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LeFlore Co RWD#14

**RURAL WATER DISTRICT #14
SPIRO, OKLAHOMA**

**ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED
MAY 31, 2011**

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**RURAL WATER DISTRICT #14
SPIRO, OKLAHOMA**

LIST OF PRINCIPAL OFFICIALS

BOARD OF DIRECTORS

C. P. Searles	Chairman
Mike Parker	Vice Chairman
Melba Horton	Secretary/Treasurer
Jim Gist	Director
Joe DuBois	Director

MANAGER

Terry Hale

KERSHAW CPA & ASSOCIATES, PC

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Leflore County Rural Water District #14
Spiro, Oklahoma

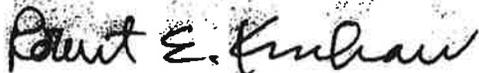
I have audited the accompanying financial statements of the Leflore County Rural Water District #14, as of and for the fiscal year ended May 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the Leflore County Rural Water District #14's management. My 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 Leflore County Rural Water District #14, Spiro, Oklahoma, as of May 31, 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 October 26, 2011, on my consideration of the Leflore County Rural Water District #14'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.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.



Robert E. Kershaw, Certified Public Accountant

October 26, 2011

**RURAL WATER DISTRICT #14
SPIRO, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED MAY 31, 2011**

Our discussion and analysis of Rural Water District #14's financial performance provides an overview of the financial activities for the fiscal year ended May 31, 2011. Please read it in conjunction with the District's financial statements.

FINANCIAL HIGHLIGHTS

- The total assets increased by \$31,464 as a result of this year's operations.
- The District's return on total beginning assets was .55%.
- Total cost of the District's activities was \$1,571,854 compared to \$1,374,949 in the prior year.
- The District added \$462,094 in fixed assets and disposed of \$26,091 in fixed assets for a increase of \$436,003 and an increase net of depreciation of \$229,539.
- The District's equity increased by \$28,904.

USING THE ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets, Statement of Revenue, Expenses and Changes in Net Assets, and Statement of Cash Flows provide information about the District's financial position.

One of the most important questions asked about the District's finances is "Is the District as a whole better off or worse off as a result of this year's activities?" The financial statements report information about the assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. Accrual of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

These financial statements report the District's assets and changes in them. You can think of the District's Equity as the difference between assets the members own, and liabilities, what the members owe, as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's equity are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors such as the condition of the District's capital assets to assess the overall health of the District.

The District's equity changed from a year ago, increasing \$28,904 from \$5,272,850 to \$5,301,754.

**RURAL WATER DISTRICT #14
SPIRO, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED MAY 31, 2011**

FINANCIAL RATIOS

"Working Capital" is the amount by which current assets exceed current liabilities. The Current Ratio, which compares current assets to the current liabilities, is an indicator of the ability to pay current obligations.

	<u>Current Year</u>	<u>Prior Year</u>
Working Capital	\$ 489,727	\$ 751,779
Current Ratio	233.49%	346.29%

"Liabilities to Equity" indicates the extent of borrowing.

	<u>Current Year</u>	<u>Prior Year</u>
Liabilities to Equity	35.92%	36.07%

"Return on assets from operations" illustrates to what extent there are sufficient funds to replace assets in the future.

	<u>Current Year</u>	<u>Prior Year</u>
Return on Assets	0.55%	1.67%

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the year the District has \$6,019,366 invested in capital assets net of accumulated depreciation. This amount represents a net increase of \$229,539 or 3.96% over last year.

	<u>Current Year</u>	<u>Prior Year</u>
Land	\$28,050	\$28,050
Construction-in-process	\$90,372	\$0
Meters, lines, and other const cost	7,895,777	7,596,710
Buildings	126,024	126,024
Furniture, fixtures, and equipment	334,034	326,669
Trucks	246,146	206,947
Subtotal	<u>8,720,403</u>	<u>8,284,400</u>
Accumulated Depreciation	<u>(2,701,037)</u>	<u>(2,494,573)</u>
Totals	<u><u>\$6,019,366</u></u>	<u><u>\$5,789,827</u></u>

**RURAL WATER DISTRICT #14
SPIRO, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED MAY 31, 2011**

Debt

At year-end, the District had \$1,596,183 in notes outstanding versus \$1,652,968 last year. A decrease of 3.43%.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

The financial report is designed to provide our members, customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Financial Manager Rural Water District #14, 114 Fresno, Spiro, Oklahoma 74959.

