011

NOTE 9 - SUBSEQUENT EVENTS

The District did not have any subsequent events through the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending February 28, 2011.

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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
Delaware County RWD #1
Delaware County, Oklahoma

I have audited the financial statements of the Delaware County RWD #1, as of February 28, 2011 and have issued my report thereon dated September 30, 2011, which was qualified for the effect on the basic financial statements of improper revenue classifications. The Delaware County RWD #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. I conducted my audit in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Delaware County RWD #1's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Delaware County RWD #1's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Delaware County RWD #1's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

My 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. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weakness, as defined above. However, I identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings that I consider to be significant deficiencies in internal control over financial reporting. Those deficiencies are listed as Items 11-01. A significant

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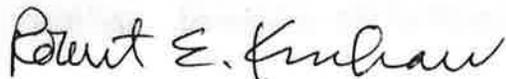
deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Delaware County RWD #1's financial statements are free of material misstatement, I performed tests of compliance with certain 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 my audit, and accordingly, I do not express such an opinion. The results of my 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 my audit is described in the accompanying Schedule of Findings. I did not audit the District's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of the board of directors and management of the Delaware County RWD #1 and is not intended to be and should not be used by anyone other than these specified parties.



Robert E. Kershaw, Certified Public Accountant

September 30, 2011

DELAWARE COUNTY RURAL WATER DISTRICT #1
SCHEDULE OF FINDINGS
FEBRUARY 28, 2011

INTERNAL CONTROL FINDINGS:

Item 11-01 - Revenue Classifications & Documentation

Criteria: Internal control refers to the methods and procedures used to provide reasonable assurance regarding the achievement of objectives in the following categories: Safeguarding assets, ensuring validity of financial records and reports, promoting adherence to policies, procedures, regulations and laws, and promoting effectiveness and efficiency of operations. Internal control also refers to how an entity processes, summarizes and records the financial transactions. In general terms, internal controls are simply good business practices.

Condition: The District did not have strong internal controls in place for ensuring validity of financial records and reports. The revenue was all classified as Water Sales rather than being divided into categories (i.e. Water Sales, Membership Income, Transfer Fees, etc.).

Cause/Effect: Due to the weak internal control system, the revenue for the year was not properly divided into categories. Revenue documentation needed to perform some audit procedures was not adequately maintained. However, other evidence including bank statements and previous year's comparisons were used in audit procedures which show that if there were any discrepancy in total revenue it is of an immaterial amount.

Recommendation: All revenue should be properly classified and documented. The Board should continue to be actively involved in the operations of the District.

Response: The District has experienced employee turnover, resulting in the current management being unfamiliar with proper classifications. Therefore, the documentation and classification problem is expected to be improved in future years.