

AUDIT REPORT

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

OCTOBER 31, 2012



KERSHAW CPA & ASSOCIATES, PC

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RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT,
DISTRICT NO. 3, ATOKA COUNTY, OKLAHOMA
OCTOBER 31, 2012

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RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT,
DISTRICT NO. 3, ATOKA COUNTY, OKLAHOMA
OCTOBER 31, 2012

BOARD OF DIRECTORS

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

OFFICE MANAGER / BOOKKEEPER

LOUISE SULLIVAN

OPERATIONS MANAGER

PERRY TRENT

KERSHAW CPA & ASSOCIATES, PC

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Rural Water, Sewer and Solid Waste Management,
District No. 3, Atoka County, Oklahoma

We have audited the accompanying financial statements of the Rural Water, Sewer and Solid Waste Management, District No. 3, Atoka County, Oklahoma, as of and for the fiscal year ended October 31, 2012, as listed in the table of contents. These financial statements are the responsibility of the Rural Water, Sewer and Solid Waste Management, District No. 3, Atoka County, Oklahoma's management. 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 Rural Water, Sewer and Solid Waste Management, District No. 3, Atoka County, Oklahoma, as of October 31, 2012, 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 January 15, 2013, on our consideration of the Rural Water, Sewer and Solid Waste Management, District No. 3, Atoka County, Oklahoma'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.

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

The introductory and the other supplementary information sections listed in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the District. Such additional information has not been subjected to the auditing procedures applied in 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

January 15, 2013

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT,
DISTRICT NO.3, ATOKA COUNTY, OKLAHOMA
STATEMENT OF NET ASSETS
OCTOBER 31, 2012

	Total 2012	Total (Memo Only) 2011
<u>ASSETS</u>		
<u>Current Assets:</u>		
Revenue Fund - Checking	\$ 107,002	\$ 136,238
Revenue Fund - Savings	71,960	69,454
Accounts Receivable - Trade	19,012	17,572
Accounts Receivable - Returned Checks	-	214
Interest Receivable	9	10
Prepaid Insurance	7,087	6,139
Total Current Assets	205,070	229,627
<u>Restricted Assets:</u>		
Capital Improvement Fund	56,511	74,080
Water Security Deposit Fund	28,777	27,668
Total Restricted Assets	85,288	101,748
<u>Capital Assets:</u>		
Land	27,317	27,317
Equipment	151,623	64,689
Water Distribution Facilities	1,334,044	1,282,945
Lagoon System	149,522	149,522
Less: Accumulated Depreciation	(872,938)	(830,315)
Total Capital Assets	789,567	694,158
TOTAL ASSETS	1,079,926	1,025,533
<u>LIABILITIES</u>		
<u>Current Liabilities:</u>		
Accounts Payable - Trade	877	993
Payroll Taxes Payable	1,213	733
Security Deposits	26,493	25,418
Current Portion of Long-Term Debt	14,548	-
Total Current Liabilities	43,131	27,144
<u>Long-Term Liabilities:</u>		
Notes Payable	61,993	-
Less: Current Portion	(14,548)	-
Total Long-Term Liabilities	47,446	-
TOTAL LIABILITIES	90,577	27,144
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	727,574	694,158
Restricted for debt service or other purposes	85,288	101,748
Unrestricted	176,487	202,483
TOTAL NET ASSETS	\$ 989,349	\$ 998,388

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

**RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT,
DISTRICT NO.3, ATOKA COUNTY, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2012**

	<u>Total</u> <u>October 31, 2012</u>	<u>Total</u> <u>(Memo Only)</u> <u>October 31, 2011</u>
<u>Operating Revenues:</u>		
Water Sales	\$ 189,223	\$ 188,934
Sewer Sales	19,547	14,769
Late Charges	9,870	8,455
Meter Services	1,375	1,450
Recovery of Bad Debts	-	-
Total Operating Revenues	220,015	213,609
<u>Operating Expenses:</u>		
Salaries	57,765	65,417
Utilities	16,249	16,033
Repairs & Maintenance	54,589	42,127
Offices Supplies, Printing & Postage	4,975	4,766
Insurance	8,256	6,946
Employee Benefits	17,238	16,280
Retirement Expense	1,200	2,100
Payroll Taxes	5,229	5,537
Accounting and Auditing	1,795	1,770
Analysis Testing	774	602
Licenses and Permits	3,692	3,753
Travel and Meetings	641	1,771
Advertising	744	1,330
Rent	-	100
Miscellaneous	890	1,674
Bad Debts	-	653
Depreciation Expense	58,452	47,758
Total Operating Expenses	232,488	218,620
Operating Income (Loss)	(12,473)	(5,011)
<u>Non-Operating Revenues (Expenses):</u>		
Interest Income	386	718
Miscellaneous Income	2,380	175
Membership Dues and Supplies	900	6,425
Interest Expense	(232)	-
Total Non-operating Revenues (Expenses)	3,433	7,318
Net Income (Loss) Before Contributions	(9,039)	2,307
Capital Contributions	-	-
Change in Net Assets	(9,039)	2,307
Total Net Assets - Beginning	998,388	996,082
Total Net Assets - Prior Year Adjustment	-	-
Total Net Assets - Ending	\$ 989,349	\$ 998,388