RURAL WATER DISTRICT #14
STATEMENT OF NET ASSETS
May 31, 2011

	<u>May 31</u> <u>2011</u>
ASSETS	
Current Assets:	
Cash, and cash equivalents	\$ 666,191
Accounts receivable	100,265
Inventory	58,260
Prepaid insurance	31,884
Total curent assets	<u>856,600</u>
Noncurrent Assets:	
Restricted cash and cash equivalents	26,234
Restricted investments	301,600
Capital assets (net of depreciation Note 6)	6,019,366
Loan application cost (net of amortization)	2,217
Total noncurent assets	<u>6,349,417</u>
Total assets	<u>7,206,017</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	116,726
Payroll taxes payable	1,558
Compensated absences	7,240
Interest payable	4,803
Customer utility deposits	177,754
Current portion of long-term debt (Note 8)	58,792
Total curent liabilities	<u>366,873</u>
Noncurrent Liabilities:	
Notes payable (Note 8)	<u>1,537,390</u>
Total noncurrent liabilities	<u>1,537,390</u>
Total Liabilities	<u>1,904,263</u>
NET ASSETS	
Invested in capital assets, net of related debt	4,423,184
Restricted for: Debt service	123,600
Utility Customer Deposit Liability	204,234
Unrestricted	550,736
Total Net Assets	<u>\$ 5,301,754</u>

See accompanying notes to the basic financial statements.

**RURAL WATER DISTRICT #14
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED MAY 31, 2011**

	<u>May 31 2011</u>
OPERATING REVENUES	
Water sales	\$ 1,595,282
Reconnect fees	8,314
Transfer fees	9,415
Tap fees/membership fees	29,264
Miscellaneous	<u>19,658</u>
Total operating revenues	<u>1,661,933</u>
 COST OF REVENUES	
Water purchased	615,563
Depreciation	161,591
Repairs and maintenance	168,143
Utilities	<u>38,140</u>
Total cost of revenues	<u>983,437</u>
GROSS PROFIT	678,496
 OPERATING EXPENSES	
Insurance and bonds	79,819
Office expense	22,779
Payroll taxes	20,986
Professional expense	35,446
Wages	267,037
Small tools	3,497
Management fee	1,283
Travel	2,911
Truck expense	43,783
Utilities	14,407
Retirement - employee	5,454
Employee benefits	2,886
Bad Debt	1,744
Miscellaneous	16,187
Depreciation	70,081
Amortization	<u>117</u>
Total operating expenses	<u>588,417</u>
Operating income (loss)	90,079
 NONOPERATING REVENUES (EXPENSES)	
Interest and investment revenue	6,999
Gain (Loss) on Sale of Assets	1,617
Interest expense	<u>(69,791)</u>
Total nonoperating revenue (expenses)	<u>(61,175)</u>
 CAPITAL CONTRIBUTIONS:	
Contributions	<u>0</u>
Total Capital Contributions	<u>0</u>
Change in net assets	28,904
 Total net assets - beginning	<u>5,272,850</u>
Total net assets - ending	<u>\$ 5,301,754</u>

See accompanying notes to the basic financial statements.

