

RECEIPT #

16929

FILED

NOV 30 2011

State Auditor & Inspector

AUDIT REPORT

GRAND LAKE PUBLIC WORKS AUTHORITY

JUNE 30, 2011

KERSHAW CPA & ASSOCIATES, PC

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

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

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

GRAND LAKE PUBLIC WORKS AUTHORITY
JUNE 30, 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	9-17
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	18-19

GRAND LAKE PUBLIC WORKS AUTHORITY
JUNE 30, 2011

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>	<u>TERM EXPIRATION</u>
DICK BOYD	CHAIRMAN	APRIL 2013
ROY RICE	VICE-CHAIRMAN	APRIL 2012
STEVE GARRETT	SECRETARY/TREASURER	APRIL 2013
GEORGE SHERMAN	MEMBER	APRIL 2014
DICK SEYBOLT	MEMBER	APRIL 2016
ROSS GRAY	MEMBER	APRIL 2016
MOTT DENNIS	MEMBER	APRIL 2015

Unaudited

KERSHAW CPA & ASSOCIATES, PC

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

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

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Grand Lake Public Works Authority

I have audited the accompanying financial statements of the Grand Lake Public Works Authority, as of and for the fiscal year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Grand Lake Public Works Authority'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.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Grand Lake Public Works Authority, as of June 30, 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 November 14, 2011, on my consideration of the Grand Lake Public Works Authority'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 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.

KERSHAW CPA & ASSOCIATES, PC

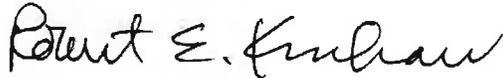
5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

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

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

Grand Lake Public Works Authority has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34. However the Authority has not presented the Management's Discussion and Analysis required by the Governmental Accounting Standards Board (GASB) that the GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The introductory and the other supplementary information sections listed in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the Authority. 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
Certified Public Accountant

November 14, 2011

**GRAND LAKE PUBLIC WORKS AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2011**

<u>ASSETS</u>	<u>2011</u>	<u>Memo Only 2010</u>
<u>Current Assets:</u>		
Cash and cash equivalents	\$ 215,637	\$ 107,796
Accounts receivable	160,343	142,371
Prepaid expense	29,470	30,529
<u>Restricted current assets:</u>		
Bond accounts	9,363	68,459
Sinking funds	125,112	77,064
Other restricted accounts	5,060	6,069
Total restricted current assets	<u>139,535</u>	<u>151,592</u>
Total Current Assets	<u>544,985</u>	<u>432,287</u>
<u>Capital Assets:</u>		
Land	200,000	200,000
Plant and distribution system	10,161,068	9,614,981
Equipment	397,387	368,113
Construction in progress	1,369,515	1,093,652
Less: Accumulated Depreciation	<u>(3,311,171)</u>	<u>(2,965,644)</u>
Total Capital Assets	<u>8,816,799</u>	<u>8,311,102</u>
<u>Other Assets:</u>		
Restricted Sinking and Debt fund reserves	426,302	424,218
Loan fees, net of amortization	129,121	140,441
Total Other Assets	<u>555,423</u>	<u>564,659</u>
TOTAL ASSETS	<u><u>\$ 9,917,207</u></u>	<u><u>\$ 9,308,048</u></u>
 <u>LIABILITIES & NET ASSETS</u>		
<u>Current Liabilities:</u>		
Accounts Payable	\$ 72,140	\$ 149,980
Accrued interest	49,712	49,684
Current Portion of Long-Term Debt	420,442	400,546
Total Current Liabilities	<u>542,295</u>	<u>600,210</u>
<u>Long-Term Liabilities:</u>		
Notes Payable, Less Current Portion	2,663,309	2,221,686
Bonds Payable, Less Current Portion	1,875,000	2,130,000
Deferred Loss, Net of Accumulated Amortization	<u>(9,926)</u>	<u>(24,814)</u>
Total Long-Term Debt	<u>4,528,383</u>	<u>4,326,872</u>
TOTAL LIABILITIES	<u><u>5,070,678</u></u>	<u><u>4,927,082</u></u>
 <u>NET ASSETS:</u>		
Invested in capital assets, net of related debt	3,858,048	3,558,869
Restricted for debt service	565,837	575,810
Unrestricted	<u>422,645</u>	<u>246,286</u>
TOTAL NET ASSETS	<u><u>4,846,530</u></u>	<u><u>4,380,966</u></u>
 TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 9,917,207</u></u>	<u><u>\$ 9,308,048</u></u>

