

AUDIT REPORT

JOHNSTON COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT DISTRICT NO. 4

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

JOHNSTON COUNTY RWS&SWMD #4
COLEMAN, OKLAHOMA
DECEMBER 31, 2011

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JOHNSTON COUNTY RWS&SWMD #4
COLEMAN, OKLAHOMA
DECEMBER 31, 2011

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>
Larry Graham	Chairman
T.E. Owens	Vice Chairman
Cecile Sparkman	Secretary/Treasurer
Barbara Dean	Member
Vacant	Member

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Johnston County RWS&SWMD #4
Coleman, Oklahoma

We have audited the accompanying financial statements of the Johnston County RWS&SWMD #4, as of and for the fiscal year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the Johnston County RWS&SWMD #4'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 Johnston County RWS&SWMD #4, Coleman, Oklahoma, as of December 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, we have also issued our report dated June 25, 2012, on our consideration of the Johnston County RWS&SWMD #4'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.

Johnston County RWS&SWMD #4 has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34. However the

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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 our audit of the basic financial statements, and accordingly, we do not express an opinion thereon.

Kershaw CPA & Associates, P.C.

Kershaw CPA & Associates, PC

June 25, 2012

JOHNSTON COUNTY RWS&SWMD #4
COLEMAN, OKLAHOMA
STATEMENT OF NET ASSETS
DECEMBER 31, 2011

<u>ASSETS</u>	<u>2011</u>	<u>Memorandum Only 2010</u>
<u>Current Assets:</u>		
Cash in Bank:		
Checking - Operations	\$ 83,795	\$ 55,990
Savings	8,254	8,234
Petty Cash	100	100
Accounts Receivable - Water/Sewer	10,549	10,650
Prepaid Insurance	2,170	2,122
Total Current Assets	104,867	77,097
<u>Restricted Assets:</u>		
Customer Deposits Checking	1,175	757
Rural Development Sewer Reserve	6,840	6,840
Rural Development Sewer Reserve #2	1,116	1,116
Total Restricted Assets	9,131	8,713
<u>Capital Assets:</u>		
Water Distribution Facilities	496,618	496,618
Sewer Facilities	607,276	607,276
Building	22,454	22,454
Furniture & Fixtures	4,532	4,532
Land	28,000	28,000
Construction-in-progress	3,115	-
Less: Accumulated Depreciation	(340,197)	(311,226)
Total Capital Assets	821,798	847,654
TOTAL ASSETS	\$ 935,796	\$ 933,463
<u>LIABILITIES & NET ASSETS</u>		
<u>LIABILITIES:</u>		
<u>Current Liabilities:</u>		
Accounts Payable - Trade	\$ 1,633	\$ 271
Security Deposits	1,175	757
Current Portion of Long-Term Debt	2,497	2,402
Accrued Interest Payable	82	84
Total Current Liabilities	5,387	3,514
<u>Long-Term Liabilities:</u>		
Notes Payable - Rural Development	120,368	122,871
Less: Current Portion of Long-Term Debt	(2,497)	(2,402)
Total Long-Term Liabilities	117,871	120,469
TOTAL LIABILITIES	123,258	123,982
<u>NET ASSETS:</u>		
Invested in capital assets, net of related debt	701,430	724,783
Restricted for debt service	9,131	8,713
Unrestricted	101,977	75,985
TOTAL NET ASSETS	812,538	809,481
TOTAL LIABILITIES AND NET ASSETS	\$ 935,796	\$ 933,463

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

**JOHNSTON COUNTY RWS&SWMD #4
COLEMAN, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	2011	Memorandum Only 2010
OPERATING REVENUES:		
Water Sales	\$ 91,369	\$ 86,379
Sewer Sales	12,606	13,967
Connection Fees	1,640	2,764
Late Fees	3,163	3,208
Grant Income	-	3,000
Total Operating Revenues	<u>108,778</u>	<u>109,318</u>
OPERATING EXPENSES:		
Water:		
Operator and Bookkeeping Fees	30,008	30,654
Payroll Tax Expense	3,393	2,734
Utilities	8,956	7,157
Repairs & Maintenance	9,173	6,846
Operating Supplies	2,719	3,101
Office Supplies & Postage	1,562	2,090
Insurance and Bonds	4,142	4,281
Professional Fees	1,400	1,340
Legal Fees	-	-
Dues and Fees	5,628	4,348
Mileage	-	-
Depreciation	14,205	14,923
Returned Checks	260	55
Uncollectible Accounts	1,870	-
Miscellaneous	2,577	2,565
Sewer:		
Utilities - Sewer	630	562
Repairs & Maintenance - Sewer	-	-
Depreciation - Sewer	15,340	15,340
Total Operating Expenses	<u>101,864</u>	<u>95,995</u>
Operating Income (Loss)	<u>6,914</u>	<u>13,323</u>
NON-OPERATING REVENUES (EXPENSES):		
Refunds and Miscellaneous	850	680
Interest Income	171	99
Interest Expense - Sewer	(5,452)	(5,561)
Net Non-Operating Revenues (Expenses)	<u>(4,431)</u>	<u>(4,783)</u>
Net Income (Loss)	2,483	8,540
Retained Earnings - Beginning of Year	809,481	801,221
Retained Earnings - Prior Year Adjustment	574	(280)
Retained Earnings - End of Year	<u>\$ 812,538</u>	<u>\$ 809,481</u>

