

# AUDIT REPORT

LEFLORE COUNTY RURAL WATER DISTRICT #3

DECEMBER 31, 2011

## KERSHAW CPA & ASSOCIATES, PC

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

TABLE OF CONTENTS

	<u>PAGE</u>
FINANCIAL SECTION:	
INDEPENDENT AUDITOR'S REPORT	3-4
BASIC FINANCIAL STATEMENTS:	
EXHIBIT A    STATEMENT OF NET ASSETS - MODIFIED CASH BASIS	5
EXHIBIT B    STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - MODIFIED CASH BASIS	6
EXHIBIT C    STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS	7
NOTES TO THE FINANCIAL STATEMENTS	8-15
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

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Leflore 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 Leflore County Rural Water District #3'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.

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 our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Leflore County Rural Water District #3, Leflore County, Oklahoma, as of December 31, 2011, and the changes in 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, we have also issued our report dated August 24, 2012, on our consideration of the Leflore County Rural Water District #3'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

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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.

Leflore 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 Accounting Standards Board (GASB) that the GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

*Kershaw CPA & Associates, P.C.*  
Kershaw CPA & Associates, PC

August 24, 2012

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

	<u>2011</u>	<u>Memorandum Only 2010</u>
<b><u>ASSETS</u></b>		
<b><u>CURRENT ASSETS:</u></b>		
Cash and cash equivalents	\$ 17,025	\$ 4,998
Total Current Assets	<u>17,025</u>	<u>4,998</u>
<b><u>NON-CURRENT ASSETS:</u></b>		
Certificate of Deposit	27,467	45,647
ORWA Water Assistance Certificate	1,000	1,000
<b>Capital Assets:</b>		
Land	1,129	1,129
Other Capital Assets, Net of Depreciation	<u>278,938</u>	<u>298,857</u>
Total Non-Current Assets	<u>308,535</u>	<u>346,634</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 325,560</u></u>	<u><u>\$ 351,632</u></u>
<b><u>LIABILITIES &amp; NET ASSETS</u></b>		
<b><u>LIABILITIES:</u></b>		
<b><u>CURRENT LIABILITIES:</u></b>		
Payroll Taxes Payable	\$ -	\$ -
Current Portion of Long-Term Debt	<u>20,812</u>	<u>19,781</u>
Total Current Liabilities	<u>20,812</u>	<u>19,781</u>
<b>TOTAL LONG-TERM LIABILITIES</b>	<u>151,618</u>	<u>172,342</u>
<b>TOTAL LIABILITIES</b>	<u>172,430</u>	<u>192,122</u>
<b><u>NET ASSETS:</u></b>		
Invested in capital assets, net of related debt	107,637	107,865
Restricted for debt service	-	-
Unrestricted	<u>45,492</u>	<u>51,645</u>
<b>TOTAL NET ASSETS</b>	<u>153,129</u>	<u>159,510</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 325,560</u></u>	<u><u>\$ 351,632</u></u>

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

## EXHIBIT B

LEFLORE COUNTY RURAL WATER DISTRICT #3  
LEFLORE COUNTY, OKLAHOMA  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - MODIFIED CASH BASIS  
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2011

