

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

**ANNUAL FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
MAY 31, 2012**

## TABLE OF CONTENTS

<u>Statement</u>	<u>Page</u>
LIST OF PRINCIPAL OFFICIALS	1
INDEPENDENT AUDITOR'S REPORT	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-5
FINANCIAL STATEMENTS	
Statements of Net Assets	6
Statements of Revenue, Expenses, and Changes in Net Assets	7
Statements of Cash Flows	8
Notes to Financial Statements	9-19
 <b>INTERNAL CONTROL STRUCTURE:</b>	
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	20-21
 <b><u>Conditions Considered Significant Deficiencies</u></b>	
 <b><u>Category/Topic:</u></b>	
1      Cash, Including Time Deposits: Segregation of Duties	22

**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

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 1<sup>ST</sup> STREET  
PONCA CITY, OKLAHOMA 74601  
PHONE (580) 762-1040  
FAX (580) 762-1047

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Leflore County Rural Water District #14, as of and for the fiscal year ended May 31, 2012, as listed in the table of contents. These financial statements are the responsibility of the Leflore County Rural Water District #14's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the *Comptroller General of the United States*, and in accordance with Oklahoma Statutes. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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. We believe that our audit provides a reasonable basis for our opinion.

In our 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, 2012, 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*, we have also issued our report dated November 6, 2012, on our consideration of the Leflore County Rural Water District #14's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in compliance with *Government Auditing Standards* and should be considered in assessing the results of our 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. We 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, we did not audit the information and express no opinion on it.

*Kershaw CPA & Associates, P.C.*

Kershaw CPA & Associates, PC

November 6, 2012

**RURAL WATER DISTRICT #14  
SPIRO, OKLAHOMA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEAR ENDED MAY 31, 2012**

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, 2012. Please read it in conjunction with the District's financial statements.

**FINANCIAL HIGHLIGHTS**

- The total assets increased by \$327,822 as a result of this year's operations.
- The District's return on total beginning assets was 5.71%.
- Total cost of the District's activities was \$1,509,620 compared to \$1,571,854 in the prior year.
- The District added \$473,159 in fixed assets and disposed of \$58,084 in fixed assets for an increase of \$415,075 and an increase net of depreciation of \$120,519.
- The District completed a current debt refunding March 28, 2012, by paying off two existing loans with USDA Rural Utility Service in the amount of \$1,230,209 plus debt issue cost of \$57,059, with a Oklahoma Water Resources Board Note in the amount of \$1,305,000 sold at premium of \$18,215. The refunding realizes an approximate 1.6% reduction in the annual interest rate.
- The District's equity increased by \$302,637.

**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 \$302,637 from \$5,301,754 to \$5,604,391.

**RURAL WATER DISTRICT #14  
SPIRO, OKLAHOMA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEAR ENDED MAY 31, 2012**

**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	\$ 638,576	\$ 489,727
Current Ratio	286.20%	233.49%

"Liabilities to Equity" indicates the extent of borrowing.

	<u>Current Year</u>	<u>Prior Year</u>
Liabilities to Equity	34.43%	35.92%

"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	5.71%	0.55%

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of the year the District has \$6,139,855 invested in capital assets net of accumulated depreciation. This amount represents a net increase of \$415,075 or 2.002% over last year.

	<u>Current Year</u>	<u>Prior Year</u>
Land	\$18,050	\$28,050
Construction-in-process	\$0	\$90,372
Meters, lines, and other const cost	8,349,035	7,895,777
Buildings	102,248	126,024
Furniture, fixtures, and equipment	349,002	334,034
Trucks	216,771	246,146
Subtotal	<u>9,035,106</u>	<u>8,720,403</u>
Accumulated Depreciation	<u>(2,895,221)</u>	<u>(2,701,037)</u>
Totals	<u><u>\$6,139,885</u></u>	<u><u>\$6,019,366</u></u>

**RURAL WATER DISTRICT #14  
SPIRO, OKLAHOMA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEAR ENDED MAY 31, 2012**

**Debt**

At year-end, the District had \$1,639,056 in notes outstanding versus \$1,596,183 last year. An increase of 2.68%.

