

RURAL WATER AND SEWER DISTRICT NUMBER 5  
LEFLORE COUNTY  
HOWE, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
DECEMBER 31, 2011

RALPH OSBORN  
CERTIFIED PUBLIC ACCOUNTANT  
500 SOUTH CHESTNUT  
P.O. BOX 1015  
BRISTOW, OK 74010-1015

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Rural Water and Sewer District Number 5  
LeFlore County  
Howe, Oklahoma

I have audited the accompanying financial statements of the business-type activities of Rural Water and Sewer District Number 5, LeFlore County, Howe, Oklahoma as of and for the year ended December 31, 2011, which collectively comprise Rural Water and Sewer District Number 5, LeFlore County, Howe, Oklahoma's basic financial statements. These financial statements are the responsibility of Rural Water and Sewer District Number 5, LeFlore County, Howe, Oklahoma'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. 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 discussed in Note A, Rural Water and Sewer District Number 5, LeFlore County, Howe, Oklahoma prepares its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position-modified cash basis of the business-type activities of Rural Water and Sewer District Number 5, LeFlore County, Howe, Oklahoma as of December 31, 2011, and the respective changes in financial position-modified cash basis and cash flows thereof for the year ended, in conformity with the basis of accounting described in Note A.

Rural Water and Sewer District Number 5, LeFlore County, Howe, Oklahoma has not presented Management Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statement.

In accordance with *Government Auditing Standards*, I have also issued my report dated October 9, 2012, on my consideration of Rural Water and Sewer District Number 5, LeFlore County, Howe, Oklahoma's internal control over financial reporting and 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 accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Rural Water and Sewer District Number 5, LeFlore County, Howe, Oklahoma's financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the combined financial statements of the District. The schedule of expenditures of federal awards is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Ralph Osborn*

Ralph Osborn  
Certified Public Accountant  
October 9, 2012

RURAL WATER AND SEWER DISTRICT NUMBER 5  
LEFLORE COUNTY, OKLAHOMA  
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS  
DECEMBER 31, 2011

ASSETS

Current assets:	
Cash and cash equivalents	\$ 263,696
Restricted assets:	
Cash and cash equivalents	<u>40,939</u>
Total current assets	<u>304,635</u>
Non-current assets:	
Capital assets:	
Land	3,000
Other capital assets, net of accumulated depreciation	<u>2,756,820</u>
Total non-current assets	<u>2,759,820</u>
Total assets	<u>3,064,455</u>

LIABILITIES

Current liabilities:	
Payroll withholding	300
Utility deposits	77,519
Lease obligation, current	8,499
Notes payable, current	<u>33,957</u>
Total current liabilities	<u>120,275</u>
Non-current liabilities:	
Lease obligation, non-current	15,726
Notes payable, non-current	<u>2,125,577</u>
Total non-current liabilities	<u>2,141,303</u>
Total liabilities	<u>2,261,578</u>

NET ASSETS

Nonspendable	503,291
Restricted for debt service	40,939
Unassigned	<u>263,396</u>
Net assets	<u>\$ 807,626</u>

The notes to financial statements are an integral part of this statement.

RURAL WATER AND SEWER DISTRICT NUMBER 5  
LEFLORE COUNTY, OKLAHOMA  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
MODIFIED CASH BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2011

OPERATING REVENUES

Charges for services:

Water Sales	\$ 523,416
Sewer Sales	43,841
Tap fees	4,750
Other	9,607
	9,607

Total operating revenues	581,614
--------------------------	---------

OPERATING EXPENSES

Personal services	147,029
Water purchases	193,420
Insurance	12,417
Maintenance and repairs	57,445
Office expense	24,688
Other	5,236
Professional fees	5,474
Telephone and utilities	12,871
Truck expense	15,689
Depreciation	52,881
	52,881

Total operating expenses	527,150
--------------------------	---------

Operating income (loss)	54,464
-------------------------	--------

NON-OPERATING REVENUE (EXPENSES)

Investment income	1,666
Interest on notes and lease payable	(45,320)
	(45,320)

Total non-operating revenue (expenses)	(43,654)
--	----------

Net income (loss)	10,810
-------------------	--------

Total net assets, beginning	796,816
-----------------------------	---------

Total net assets, ending	\$ 807,626
--------------------------	------------

The notes to financial statements are an integral part of this statement.

