

# AUDIT REPORT

## LEFLORE COUNTY RURAL WATER DISTRICT #15 LEFLORE COUNTY, OKLAHOMA

JUNE 30, 2011



### KERSHAW CPA & ASSOCIATES, PC

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LEFLORE COUNTY RURAL WATER DISTRICT #15  
LEFLORE COUNTY, OKLAHOMA  
JUNE 30, 2011

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LEFLORE COUNTY RURAL WATER DISTRICT #15  
LEFLORE COUNTY, OKLAHOMA  
JUNE 30, 2011

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>	<u>TERM EXPIRATION</u>
MELVIN HOOD 18183 HICKS ROAD HODGEN, OK 74939	CHAIRMAN	9/2012
PATSY BREEDING 54968 U.S. HWY 59 HEAVENER, OK 74937	VICE CHAIRMAN	9/2013
RHONDA BAKER PO BOX 215 HEAVENER, OK 74937	SECRETARY	9/2012
DERICK BAKER PO BOX 215 HEAVENER, OK 74937	TREASURER	9/2011
LANNA WELLS 18079 HICKS ROAD HODGEN, OK 74939	MEMBER	9/2013

STAFF

JACK SODEN	MANAGER/OPERATOR
JOANNA SODEN	OFFICE CLERK

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Leflore County Rural Water District #15  
Leflore County, Oklahoma

I have audited the accompanying financial statements of the Leflore County Rural Water District #15, as of and for the fiscal year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Leflore County Rural Water District #15'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 Leflore County Rural Water District #15, Leflore County, Oklahoma, as of June 30, 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 January 20, 2012, on my consideration of the Leflore County Rural Water District #15'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

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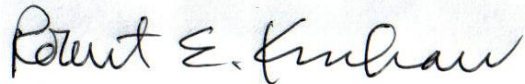
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the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be considered in assessing the results of my audit.

Leflore County Rural Water District #15 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 20, 2012

LEFLORE COUNTY RURAL WATER DISTRICT #15  
LEFLORE COUNTY, OKLAHOMA  
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS  
JUNE 30, 2011

	Total 2011	Total (Memo Only) 2010
<b><u>ASSETS</u></b>		
<b><u>Current Assets:</u></b>		
Cash in Bank - Unrestricted	\$ 22,473	\$ 15,782
Cash in Bank - Restricted:		
Renter's Deposit Account	816	416
Reserve Account	-	-
Investments	61,648	60,912
Restricted Investments	32,221	31,764
<b>Total Current Assets</b>	<b>117,158</b>	<b>108,873</b>
<b><u>Capital Assets:</u></b>		
Land	9,921	9,921
Water System	1,285,028	1,285,028
Less: Accumulated Depreciation	(352,656)	(320,129)
<b>Total Capital Assets</b>	<b>942,293</b>	<b>974,820</b>
<b>TOTAL ASSETS</b>	<b>\$ 1,059,451</b>	<b>\$ 1,083,694</b>
<b><u>LIABILITIES</u></b>		
<b><u>Current Liabilities:</u></b>		
Accounts Payable	\$ -	\$ -
Accrued Interest Payable	293	298
Current Portion of Long-Term Debt	-	-
Renters Deposits	816	416
<b>Total Current Liabilities</b>	<b>1,108</b>	<b>714</b>
<b><u>Long-Term Liabilities:</u></b>		
USDA, Rural Development	474,532	483,462
Less: Current Portion of Long-Term Debt	-	-
<b>Total Long-Term Liabilities</b>	<b>474,532</b>	<b>483,462</b>
<b>TOTAL LIABILITIES</b>	<b>475,641</b>	<b>484,176</b>
<b><u>NET ASSETS</u></b>		
Invested in capital assets, net of related debt	467,760	491,358
Restricted for debt service	33,037	32,180
Unrestricted	83,012	75,980
<b>TOTAL NET ASSETS</b>	<b>583,810</b>	<b>599,517</b>
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b>\$ 1,059,451</b>	<b>\$ 1,083,694</b>