**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, 2012**

	<b>May 31 2012</b>
<b>ASSETS</b>	
Current Assets:	
Cash, and cash equivalents	\$ 777,527
Accounts receivable	109,908
Inventory	61,062
Prepaid insurance	33,039
Total curent assets	981,536
Noncurrent Assets:	
Restricted cash and cash equivalents	30,328
Restricted investments	323,130
Capital assets (net of depreciation Note 5)	6,139,885
Debt issue cost (net of amortization Note 6)	58,960
Total noncurent assets	6,552,303
Total assets	7,533,839
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts payable	86,541
Payroll taxes payable	2,739
Interest payable	9,006
Customer utility deposits	181,824
Current portion of long-term debt (Note 8)	52,568
Total curent liabilities	332,678
Noncurrent Liabilities:	
Compensated absences	10,282
Notes payable (Note 8)	1,586,488
Total noncurrent liabilities	1,596,770
Total Liabilities	1,929,448
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	4,500,829
Restricted for: Debt service	145,130
Utility Customer Deposit Liability	208,328
Unrestricted	750,104
Total Net Assets	\$ 5,604,391

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, 2012**

	<b>May 31 2012</b>
<b>OPERATING REVENUES</b>	
Water sales	\$ 1,578,286
Reconnect fees	4,982
Transfer fees	12,273
Tap fees/membership fees	26,520
Miscellaneous	12,632
Total operating revenues	1,634,693
<b>COST OF REVENUES</b>	
Water purchased	557,680
Depreciation	170,479
Repairs and maintenance	154,447
Utilities	38,528
Total cost of revenues	921,134
<b>GROSS PROFIT</b>	713,559
<b>OPERATING EXPENSES</b>	
Insurance and bonds	83,465
Office expense	22,269
Payroll taxes	24,386
Professional expense	13,267
Wages	289,813
Small tools	1,661
Management fee	1,248
Travel	4,236
Truck expense	48,601
Utilities	13,988
Retirement - employee	6,264
Employee benefits	3,041
Bad Debt	1,815
Miscellaneous	15,856
Depreciation	57,585
Deferred Debt Issue Expense	991
Total operating expenses	588,486
Operating income (loss)	125,073
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Interest and investment revenue	4,503
Gain (Loss) on Sale of Assets	(2,405)
Interest expense	(63,190)
Total nonoperating revenue (expenses)	(61,092)
<b>CAPITAL CONTRIBUTIONS:</b>	
Contributions	238,656
Total Capital Contributions	238,656
Change in net assets	302,637
Total net assets - beginning	5,301,754
Total net assets - ending	\$ 5,604,391

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, 2012**

	<u>May 31 2012</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 1,625,050
Payments to suppliers	(1,015,588)
Payments to employees	(294,895)
Receipts of customer deposits	14,149
Refunds of customer deposits	(10,079)
Net Cash Provided by Operating Activities	<u>318,637</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Purchases of capital assets	(144,130)
Sales of capital assets	31,798
Debt issue cost	(57,735)
Proceeds from debt refunding	1,323,216
Principal paid on capital debt	(1,279,519)
Interest and fiscal agent fees paid on capital debt	(59,810)
Net Cash Used in Capital and Related Financing Activities	<u>(186,180)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest and dividends	4,503
Net Cash Provided by Investing Activities	<u>4,503</u>
Net Increase in Cash and Cash Equivalents	136,960
Balance- beginning of the year	994,025
Balance- end of the year	<u>\$ 1,130,985</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>	
Operating income (loss)	\$125,073
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	228,064
Deferred Charges	991
Changes in assets and liabilities:	
Increase in accounts receivables	(9,643)
Increase in inventory	(2,801)
Increase in prepaid insurance	(1,155)
Decrease in accounts payables	(30,185)
Increase in payroll taxes payable	1,181
Increase in compensated absences	3,042
Increase in customer deposits payable	4,071
Net cash provided by operating activities	<u>\$318,638</u>

**RURAL WATER DISTRICT #14  
SPIRO, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2012**

**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*.

**RURAL WATER DISTRICT #14  
SPIRO, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2012**

**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:

**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.

**RURAL WATER DISTRICT #14  
SPIRO, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2012**

**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.

**INVENTORIES**

Inventory consists of pumps, motors, meters, and other miscellaneous items related to water 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.

**RURAL WATER DISTRICT #14  
SPIRO, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2012**

**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.
- 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 States 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.

**RURAL WATER DISTRICT #14  
SPIRO, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2012**

**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, 2012:

- Category 1-- Insured by Federal Deposit Insurance Corporation (FDIC) or collateralized with securities held by the Town (or public trust) or by its agent in its name.
- Category 2-- Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the Town's name.
- Category 3-- Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the Town's name; or properly collateralized with no written and approved collateral agreement.