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

EXHIBIT B

**GRAND LAKE PUBLIC WORKS AUTHORITY
STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET ASSETS
FOR THE TWELVE MONTHS ENDED JUNE 30, 2011**

	<u>2011</u>	<u>Memo Only 2010</u>
<u>Operating Revenues:</u>		
Water and sewer revenue	\$ 1,493,663	\$ 1,305,419
Miscellaneous revenue	106,675	163,317
Total Operating Revenues	<u>1,600,339</u>	<u>1,468,735</u>
<u>Operating Expenses:</u>		
Contract personnel expense	244,759	221,450
Utilities	95,461	87,769
Depreciation Expense	345,526	346,114
Management fees	86,777	80,642
Water treatment costs	64,957	74,322
Uncollected Accounts	2,619	10,562
Miscellaneous expense	20,525	19,642
Materials and supplies	4,994	3,691
Property and liability insurance	20,613	22,357
Professional fees	12,890	10,356
Amortization of bond issue costs	11,320	43,994
Amortization of deferred loss	14,888	14,888
Equipment costs and small tools	52,883	22,324
Repairs and maintenance	22,327	66,811
Vehicle expense	21,126	13,584
Total Operating Expenses	<u>1,021,665</u>	<u>1,038,506</u>
Net Operating Income (Loss)	<u>578,673</u>	<u>430,229</u>
<u>Non-operating Income (Expense):</u>		
Interest Income	948	1,212
Interest Expense	(171,723)	(163,821)
Total Non-operating Income (Expense)	<u>(170,775)</u>	<u>(162,609)</u>
Net Income (Loss)	407,898	267,620
Capital Contributions	57,665	248,819
Total Net Assets, Beginning of Year	4,380,966	3,863,643
Total Net Assets, Prior Year Adjustment	<u>-</u>	<u>883</u>
Total Net Assets, End of Year	<u>\$ 4,846,530</u>	<u>\$ 4,380,966</u>

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

EXHIBIT C

GRAND LAKE PUBLIC WORKS AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE TWELVE MONTHS ENDED JUNE 30, 2011

	<u>2011</u>	<u>Memo Only 2010</u>
<u>Net Cash Flows from Operating Activities:</u>		
Cash Receipts from Customers	\$ 1,582,366	\$ 1,464,539
Payments to Suppliers for Goods & Services	(726,712)	(537,448)
Net Cash Provided (Used) by Operating Activities	<u>855,654</u>	<u>927,091</u>
<u>Net Cash Flows from Capital & Related Financing Activities:</u>		
Additions to Capital Assets	(851,224)	(666,349)
Proceeds from Sale of Capital Assets	-	-
Loan Proceeds	682,382	2,300,119
Loan Fees	-	(116,285)
Capital Contributions	57,665	248,819
(Increase)Decrease Investment	9,973	(85,440)
Principal paid on long-term debt	(475,862)	(2,380,323)
Interest paid on Debt	(171,695)	(148,525)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(748,761)</u>	<u>(847,983)</u>
<u>Net Cash Flows from Investing Activities:</u>		
Interest and dividends	948	1,212
Net Cash Provided (Used) by Investing Activities	<u>948</u>	<u>1,212</u>
Net Increase (Decrease) in Cash and Cash Equivalents	107,841	80,320
Cash & Cash Equivalents, Beginning of Year	107,796	27,476
Cash & Cash Equivalents, Prior Year Adjustment	-	-
Cash & Cash Equivalents, End of Year	<u>\$ 215,637</u>	<u>\$ 107,796</u>
<u>Reconciliation of operating income (loss) to net cash provided operating activities:</u>		
Operating Income (Loss)	\$ 578,673	\$ 430,229
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation & Amortization	371,734	404,995
(Increase)Decrease in Accounts Receivable	(17,972)	(4,197)
(Increase)Decrease in Prepaid Expense	1,059	2,473
Increase(Decrease) in Accounts Payable	(77,840)	93,590
(Gain)Loss on Sale/Disposal of Capital Assets	-	-
Net Cash Provided (Used) by Operating Activities	<u>\$ 855,654</u>	<u>\$ 927,091</u>

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

GRAND LAKE PUBLIC WORKS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies employed by Grand Lake Public Works Authority (the Authority) 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. The Authority adopted the new reporting model June 30, 2004, which includes the following segments:

Management's Discussion & Analysis - provides introductory information on basic financial statements and an analytical overview of the Authority's financial activities. For the year ended June 30, 2011, management has not presented the Management's Discussion and Analysis as required by the Governmental Accounting Standards Board (GASB) and GASB has determined it necessary to supplement, although not required to be part of, the basic financial statements.