	<u>2011</u>	<u>Memorandum Only 2010</u>
<b><u>OPERATING REVENUES:</u></b>		
Water Sales	\$ 299,537	\$ 290,103
Meter Fees	2,250	870
Miscellaneous	3,040	4,752
Refunds	-	-
<b>TOTAL OPERATING REVENUES</b>	<u>304,828</u>	<u>295,725</u>
<b><u>OPERATING EXPENSES:</u></b>		
Water Purchases	99,825	117,275
Operations & Maintenance	24,122	15,496
Insurance and Bonds	8,477	9,740
Health Insurance	6,345	5,186
Utilities	13,270	17,112
Salaries & Related Payroll Expenses	93,283	93,022
Dues & Memberships	1,182	1,361
Professional Expense	1,498	-
Office Expense	3,633	2,687
Transportation Expense/Maintenance	17,726	14,504
Postage	3,094	2,812
Rent	-	-
Advertising	681	298
Return Checks/Fees	973	2,334
Contract Labor	-	-
Miscellaneous	8,727	6,429
Depreciation	19,919	20,169
<b>Total Operating Expenses</b>	<u>302,757</u>	<u>308,425</u>
<b>NET OPERATING INCOME (LOSS)</b>	<u>2,071</u>	<u>(12,700)</u>
<b><u>OTHER REVENUES (EXPENSES):</u></b>		
Interest Income	792	931
Interest Expense	(9,300)	(10,051)
<b>Total Other Revenues (Expenses)</b>	<u>(8,508)</u>	<u>(9,120)</u>
<b>NET INCOME (LOSS)</b>	<u>(6,437)</u>	<u>(21,820)</u>
<b>TOTAL NET ASSETS, Beginning of Year</b>	159,510	179,723
<b>TOTAL NET ASSETS, Prior Year Adjustment</b>	<u>57</u>	<u>1,607</u>
<b>TOTAL NET ASSETS, End of Year</b>	<u>\$ 153,129</u>	<u>\$ 159,510</u>

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

## EXHIBIT C

LEFLORE COUNTY RURAL WATER DISTRICT #3  
LEFLORE COUNTY, OKLAHOMA  
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS  
FOR THE TWELVE MONTHS 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	\$ 304,828	\$ 295,725
Payments to Suppliers & Laborers for Goods & Services	(282,838)	(288,256)
Net Cash Provided (Used) by Operating Activities	<u>21,990</u>	<u>7,469</u>
<b><u>Net Cash Flows from Capital &amp; Related Financing Activities:</u></b>		
Additions to Capital Assets	-	(18,139)
Gain on Conversion/Sale of Fixed Assets	-	-
Loan Proceeds	-	15,000
Principal paid on Long-Term Debt	(19,692)	(17,891)
Interest paid on Debt	(9,300)	(10,051)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(28,992)</u>	<u>(31,081)</u>
<b><u>Net Cash Flows from Investing Activities:</u></b>		
Interest Income	792	931
Net Cash Provided (Used) by Investing Activities	<u>792</u>	<u>931</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(6,210)	(22,682)
Cash & Cash Equivalents, Beginning of Year	50,645	75,840
Cash & Cash Equivalents, Prior Year Adjustment	57	(2,513)
Cash & Cash Equivalents, End of Year	<u>\$ 44,492</u>	<u>\$ 50,645</u>
<b><u>Reconciliation of operating income (loss) to net cash provided</u></b>		
<u>operating activities:</u>		
Operating Income (Loss)	\$ 2,071	\$ (12,700)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	19,919	20,169
Increase(Decrease) in Payroll Taxes Payable	-	-
Net Cash Provided (Used) by Operating Activities	<u>\$ 21,990</u>	<u>\$ 7,469</u>

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Leflore County Rural Water District #3 was created under the provisions of the laws of the State of Oklahoma. The District operates as a nonprofit corporation under Oklahoma Statutes, Title 82, Sections 1234.1 through 1234.26, as amended. The purpose of the water district is to provide for the use and benefit of its members a water treatment and distribution system, operations and maintenance.

Basis of Presentation

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 in part through user fees or charges.

Basis of Accounting

The District utilizes the modified cash basis of accounting. Such basis is not in accordance with U.S. generally accepted accounting principles. Under the modified cash basis of accounting, revenues are recorded when received and expenditures are recorded when paid. In accordance with generally accepted accounting principles, the District would utilize the accrual method, which recognizes revenues when earned, and expenditures when incurred.

Assets, Liabilities, & Equity

Cash & Cash Equivalents

Cash is comprised of deposits in checking accounts. At December 31, 2011, it appears that all deposits were fully insured by FDIC.