**RURAL WATER DISTRICT #14
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED MAY 31, 2011**

	<u>May 31 2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 1,664,093
Payments to suppliers	(1,002,530)
Payments to employees	(272,469)
Receipts of customer deposits	12,950
Refunds of customer deposits	(10,350)
Net Cash Provided by Operating Activities	<u>391,694</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Contributions	0
Purchases of capital assets	(462,094)
Sales of capital assets	2,500
Principal paid on capital debt	(56,785)
Interest and fiscal agent fees paid on capital debt	(69,997)
Net Cash Used in Capital and Related Financing Activities	<u>(586,376)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	6,999
Net Cash Provided by Investing Activities	<u>6,999</u>
Net Increase in Cash and Cash Equivalents	(187,683)
Balance- beginning of the year	1,181,708
Balance- end of the year	<u>\$ 994,025</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	\$90,079
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	231,672
Amortization expense	117
Changes in assets and liabilities:	
Decrease in accounts receivables	2,160
Increase in inventory	11,398
Decrease in prepaid insurance	(3,282)
Decrease in accounts payables	54,043
Decrease in payroll taxes payable	21
Decrease in compensated absences	2,886
Increase in customer deposits payable	2,600
Net cash provided by operating activities	<u>\$391,694</u>

See accompanying notes to the basic financial statements.

**RURAL WATER DISTRICT #14
SPIRO, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2011**

NOTE 1. Summary of Significant Accounting Policies

The Rural Water District #14 was organized by the Board of County Commissioners of LeFlore County, Oklahoma. The District provides a waterworks and distribution system for the use and benefit of its members.

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

In June 1999, the Governmental Accounting Standard Board (GASB) unanimously approved the Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for the State and Local Governments. Certain of the significant changes in the Statement include the following:

For the first time in the financial statements include:

A Management Discussion and Analysis (MD&A) section providing an analysis of the District's overall financial position and results of operation.

Financial statements prepared using full accrual accounting for all of the District's activities, including infrastructure (water lines, etc.)

A change in the fund financial statements to focus on the major funds.

1.A. FINANCIAL REPORTING ENTITY

The District's financial reporting entity is composed of The Rural Water District #14 a special purpose government. In determining the financial reporting entity, the District complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

1.B. BASIS OF PRESENTATION OF FUND FINANCIAL STATEMENTS

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. The District presently has no governmental or fiduciary funds and as such the only fund is presented as a special purpose government engaged in a single business-type activity as described below:

**RURAL WATER DISTRICT #14
SPIRO, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2011**

Enterprise Fund

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the following enterprise fund that is reported as a major fund:

<u>Fund</u>	<u>Brief Description</u>
Rural Water District #14	The District provides a waterworks and distribution system for the use and benefit of its members.

1.C. MEASUREMENT FOCUS ON BASIS OF ACCOUNTING

Measurement focus is a term used to describe “how” transactions are recorded within the financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

MEASUREMENT FOCUS

In the funds financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus, as applied to the accrual basis of accounting, is used as appropriate:

The proprietary fund utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent, financial, or nonfinancial) associated with their activities are reported. Proprietary fund equity is classified as net assets.

BASIS OF ACCOUNTING

The fund financial statements are presented using the accrual basis of accounting which generally recognizes revenues in the period in which they are earned and expenses when the obligation is incurred

1.D. ASSETS, LIABILITIES, AND EQUITY

CASH AND CASH EQUIVALENTS

For the purpose of financial reporting “cash and cash equivalents” includes all demand and savings accounts and certificates of deposit, and open-end government mutual funds.

**RURAL WATER DISTRICT #14
SPIRO, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2011**

INVENTORIES

Inventory consists of pumps, motors, meters, parts, and other miscellaneous items related to waterworks and distribution and is stated at the lower of cost (first-in, first-out method) of market.

CAPITAL ASSETS

In the financial statements, capital assets are accounted for as assets in the Statement of Net Assets. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable. Contributed assets are reported at fair market value as of the date received. Depreciation of all exhaustible capital assets is recorded as an allocated expense in Statement of Revenues, Expenses, and Changes in Net Assets with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. A capitalization threshold of \$500 is used to report capital assets. The range of estimated useful lives by type of asset is as follows:

Buildings	40-50 years
Improvements other than buildings	8-50 years
Machinery, furniture and equipment	5-20 years

LONG-TERM DEBT

All long-term debt to be repaid from the district resources is reported as long term debt in the financial statements.