RURAL WATER AND SEWER DISTRICT NUMBER 5  
LEFLORE COUNTY, OKLAHOMA  
STATEMENT OF CASH FLOWS-MODIFIED CASH BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2011

Cash flows from operating activities	
Cash received from customers	\$ 589,540
Cash payments to employees	(147,029)
Cash payments to suppliers for goods and services	<u>(327,240)</u>
Net cash provided (used) by operating activities	<u>115,271</u>
Cash flows from capital and related financing activities	
Acquisition of fixed assets	(1,588,238)
Proceeds from Rural Development Note	1,530,502
Interest paid on notes payable and fiscal fees	(45,320)
Principal paid on notes payable	<u>(90,988)</u>
Net cash used for capital and related financing activities	<u>(194,044)</u>
Cash flows from investing activities	
Transfer to restricted	(397)
Interest revenue	<u>1,666</u>
Net cash used for investing activities	<u>1,269</u>
Net decrease in cash and cash equivalents	(77,504)
Cash and cash equivalents, beginning	<u>341,200</u>
Cash and cash equivalents, ending	<u>\$ 263,696</u>
Reconciliation of operating income (loss)	
to net cash provided by (used) by operating activities	
Operating income (loss)	\$ 54,464
Adjustments to reconcile operating income to	
net cash used by operating activities:	
Depreciation	52,881
Changes in assets and liabilities	
Increase in payroll withholding	3
Increase in utility deposits	<u>7,923</u>
Net cash provided by operating activities	<u>\$ 115,271</u>

See accompanying notes to financial statements.

RURAL WATER AND SEWER DISTRICT NUMBER 5  
LEFLORE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rural Water and Sewer District Number 5 (the "District") was created by the Board of County Commissioners of LeFlore County, Oklahoma under the provisions of the Rural Water District Act (Title 82 Oklahoma Statutes 1961, Sections 1301 to 1321). The District is managed by a seven member Board of Directors. Members of the board are elected by the membership of the District at its annual meeting. Membership in the District is attained by paying membership dues and receiving services from the District. The activities of the District constitute the entire reporting entity. There are no other component or oversight units. The District is a political subdivision of the state of Oklahoma.

Government-Wide and Fund Financial Statements

The District is a special purpose governmental entity engaged only in business type activities. The District prepares financial statements required for enterprise funds.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

In the financial statements business-like activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or non-current, financial, or non-financial) associated with their activities are reported. Fund equity is classified as net assets.

Basis of Accounting

In the financial statements, business-like activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use 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 expenses and liabilities) are *not recorded* in these financial statements. If the District utilized the basis of accounting recognized as generally accepted, the financial statements would use the accrual basis of accounting.

RURAL WATER AND SEWER DISTRICT NUMBER 5  
LEFLORE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FUND TYPES AND MAJOR FUNDS

The District reports all activity within a single fund.

Investments

The District follows Governmental Accounting Standards Board (GASB) Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which requires marketable securities to be carried at fair value. The District considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The investments reported in the financial statements consist of Certificates of Deposits.

Capital Assets, Depreciation, and Amortization

The District's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost or at estimated historical cost for those items not previously reported. The District maintains infrastructure assets records consistent with all other capital assets. Donated assets are stated at fair value on the date donated. The District generally capitalizes assets with a cost of \$2,500 or more as purchase and construction outlay occur. The cost of normal maintenance and repairs that do not add to the assets value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are moved from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follow:

Buildings	5-60
Improvements, other than buildings	2-50
Mobile equipment	3-40
Furniture , machinery, and equipment	3-30
Utility system	5-60

Compensated Absences

Full-time, permanent employees are granted personal leave in varying amounts to specified maximums depending on tenure with the District. The District does not record a liability for accrued compensated absences. Using the modified cash basis the amount paid for compensated absences is expensed as paid.

