

# AUDIT REPORT

PUSHMATAHA COUNTY RURAL WATER DISTRICT #2  
ALBION, OKLAHOMA

DECEMBER 31, 2010

## KERSHAW CPA & ASSOCIATES, PC

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PUSHMATAHA COUNTY RURAL WATER DISTRICT #2  
ALBION, OKLAHOMA  
DECEMBER 31, 2010

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PUSHMATAHA COUNTY RURAL WATER DISTRICT #2  
ALBION, OKLAHOMA  
DECEMBER 31, 2010

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>
ALAN KIGHT, JR.	CHAIRMAN
ALAN KIGHT, SR.	VICE-CHAIRMAN
MARY UPTON	SECRETARY
ALLAN GIST	TREASURER
DARRELL CLARY	MEMBER

OFFICE MANAGER

LAURA DUNCAN

OPERATIONS MANAGER

ORVILLE DIGHTON

# KERSHAW CPA & ASSOCIATES, PC

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Pushmataha County Rural Water District #2  
Albion, Oklahoma

I have audited the accompanying financial statements of the Pushmataha County Rural Water District #2, as of and for the fiscal year ended December 31, 2010, as listed in the table of contents. These financial statements are the responsibility of the Pushmataha County Rural Water District #2's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

The District is required to withhold one half social security tax and applicable federal and state income tax from gross wages and timely remit such funds to the United States Treasury, the Oklahoma Tax Commission and the OESC. Reporting payroll activity on IRS forms 941, Oklahoma forms OW-8, OES-3 is required at various periods during the year, monthly, quarterly or annually. Payroll taxes for the current year were not paid in a timely manner and were still past due. The amount of penalties and interest relating to these past due taxes cannot be readily determined.

In my opinion, except for the effects on the financial statements relating to payroll and related taxes described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Pushmataha County Rural Water District #2, Albion, Oklahoma, as of December 31, 2010, 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, I have also issued my report dated July March 9, 2012, on my consideration of the Pushmataha County Rural Water District #2's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be considered in assessing the results of my audit.

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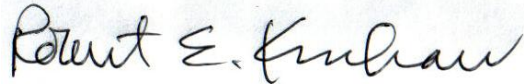
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Pushmataha County Rural Water District #2 has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34. However the District has not presented the Management's Discussion and Analysis required by the Governmental Accounting Standards Board (GASB) that the GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The introductory and the other supplementary information sections listed in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the District. Such additional information has not been subjected to the auditing procedures applied in my audit of the basic financial statements, and accordingly, I do not express an opinion thereon.



Robert E. Kershaw  
Certified Public Accountant

March 9, 2012

PUSHMATAHA COUNTY RURAL WATER DISTRICT #2  
ALBION, OKLAHOMA  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2010

<u>ASSETS</u>	<u>2010</u>	<u>Memorandum Only 2009</u>
<b><u>CURRENT ASSETS:</u></b>		
Cash:		
Petty Cash/Change	\$ 208	\$ 208
Operating	33,864	31,705
Savings Account	41,049	15,879
Certificates of Deposit	34,046	34,046
Accounts Receivable - Trade	24,760	21,285
Other Receivables	212	339
Inventory	10,864	11,510
Prepaid Insurance	3,444	3,306
Total Current Assets	148,447	118,279
<b><u>OTHER ASSETS:</u></b>		
ORWA Investment	2,000	2,000
Total Restricted Assets	2,000	2,000
<b><u>CAPITAL ASSETS:</u></b>		
Water Distribution Facilities	641,522	641,522
Equipment	32,099	32,099
Buildings	30,553	18,278
Land	2,250	2,250
	706,425	694,150
Less: Accumulated Depreciation	(420,310)	(403,702)
Net Capital Assets	286,115	290,447
TOTAL ASSETS	\$ 436,562	\$ 410,726
<b><u>LIABILITIES &amp; NET ASSETS</u></b>		
<b><u>CURRENT LIABILITIES:</u></b>		
Accounts Payable - Trade	\$ 5,174	\$ 4,710
Payroll Taxes Payable	1,055	1,079
Customer Meter Deposits	6,069	1,577
Current Portion of Long-Term Debt	-	-
Total Current Liabilities	12,298	7,366
<b><u>LONG-TERM LIABILITIES:</u></b>		
Notes Payable	-	-
Less: Current Portion	-	-
Total Long-Term Liabilities	-	-
TOTAL LIABILITIES	12,298	7,366
<b><u>NET ASSETS:</u></b>		
Invested in capital assets, net of related debt	286,115	290,447
Restricted for debt service	-	-
Unrestricted	138,149	112,913
TOTAL NET ASSETS	424,264	403,360
TOTAL LIABILITIES AND NET ASSETS	\$ 436,562	\$ 410,726