COMPENSATED ABSENCES

The District's policies regarding vacation time allow employees annual vacation leave awarded at the beginning of each calendar year. Leave not used during the calendar year will be lost. The liability for these compensated absences is recorded as current liability in the financial statements.

EQUITY CLASSIFICATION

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

- a. 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 borrowing that are attributable to the acquisition, construction, or improvements of those assets.

**RURAL WATER DISTRICT #14
SPIRO, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2011**

- b. Restricted net assets—Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets—All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

1.E. REVENUES, EXPENDITURES, AND EXPENSES

OPERATING REVENUE AND 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.

1.F. USE OF STATEMENTS

The preparation of financial statements in conformity with accounting principles generally accepted in the United State of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – Cash and Investments

Cash accounts are comprised of cash on hand, demand deposit checking accounts and certificates of deposit.

The following schedule summarizes all cash, cash deposited and invested as of May 31, 2011:

Account Description	2011 Book <u>Balance</u>
Unrestricted: Cash on Hand	\$ 700
Demand Deposits	171,173
Time Deposits	494,318
Total Unrestricted	<u>666,191</u>
Restricted: Time Deposits	26,234
Certificate of Deposit	301,600
Total Restricted	<u>327,834</u>
Total Deposits	<u><u>\$ 994,025</u></u>

**RURAL WATER DISTRICT #14
SPIRO, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2011**

Investment Custody Risk – The District’s deposits in financial institutions, reported as cash and investments, had bank balances totaling \$995,324 at May 31, 2011. Of that amount \$900,413 was covered by Federal depository insurance, \$27,191 was covered by a irrevocable letter of credit for local funds from FHL Bank, Topeka, Kansas for Community State Bank, Poteau, Oklahoma. Additionally, a pledged US Treasury note with a par value of \$300,000 and approximate market value of \$316,159 is pledged for Central National Bank of Poteau, Oklahoma leaving no uninsured or uncollateralized funds.

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 investment policy that limits its investment choices other than the limitations of state law that generally authorize investments in: (1) full faith and credit, direct obligations of the U.S. Government, its agencies and instrumentalities, and the State of Oklahoma and certain mortgage insured federal debt; (2) certificates of deposit or savings accounts that are either insured or secured with acceptable collateral; (3) negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations ; (4) 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; and government money market funds regulated by the SEC.

Concentration of Investment Credit Risk – The District places no limit on the amount it may invest in any one issuer.

NOTE 3 – Receivables

Accounts receivable are generated from the sale of water to the districts in the normal course of business. Receivable detail as of May 31, 2011 is as follows:

	<u>Current Year</u>	<u>Prior Year</u>
Accounts Receivable	\$ 105,109	\$ 110,077
Allowance for doubtful accounts	(4,844)	(7,652)
Net accounts receivable	<u>\$ 100,265</u>	<u>\$ 102,425</u>

**RURAL WATER DISTRICT #14
SPIRO, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2011**

NOTE 4 - Restricted Assets

Cash and investments are reserved in accordance with the loan resolution reserve requirements of Rural Development, for the capital improvements projects and for customer deposits.

Components of Restricted Assets

	Utility Customer Deposit Liab	Debt Reserve	Total
Cash and cash equivalents	\$ 26,234		\$ 26,234
Restricted investments	178,000	123,600	301,600
	<u>\$ 204,234</u>	<u>\$ 123,600</u>	<u>\$ 327,834</u>