Fund financial statements - provide information about the Authority'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:

The Grand Lake Public Works Authority is a public trust as defined under Oklahoma Statutes. The Authority was established to furnish and supply utility services to the owners and occupants of property within the Authority's designated service area, which is near Grand Lake in Delaware County, Oklahoma.

B. Basis of Accounting:

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

C. Income Taxes:

The Authority was established under Title 60 of the Oklahoma Statutes as a public trust. The management of the Authority believes that it is exempt from Federal income tax under IRC Revenue Procedure 95-48, Section 4.03. This revenue procedure states that income to a "governmental unit" or "governmental affiliate" is exempt from federal income tax and need not file a return.

GRAND LAKE PUBLIC WORKS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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. Cash and Cash Equivalents:

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

F. Property, Plant and Equipment:

Property and equipment, consisting of a water distribution system, are stated at cost and are depreciated over the estimated useful life of such assets. Contributed property is recorded at fair market value at the time of contribution. Depreciation is computed using the straight-line method.

G. Accounts Receivable:

The direct write-off method is used to account for uncollectible receivables. The balances at June 30, 2011 and 2010 are considered fully collectible.

H. Capitalization Policy:

Purchases of capital items in excess of \$300.00 that increase the capacity or operation efficiency or extend the useful life of any asset are capitalized. Repairs and maintenance are expensed as incurred.

The useful life will be categorized as follows:

1. 40 years - Meter sets and related equipment, road crossings, pipe in the ground that is not a repair or ordinary maintenance, and any new extensions.
2. 15 years - Pump stations, buildings, tank painting and other structures with an approximated life of fifteen years.
3. 7 years - Motors, pumps, panel boxes, and other related items with a useful life that approximated seven years.

I. 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.

GRAND LAKE PUBLIC WORKS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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.”

J. 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.

K. Benefit Units

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

L. 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 Authority 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 Authority'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 Authority does not have any long-term debt agreements which would have budgetary or 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 Authority for this fiscal year.

GRAND LAKE PUBLIC WORKS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3 - CUSTODIAL CREDIT RISK RELATED TO DEPOSITS

Custodial Credit Risk

At June 30, 2011, the Authority held deposits of approximately \$107,796 at financial institutions, plus \$565,837 in restricted deposits. The Authority'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 Authority or by its agent in the Authority's name.

Investment Interest Rate Risk

The Authority 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 Authority 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.).

The cash balance on the financial statements is net of the Sewer Note Cash Contra Account balance of \$125,112.00 plus Petty Cash of \$200.00.

NOTE 4 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended June 30, 2011, was as follows:

GRAND LAKE PUBLIC WORKS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

	Balance at June 30, 2010	Additions	Deductions	Balance at June 30, 2011
Land	\$ 200,000	\$ -	\$ -	\$ 200,000
Distribution System	9,614,981	546,087	-	10,161,068
Equipment	368,113	29,274	-	397,387
Construction in Progress	1,093,652	275,863	-	1,369,515
Subtotal	11,276,746	851,224	-	12,127,970
Less: Accum. Depr.	(2,965,644)	(345,526)	-	(3,311,170)
Total Capital Assets (Net of Depreciation)	<u>\$ 8,311,102</u>	<u>\$ 505,698</u>	<u>\$ -</u>	<u>\$ 8,816,799</u>

NOTE 5 - RESTRICTED CASH ACCOUNTS

Restricted cash is cash and cash equivalents on deposit in various accounts at a bank or with a Trustee as required by the bond indentures and note agreements. The amounts available to be used to settle current liabilities are classified as current assets. The amounts restricted to non-current use are classified as Other Assets.

NOTE 6 - BOND AND NOTE ISSUE COSTS

Bond and note issue costs are costs that were incurred to issue bonds and notes. These costs are amortized over the remaining term of the bonds or notes and are classified on the Statement of Net Assets as loan fees. These costs are reported net of amortization. The following summarizes the unamortized bond and note issue costs:

	2011	2010
Series 1999 bond issue costs	\$ 2,921	\$ 7,301
OWRB mortgage note	17,842	19,496
Series 2009 bond issue costs	108,359	113,645
	<u>\$ 129,121</u>	<u>\$ 140,441</u>

NOTE 7 - DEFERRED LOSS ON DEFEASMENT OF DEBT

The Authority issued \$2,230,000 of bonds dated March 1, 1992 to finance a water and sewer system (the System), which serves a portion of Delaware County, Oklahoma. The bonds were issued in denominations of \$5,000 each and with various interest rates ranging from 5% to 7.75%.