Inventory

The District does not maintain inventory records of parts or supplies, but charges these purchases to maintenance or supplies as they are received.

Capital Assets

Asset acquisitions are recorded and depreciated at historical cost. Depreciation on capital assets is calculated using the straight-line method of depreciation with useful lives 40-50 years for major asset purchases. Other asset purchases are depreciated over a period of between 3 to 25 years. The District has set the capitalization amount at \$150.00 for new assets purchased.



LEFLORE COUNTY RURAL WATER DISTRICT #3  
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.”

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.

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.

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

- 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.). However, the District utilizes the modified cash basis of accounting.
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.

Income Taxes

The District is organized as a not-for-profit entity under Section 501(c)(6) of the Internal Revenue Code and is exempt from paying Federal and State Income Taxes.

Memorandum Only

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

NOTE 2 - CASH AND INVESTMENTS

Custodial Credit Risk

At December 31, 2011, the District held deposits of approximately \$44,492 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.

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

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 3 - 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 (\$24,792), 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 \$24,792.00 set aside in the reserve account; as of that date the account balance for the reserve account was \$24,967.00, which complies with the covenants of the loan agreement.

NOTE 4 - 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
Land	\$ 1,129	\$ -	\$ -	\$ 1,129
Building	55,000	-	-	55,000
Vehicles	41,210	-	-	41,210
Equipment	55,533	-	-	55,533
Capital Improvement	757,600	-	-	757,600
Water Line Improvement	95,898	-	-	95,898
Subtotal	1,006,371	-	-	1,006,371
Less: Accum. Depr.	(706,384)	(19,919)	-	(726,303)
Total Capital Assets (Net of Depreciation)	<u>\$ 299,987</u>	<u>\$ (19,919)</u>	<u>\$ -</u>	<u>\$ 280,068</u>

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

NOTE 5 - LONG-TERM DEBT

The District has a note payable #91-05 with an original balance of \$137,900, to the United States Department of Agriculture Rural Development (USDA), payable in monthly installments of \$678 until maturity, including interest at 5.00%. The final payment is scheduled for December 2019. The note is secured by the water system.

The District has a note payable #91-07 with an original balance of \$41,800, to the United States Department of Agriculture Rural Development (USDA), payable in monthly installments of \$206 until maturity, including interest at 5.00%. The final payment is scheduled for December 2019. The note is secured by the water system.

The District has a note payable #91-08 with an original balance of \$220,000, to the United States Department of Agriculture Rural Development (USDA), payable in monthly installments of \$1,182 until maturity, including interest at 5.00%. The final payment is scheduled for 2021. The note is secured by the water system.

The District has a note payable with an original balance of \$15,000, to Spiro State Bank, payable in monthly installments of \$350 until maturity, including interest at 5.50%. The final payment is scheduled for 2014. The note is secured by the 2007 Chevrolet that was purchased with the loan proceeds.

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 - RD #05	\$ 57,179	\$ -	\$ (5,400)	\$ 51,779
Note Payable - RD #07	16,953	-	(1,662)	15,291
Note Payable - RD #08	105,490	-	(9,117)	96,373
Note Payable - SSB	12,500	-	(3,513)	8,988
Total Long-Term Debt	<u>\$ 192,122</u>	<u>\$ -</u>	<u>\$ (19,692)</u>	<u>\$ 172,430</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:

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

RD #91-05

Year Ending December 31,	Principal	Interest	Total
2012	\$ 5,676	\$ 2,460	\$ 8,136
2013	5,966	2,170	8,136
2014	6,272	1,864	8,136
2015	6,592	1,544	8,136
2016	6,930	1,206	8,136
2017-2021	20,343	1,434	21,777
Total	<u>\$ 51,779</u>	<u>\$ 10,678</u>	<u>\$ 62,457</u>

