

# AUDIT REPORT

## LATIMER COUNTY RURAL WATER DISTRICT #3 LATIMER COUNTY, OKLAHOMA

DECEMBER 31, 2011



### KERSHAW CPA & ASSOCIATES, PC

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LATIMER COUNTY RURAL WATER DISTRICT #3  
LATIMER COUNTY, OKLAHOMA  
DECEMBER 31, 2011

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LATIMER COUNTY RURAL WATER DISTRICT #1  
LATIMER COUNTY, OKLAHOMA  
DECEMBER 31, 2011

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>
PHILIP JUDKINS	CHAIRMAN
MARY HESTON	VICE CHAIRMAN
JUNIE COPELAND	SECRETARY/TREASURER
RUTH GREEN	MEMBER
TOM JURCZAK	MEMBER

STAFF

CHARLOTTE ELLIS	MANAGER/BOOKKEEPER
BUD ELLIS	OPERATOR

Unaudited

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Latimer County Rural Water District #3  
Latimer County, Oklahoma

I have audited the accompanying financial statements of the Latimer County Rural Water District #3, 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 Latimer County Rural Water District #3'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.

As described in Note 1, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the Latimer County Rural Water District #3, Latimer County, Oklahoma, as of December 31, 2011, and the respective changes in cash basis financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, I have also issued my report dated April 23, 2012, on my consideration of the Latimer County Rural Water District #3'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.

Latimer County Rural Water District #3 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

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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

April 23, 2012

LATIMER COUNTY RURAL WATER DISTRICT #3  
LATIMER COUNTY, OKLAHOMA  
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS  
DECEMBER 31, 2011

	Total 2011	Total (Memo Only) 2010
<b><u>ASSETS</u></b>		
<b><u>Current Assets:</u></b>		
Cash and Cash Equivalents	\$ 87,567	\$ 91,742
Prepaid Payroll Taxes	-	-
<b>Total Current Assets</b>	<b>87,567</b>	<b>91,742</b>
<b><u>Restricted Assets:</u></b>		
Meter Deposits	6,200	5,765
Reserve Fund	8,495	8,377
<b>Total Restricted Assets</b>	<b>14,695</b>	<b>14,142</b>
<b><u>Capital Assets:</u></b>		
Water Distribution System	571,293	565,418
Less: Accumulated Depreciation	(269,585)	(252,868)
<b>Total Capital Assets</b>	<b>301,708</b>	<b>312,550</b>
<b><u>Other Assets:</u></b>		
ORWA Water Assistance Certificate	1,000	1,000
<b>Total Other Assets</b>	<b>1,000</b>	<b>1,000</b>
<b>TOTAL ASSETS</b>	<b>\$ 404,969</b>	<b>\$ 419,434</b>
<b><u>LIABILITIES</u></b>		
<b><u>Current Liabilities:</u></b>		
Payroll Taxes Payable	\$ -	\$ -
Water Deposits Payable	6,200	5,765
Current Portion of Long-Term Debt	3,386	3,221
<b>Total Current Liabilities</b>	<b>9,586</b>	<b>8,986</b>
<b><u>Long-Term Liabilities:</u></b>		
Notes Payable - USDA Rural Development	87,536	91,641
Less: Current Portion of Long-Term Debt	(3,386)	(3,221)
<b>Total Long-Term Liabilities</b>	<b>84,150</b>	<b>88,420</b>
<b>TOTAL LIABILITIES</b>	<b>93,736</b>	<b>97,406</b>
<b><u>NET ASSETS</u></b>		
Invested in capital assets, net of related debt	214,172	220,909
Restricted for debt service	14,695	14,142
Unrestricted	82,366	86,977
<b>TOTAL NET ASSETS</b>	<b>311,233</b>	<b>322,028</b>
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b>\$ 404,969</b>	<b>\$ 419,434</b>

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

**LATIMER COUNTY RURAL WATER DISTRICT #3  
LATIMER COUNTY, OKLAHOMA  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
- MODIFIED CASH BASIS -  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

	Total 2011	Total (Memo Only) 2010
<b><u>Operating Revenues:</u></b>		
Water Sales	\$ 64,552	\$ 61,723
Membership Fees	2,990	1,090
Late Fees & Other Miscellaneous	2,399	2,919
Total Operating Revenues	69,941	65,732
<b><u>Operating Expenses:</u></b>		
Salaries	16,275	15,750
Payroll Taxes	901	1,676
Depreciation	16,717	15,605
Office Supplies	1,331	997
Repairs and Maintenance	9,081	3,343
Postage	919	903
Travel Expense	3,214	2,754
Insurance & Bonds	2,491	2,323
Legal & Professional	1,600	1,660
Utilities	3,726	3,395
Water Purchases	20,373	17,227
Miscellaneous	714	227
Total Operating Expenses	77,341	65,859
Operating Income (Loss)	(7,400)	(126)
<b><u>Non-Operating Revenues (Expenses):</u></b>		
Interest Income	1,094	1,611
Interest Expense	(4,489)	(4,688)
Total Non-operating Revenues (Expenses)	(3,395)	(3,078)
Change in Net Assets	(10,795)	(3,204)
Total Net Assets - Beginning	322,028	323,360
Total Net Assets - Prior Year Adjustment	-	1,871
Total Net Assets - Ending	\$ 311,233	\$ 322,028