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

**PUSHMATAHA COUNTY RURAL WATER DISTRICT #2  
ALBION, OKLAHOMA  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2010**

	<u>2010</u>	<u>Memorandum Only 2009</u>
<b><u>OPERATING REVENUES:</u></b>		
Water Sales	\$ 178,553	\$ 166,717
Late Fees	6,139	6,068
Benefit Units/Meters	3,750	2,350
Grant Income	-	44,222
Service Fees	-	96
<b>TOTAL OPERATING REVENUES</b>	<u>188,442</u>	<u>219,453</u>
<b><u>OPERATING EXPENSES:</u></b>		
Salaries	46,823	48,680
Payroll Taxes	2,163	4,408
Director's Fees	1,700	1,710
Water Purchases	55,457	63,559
Small Tools	-	76
Utilities	6,992	6,147
Truck Expense	2,274	3,008
Supplies, Repairs & Maintenance	10,271	11,436
Office Supplies & Postage	5,397	3,787
Legal and Audit	5,286	18,189
Dues & Fees	1,132	369
Water Tests	1,106	853
Insurance and Bonds	6,294	6,411
Mileage	2,559	3,154
Depreciation	16,608	17,308
Miscellaneous	4,109	1,182
Bank Charges	40	71
Returned Checks	281	811
<b>Total Operating Expenses</b>	<u>168,491</u>	<u>191,158</u>
<b>NET OPERATING INCOME (LOSS)</b>	<u>19,951</u>	<u>28,295</u>
<b><u>OTHER REVENUES (EXPENSES):</u></b>		
Interest Income	773	965
Interest Expense	-	-
Gain on Sale of Equipment	-	-
Miscellaneous	179	2,010
<b>Total Other Revenues (Expenses)</b>	<u>952</u>	<u>2,975</u>
<b>NET INCOME (LOSS)</b>	<u>20,903</u>	<u>31,271</u>
<b>CAPITAL CONTRIBUTIONS - Membership Income</b>	-	-
<b>TOTAL NET ASSETS, Beginning of Year</b>	403,360	372,090
<b>TOTAL NET ASSETS, Prior Year Adjustment</b>	-	-
<b>TOTAL NET ASSETS, End of Year</b>	<u>\$ 424,264</u>	<u>\$ 403,360</u>

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

**PUSHMATAHA COUNTY RURAL WATER DISTRICT #2  
ALBION, OKLAHOMA  
STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010**

