

# AUDIT REPORT

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT,  
DISTRICT NO. 3, ATOKA COUNTY, OKLAHOMA

OCTOBER 31, 2011



## KERSHAW CPA & ASSOCIATES, PC

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

WEB: [KERSHAWCPA.COM](http://KERSHAWCPA.COM)  
E-MAIL: [REK@KERSHAWCPA.COM](mailto:REK@KERSHAWCPA.COM)

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

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT,  
DISTRICT NO. 3, ATOKA COUNTY, OKLAHOMA  
OCTOBER 31, 2011

TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTORY SECTION:	
BOARD OF DIRECTORS	3
FINANCIAL SECTION:	
INDEPENDENT AUDITOR'S REPORT	4-5
BASIC FINANCIAL STATEMENTS:	
EXHIBIT A    STATEMENT OF NET ASSETS	6
EXHIBIT B    STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS	7
EXHIBIT C    STATEMENT OF CASH FLOWS	8
NOTES TO THE FINANCIAL STATEMENTS	9-15
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	16-17
SCHEDULE OF FINDINGS	18

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT,  
DISTRICT NO. 3, ATOKA COUNTY, OKLAHOMA  
OCTOBER 31, 2011

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>
RICK LACKEY	CHAIRMAN
SHARON CRITES	VICE-CHAIRMAN
HARRIETTE SIEGENTHALER	SECRETARY/TREASURER
RONALD JACKSON	MEMBER
THOMAS MERRITT	MEMBER
ANTHONY DILLARD	MEMBER
WYATT O'HERN	MEMBER

OFFICE MANAGER / BOOKKEEPER

LOUISE SULLIVAN

OPERATIONS MANAGER

PERRY TRENT

# 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  
Rural Water, Sewer and Solid Waste Management,  
District No. 3, Atoka County, Oklahoma

I have audited the accompanying financial statements of the Rural Water, Sewer and Solid Waste Management, District No. 3, Atoka County, Oklahoma, as of and for the fiscal year ended October 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the Rural Water, Sewer and Solid Waste Management, District No. 3, Atoka County, Oklahoma's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Rural Water, Sewer and Solid Waste Management, District No. 3, Atoka County, Oklahoma, as of October 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 January 16, 2012, on my consideration of the Rural Water, Sewer and Solid Waste Management, District No. 3, Atoka County, Oklahoma'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

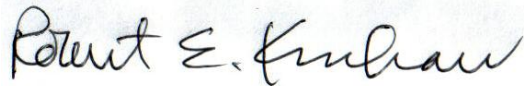
WEB: KERSHAWCPA.COM  
E-MAIL: REK@KERSHAWCPA.COM

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

---

Rural Water, Sewer and Solid Waste Management, District No. 3, Atoka County, Oklahoma has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34. However the District has not presented the Management's Discussion and Analysis required by the Governmental Accounting Standards Board (GASB) that the GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The introductory and the other supplementary information sections listed in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the District. Such additional information has not been subjected to the auditing procedures applied in my audit of the basic financial statements, and accordingly, I do not express an opinion thereon.



Robert E. Kershaw  
Certified Public Accountant

January 16, 2012

**RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT,  
DISTRICT NO.3, ATOKA COUNTY, OKLAHOMA  
STATEMENT OF NET ASSETS  
OCTOBER 31, 2011**

	Total 2011	Total (Memo Only) 2010
<b><u>ASSETS</u></b>		
<b><u>Current Assets:</u></b>		
Revenue Fund - Checking	\$ 136,238	\$ 113,258
Revenue Fund - Savings	69,454	66,768
Accounts Receivable - Trade	17,572	18,831
Accounts Receivable - Returned Checks	214	17
Interest Receivable	10	16
Prepaid Insurance	6,139	5,220
<b>Total Current Assets</b>	<b>229,627</b>	<b>204,110</b>
<b><u>Restricted Assets:</u></b>		
Capital Improvement Fund	74,080	52,460
Water Security Deposit Fund	27,668	26,337
<b>Total Restricted Assets</b>	<b>101,748</b>	<b>78,797</b>
<b><u>Capital Assets:</u></b>		
Land	27,317	27,317
Equipment	64,689	62,189
Water Distribution Facilities	1,282,945	1,282,945
Lagoon System	149,522	149,522
Less: Accumulated Depreciation	(830,315)	(782,557)
<b>Total Capital Assets</b>	<b>694,158</b>	<b>739,416</b>
<b>TOTAL ASSETS</b>	<b>1,025,533</b>	<b>1,022,322</b>
<b><u>LIABILITIES</u></b>		
<b><u>Current Liabilities:</u></b>		
Accounts Payable - Trade	993	911
Payroll Taxes Payable	733	1,187
Security Deposits	25,418	24,143
Current Portion of Long-Term Debt	-	-
<b>Total Current Liabilities</b>	<b>27,144</b>	<b>26,241</b>
<b><u>Long-Term Liabilities:</u></b>		
Notes Payable	-	-
Less: Current Portion	-	-
<b>TOTAL LIABILITIES</b>	<b>27,144</b>	<b>26,241</b>
<b><u>NET ASSETS</u></b>		
Invested in capital assets, net of related debt	694,158	739,416
Restricted for debt service or other purposes	101,748	78,797
Unrestricted	202,483	177,869
<b>TOTAL NET ASSETS</b>	<b>\$ 998,388</b>	<b>\$ 996,082</b>