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

**LATIMER COUNTY RURAL WATER DISTRICT #3  
LATIMER COUNTY, OKLAHOMA  
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

	<u>2011</u>	<u>Memorandum Only 2010</u>
<b><u>Net Cash Flows from Operating Activities:</u></b>		
Cash Receipts from Customers	\$ 69,941	\$ 65,732
Payments to Suppliers for Goods & Services	(43,448)	(32,828)
Payments to Employees	(17,176)	(17,426)
	<u>9,317</u>	<u>15,478</u>
<b><u>Net Cash Provided (Used) by Operating Activities</u></b>		
<b><u>Net Cash Flows from Capital &amp; Related Financing Activities:</u></b>		
Additions to Capital Assets	(5,875)	(27,499)
Proceeds from sale of Capital Assets	-	-
Principal paid on Debt	(4,105)	(3,905)
Interest paid on Debt	(4,489)	(4,688)
	<u>(14,468)</u>	<u>(36,092)</u>
<b><u>Net Cash Provided (Used) by Capital &amp; Related Financing Activities</u></b>		
<b><u>Net Cash Flows from Investing Activities:</u></b>		
(Increase)Decrease in Reserve Fund	(118)	1,726
Interest Income	1,094	1,611
	<u>976</u>	<u>3,336</u>
<b><u>Net Cash Provided (Used) by Investing Activities</u></b>		
<b><u>Net Increase (Decrease) in Cash and Cash Equivalents</u></b>	<u>(4,175)</u>	<u>(17,278)</u>
<b><u>Cash &amp; Cash Equivalents, Beginning of Year</u></b>	<u>91,742</u>	<u>109,020</u>
<b><u>Cash &amp; Cash Equivalents, Prior Year Adjustment</u></b>	<u>-</u>	<u>-</u>
<b><u>Cash &amp; Cash Equivalents, End of Year</u></b>	<u>\$ 87,567</u>	<u>\$ 91,742</u>
<b><u>Reconciliation of operating income (loss) to net cash provided operating activities:</u></b>		
Operating Income (Loss)	\$ (7,400)	\$ (126)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	16,717	15,605
(Increase)Decrease in Prepaid Expenses	-	-
Increase(Decrease) in Payroll Tax Payable	-	-
	<u>9,317</u>	<u>15,478</u>
<b><u>Net Cash Provided (Used) by Operating Activities</u></b>	<u>\$ 9,317</u>	<u>\$ 15,478</u>

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



LATIMER COUNTY RURAL WATER DISTRICT #3  
LATIMER COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization & Reporting Entity

Latimer County Rural Water District #3, Latimer County, Oklahoma, operates as a nonprofit corporation under Oklahoma Statutes, Title 82, Sections 1234.1 through 1234.26, as amended. The District was organized to acquire water and water rights and to build and acquire pipelines and other water distribution facilities, and to operate the same for the purpose of furnishing water to serve the needs of owners and occupants of land located within the District.

B. Basis of Accounting

The accompanying financial statements have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Revenues are recognized when received and expenses are recorded when paid and depreciation is computed on fixed assets.

C. Assets, Liabilities, & Equity

Cash & Cash Equivalents

For the purpose of financial reporting, "cash & cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less.

Inventories

Supplies inventory is not recorded in the financial statements as the value of supplies at December 31, 2011 is not material to the financial statements.

Capital Assets

Property and equipment, consisting of a water distribution system, are stated at cost and are depreciated over the estimated useful life of such assets. Useful lives are range from 7-40 years. Depreciation is computed using the straight-line method.

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.

LATIMER COUNTY RURAL WATER DISTRICT #3  
LATIMER COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011

Long-Term Debt

Long-term debt is reported at face value, net of applicable discounts and deferred loss on refunding. Costs related to the issuance of debt are deferred and amortized over the lives of various debt issues.

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.”

D. 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.

E. Income Tax Status

The District is exempt from income taxes under Section 501(c)(6) of the Internal Revenue Code.

F. Enterprise Fund

The Enterprise Fund is used to account for the operations of the District that are financed and operated in a manner similar to private business enterprises where the intent is that costs of providing goods or services be recovered in whole or part through user fees or charges.