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

**RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT,
DISTRICT NO.3, ATOKA COUNTY, OKLAHOMA
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2012**

	<u>10/31/12</u>	<u>Memorandum Only 10/31/11</u>
<u>Net Cash Flows from Operating Activities:</u>		
Cash Receipts from Customers	\$ 218,789	\$ 214,671
Payments to Suppliers for Goods & Services	(116,854)	(106,735)
Payments to Employees & Laborers	(57,765)	(65,417)
Receipts of Customer Utility Deposits, Net of Refunds	1,075	1,275
Net Cash Provided (Used) by Operating Activities	<u>45,244</u>	<u>43,794</u>
<u>Net Cash Flows from Capital & Related Financing Activities:</u>		
Additions to Capital Assets	(153,861)	(2,500)
Proceeds from sale of Capital Assets	300	-
Loan Proceeds	78,934	-
Principal paid on Debt	(16,941)	-
Interest paid on Debt	(232)	-
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(91,800)</u>	<u>(2,500)</u>
<u>Net Cash Flows from Investing Activities:</u>		
Non-Operating Income	2,980	6,600
Interest Income	386	724
Net Cash Provided (Used) by Investing Activities	<u>3,366</u>	<u>7,324</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(43,190)	48,617
Cash & Cash Equivalents, Beginning of Year	307,440	258,823
Cash & Cash Equivalents, Prior Year Adjustment	-	-
Cash & Cash Equivalents, End of Year	<u>\$ 264,250</u>	<u>\$ 307,440</u>
<u>Reconciliation of operating income (loss) to net cash provided</u>		
<u>operating activities:</u>		
Operating Income (Loss)	\$ (12,473)	\$ (5,011)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	58,452	47,758
(Increase)Decrease in Accounts Receivable-Trade	(1,440)	1,259
(Increase)Decrease in Accounts Receivable-Returned Checks	214	(197)
(Increase)Decrease in Prepaid Insurance	(948)	(919)
Increase(Decrease) in Accounts Payable	(116)	83
Increase(Decrease) in Payroll Taxes Payable	480	(454)
Increase(Decrease) in Security Deposits	1,075	1,275
Net Cash Provided (Used) by Operating Activities	<u>\$ 45,244</u>	<u>\$ 43,794</u>

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

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT,
DISTRICT NO. 3, ATOKA COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

Accounting

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

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

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

Basis of Presentation

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

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

Basis of Accounting

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

Budgetary Data

The District does not prepare an annual budget.

Property and Equipment

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

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

Capitalization Policy:

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

Equity Classification

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

1. Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds,

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT,
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- mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
2. Restricted net assets—Consists of net assets with constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
 3. Unrestricted net assets—All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Revenues, expenditures & expenses

Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

Memorandum Totals

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

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

Finance-related Legal & Contractual Provisions

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

Deficit Fund Balance or Retained Earnings

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

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT,
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OCTOBER 31, 2012

Excess of Expenditures Over Appropriations

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

NOTE 3 - AGED ACCOUNTS RECEIVABLE - TRADE

CURRENT	\$ 17,198.84
01-30 DAYS	3,637.86
31-60 DAYS	804.37
61+ DAYS	9,252.46
Amount of Overpayments/Prepayments	<u>(2,628.59)</u>
 Total Accounts Receivable	 <u><u>\$ 28,264.94</u></u>

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

NOTE 4 - ACCUMULATED UNPAID VACATION BENEFITS

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

NOTE 5 - CUSTODIAL CREDIT RISK RELATED TO DEPOSITS

Custodial Credit Risk

At October 31, 2012, the District held deposits of approximately \$264,250 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:

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DISTRICT NO. 3, ATOKA COUNTY, OKLAHOMA
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- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