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

LEFLORE COUNTY RURAL WATER DISTRICT #15  
LEFLORE COUNTY, OKLAHOMA  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
- MODIFIED CASH BASIS -  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Total June 30, 2011	Total (Memo Only) June 30, 2010
<b><u>Operating Revenues:</u></b>		
Water Sales	\$ 170,962	\$ 162,526
Meter Install Fees	-	-
Grants	-	-
Other Income	692	508
Total Operating Revenues	171,654	163,034
<b><u>Operating Expenses:</u></b>		
Water Purchased	78,004	79,877
Professional & Legal Fees	1,300	1,315
Office Supplies	1,345	1,690
Easement	1,581	1,294
Utilities	6,240	6,759
Travel	1,868	2,038
Labor	30,690	30,829
Repairs & Maintenance	10,665	8,534
Bad Debts (Returned Checks)	-	24
Insurance and Bond	2,963	3,327
Dues, Licenses, and Fees	602	229
Expense Reimbursement	-	168
Depreciation Expense	32,528	32,528
Total Operating Expenses	167,787	168,611
Operating Income (Loss)	3,868	(5,577)
<b><u>Non-Operating Revenues (Expenses):</u></b>		
Interest Income	1,293	1,730
Interest Expense	(21,569)	(21,961)
Total Non-operating Revenues (Expenses)	(20,275)	(20,231)
Net Income (Loss) Before Contributions	(16,408)	(25,808)
Capital Contributions	700	-
Change in Net Assets	(15,708)	(25,808)
Total Net Assets - Beginning	599,518	625,325
Total Net Assets - Prior Year Adjustment	-	-
Total Net Assets - Ending	\$ 583,810	\$ 599,517

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

LEFLORE COUNTY RURAL WATER DISTRICT #15  
LEFLORE COUNTY, OKLAHOMA  
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>June 30, 2011</u>	<u>Memorandum Only June 30, 2010</u>
<b><u>Net Cash Flows from Operating Activities:</u></b>		
Cash Receipts from Customers	\$ 170,962	\$ 162,526
Other Cash Receipts	692	508
Payments to Suppliers for Goods & Services	(104,569)	(105,255)
Payments to Employees & Laborers	(30,690)	(30,829)
Receipts of Customer Utility Deposits	-	-
Refunds of Customer Utility Deposits	400	(100)
Net Cash Provided (Used) by Operating Activities	<u>36,795</u>	<u>26,851</u>
<b><u>Net Cash Flows from Capital &amp; Related Financing Activities:</u></b>		
Additions to Capital Assets	-	-
Proceeds from sale of Capital Assets	-	-
Principal paid on Debt	(8,930)	(8,538)
Interest paid on Debt	(21,574)	(21,966)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(30,504)</u>	<u>(30,504)</u>
<b>Net Cash Flows from Investing Activities:</b>		
Capital Contributions - Membership Income	700	-
Interest Income	1,293	1,730
Net Cash Provided (Used) by Investing Activities	<u>1,993</u>	<u>1,730</u>
Net Increase (Decrease) in Cash and Cash Equivalents	8,285	(1,923)
Cash & Cash Equivalents, Beginning of Year	<u>108,873</u>	<u>110,796</u>
Cash & Cash Equivalents, End of Year	<u>\$ 117,158</u>	<u>\$ 108,873</u>
<b><u>Reconciliation of operating income (loss) to net cash provided operating activities:</u></b>		
Operating Income (Loss)	\$ 3,868	\$ (5,577)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	32,528	32,528
Increase(Decrease) in Accounts Payable	-	-
Increase(Decrease) in Renters Deposits	400	(100)
Net Cash Provided (Used) by Operating Activities	<u>\$ 36,795</u>	<u>\$ 26,851</u>

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



LEFLORE COUNTY RURAL WATER DISTRICT #15  
LEFLORE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Leflore County Rural Water District #15 (the District), organized as a non-profit organization, adopted a modified cash basis of accounting as reflected in these financial statements. The activities of the District constitute the entire reporting entity. There are no component or oversight units. The District is a political subdivision of the state of Oklahoma.

B. 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 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).

C. Basis of Accounting

The District has elected to present its financial statements on a modified cash basis of accounting. This modified cash basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and their related assets and liabilities. Under the District's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from cash transactions, except for the recording of depreciation expense on capital assets.

As a result of the used of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expense and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this financial report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

D. Budgetary Data

The District prepares USDA Form RD 442-2A Statement of Budget, Income and Equity as its budget for the year.

LEFLORE COUNTY RURAL WATER DISTRICT #15  
LEFLORE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

E. 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.

Investments

Investments classified in the financial statements consist entirely of certificates of deposit whose original maturity term exceeds three months. Investments are carried at cost, which approximates fair value.

Capital Assets

The District's modified cash basis of accounting reports capital assets resulting from cash transactions and reports depreciation where appropriate. All construction costs to date have been capitalized and are depreciated using the straight-line method of depreciation, with a useful life of 40 years. Future such expenditures will be capitalized and depreciated accordingly. Purchases of capital items in excess of \$500.00 that increase the capacity or operation efficiency or extend the useful life of any asset are capitalized. Repairs and maintenance are expensed as incurred.

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."

F. 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

LEFLORE COUNTY RURAL WATER DISTRICT #15  
LEFLORE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

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 implemented the general provisions of the Statement, including the reporting requirements for infrastructure.

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. 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

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.