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

**JOHNSTON COUNTY RWS&SWMD #4
COLEMAN, OKLAHOMA
STATEMENT OF CASH FLOWS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2011**

	2011	Memorandum Only 2010
<u>Net Cash Flows from Operating Activities:</u>		
Cash Receipts from Customers	\$ 108,879	\$ 105,210
Cash Receipts from Others	-	3,000
Payments to Suppliers for Goods & Services	(71,005)	(65,399)
Customer Deposits Received, Less Refunded	418	36
Net Cash Provided (Used) by Operating Activities	38,293	42,847
<u>Net Cash Flows from Capital & Related Financing Activities:</u>		
Additions to Capital Assets	(3,115)	(4,573)
Proceeds from sale of Capital Assets	-	-
Loan Proceeds	-	-
Principal Payments on Long-Term Debt	(2,503)	(2,393)
Interest Payments	(5,453)	(5,563)
Net Cash Provided (Used) by Capital & Related Financing Activities	(11,071)	(12,529)
Net Cash Flows from Investing Activities:		
Refunds and Miscellaneous	850	680
Interest Income	171	99
Net Cash Provided (Used) by Investing Activities	1,021	778
Net Increase (Decrease) in Cash and Cash Equivalents	28,242	31,097
Cash & Cash Equivalents, Beginning of Year	73,038	42,221
Cash & Cash Equivalents, Prior Year Adjustment	-	(280)
Cash & Cash Equivalents, End of Year	\$ 101,280	\$ 73,038
<u>Reconciliation of operating income (loss) to net cash provided operating activities:</u>		
Net Operating Income (Loss)	\$ 6,914	\$ 13,323
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	29,545	30,262
(Increase)Decrease in Accounts Receivable	101	(1,108)
(Increase)Decrease in Prepaid Insurance	(47)	357
Increase(Decrease) in Accounts Payable	1,362	(23)
Increase(Decrease) in Security Deposits	418	36
Increase(Decrease) in Other Payables	-	-
Net Cash Provided (Used) by Operating Activities	\$ 38,293	\$ 42,847

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

JOHNSTON COUNTY RWS&SWMD #4
COLEMAN, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

A. The Reporting Entity

The Coleman Waterworks, Inc. is a non-profit corporation having been organized and established under the provisions of Title 18 of the Oklahoma Statutes, for the purpose of constructing and operating a water supply distribution system serving the members of the Corporation. The Corporation was organized in Coleman, Oklahoma on March 27, 1969.

On December 9, 2004, the corporation was dissolved and the District was reorganized under the provisions of the Rural Water, Sewer and Solid Waste Management Districts Act of Oklahoma (82 O.S. 1991 Sec. 1324-01-1324.26) as amended and supplemented. The new name of the District shall be "Rural Water, Sewer and Solid Waste Management District No. 4, Johnston County, Oklahoma."

B. Basis of Presentation

The District is accounted for within the framework of enterprise fund accounting. Enterprise funds are used to account for operations that are operated in a manner similar to private business enterprises wherein the intent of the District's Board of Directors is to recover the cost of providing goods and services through user charges

C. Basis of Accounting

The financial statements of the District are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

D. Budgetary Data

In accordance with the By-laws of the District, an annual budget is prepared for internal bookkeeping purposes. The District prepares USDA Form RD 442-2A Statement of Budget, Income and Equity as its budget for the year.

E. Assets, Liabilities & Equity

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all cash on hand, demand deposits and highly liquid investments (including

JOHNSTON COUNTY RWS&SWMD #4
COLEMAN, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

restricted assets), with a maturity of three months or less when purchased, to be cash and cash equivalents.