	<u>2010</u>	<u>Memo Only 2009</u>
<b><u>Net Cash Flows from Operating Activities:</u></b>		
Cash Receipts from Customers	\$ 184,968	\$ 171,100
Cash Receipts from Others	-	44,222
Payments to Suppliers for Goods & Services	(99,621)	(125,990)
Payments to Employees & Laborers	(46,823)	(48,680)
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>38,525</u>	<u>40,652</u>
<b><u>Net Cash Flows from Capital &amp; Related Financing Activities:</u></b>		
Additions to Capital Assets	(12,275)	(43,154)
Gain on Sale of Equipment	-	-
Proceeds from long-term debt	-	-
Principal paid on long-term debt	-	-
Interest paid on Debt	-	-
<b>Net Cash Provided (Used) by Capital &amp; Related Financing Activities</b>	<u>(12,275)</u>	<u>(43,154)</u>
<b><u>Net Cash Flows from Investing Activities:</u></b>		
Miscellaneous Income	179	2,010
Interest Income	900	1,197
<b>Net Cash Provided (Used) by Investing Activities</b>	<u>1,079</u>	<u>3,207</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	27,329	706
<b>Cash &amp; Cash Equivalents, Beginning of Year</b>	81,839	81,133
<b>Cash &amp; Cash Equivalents, Prior Year Adjustment</b>	-	-
<b>Cash &amp; Cash Equivalents, End of Year</b>	<u>\$ 109,167</u>	<u>\$ 81,839</u>
<b><u>Reconciliation of operating income (loss) to net cash provided operating activities:</u></b>		
Operating Income (Loss)	\$ 19,951	\$ 28,295
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	16,608	17,308
(Increase)Decrease in Accounts Receivable	(3,474)	(4,131)
(Increase)Decrease in Prepaid Expenses	(138)	(114)
(Increase)Decrease in Other Assets	646	(389)
Increase(Decrease) in Accounts Payable	464	(335)
Increase(Decrease) in Payroll Taxes Payable	(23)	18
Increase(Decrease) in Accrued Interest	-	-
Increase(Decrease) in Security Deposits	4,492	-
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>\$ 38,525</u>	<u>\$ 40,652</u>

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



PUSHMATAHA COUNTY RURAL WATER DISTRICT #2  
ALBION, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

Organization & Reporting Entity

Rural Water District No. 2, Pushmataha County, Oklahoma was formed on November 15, 1965, 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 Pushmataha County in Albion, Oklahoma.

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 part through user fees or charges.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses when incurred.

Budgetary Data

The District is required by Article 8 of its By-laws to prepare an annual budget.

Assets, Liabilities, & Equity

Cash & Cash Equivalents

For purposes of these financial statements, the District considers cash and cash equivalents to be currency on hand and demand deposits with banks. There were no non-monetary transactions.

Inventory

Inventory consists of meters, pipe, and other supplies on hand at December 31, 2010. Inventory items are valued at cost.

Accounts Receivable

The District does not have an allowance for doubtful accounts because it believes the ultimate amount received will be materially similar to the amount accrued.

PUSHMATAHA COUNTY RURAL WATER DISTRICT #2  
ALBION, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

Capital Assets

Water Distribution facilities 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 fifty years. The dollar threshold for capitalization has been set at \$100.00.

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

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

PUSHMATAHA COUNTY RURAL WATER DISTRICT #2  
ALBION, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

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 December 31, 2003 as provided by GASB standards.

Memorandum Only

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

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

Finance-related Legal & Contractual Provisions

The District does not have any loans which would require reserve accounts or budget preparation.

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.

PUSHMATAHA COUNTY RURAL WATER DISTRICT #2  
ALBION, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

NOTE 3 - CASH AND INVESTMENTS

Custodial Credit Risk

At December 31, 2010, the District held deposits of approximately \$109,167 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name.

Investment Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The District has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

NOTE 4 - RESTRICTED ASSETS

The District no longer has restricted assets because the notes payable have been paid in full.

PUSHMATAHA COUNTY RURAL WATER DISTRICT #2  
 ALBION, OKLAHOMA  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2010

NOTE 5 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended December 31, 2010, was as follows:

	Balance at Dec. 31, 2009	Additions	Deductions	Balance at Dec. 31, 2010
Water Distribution Facilities	\$ 641,522	\$ -	\$ -	\$ 641,522
Equipment	32,099	-	-	32,099
Buildings	18,278	12,275	-	30,553
Land	2,250	-	-	2,250
Subtotal	694,150	12,275	-	706,425
Less: Accum. Depr.	(403,702)	(16,608)	-	(420,310)
Total Capital Assets (Net of Depreciation)	<u>\$ 290,447</u>	<u>\$ (4,333)</u>	<u>\$ -</u>	<u>\$ 286,115</u>

The current year addition was the pump building at the water treatment plant.