NOTE 6 - RESTRICTED ASSETS

Restrictions on restricted assets are as follows:

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

NOTE 7 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended October 31, 2012, was as follows:

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT,
DISTRICT NO. 3, ATOKA COUNTY, OKLAHOMA
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	Balance at Oct. 31, 2011	Additions	Deductions	Balance at Oct. 31, 2012
Land	\$ 27,317	\$ -	\$ -	\$ 27,317
Equipment	64,689	102,763	15,829	151,623
Water Distribution Facilities	1,282,945	51,098	-	1,334,044
Lagoon System	149,522	-	-	149,522
Subtotal	1,524,473	153,861	-	1,662,506
Less: Accum. Depr.	(830,315)	(58,452)	15,829	(872,938)
Total Capital Assets (Net of Depreciation)	<u>\$ 694,158</u>	<u>\$ 95,410</u>	<u>\$ 15,829</u>	<u>\$ 789,567</u>

The capital asset additions included a Nissan truck, a backhoe, a shop building and a road bore. The deduction was for a fully depreciated Ford pickup.

NOTE 8 - LONG-TERM DEBT

The District has a lease purchase agreement with Government Capital Corporation dated May 21, 2012 for the purchase of a front end loader/backhoe. The agreement includes five (5) equal annual payments in the amount of \$17,173.13 due June 15, 2012 thru June 15, 2016.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended October 31, 2012:

	Balance at October 31, 2011	Additions	Deductions	Balance at October 31, 2012
Notes Payable	\$ -	\$ 78,934.45	\$ 16,941.00	\$ 61,993.45
Total Long-Term Debt	<u>\$ -</u>	<u>\$ 78,934.45</u>	<u>\$ 16,941.00</u>	<u>\$ 61,993.45</u>

A summary of future maturities of principal and interest are as follows:

Year Ending October 31,	Principal	Interest	Total
2013	\$ 14,548	\$ 2,625	\$ 17,173
2014	15,164	2,009	17,173
2015	15,806	1,367	17,173
2016	16,475	698	17,173
2017	-	-	-
Total	<u>\$ 61,993</u>	<u>\$ 6,699</u>	<u>\$ 68,693</u>

NOTE 9 - FUND EQUITY

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

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

Restricted net assets are described in Note 6 above.

NOTE 10 - INSURANCE COVERAGE

The District carries the following types of insurance coverage:

- Liability
- Auto
- Commercial
- Fidelity Bonds
- Workers' Compensation

NOTE 11 - ESTIMATES

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

NOTE 12 - RISK MANAGEMENT

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

NOTE 13 - CONTINGENCIES

Litigation

The District currently has no pending litigation.

Federally Assisted Programs

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

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DISTRICT NO. 3, ATOKA COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
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NOTE 14 - SUBSEQUENT EVENTS

The District did not have any subsequent events through January 15, 2013, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending October 31, 2012.

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

We have audited the financial statements of the Rural Water, Sewer and Solid Waste Management, District No. 3, Atoka County, Oklahoma, as of October 31, 2012 and have issued our report thereon dated January 15, 2013. The Rural Water, Sewer and Solid Waste Management, District No. 3, Atoka County, Oklahoma has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, except that the District did not present the required MD&A. 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 Atoka County Rural Water District #3 is responsible for establishing and maintaining internal control over financial reporting. In planning and performing our audit, we considered the Atoka Co. RWD #3'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 Atoka Co. RWD #3's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Atoka Co. RWD #3's internal control over financial reporting.

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

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

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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 12-01. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Rural Water, Sewer and Solid Waste Management, District No. 3, Atoka County, Oklahoma's financial statements are free of material misstatement, 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*.

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

Kershaw CPA & Associates, P.C.

Kershaw CPA & Associates, PC

January 15, 2013

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT,
DISTRICT NO. 3, ATOKA COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS
OCTOBER 31, 2012

Item 12-01: Segregation of Duties

Criteria: A good system of internal control requires a proper segregation of duties to prevent one person from being in a position to authorize, execute, and record the same transaction.

Condition: Due to the size of the District's major areas of internal control, that would be prevalent in a larger District, such segregation of duties is not available for this size operation. Duties are concentrated in the hands of a few individuals, who are responsible for all phases of the accounting functions. Because of this lack of division of responsibility, internal control is determined to be weak, and in some instances, non-existent.

Cause/Effect: Due to the limited number of personnel, a breach of internal controls could occur and not be detected in the normal course of operations.

Recommendation: The Board should continue to be actively involved in the operations of the organization.

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