Reserves and Designations

Reserves represent those portions of fund balance not available for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.



RURAL WATER AND SEWER DISTRICT NUMBER 5  
LEFLORE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Custodial Credit Risk

Custodial credit risk is the risk that in the event of failure of counterparty, the District will not be able to recover the value of its deposits or investments. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Investment securities are exposed to custodial credit risk if they are uninsured, are not registered in the name of the District, and are held by counterparty or the counterparty's trust department but not in the name of the District. The District's policy requires that all deposits and investments in excess of amounts covered by federal deposit insurance be fully collateralized by the entity holding the deposits or investments. As of December 31, 2011, all of the District's deposits and investments were either covered by federal deposit insurance or were fully collateralized.

Deposits

The District had deposits at financial institutions with a carrying amount of approximately \$309,384 at December 31, 2011. The bank balance of the deposits at December 31, 2011 was approximately \$331,550.

Credit Risk

Fixed-income securities are subject to credit risk. However, the District did not have fixed income securities at December 31, 2011.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board of Directors monitor's the investment performance on an ongoing basis to limit the District's interest rate risk. As of December 31, 2011, the District's deposits consisted of demand deposits and certificates of deposit with a maturity of 12 months or less.

RURAL WATER AND SEWER DISTRICT NUMBER 5  
LEFLORE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011

NOTE C - CAPITAL ASSETS

Changes in capital assets.

The following table provides a summary of changes in capital assets:

	CAPITAL ASSETS, DEPRECIATED				Capital Assets Not Depreciated Land
	Buildings	Infrastructure & Improvements Other Than Buildings	Furniture, Machinery, And Equipment	Totals	
<b>PRIMARY GOVERNMENT</b>					
<b>Business-type activities</b>					
Balance, Dec. 31, 2010	\$ 40,680	\$ 1,746,544	\$ 247,875	\$ 2,035,099	\$ 3,000
Increases	-	1,588,238	-	1,588,238	-
Decreases	-	-	-	-	-
Balance, Dec. 31, 2011	<u>40,680</u>	<u>3,334,782</u>	<u>247,875</u>	<u>3,623,337</u>	<u>3,000</u>
<b>Accumulated Depreciation</b>					
Balance, Dec. 31, 2010	12,336	695,852	105,447	813,635	
Increase	869	37,837	14,176	52,882	
Decreases	-	-	-	-	
Balance, Dec. 31, 2011	<u>13,205</u>	<u>733,689</u>	<u>119,623</u>	<u>866,517</u>	
Business-type Activities Capital Assets, Net	<u>\$ 27,475</u>	<u>\$ 2,601,093</u>	<u>\$ 128,252</u>	<u>\$ 2,756,820</u>	<u>\$ 3,000</u>

NOTE D - NOTES PAYABLE PROPRIETARY FUND

The District was approved for a loan from Rural Development in the amount of \$2,494,740 on April 29, 2009. The loan requires monthly payments of \$8,932 beginning on November 5, 2011 with an interest rate of 3%. As of December 31, 2011, the District had drawn down a total of \$2,241,013 and repayment began in January 2011.

	Payable at December 31, 2010	Addition	Retirements	Balance at June 30, 2012
Rural Development	710,511	1,530,502	(81,479)	2,159,534
TOTAL	<u>\$ 710,511</u>	<u>\$ 1,530,502</u>	<u>(81,479)</u>	<u>\$ 2,159,534</u>

Principal payments required in future years, based on estimated maximum loan amount, are as follows:

Year Ended December 31	Rural Development Principal	Interest	TOTAL
2012	\$ 33,957	\$ 73,227	\$ 107,184
2013	34,990	72,194	107,184
2014	36,054	71,130	107,184
2015	37,150	70,034	107,184
2016	38,280	68,904	107,184
2017-2021	209,591	326,329	535,920
2022-2026	243,465	292,455	535,920
2027-2031	282,813	253,107	535,920
2032-2036	328,520	207,400	535,920
2037-2041	381,615	154,305	535,920
2042-2046	443,290	92,630	535,920
2047-2050	386,663	23,080	409,743
Total	<u>\$2,456,388</u>	<u>\$1,704,795</u>	<u>\$4,161,183</u>

RURAL WATER AND SEWER DISTRICT NUMBER 5  
LEFLORE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011

NOTE E - RESTRICTED ASSETS

USDA RURAL DEVELOPMENT

The Loan Resolution Security Agreement with the USDA Rural Development requires a reserve fund to be funded equal to the annual installment amount (\$8,932 X 12 = \$107,184). At December 31, 2011, there was a withdrawal of funds for meter purchases leaving the reserve amount at \$40,939. The District began making monthly payments into the reserve fund beginning in 2012.

NOTE F - LEASE OBLIGATIONS

The District has entered into a lease agreement as lessee for financing the acquisition of equipment. The lease agreement qualifies as a capital lease for accounting purposes since title transfers at the end of the lease term and it has been recorded at the present value of the future minimum lease payments.

The schedule of the future minimum lease payments under the capital lease and the present value of the net minimum lease payments at December 31, is as follows:

<u>Year ending June 30</u>	<u>Bulldozer</u>	<u>Total</u>
2012	\$ 9,527	\$ 9,527
2013	10,393	10,393
2014	<u>6,064</u>	<u>6,064</u>
Total minimum lease payments	25,984	25,984
Less: Amount representing interest	<u>1,759</u>	<u>1,759</u>
Present value of future minimum lease payments	<u>\$ 24,225</u>	<u>\$ 24,225</u>

NOTE G - COMPENSATED ABSENCES

The District has not reported an amount for accrued compensated absences. Under the modified cash basis of accounting, payments for vacation and sick leave are expensed as paid.

RURAL WATER AND SEWER DISTRICT NUMBER 5  
LEFLORE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011

NOTE H - PENSION

Plan Description. The District contributes to the Oklahoma Public Employees Retirement Plan (the Plan), a cost-sharing multiple-employer defined benefit pension plan administered by the Oklahoma Public Employees Retirement System (OPERS). Benefit provisions are established and amended by the Oklahoma Legislature. The Plan provides retirement, disability, and death benefits to Plan members and beneficiaries. Title 74, Section 901 through 943, as amended, establishes the provisions of the Plan. OPERS issues a publicly available financial report that includes financial statements and supplementary information.

Funding Policy. The contribution rates for each member category are established by the Oklahoma Legislature and are based on an actuarial calculation which is performed to determine the adequacy of contribution rates. District employees are required to contribute 3.5% of earned compensation. The District contributes 15.5% of earned compensation. The District's contributions to the Plan for the years ending December 31, 2011, 2010 and 2009 were \$16,847, \$15,862 and \$14,789, respectively, equal to the required contributions for each year

NOTE I - RISK MANAGEMENT

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

NOTE J - CONTRACTS

The District purchases water for resale from Poteau Valley Improvement Authority, Wister, Oklahoma and Heavener Utilities Authority, Heavener, Oklahoma, for resale to customers. An interruption of the supply from these sources could severely impact the ability of the District to deliver water to its members.

RURAL WATER AND SEWER DISTRICT NUMBER 5  
LEFLORE COUNTY, OKLAHOMA  
SCHEDULE OF FEDERAL AWARDS EXPENDED  
FOR THE YEAR ENDED DECEMBER 31, 2011

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA#</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture Passed Through Rural Development Water and Waste Disposal Systems for Rural Communities	10.760		\$ 1,510,170
Total Passed Through Rural Development			<u>1,510,170</u>
Total Expenditures of Federal Awards			<u>\$ 1,510,170</u>

See accompanying notes to the schedule of expenditures of federal awards.