During 2000, the Authority entered into agreements to defease the 1992 bond issue. The defeasance of the 1992 bond issue produced a loss on early retirement of \$193,545, which, in accordance with Governmental Accounting Standards Board Statement 23, was deferred and is amortized over the remaining life of the debt.

NOTE 8 - LONG-TERM DEBT

Water and Sewer Revenue Bonds, Series 1999:

GRAND LAKE PUBLIC WORKS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

The Authority issued \$1,965,000 of bonds dated July 1, 1999 to defease the 1992 bond issue. The bonds were issued in denominations of \$5,000 each and with various interest rates ranging from 4% to 5.31%. The Bonds are secured by a first lien on the System, a pledge of the net revenue from the System, and certain restricted cash accounts. The Authority is required to maintain a schedule of rates, which will provide annual net revenues, as defined by the interest requirements of the Series 1999 Bonds and other outstanding long-term debt. The Series 1999 Bonds are subject to early redemption at the option of the Authority, in accordance with conditions as detailed in the Bond Indenture.

Promissory Notes Payable:

On May 9, 2001, the Authority issued a promissory note to the Oklahoma Water Resources Board in the amount of \$2,700,000 to be advanced to pay construction costs related to the Island Wide Sewer System project. Payments of principal and interest will be calculated on the amount advanced rather than the approved amount of the promissory note. The term of the loan is twenty years at 2.777%, plus $\frac{1}{2}$ % of the outstanding balance for administrative fees. The balance payable on the note at June 30, 2011 is \$1,651,357.54.

On June 25, 2003, the Authority issued a promissory note to the Oklahoma Water Resources Board in the amount of \$800,000 to be advanced to pay construction costs related to the Distribution System project. Payments of principal and interest will be calculated on the amount advanced rather than the approved amount of the promissory note. The term of loan is twenty years at 2.095%, plus $\frac{1}{2}$ % of the outstanding balance for administrative fees. The balance payable on the note at June 30, 2011 is \$509,028.16.

On November 1, 2009, the Authority issued a promissory note to the Oklahoma Water Resources Board in the amount of \$992,500 to be advanced to pay construction costs related to the Distribution System project. Payments of principal and interest will be calculated on the amount advanced rather than the approved amount of the promissory note. The term of loan is twenty years at 2.25%, plus $\frac{1}{2}$ % of the outstanding balance for administrative fees. The balance payable on the note at June 30, 2011 is \$666,166.10. As of June 30, 2011, the full \$992,500 has been advanced on this loan. \$306,483.90 was paid on the loan by a Cap Grant for State Revolving Fund. Amortization schedule will be provided once construction is completed.

On November 24, 2009, the Authority issued a promissory note to the Oklahoma Water Resources Board in the amount of \$1,990,000.00. Proceeds of the note were used to (i) refinance the Series 1998 Note, the Series 2001 Note, the Series 2002 Note and the \$500,000.00 promissory note to the Bank of Oklahoma, NA, (ii) acquire land for future well sites, (iii) make the required deposit to the Sinking Fund Reserve Fund required under the Bond Indenture for the issuance of additional parity indebtedness and (iv) pay costs of issuance of the Series 2009 Note. The note is secured by a mortgage of real property and a pledge of revenues. Principal is payable semi-annually to the Water Resources Board through September 15, 2031 with interest at a variable rate. Principal maturities vary over the term of the loan. The balance payable on the note at June 30, 2011 is \$1,935,000.00. An arrangement has been made with a trust company to collect and hold monthly installments for semi-annual payments. A reserve account

GRAND LAKE PUBLIC WORKS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

(see Note 5) is required to be maintained for future debt service. The loan agreement contains restrictions on future borrowings.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2011:

Account	Description	Balance at June 30, 2010	Additions	Deductions	Balance at June 30, 2011
2600000	99 Bonds	\$ 380,000	\$ -	\$ (185,000)	\$ 195,000
2604000	01 OWRB Sewer	1,773,910	-	(122,552)	1,651,358
2605000	OWRB 2009	61,300	682,382	(77,515)	666,166
2606000	OWRB 2009 Sewer Project	1,990,000	-	(55,000)	1,935,000
2607000	Contingent Liability	2,200	-	-	2,200
2608000	OWRB 800,000	544,822	-	(35,794)	509,028
	Total Long-Term Debt	<u>\$ 4,752,232</u>	<u>\$ 682,382</u>	<u>\$ (475,862)</u>	<u>\$ 4,958,752</u>

Debt Services Requirements to Maturity

The annual debt service requirements to maturity, including principal and interest, for long-term debt, as of June 30, 2011, are as follows:

<u>99 Bonds</u>			
Year Ending June 30,	Principal	Interest	Total
2012	\$ 195,000	\$ 10,335	\$ 205,335
2013	-	-	-
2014	-	-	-
2015	-	-	-
2016	-	-	-
2017-2021	-	-	-
Total	<u>\$ 195,000</u>	<u>\$ 10,335</u>	<u>\$ 205,335</u>

<u>01 OWRB Sewer</u>				
Year Ending June 30,	Principal	Interest	Admin Fee	Total
2012	\$ 126,513	\$ 45,744	\$ 8,236	\$ 172,257
2013	130,896	42,030	7,567	172,926
2014	135,282	38,314	6,900	173,595
2015	139,814	34,473	6,207	174,287
2016	144,402	30,584	5,507	174,987
2017-2021	798,369	88,215	15,883	886,584
2022	176,081	3,739	673	179,820
Total	<u>\$ 1,651,358</u>	<u>\$ 283,098</u>	<u>\$ 35,168</u>	<u>\$ 1,934,456</u>

GRAND LAKE PUBLIC WORKS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

<u>OWRB \$1,990,000</u>			
Year Ending June 30,	Principal	Interest	Total
2012	\$ 55,000	\$ 71,246	\$ 126,246
2013	60,000	70,368	130,368
2014	65,000	69,162	134,162
2015	70,000	67,574	137,574
2016	75,000	65,579	140,579
2017-2021	475,000	285,177	760,177
2022-2026	520,000	182,561	702,561
2027-2031	520,000	81,527	601,527
2032	95,000	2,088	97,088
Total	<u>\$ 1,935,000</u>	<u>\$ 895,281</u>	<u>\$ 2,830,281</u>

<u>OWRB \$800,000</u>				
Year Ending June 30,	Principal	Interest	Admin Fee	Total
2012	\$ 36,729	\$ 10,492	\$ 2,504	\$ 47,220
2013	37,688	9,717	2,319	47,405
2014	38,673	8,922	2,129	47,595
2015	39,683	8,107	1,935	47,790
2016	40,719	7,270	1,735	47,989
2017-2021	173,793	23,014	5,493	196,808
2022-2023	141,743	2,538	606	144,281
Total	<u>\$ 509,028</u>	<u>\$ 70,061</u>	<u>\$ 16,721</u>	<u>\$ 579,088</u>

NOTE 9 - 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

Restricted net assets are described in Note 5 above.

NOTE 10 - CONTINGENCIES

Litigation

According to management there were no known contingent liabilities at June 30, 2011, which would have a material effect on the financial statements.

Federally Assisted Programs

In the normal course of operations, the Authority participates in various federal or state/loan programs from year to year. The grant/loan programs are often subject to

GRAND LAKE PUBLIC WORKS AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011

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 11 - NET WORKING CAPITAL

The net working capital of the Authority is defined as current assets (assets used to settle current liabilities) less current liabilities (liabilities that will be settled within one year).

	2011	2010
Current assets	\$ 544,985	\$ 432,287
Current liabilities	542,295	600,210
Net working capital	\$ 2,690	\$ (167,923)

NOTE 12 - UPCOMING PROJECTS

The Authority is approving a temporary loan with BOK for \$350,000 to purchase a water tank for the Port Duncan area in the District. Also, in the future, the Authority is going to borrow \$4,500,000 for a new water plant and this borrowing will also pay off the \$350,000 loan.

NOTE 13 - SUBSEQUENT EVENTS

The Authority 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 June 30, 2011.

KERSHAW CPA & ASSOCIATES, PC

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

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

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

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
Grand Lake Public Works Authority

I have audited the financial statements of the Grand Lake Public Works Authority, as of June 30, 2011, and have issued my report thereon dated November 14, 2011. The Authority has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, except that the Authority did not present the required MD&A. Except as discussed in the preceding sentence, 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 Grand Lake Public Works Authority'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 Grand Lake Public Works Authority's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Grand Lake Public Works Authority'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.

KERSHAW CPA & ASSOCIATES, PC

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

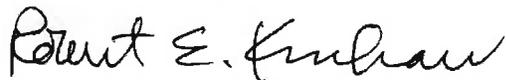
WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Grand Lake Public Works Authority's financial statements are free of material misstatement, I 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 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*.

This report is intended solely for the information and use of the board of directors and management of the Grand Lake Public Works Authority and is not intended to be and should not be used by anyone other than these specified parties.



Robert E. Kershaw, CPA

November 14, 2011