Allowance for Doubtful Accounts

The District does not have an allowance for doubtful accounts because it believes the ultimate amount received will be materially similar to the amount accrued.

Capital Assets

Water distribution 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. The capitalization threshold has been set at \$100.00.

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

Long-Term Debt

Long-term liabilities are recorded at the amount payable as of the report date.

Equity Classification

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

1. Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
2. Restricted net assets—Consists of net assets with constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets—All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

F. Revenues, expenditures & expenses

JOHNSTON COUNTY RWS&SWMD #4
COLEMAN, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

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.

G. Governmental Accounting Standards Board Statement No. 34

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 December 31, 2003 as provided by GASB standards.

H. 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.

JOHNSTON COUNTY RWS&SWMD #4
COLEMAN, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

Finance-related Legal & Contractual Provisions

As described in Note 4, the District was in compliance with the reserve requirement of the Rural Development loan agreement.

Deficit Fund Balance or Retained Earnings

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

NOTE 3 - CASH AND INVESTMENTS

Custodial Credit Risk

At December 31, 2011, the District held deposits of approximately \$101,280 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:

- 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

JOHNSTON COUNTY RWS&SWMD #4
 COLEMAN, OKLAHOMA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2011

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 4 - RESTRICTED ASSETS

For the loan number 92-02, the loan agreement with the United States Department of Agriculture Rural Development (USDA) requires the District to set aside into a Reserve Account the sum of 10% of the monthly installment or \$57.00 each month until there is accumulated in that account the sum of the annual installment (\$6,840.00), after which deposits may be suspended, except to replace withdrawals. The District cannot withdraw funds from the reserve account without USDA approval. As of December 31, 2011, the District was required to have at least \$6,840.00 set aside in the reserve account; as of that date the account balance for the reserve account was \$6,840.00, which complies with the covenants of the loan agreement.

For the loan number 92-03, the loan agreement with the United States Department of Agriculture Rural Development (USDA) requires the District to set aside into a Reserve Account the sum of 10% of the monthly installment or \$9.30 each month until there is accumulated in that account the sum of the annual installment (\$1,116.00), after which deposits may be suspended, except to replace withdrawals. The District cannot withdraw funds from the reserve account without USDA approval. As of December 31, 2011, the District was required to have at least \$353.40 set aside in the reserve account; as of that date the account balance for the reserve account was \$1,116.00, which complies with the covenants of the loan agreement.

NOTE 5 - CAPITAL ASSETS

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

	Balance at Dec. 31, 2010	Additions	Deductions	Balance at Dec. 31, 2011
Buildings	\$ 22,454	\$ -	\$ -	\$ 22,454
Furniture & Fixtures	4,532	-	-	4,532
Water Distribution Facilities	496,618	-	-	496,618
Sewer Distribution Facilities	607,276	-	-	607,276
Land	28,000	-	-	28,000
Construction-in-progress	-	3,115	-	3,115
Subtotal	1,158,880	3,115	-	1,161,995
Less: Accum. Depr.	(311,226)	(29,545)	574	(340,197)
Total Capital Assets (Net of Depreciation)	<u>\$ 847,654</u>	<u>\$ (26,430)</u>	<u>\$ 574</u>	<u>\$ 821,798</u>

JOHNSTON COUNTY RWS&SWMD #4
 COLEMAN, OKLAHOMA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2011

During the year, the District began a 4" water line project.

NOTE 6 - ACCUMULATED UNPAID VACATION BENEFITS

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

NOTE 7 - LONG-TERM DEBT

The District has two notes payable to the United States Department of Agriculture Rural Development (USDA), payable in monthly installments of \$570.00 and \$93.00 until maturity, including interest at 4.50% and 4.375%, respectively. The final payment is scheduled for 2037 and 2046. The notes are secured by the distribution facilities and a pledge of revenues of the District.