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Rural Water and Sewer District Number 5, LeFlore County, Howe, Oklahoma (the District) under programs of the federal government for the year ended December 31, 2011. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the District.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Expenditures reported on the Schedule are reported on the modified cash basis of accounting.

(2) Pass-through entity identifying numbers are presented where available.

RURAL WATER AND SEWER DISTRICT NUMBER 5  
LEFLORE COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND QUESTIONED COST  
FOR THE YEAR ENDED DECEMBER 31, 2011

Section I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?  Yes  No  
 Significant deficiency identified that is not considered to be material weakness(es)?  Yes  None Reported

Noncompliance material to financial statements noted?  Yes  No

Federal Awards

Internal control over major programs:

Material Weakness(es) identified?  Yes  No  
 Significant deficiency identified that is not considered to be material weakness(es)?  Yes  None Reported

Type of auditor's report issued on compliance to major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133  Yes  No

Programs tested as Major Programs

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>10.760</u>	<u>Water and Waste Disposal Systems For Rural Communities</u>

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee?  Yes  No

2011-1 Segregation of Duties

Condition - The District has a lack of Segregation of Duties

Criteria - The District does not have Segregation of Duties due to having only one employee.

Cause - There are not enough employees at the District to have Segregation of Duties.

Effect - The District has a higher likelihood of an internal control error.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Honorable Members of the Board of Trustees  
Rural Water and Sewer District Number 5,  
Leflore County,  
Howe, Oklahoma

Compliance

I have audited Rural Water and Sewer District Number 5, Leflore County, Howe, Oklahoma's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. Rural Water and Sewer District Number 5, Leflore County, Howe, Oklahoma's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned cost. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Rural Water and Sewer District Number 5, Leflore County, Howe, Oklahoma's management. My responsibility is to express an opinion on Rural Water and Sewer District Number 5, Leflore County, Howe, Oklahoma's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Rural Water and Sewer District Number 5, Leflore County, Howe, Oklahoma's compliance with those requirements and performing such other procedures as I considered necessary in the circumstance. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of Rural Water and Sewer District Number 5, Leflore County, Howe, Oklahoma's compliance with those requirements.

In my opinion, Rural Water and Sewer District Number 5, Leflore County, Howe, Oklahoma, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

Internal Control Over Compliance

Management of Rural Water and Sewer District Number 5, Leflore County, Howe, Oklahoma is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered Rural Water and Sewer District Number 5, Leflore County, Howe, Oklahoma's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133,

but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of Rural Water and Sewer District Number 5, Leflore County, Howe, Oklahoma's internal control over compliance.

My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2011-1 to be significant deficiency.

Rural Water and Sewer District Number 5, Leflore County, Howe, Oklahoma's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Rural Water and Sewer District Number 5, Leflore County, Howe, Oklahoma's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information of management, Board of Trustees, others within the organization, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Ralph Osborn*

Ralph Osborn  
Certified Public Accountant  
Bristow, Oklahoma  
October 9, 2012



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 and Sewer District Number 5  
LeFlore County  
Howe, Oklahoma

I have audited the financial statements-modified cash basis of the business-type activities of Rural Water and Sewer District Number 5, Leflore County, Howe, Oklahoma as of and for the year ended December 31, 2011, and have issued my report thereon dated October 9, 2012 which did not include Management's Discussion and Analysis. 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.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Rural Water and Sewer District Number 5, Leflore County, Howe, Oklahoma'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 Rural Water and Sewer District Number 5, Leflore County, Howe, Oklahoma's internal control over financial reporting. Accordingly, I do not express an opinion of the effectiveness of Rural Water and Sewer District Number 5, Leflore County, Howe, Oklahoma'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 a 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. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies. 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. I consider the lack of segregation of duties to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water and Sewer District Number 5, LeFlore County, Howe, Oklahoma's financial statements are free of material misstatement, I performed tests of its 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*.

This report is intended solely for the information and use of management, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

*Ralph Osborn*

Ralph Osborn  
Certified Public Accountant  
Bristow, Oklahoma  
October 9, 2012