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

**RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT,  
DISTRICT NO.3, ATOKA COUNTY, OKLAHOMA  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2011**

	Total October 31, 2011	Total (Memo Only) October 31, 2010
<b>Operating Revenues:</b>		
Water Sales	\$ 188,934	\$ 183,262
Sewer Sales	14,769	14,649
Late Charges	8,455	8,331
Meter Services	1,450	1,675
Recovery of Bad Debts	-	-
<b>Total Operating Revenues</b>	<b>213,609</b>	<b>207,917</b>
<b>Operating Expenses:</b>		
Salaries	65,417	62,490
Utilities	16,033	13,640
Repairs & Maintenance	42,127	21,592
Offices Supplies, Printing & Postage	4,766	4,115
Insurance	6,946	5,253
Employee Benefits	16,280	11,333
Retirement Expense	2,100	2,400
Payroll Taxes	5,537	6,190
Accounting and Auditing	1,770	1,770
Analysis Testing	602	3,863
Licenses and Permits	3,753	1,859
Travel and Meetings	1,771	2,372
Advertising	1,330	606
Rent	100	-
Miscellaneous	1,674	960
Bad Debts	653	1,567
Depreciation Expense	47,758	47,155
<b>Total Operating Expenses</b>	<b>218,620</b>	<b>187,164</b>
<b>Operating Income (Loss)</b>	<b>(5,011)</b>	<b>20,753</b>
<b>Non-Operating Revenues (Expenses):</b>		
Interest Income	718	2,003
Miscellaneous Income	175	5,081
Membership Dues and Supplies	6,425	4,850
Interest Expense	-	-
<b>Total Non-operating Revenues (Expenses)</b>	<b>7,318</b>	<b>11,934</b>
<b>Net Income (Loss) Before Contributions</b>	<b>2,307</b>	<b>32,687</b>
Capital Contributions	-	-
<b>Change in Net Assets</b>	<b>2,307</b>	<b>32,687</b>
<b>Total Net Assets - Beginning</b>	<b>996,082</b>	<b>963,665</b>
<b>Total Net Assets - Prior Year Adjustment</b>	<b>-</b>	<b>(270)</b>
<b>Total Net Assets - Ending</b>	<b>\$ 998,388</b>	<b>\$ 996,082</b>

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

**RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT,  
DISTRICT NO.3, ATOKA COUNTY, OKLAHOMA  
STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2011**