Changes in Long-Term Debt

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

	Balance at December 31, 2010	Additions	Deductions	Balance at December 31, 2011
Note Payable - USDA RD 92-02	\$ 102,854	\$ -	\$ (2,258)	\$ 100,596
Note Payable - USDA RD 92-03	20,017	-	(245)	19,772
Total Long-Term Debt	<u>\$ 122,871</u>	<u>\$ -</u>	<u>\$ (2,503)</u>	<u>\$ 120,368</u>

Debt Services Requirements to Maturity

The annual debt service requirements to maturity, including principal and interest, for long-term debt, as of December 31, 2011, are as follows:

Note Payable - USDA RD 92-02:

Year Ended December 31,	Principal	Interest	Annual Payment
2012	\$ 2,243	\$ 4,597	\$ 6,840
2013	2,360	4,480	6,840
2014	2,468	4,372	6,840
2015	2,581	4,259	6,840
2016	2,688	4,152	6,840
2017-2021	15,464	18,736	34,200
2022-2026	19,360	14,840	34,200
2027-2031	24,236	9,964	34,200
2032-2036	29,196	5,004	34,200
Total	<u>\$ 100,596</u>	<u>\$ 70,404</u>	<u>\$ 171,000</u>

JOHNSTON COUNTY RWS&SWMD #4
 COLEMAN, OKLAHOMA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2011

Note Payable - USDA RD 92-03:

Year Ended December 31,	Principal	Interest	Annual Payment
2012	\$ 254	\$ 862	\$ 1,116
2013	267	849	1,116
2014	279	837	1,116
2015	292	824	1,116
2016	302	814	1,116
2017-2021	1,737	3,843	5,580
2022-2026	2,161	3,419	5,580
2027-2031	2,689	2,891	5,580
2032-2036	3,344	2,236	5,580
2037-2041	4,163	1,417	5,580
2042-2046	4,282	418	4,700
Total	<u>\$ 19,772</u>	<u>\$ 18,408</u>	<u>\$ 38,180</u>

NOTE 8 - FUND EQUITY

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

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

The Restricted Assets are described in Note 4 above.

NOTE 9 - CONTINGENCIES

Litigation

According to management there were no known contingent liabilities at December 31, 2011, which would have a material effect on the financial statements.

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.

JOHNSTON COUNTY RWS&SWMD #4
COLEMAN, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 10 - SEWER PROJECT

During the fiscal year ending December 31, 2010, the District was involved in a sewer improvement project for which grant and loans monies were received and expended. The following is a list of the amounts to be received, including the required contribution from the District:

District's contribution	\$ 1,500.00
Rural Development Loan	21,000.00
Rural Development Grant	63,900.00
OWRB Grant	<u>70,200.00</u>
Total Project	\$156,600.00

The District has contributed its full amount; all of the Rural Development loan money and all of the OWRB & RD Grant money has been received and expended. The project was completed during 2010.

NOTE 11 - SUBSEQUENT EVENTS

The District did not have any subsequent events through June 25, 2012, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending December 31, 2011.

KERSHAW CPA & ASSOCIATES, PC

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WEB: KERSHAWCPA.COM
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PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Johnston County RWS&SWMD #4
Coleman, Oklahoma

We have audited the financial statements of the Johnston County RWS&SWMD #4, as of December 31, 2011 and have issued our report thereon dated June 25, 2012. The Johnston County RWS&SWMD #4 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. 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

In planning and performing our audit, we considered the Johnston County RWS&SWMD #4's 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 Johnston County RWS&SWMD #4's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Johnston County RWS&SWMD #4'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 Item 11-01. A significant

KERSHAW CPA & ASSOCIATES, PC

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

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

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

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 Johnston County RWS&SWMD #4'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 one instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is included in the Schedule of Findings as Item 11-02. The results of our tests disclosed no instances of other matters that are required to be reported under *Government Auditing Standards*.

Johnston County RWS&SWMD #4's response to the findings identified in my audit is described in the accompanying Schedule of Findings. We did not audit Johnston County RWS&SWMD #4'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 Johnston County RWS&SWMD #4 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

June 25, 2012

JOHNSTON COUNTY RWS&SWMD #4
COLEMAN, OKLAHOMA
SCHEDULE OF FINDINGS
DECEMBER 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. 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 of the organization.

COMPLIANCE FINDINGS:

Item 11-02: Payroll Reporting and Compliance

Criteria: The District is required to withhold one half social security tax and applicable federal and state income tax from gross wages and timely remit such funds to the United States Treasury, the Oklahoma Tax Commission and the OESC. Reporting payroll activity on IRS forms 941, Oklahoma forms OW-8, OES-3 is required at various periods during the year, monthly, quarterly or annually.

Condition: Payroll taxes for the current year were not calculated in a timely manner and the related reports were not timely filed.

Cause/Effect: The past due reports have left the District subject to penalties by the taxing agencies.

Recommendation: The District needs to get in compliance with the federal and state payroll tax requirements.

Response: Employee turnover has led to the problems in reporting payroll. Past due taxes were all paid in the next year.