NOTE 5 - Capital Assets

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

	Balance at 06/01/10	Additions	Deductions	Balance at 05/31/2011
Capital assets not being depreciated:				
Land	\$28,050	\$0	\$0	\$28,050
Construction-in-process	0	90,372	0	90,372
Total capital assets not being depreciated	<u>28,050</u>	<u>90,372</u>	<u>0</u>	<u>118,422</u>
Other capital assets:				
Meters, lines, and other cost cost	7,596,710	299,067	0	7,895,777
Buildings	126,024	0	0	126,024
Furniture, fixtures, and equipment	326,669	7,365	0	334,034
Trucks	206,947	65,290	(26,091)	246,146
Total other capital assets at historical cost	<u>8,256,350</u>	<u>371,722</u>	<u>(26,091)</u>	<u>8,601,981</u>
Less accumulated depreciation for:				
Meters, lines, and other cost cost	2,075,007	161,591	0	2,236,598
Buildings	37,464	3,340	0	40,804
Furniture, fixtures, and equipment	233,854	27,507	0	261,361
Trucks	148,248	39,234	(25,208)	162,274
Total accumulated depreciation	<u>2,494,573</u>	<u>231,672</u>	<u>(25,208)</u>	<u>2,701,037</u>
Other capital assets, net	<u>5,761,777</u>	<u>140,050</u>	<u>(883)</u>	<u>5,900,944</u>
Capital assets, net	<u>\$5,789,827</u>	<u>\$230,422</u>	<u>(\$883)</u>	<u>\$6,019,366</u>

Current depreciation expense was charged to cost of providing water and operating expense in the amounts of \$161,591 and \$70,081 for a total of \$231,672.

**RURAL WATER DISTRICT #14
SPIRO, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2011**

NOTE 6 -- Compensated Absences

Accrued Compensated Absences:	
Current portion	\$ 7,240

NOTE 7 - Notes Payable

The District has long term debt due to Rural Development & Oklahoma Water Resources Board (OWRB) as follows:

	<u>May 31 2010</u>
Note payable obligations due Rural Development:	
Note Payable number 02, issued 05-21-1981, due in monthly installments of \$ 2,014 with an interest rate of 5% scheduled to mature in May 2021. Debt is secured by property and equipment system revenues.	170,461
Note Payable number 03, issued 03-11-1999, due in monthly installments of \$ 5,875 with an interest rate of 4.75% scheduled to mature in March 2039. Debt is secured by property and equipment system revenues.	1,085,757
Note payable obligations due OWRB:	
Note Payable to the Oklahoma Water Resources Board (DWSRF) In the amount of \$ 496,759 with an initial interest Rate of 2.5855%. The interest payments are to be made semiannually beginning September 15, 2003, with the principal payments to commence on the project completion and continue repayment based on the amortization schedule provided by the OWRB. The Note is scheduled to mature 20 years from the project completion or approximately September 15, 2023.	<u>339,964</u>
	1,596,182
Less Current portion of long-term debt	<u>58,792</u>
Long-term debt	<u>\$ 1,537,390</u>

**RURAL WATER DISTRICT #14
SPIRO, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2011**

A summary of future long term debt maturities for five years and to maturity are as follows:

<u>May 31</u>	<u>Principal</u>	<u>Interest</u>	<u>NP Total</u>
2012	58,792.25	67,953.01	126,745.26
2013	61,160.19	65,585.07	126,745.26
2014	63,631.53	63,113.73	126,745.26
2015	66,211.02	60,534.24	126,745.26
2016	68,903.60	57,841.66	126,745.26
2017-2021	357,259.88	244,478.94	601,738.82
2022-2026	247,351.65	184,229.61	431,581.26
2027-2031	217,017.21	135,482.79	352,500.00
2032-2036	275,065.09	77,434.91	352,500.00
2037-2039	180,790.31	12,375.41	193,165.72
	<u>1,596,182.73</u>	<u>969,029.37</u>	<u>2,565,212.10</u>

In June 2001, the District was approved for a Drinking Water State Revolving Fund (DWSRF) loan in the amount of \$858,750 from the Oklahoma Water Resources Board (OWRB). The total loan amount of \$496,759 was reached upon completion of the project in December 2003. The proceeds are to be used to finance improvements to the District's water system.