	10/31/11	Memorandum Only 10/31/10
<b><u>Net Cash Flows from Operating Activities:</u></b>		
Cash Receipts from Customers	\$ 214,671	\$ 207,905
Payments to Suppliers for Goods & Services	(106,735)	(78,189)
Payments to Employees & Laborers	(65,417)	(62,490)
Receipts of Customer Utility Deposits, Net of Refunds	1,275	1,416
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>43,794</b>	<b>68,643</b>
<b><u>Net Cash Flows from Capital &amp; Related Financing Activities:</u></b>		
Additions to Capital Assets	(2,500)	(8,263)
Proceeds from sale of Capital Assets	-	-
Principal paid on Debt	-	-
Interest paid on Debt	-	-
<b>Net Cash Provided (Used) by Capital &amp; Related Financing Activities</b>	<b>(2,500)</b>	<b>(8,263)</b>
<b><u>Net Cash Flows from Investing Activities:</u></b>		
Non-Operating Income	6,600	9,931
Interest Income	724	2,030
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>7,324</b>	<b>11,962</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>48,617</b>	<b>72,342</b>
<b>Cash &amp; Cash Equivalents, Beginning of Year</b>	<b>258,823</b>	<b>186,483</b>
<b>Cash &amp; Cash Equivalents, Prior Year Adjustment</b>	<b>-</b>	<b>(2)</b>
<b>Cash &amp; Cash Equivalents, End of Year</b>	<b>\$ 307,440</b>	<b>\$ 258,823</b>
<b><u>Reconciliation of operating income (loss) to net cash provided operating activities:</u></b>		
Operating Income (Loss)	\$ (5,011)	\$ 20,753
<b>Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities</b>		
Depreciation	47,758	47,155
(Increase)Decrease in Accounts Receivable-Trade	1,259	(109)
(Increase)Decrease in Accounts Receivable-Returned Checks	(197)	97
(Increase)Decrease in Prepaid Insurance	(919)	(1,028)
Increase(Decrease) in Accounts Payable	83	279
Increase(Decrease) in Payroll Taxes Payable	(454)	80
Increase(Decrease) in Security Deposits	1,275	1,416
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>\$ 43,794</b>	<b>\$ 68,643</b>

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



RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT,  
DISTRICT NO. 3, ATOKA COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Rural Water, Sewer, and solid Waste Management, District No. 3, Atoka County, Oklahoma, was organized October 1, 1985, pursuant to the Oklahoma rural Water, Sewer, and Solid Waste Management District Act. The District operates as a nontaxable government entity to serve residents of a portion of rural Atoka County.

Accounting

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

1. For the first time the financial statement should include:
  - a. A Management Discussion and Analysis (MD&A) section providing analysis of the District's overall financial position and results of operations. However, the District has chosen not to present the required MD&A for the current year.
  - b. Financial statements prepared using full accrual accounting for all of the District's activities, except for including the General capital assets or infrastructure (lines, pump stations, etc.).
2. A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The District has elected to implement the general provisions of the Statement and report infrastructure acquired after July 1, 2003 as provided by GASB standards.

Basis of Presentation

The accounts of the District are organized on the basis of proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net assets, revenues and expenses. Enterprise Funds account for activities (1) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (2) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT,  
DISTRICT NO. 3, ATOKA COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2011

service), be recovered with fees and charges, rather than with taxes or similar revenues; or (3) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Basis of Accounting

The proprietary fund type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. Fund equity consists of contributed capital and retained earnings. Proprietary fund type operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in net total assets. The accrual basis of accounting is utilized by the proprietary fund type. Under this basis of accounting revenues are recognized when earned and expenses are recognized when the related liability is incurred.

Budgetary Data

The District does not prepare an annual budget.

Property and Equipment

Water distribution facilities, lagoon and sewer facilities, office furniture and equipment purchased or constructed by the District are stated at cost. Depreciation is computed on the straight-line method based on the estimated useful lives of the assets ranging from five to forty years.

Construction in progress is recorded at cost. No depreciation is recognized until contracts are complete and the applicable facilities become operational.

Capitalization Policy:

Purchases of capital items in excess of \$1,000.00 that increase the capacity or operation efficiency or extend the useful life of any asset are capitalized. Repairs and maintenance are expensed as incurred

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,

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT,  
DISTRICT NO. 3, ATOKA COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 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.”

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.

Memorandum Totals

The “memorandum only” captions above the total columns mean that totals are presented for overview information purposes only.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

As a local government unit, the District is subject to various federal, state, and local laws and contractual regulations. In accordance with Government Auditing Standards, the auditor has issued a report on his consideration of the District’s internal control over financial reporting and tested its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be read in conjunction with this report in considering the results of the audit.

Finance-related Legal & Contractual Provisions

The District is no longer required by loan covenant to keep a balance in the debt reserve account. This requirement ceased to exist upon the pay-off of the promissory note in June 2003.

Deficit Fund Balance or Retained Earnings

As indicated in the financial statements, there are no fund balance or retained earnings deficits for the District for this fiscal year.

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT,  
DISTRICT NO. 3, ATOKA COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2011

Excess of Expenditures Over Appropriations

As indicated in Note 1, the District does not prepare an annual budget.

NOTE 3 - AGED ACCOUNTS RECEIVABLE - TRADE

CURRENT	\$ 16,670.33
01-30 DAYS	3,019.33
31-60 DAYS	711.84
61+ DAYS	9,411.14
Amount of Overpayments/Prepayments	<u>(2,829.28)</u>
Total Accounts Receivable	<u>\$ 26,983.36</u>

The allowance for doubtful accounts included in the financial statements is equal to account balances 61 days and older.