LEFLORE COUNTY RURAL WATER DISTRICT #15  
LEFLORE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

NOTE 3 - DEPOSITS AND INVESTMENTS

Custodial Credit Risk

At June 30, 2011, the District held deposits of approximately \$117,158 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 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 the sum of 10% of the monthly installment or \$254.20 each month until there is accumulated in that account the sum of the annual installment (\$30,504), after which deposits may be suspended, except to replace withdrawals. The District cannot withdraw funds from the reserve account without USDA approval. As of June 30, 2011, the District was required to have at least \$30,504.00 set aside in the reserve account; as of that date the account balance for the reserve account was \$32,221.37, which complies with the covenants of the loan agreement.

LEFLORE COUNTY RURAL WATER DISTRICT #15  
LEFLORE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

NOTE 5 - CAPITAL ASSETS

Capital asset activity, resulting from the modified cash basis transactions, for the fiscal year ended June 30, 2011, was as follows:

	Balance at June 30, 2010	Additions	Deductions	Balance at June 30, 2011
Land	\$ 9,921	\$ -	\$ -	\$ 9,921
Water System	1,284,341	-	-	1,284,341
Equipment	687	-	-	687
Subtotal	1,294,949	-	-	1,294,949
Less: Accum. Depr.	(320,129)	(32,528)	-	(352,656)
Total Capital Assets (Net of Depreciation)	<u>\$ 974,820</u>	<u>\$ (32,528)</u>	<u>\$ -</u>	<u>\$ 942,293</u>

NOTE 6 - LONG-TERM DEBT

The District has a note payable with an outstanding balance of \$474,532 as of June 30, 2011, to the United States Department of Agriculture Rural Development (USDA), payable in monthly installments of \$2,542 until maturity, including interest at 4.50%. The final payment is scheduled for June 25, 2038. The note is secured by the water system.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2011:

	Balance at 6/30/10	Additions	Deductions	Balance at 6/30/11
Rural Development Loan	\$ 483,462.22	\$ -	\$ 8,929.81	\$ 474,532.41
Total Long-Term Debt	<u>\$ 483,462.22</u>	<u>\$ -</u>	<u>\$ 8,929.81</u>	<u>\$ 474,532.41</u>

Debt Services Requirements to Maturity

The annual debt service requirements to maturity, including principal and interest, for long-term debt, as of June 30, 2010, are as follows:

Year Ended June 30,	Principal	Interest	Annual Payment
2012	\$ 9,341	\$ 21,163	\$ 30,504
2013	9,770	20,734	30,504
2014	10,219	20,285	30,504
2015	10,689	19,815	30,504
2016	11,180	19,324	30,504
2017-2021	64,091	88,429	152,520
2022-2026	80,228	72,292	152,520
2027-2031	100,430	52,090	152,520
2032-2036	125,717	26,803	152,520
2037-2038	52,867	2,280	55,147
Total	<u>\$ 474,532</u>	<u>\$ 343,214</u>	<u>\$ 817,747</u>

LEFLORE COUNTY RURAL WATER DISTRICT #15  
LEFLORE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

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 related to Note 4 above and the balance of the Renter's Deposit Account.

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 - WATER SUPPLY

Leflore County Rural Water District #15 purchases water from the Poteau Valley Improvement Authority. The District provides water service to the south end of Leflore County, Oklahoma serving over 126 customers. Its largest customer is a local prison, which accounts for a large percentage of the District's income.

NOTE 10 - SUBSEQUENT EVENTS

The District did not have any subsequent events through January 20, 2012, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending June 30, 2011.

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

To the Board of Directors  
Leflore County Rural Water District #15  
Leflore County, Oklahoma

I have audited the financial statements of the Leflore County Rural Water District #15, 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 June 30, 2011 and have issued my report thereon dated January 20, 2012. The Leflore County Rural Water District #15 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 Leflore County Rural Water District #15 internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Leflore County Rural Water District #15's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Leflore County Rural Water District #15's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weakness, as defined above. However, I identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings that I consider to be significant deficiencies in internal control over financial reporting. Those deficiencies are listed as 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.

# KERSHAW CPA & ASSOCIATES, PC

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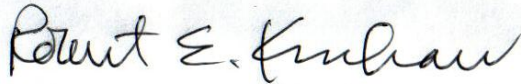
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## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Leflore County Rural Water District #15's financial statements are free of material misstatement, I performed tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The District's response to the findings identified in my audit is described in the accompanying Schedule of Findings. I did not audit the District's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of the Board of Directors and management of the Leflore County Rural Water District #15 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 20, 2012



LEFLORE COUNTY RURAL WATER DISTRICT #15  
LEFLORE COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS  
JUNE 30, 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: The Board continues to be actively involved in the operations of the District.