On September 17, 1998, the District's Board of Directors authorized a loan resolution security agreement requiring the District to set aside each month into a reserve account the sum of 10% of the monthly loan payments on the Rural Development Loan #91-03. The resolution states that when the account equals the sum of the annual loan installments, deposits may be suspended. With the prior written approval of the District, funds may be withdrawn for:

1. Paying the cost of repairing or replacing any damage to the facility which may have been caused by catastrophe.
2. Making extensions or improvements to the facility.

Whenever disbursements are made from the reserve account, monthly deposits must be resumed until the account balance equals the amount of the annual installments.

**RURAL WATER DISTRICT #14
SPIRO, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2011**

NOTE 8 - EQUITY

The District's equity consists of capital contributions (benefit units, donations and grants) and retained income summarized as follows:

	<u>BENEFIT UNITS</u>	<u>GRANTS/ DONATIONS</u>	<u>RETAINED EQUITY</u>	<u>TOTAL</u>
Balance				
May 31, 2010	\$134,039	\$1,911,238	\$3,227,573	\$5,272,850
Net Income	-	-	28,904	28,904
Contributions	-	-	-	0
Balance				
May 31, 2011	<u>\$134,039</u>	<u>\$1,911,238</u>	<u>\$3,256,477</u>	<u>\$5,301,754</u>

Equity reservations presented in the Statement of Net Assets consist of funds reserved for debt service in the amount of \$ 123,600 and District reservations for utility customer deposit liability in the amount of \$ 204,234.

NOTE 9 - Concentration of Credit Risk

Financial instruments that potentially subject the District to credit risk consist primarily of accounts receivable in the normal course of business. The District provides water services to commercial and residential users within the Northern LeFlore County, Oklahoma area.

At May 31, 2011 the District has extended credit to regular customer accounts receivable of \$105,109.

NOTE 10 - Major Supplier

The District purchased all of its water supply from Poteau Valley Improvement Authority during the year ended May 31, 2011. The loss of this supplier would have an adverse effect on the District's ability to continue in existence.

NOTE 11 - Contract for Collection of Sewer Fees

On October 5, 1995, the District entered into a contract with Shady Point Public Works Authority (Shady Point) in which the District agreed to bill and collect sewer fees on behalf of Shady Point. In return, the District is paid \$100 per month. At May 31, 2011, the District had no payable to Shady Point for sewer fees billed on their behalf.

**RURAL WATER DISTRICT #14
SPIRO, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2011**

NOTE 12 – Employee Pension and Other Benefit Plans

The District has also provided, effective October 1, 2003, a simple IRA contribution plan with AIM Fund Services, Inc. The simple plan is available to all full-time employees. In a simple IRA plan, benefits depend solely on amounts contributed to the plan. The District contributes 3% of covered payroll. Participants are permitted to make voluntary deductible contributions to the plan.

For the year ended May 31, 2011, the following amounts related to the simple plan:

District's total payroll	\$ 267,037
Payroll for covered employees	205,702
Employer (District) contributions made	5,454

NOTE 13 – 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 May 31, 2011.

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS

To the Board of Directors
Leflore County Rural Water District #14
Spiro, Oklahoma

I have audited the financial statements of the Leflore County Rural Water District #14, as of May 31, 2011 and have issued my report thereon dated October 26, 2011. 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 Leflore County Rural Water District #14 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 Leflore County Rural Water District #14's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Leflore County Rural Water District #14'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 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.

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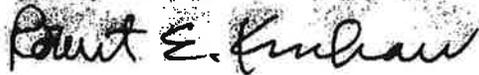
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Leflore County Rural Water District #14'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*.

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 Leflore County Rural Water District #14 and is not intended to be and should not be used by anyone other than these specified parties.



Robert E. Kershaw
Certified Public Accountant

October 26, 2011

LEFLORE COUNTY RURAL WATER DISTRICT #14
SPIRO, OKLAHOMA
SCHEDULE OF FINDINGS
MAY 31, 2011

INTERNAL CONTROL FINDINGS:

Item 11-01: Segregation of Duties

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

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

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

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

Response: The Board continues to be actively involved in the operations. For the last few months of the year, the District began separating the check writing and statement reconciliation duties.