*Custody Credit Risk Category*

<u>Type of Deposits</u>	<u>Balance</u>	<u>Total Bank</u>			
		<u>1</u>	<u>2</u>	<u>3</u>	
Insured deposits	777,605	777,605	-	-	
Uninsured deposits					
Collateralized	216,850	-	216,850	-	
Uncollateralized	-	-	-	-	
Total Deposits	994,455	777,605	216,850	-	<u>985,155</u>
Petty cash					700
					<u>985,855</u>
 <u>Reconciliation to Government-Wide Statements of Net Assets:</u>					
	Cash and cash equivalents				1,130,985
	Less: Investments in mutual funds recorded as Cash and cash equivalents				<u>(145,130)</u>
					<u>985,855</u>

**RURAL WATER DISTRICT #14  
SPIRO, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2012**

*Investment Custody Risk* – The District’s deposits in financial institutions, reported as cash and investments, had bank balances totaling \$994,455 at May 31, 2012. Of that amount \$777,605 was covered by Federal depository insurance. The category 2 balance \$108,983 was covered by a \$300,000 irrevocable letter of credit for local funds from FHL Bank, Topeka, Kansas for Community State Bank, Poteau, Oklahoma. Additionally, \$107,867 was covered by a pledged US Treasury note with a par value of \$300,000 and approximate market value of \$314,420 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, 2012 is as follows:

	<u>Current Year</u>	<u>Prior Year</u>
Accounts Receivable	\$ 116,771	\$ 105,109
Allowance for doubtful accounts	(6,862)	(4,844)
Net accounts receivable	<u>\$ 109,909</u>	<u>\$ 100,265</u>

**NOTE 4 - Restricted Assets**

Cash and investments are reserved in accordance with the loan resolution reserve requirements of Oklahoma Water Resources Board and for customer deposits.

**RURAL WATER DISTRICT #14  
SPIRO, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2012**

Components of Restricted Assets

	Utility Customer Deposit Liab	Debt Reserve	Total
Cash and cash equivalents	\$ 30,328		\$ 30,328
Restricted investments	178,000	145,130	323,130
	<u>\$ 208,328</u>	<u>\$ 145,130</u>	<u>\$ 353,458</u>

**NOTE 5 – Capital Assets**

Capital asset activity for the fiscal year ended May 31, 2012, was as follows:

	<u>Balance at 06/01/11</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at 05/31/2012</u>
Capital assets not being depreciated:				
Land	\$28,050	\$0	(\$10,000)	\$18,050
Construction-in-process	90,372	0	(90,372)	0
Total capital assets not being depreciated	<u>118,422</u>	<u>0</u>	<u>(100,372)</u>	<u>18,050</u>
Other capital assets:				
Meters, lines, and other cost cost	7,895,777	453,258	0	8,349,035
Buildings	126,024	2,233	(26,009)	102,248
Furniture, fixtures, and equipment	334,034	17,668	(2,700)	349,002
Trucks	246,146	0	(29,375)	216,771
Total other capital assets at historical cost	<u>8,601,981</u>	<u>473,159</u>	<u>(58,084)</u>	<u>9,017,056</u>
Less accumulated depreciation for:				
Meters, lines, and other cost cost	2,236,598	170,479	0	2,407,077
Buildings	40,804	3,009	(1,806)	42,007
Furniture, fixtures, and equipment	261,361	26,230	(2,700)	284,891
Trucks	162,274	28,347	(29,375)	161,246
Total accumulated depreciation	<u>2,701,037</u>	<u>228,065</u>	<u>(33,881)</u>	<u>2,895,221</u>
Other capital assets, net	<u>5,900,944</u>	<u>245,094</u>	<u>(24,203)</u>	<u>6,121,835</u>
Capital assets, net	<u>\$6,019,366</u>	<u>\$245,094</u>	<u>(\$124,575)</u>	<u>\$6,139,885</u>

Current depreciation expense was charged to cost of providing water and operating expense in the amounts of \$170,479 and \$57,586 for a total of \$228,065.

**RURAL WATER DISTRICT #14  
SPIRO, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2012**

**NOTE 6 – Debt Issue Cost**

Deferred debt issue cost are related to the two debt issues with the OWRB as detailed in note 8. The amortized balances as May 31, 2012 are as follows:

	<b>Deferred Issue Cost</b>	<b>Prior Year Accumulated</b>	<b>Current Expense</b>	<b>Total Accumulated</b>	<b>Net Deferred Issue Cost</b>
OWRB (DWSRF)	\$3,500	(\$1,284)	(\$117)	(\$1,401)	\$2,099
OWRB Series Note 2012A	57,735	-	(874)	(874)	\$56,861
	-		-		
	\$61,235	(\$1,284)	(\$991)	(\$2,275)	\$58,960

**NOTE 7 – Compensated Absences**

Accrued Compensated Absences: \$10,282

**NOTE 8 - Notes Payable**

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

Note payable obligations due OWRB:

**May 31  
2012**

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.

316,664

Note Payable Series 2012A to the Oklahoma Water Resources Board in the amount of \$ 1,323,215 a combined presentation consisting of the note face value \$1,305,000 and net premium of \$18,215. The note interest, tied to OWRB bonds plus a .40% OWRB administration fee, ranges from .65% to 3.40%. The interest payments are to be made semiannually beginning September 15, 2012, with the principal payments to commence annually beginning September 15, 2012 and continue repayment based on the amortization schedule provided by the OWRB. The note will mature in approximately 16.5 years on September 15, 2028.