NOTE 4 - ACCUMULATED UNPAID VACATION BENEFITS

Accumulated unpaid vacation benefits have not been show as a liability in the financial statements. The District's position is that any accrued benefits are not significant and would not materially affect the financial statements.

NOTE 5 - CUSTODIAL CREDIT RISK RELATED TO DEPOSITS

Custodial Credit Risk

At October 31, 2011, the District held deposits of approximately \$307,440 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name.

Investment Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

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

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT,  
DISTRICT NO. 3, ATOKA COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2011

- 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.).

NOTE 6 - RESTRICTED ASSETS

Restrictions on restricted assets are as follows:

Reserve Fund	-Use is Restricted for Unforeseen Repairs (This restriction was previously by bond indenture)
Security Deposits	-Use is Restricted to deposit and refund water meter security deposits
Capital Improvement	-Use is Restricted to unforeseen repairs

NOTE 7 - CAPITAL ASSETS

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

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT,  
DISTRICT NO. 3, ATOKA COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2011

	Balance at Oct. 31, 2010	Additions	Deductions	Balance at Oct. 31, 2011
Land	\$ 27,317	\$ -	\$ -	\$ 27,317
Equipment	62,189	2,500	-	64,689
Water Distribution Facilities	1,282,945	-	-	1,282,945
Lagoon System	149,522	-	-	149,522
Subtotal	1,521,973	2,500	-	1,524,473
Less: Accum. Depr.	(782,557)	(47,758)	-	(830,315)
Total Capital Assets (Net of Depreciation)	<u>\$ 739,416</u>	<u>\$ (45,258)</u>	<u>\$ -</u>	<u>\$ 694,158</u>

The capital asset additions included a trailer for the backhoe.

NOTE 8 - LONG-TERM DEBT

The District does not have any long-term debt.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended October 31, 2011:

	Balance at October 31, 2010	Additions	Deductions	Balance at October 31, 2011
Notes Payable	\$ -	\$ -	\$ -	\$ -
Total Long-Term Debt	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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 6 above.

NOTE 10 - INSURANCE COVERAGE

The District carries the following types of insurance coverage:

- Liability
- Auto
- Commercial
- Fidelity Bonds

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT,  
DISTRICT NO. 3, ATOKA COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2011

- Workers' Compensation

NOTE 11 - ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that could affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 12 - RISK MANAGEMENT

The District's risk management of loss consists of commercial insurance for property and liability losses, an employee's bond for employee dishonesty, and worker's compensation.

NOTE 13 - CONTINGENCIES

Litigation

The District currently has no pending litigation.

Federally Assisted Programs

In the normal course of operations, the District participates in various federal or state/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

NOTE 14 - SUBSEQUENT EVENTS

The District did not have any subsequent events through January 16, 2012, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending October 31, 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 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  
Rural Water, Sewer and Solid Waste Management,  
District No. 3, Atoka County, Oklahoma

I have audited the financial statements of the Rural Water, Sewer and Solid Waste Management, District No. 3, Atoka County, Oklahoma, as of October 31, 2011 and have issued my report thereon dated January 16, 2012. The Rural Water, Sewer and Solid Waste Management, District No. 3, Atoka County, Oklahoma has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, except that the District did not present the required MD&A. I conducted my audit in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes.

### Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Atoka Co. RWD #3'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 Atoka Co. RWD #3's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Atoka Co. RWD #3'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



# 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

---

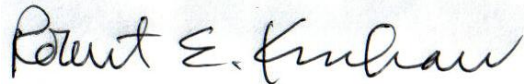
financial reporting. Those deficiencies are listed as Item 11-01. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Rural Water, Sewer and Solid Waste Management, District No. 3, Atoka County, Oklahoma'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*.

Atoka Co. RWD #3's response to the findings identified in my audit is described in the accompanying Schedule of Findings. I did not audit Atoka Co. RWD #3'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 Rural Water, Sewer and Solid Waste Management, District No. 3, Atoka County, Oklahoma and is not intended to be and should not be used by anyone other than these specified parties.



Robert E. Kershaw  
Certified Public Accountant

January 16, 2012

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT,  
DISTRICT NO. 3, ATOKA COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS  
OCTOBER 31, 2011

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. 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: Some compensating controls have been implemented by requiring the Boards approval and signature for all expenditures.