G. Estimates

The preparation of financial statements in conformity with accounting principles generally in the United States requires management to make

LATIMER COUNTY RURAL WATER DISTRICT #3  
LATIMER COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011

estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

H. Memorandum Only

The "Memorandum Only" captions above the total columns mean that totals are presented for overview information purposes only.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

As a local government unit, the District is subject to various federal, state, and local laws and contractual regulations.

Finance-related Legal & Contractual Provisions

The reserve requirement for the USDA Note Payable is \$7,812.00, which the District has set aside in a restricted account.

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 \$102,262 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

LATIMER COUNTY RURAL WATER DISTRICT #3  
LATIMER COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011

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 4 - RESTRICTED ASSETS

The loan agreement with the United States Department of Agriculture Rural Development (USDA) requires the District to set aside into a Reserve Account an accumulated amount equal to the sum of the annual installment (\$7,812), 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 \$7,812.00 set aside in the reserve account; as of that date the account balance for the reserve account was \$8,494.50, which complies with the covenants of the loan agreement.

NOTE 5 - CAPITAL ASSETS

Capital asset activity, resulting from the modified cash basis transactions, for the fiscal year ended December 31, 2011, was as follows:

	Balance at Dec. 31, 2010	Additions	Deductions	Balance at Dec. 31, 2011
Water Line & Pump Station	\$ 552,793	\$ 5,875	\$ -	\$ 558,668
New Pumps	12,625	-	-	12,625
Subtotal	565,418	5,875	-	571,293
Less: Accum. Depr.	(252,868)	(16,717)	-	(269,585)
Total Capital Assets (Net of Depreciation)	<u>\$ 312,550</u>	<u>\$ (10,842)</u>	<u>\$ -</u>	<u>\$ 301,708</u>

The additions for the year include improvements to the water tower.

LATIMER COUNTY RURAL WATER DISTRICT #3  
LATIMER COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011

NOTE 6 - LONG-TERM DEBT

The District has a note payable with to the United States Department of Agriculture Rural Development (USDA), payable in 480 monthly installments of \$651.00 until maturity, including interest at 5.00%. The note was dated August 10, 1990 in the original amount of \$132,500.00. The note is secured by all facilities 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 Dec. 31, 2010	Additions	Deductions	Balance at Dec. 31, 2011
Notes Payable - USDA RD	\$ 91,640.73	\$ -	\$ 4,104.65	\$ 87,536.08
Total Long-Term Debt	<u>\$ 91,640.73</u>	<u>\$ -</u>	<u>\$ 4,104.65</u>	<u>\$ 87,536.08</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:

Year Ended December 31,	Principal	Interest	Total
2012	\$ 3,386	\$ 4,426	\$ 7,812
2013	3,559	4,253	7,812
2014	3,741	4,071	7,812
2015	3,933	3,879	7,812
2016	4,134	3,678	7,812
2017-2021	24,066	14,994	39,060
2022-2026	30,886	8,174	39,060
2027-2029	13,831	957	14,788
Total	<u>\$ 87,536</u>	<u>\$ 44,432</u>	<u>\$ 131,968</u>

NOTE 7 - 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 net assets include assets restricted for the repayment of refundable water deposits and those related to Note 4 above.

LATIMER COUNTY RURAL WATER DISTRICT #3  
LATIMER COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011

NOTE 8 - 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 9 - RETIREMENT AND DEFERRED COMPENSATION PLAN

The District has no retirement or deferred compensation plan for employees.

NOTE 10 - SUBSEQUENT EVENTS

The District did not have any subsequent events through April 23, 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.

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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  
Latimer County Rural Water District #3  
Latimer County, Oklahoma

I have audited the financial statements of the Latimer County Rural Water District #3, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles, as of December 31, 2011 and have issued my report thereon dated April 23, 2012. The Latimer County Rural Water District #3 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 Latimer County Rural Water District #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 Latimer County Rural Water District #3's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Latimer County Rural Water District'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

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Findings that I consider to be significant deficiencies in internal control over 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 Latimer County Rural Water District #3'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 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 my tests disclosed no instances of other matters that are required to be reported under *Government Auditing Standards*.

Latimer Co. RWD #3's response to the findings identified in my audit is described in the accompanying Schedule of Findings. I did not audit Latimer 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 Latimer County Rural Water District #3 and is not intended to be and should not be used by anyone other than these specified parties.

Robert E. Kershaw  
Certified Public Accountant

April 23, 2012



LATIMER COUNTY RURAL WATER DISTRICT #3  
LATIMER COUNTY, 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 District.

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 were not all paid during the year and related forms were not filed.

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

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

LATIMER COUNTY RURAL WATER DISTRICT #3  
LATIMER COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS  
DECEMBER 31, 2011

Response: The District was aware of the past due taxes and all of them have now been paid in full.