1,322,392

1,639,056

Less Current portion of long-term debt

52,568

Long-term debt

**\$ 1,586,488**

**RURAL WATER DISTRICT #14  
SPIRO, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2012**

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>
2013	52,568.12	52,342.19	104,910.31
2014	84,084.37	51,960.63	136,045.00
2015	84,417.82	50,120.32	134,538.14
2016	89,382.06	47,409.76	136,791.82
2017	89,462.14	44,654.98	134,117.12
2018-2022	471,711.85	170,419.13	642,130.98
2023-2027	522,897.32	84,086.93	606,984.25
2028-2029	244,532.81	7,947.81	252,480.62
	<u>1,639,056.49</u>	<u>508,941.75</u>	<u>2,147,998.24</u>

The District completed a current debt refunding March 28, 2012, by paying off two existing loans with USDA Rural Utility Service and issuing a note with Oklahoma Water Resources Board (Note Payable Series 2012A described above). The proceeds and uses of funds were as follows:

Note Proceeds	\$1,305,000
Premium (Discount)	<u>18,215</u>
Total Proceeds	<u>\$1,323,215</u>
Payoff of USDA Rural Utility Service debt	\$1,230,209
Debt issue cost	57,735
Proceeds added to Debt service fund	<u>35,271</u>
Total Uses	<u>\$1,323,215</u>

**Note Revenue and Reserve Requirements**

On March 28, 2012, the District's Board of Directors authorized a loan resolution security agreement with OWRD for the series 2012A note requiring the District to maintain pledged revenue, of at least 125% of the annual debt service and a local reserve fund equal to 10% of maximum annual debt service. As of June 30, 2011 the District's debt service coverage percentage is 133% and local reserve fund balance is \$129,735 which meets the promissory note requirements.

**RURAL WATER DISTRICT #14  
SPIRO, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2012**

**NOTE 9 - 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, 2011	\$134,039	\$1,911,238	\$3,256,477	\$5,301,754
Net Income	-	-	63,981	63,981
Contributions	-	238,656	-	238,656
Balance				
May 31, 2012	<u>\$134,039</u>	<u>\$2,149,894</u>	<u>\$3,320,458</u>	<u>\$5,604,391</u>

Equity reservations presented in the Statement of Net Assets consist of funds reserved for debt service in the amount of \$145,130 and District reservations for utility customer deposit liability in the amount of \$ 208,328.

**NOTE 10 - 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, 2012 the District has extended credit to regular customer accounts receivable of \$116,771.

**NOTE 11 - Major Supplier**

The District purchased all of its water supply from Poteau Valley Improvement Authority during the year ended May 31, 2012. The loss of this supplier would have an adverse effect on the District's ability to continue in existence.

**NOTE 12 - 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, 2012, the District had a payable \$5,711 to Shady Point for sewer fees billed on their behalf.

**RURAL WATER DISTRICT #14  
SPIRO, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
MAY 31, 2012**

**NOTE 13 – Employee Pension and Other Benefit Plans**

The District has also provided, effective October 1, 2003, a simple IRA contribution plan with Invesco Investment 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, 2012, the following amounts related to the simple plan:

District's total payroll	\$ 289,813
Payroll for covered employees	217,776
Employer (District) contributions made	6,264

**NOTE 14 – 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, 2012.

# 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 1<sup>ST</sup> 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  
Leflore County Rural Water District #14  
Spiro, Oklahoma

We have audited the financial statements of the Leflore County Rural Water District #14, as of May 31, 2012 and have issued our report thereon dated November 6, 2012. We conducted our 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

Management of the Leflore County Rural Water District #14 is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Leflore County Rural Water District #14 internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Leflore County Rural Water District #14's internal control over financial reporting. Accordingly, we 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.

Our 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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weakness, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings that we consider to be significant deficiencies in internal control over financial reporting. Those deficiencies are listed as Items 12-01. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control

# 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 1<sup>ST</sup> STREET  
PONCA CITY, OKLAHOMA 74601  
PHONE (580) 762-1040  
FAX (580) 762-1047

---

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 Leflore County Rural Water District #14's financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The District's response to the findings identified in our audit is described in the accompanying Schedule of Findings. We did not audit the District's response and, accordingly, we 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.

*Kershaw CPA & Associates, P.C.*

Kershaw CPA & Associates, PC

November 6, 2012

LEFLORE COUNTY RURAL WATER DISTRICT #14  
SPIRO, OKLAHOMA  
SCHEDULE OF FINDINGS  
MAY 31, 2012

INTERNAL CONTROL FINDINGS:

Item 12-01: 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. 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. The District began separating the check writing and statement reconciliation duties and has implemented other controls as well.