RD #91-07

Year Ending December 31,	Principal	Interest	Total
2012	\$ 1,747	\$ 725	\$ 2,472
2013	1,837	635	2,472
2014	1,930	542	2,472
2015	2,029	443	2,472
2016	2,133	339	2,472
2017-2021	5,615	357	5,971
Total	<u>\$ 15,291</u>	<u>\$ 3,040</u>	<u>\$ 18,331</u>

RD #91-08

Year Ending December 31,	Principal	Interest	Total
2012	\$ 9,583	\$ 4,601	\$ 14,184
2013	10,073	4,111	14,184
2014	10,589	3,595	14,184
2015	11,130	3,054	14,184
2016	11,700	2,484	14,184
2017-2021	43,299	3,779	47,077
Total	<u>\$ 96,373</u>	<u>\$ 21,624</u>	<u>\$ 117,997</u>

Spiro State Bank

Year Ending December 31,	Principal	Interest	Total
2012	\$ 3,806	\$ 394	\$ 4,200
2013	4,020	180	4,200
2014	1,162	10	1,172
2015	-	-	-
2016	-	-	-
2017-2021	-	-	-
Total	<u>\$ 8,988</u>	<u>\$ 584</u>	<u>\$ 9,572</u>

NOTE 6 - 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

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

3. Unrestricted net assets

Restricted assets are described in Note 3 above.

NOTE 7 - EMPLOYEE RETIREMENT SYSTEM

All full-time employees are covered by and must participate in the Oklahoma Public employees Retirement Plan (OPERS). The District is not legally required to contribute to the OPERS, which is fully funded by the state and by contributions from covered employees. Under the pension plan, benefits vest after 6 years of full-time employment. An employee with 10 years of service may retire at age 55 and receive reduced retirement benefits.

Based on state statute, employees covered by the pension plan must contribute 5% of their gross earnings to the pension fund. The state is required to contribute 8 ½% of gross earnings to the plan.

The Districts total contributions for 2011, 2010 and 2009 were \$4,500, \$4,929, \$4,125, respectively.

The plan may be viewed at the Oklahoma Public Employees Retirement Plan (OPERS) office in Oklahoma City or at its website.

NOTE 8 - 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.

NOTE 9 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft or, damage to, and destruction of assets, errors, and omissions; injuries to employees; employees' health and life; and natural disasters. The District carries commercial insurance for the risk of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

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

NOTE 10 - SUBSEQUENT EVENTS

The District did not have any subsequent events through August 24, 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.

NOTE 11 - PRIOR YEAR ADJUSTMENT

Prior year adjustments were made to void old outstanding checks.

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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  
Leflore County Rural Water District #3  
Leflore County, Oklahoma

We have audited the financial statements of the Leflore County Rural Water District #3, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles, as of December 31, 2011, and have issued our report thereon dated August 24, 2012. The Leflore 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. We conducted our audit in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and in accordance with Oklahoma Statutes.

### Internal Control Over Financial Reporting

Management of the Leflore County Rural Water District #3 is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Leflore County Rural Water District #3 internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Leflore County Rural Water District #3's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Leflore County Rural Water District #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.

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



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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 and 11-02. 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 Leflore County Rural Water District #3's financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

This report is intended solely for the information and use of the board of directors and management of the Leflore County Rural Water District #3, Leflore County, Oklahoma 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

August 24, 2012

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

SIGNIFICANT DEFICIENCIES OF INTERNAL CONTROL

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 District.

Response: The Board continues to be actively involved in the operations of the District.

Item 11-02: Meter Deposits

Criteria: It is the responsibility of the District to properly report and account for the financial information.

Condition: The District does not maintain a ledger regarding the balance of customer meter deposits and does not maintain a separate account for customer deposits.

Cause/Effect: Customers could potentially not receive proper reimbursement on their deposit and the organization's balance sheet could be incorrect with respect to the deposit account.

Recommendation: It is recommended that the organization properly report and account for the balance of customer deposits.

Response: The District is aware of the problem.