NOTE 6 - LONG-TERM DEBT

The District currently has no long-term debt.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended December 31, 2010:

	Balance at December 31, 2009	Additions	Deductions	Balance at December 31, 2010
Notes Payable	\$ -	\$ -	\$ -	\$ -
Total Long-Term Debt	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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, 2010, are as follows:

Year Ending December 31,	
2011	\$ -
2012	-
2013	-
2014	-
2015	-
2016-2020	-
Total	<u>\$ -</u>

PUSHMATAHA COUNTY RURAL WATER DISTRICT #2  
ALBION, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

NOTE 7 - FUND EQUITY

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

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

NOTE 8 - CONTINGENCIES

Litigation

According to management there were no known contingent liabilities at December 31, 2010, 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 - ACCUMULATED UNPAID VACATION BENEFITS

Accumulated unpaid vacation benefits have not been shown 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 10 - WATER CONTRACTS

The District purchases all of its water from the Talihina Public Works Authority. The current rate of purchase is \$1.70 per 1,000 gallons of water. This rate became effective October 5, 2006.

The District sells water to the Choctaw Housing Authority for \$135.50 for the first 10,000 gallons, \$57.75 for the next 21,000 gallons and \$3.11 per 1,000 gallons for the remainder.

NOTE 11 - INSURANCE COVERAGE

The District maintains the following insurance coverage through the Oklahoma Rural Water Association.

PUSHMATAHA COUNTY RURAL WATER DISTRICT #2  
ALBION, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

- Auto Liability & Auto Physical
- Property Insurance
- General Liability
- Directors & Officers
- Employment Practice
- Employee Dishonesty
- Money Securities
- Workers' Compensation

NOTE 12 - 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 13 - SUBSEQUENT EVENTS

The District did not have any subsequent events through the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year end December 31, 2010.

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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  
Pushmataha County Rural Water District #2  
Albion, Oklahoma

I have audited the financial statements of the Pushmataha County Rural Water District #2, as of December 31, 2010 and have issued my report thereon dated March 9, 2012, which was qualified for problems relating to payroll and related taxes. The Pushmataha County Rural Water District #2 has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, except that the District did not present the required MD&A. I conducted my audit in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes.

### Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Pushmataha County Rural Water District #2's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Pushmataha County Rural Water District #2's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

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

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weakness, as defined above. However, I identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings that I consider to be significant deficiencies in internal control over financial reporting. Those deficiencies are listed as Items 10-01, 10-02 & 10-03. 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 Pushmataha County Rural Water District #2's financial statements are free of material misstatement, I performed tests of



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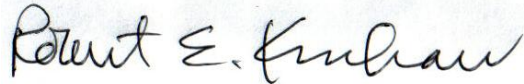
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compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is included in the Schedule of Findings as Item 10-04. The results of my tests disclosed no instances of other matters that are required to be reported under *Government Auditing Standards*.

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

This report is intended solely for the information and use of the board of directors and management of the Pushmataha County Rural Water District #2 and is not intended to be and should not be used by anyone other than these specified parties.



Robert E. Kershaw, Certified Public Accountant

March 9, 2012

PUSHMATAHA COUNTY RURAL WATER DISTRICT #2  
ALBION, OKLAHOMA  
SCHEDULE OF FINDINGS  
DECEMBER 31, 2010

INTERNAL CONTROL FINDINGS:

Item 10-01: Segregation of Duties

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

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

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

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

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

Item 10-02: General Ledger

Criteria: Internal control refers to the methods and procedures used to provide reasonable assurance regarding the achievement of objectives in the following categories: Safeguarding assets, Ensuring validity of financial records and reports, Promoting adherence to policies, procedures, regulations and laws, and Promoting effectiveness and efficiency of operations. Internal control also refers to how an entity processes, summarizes and records the financial transactions. In general terms, internal controls are simply good business practices.

Condition: The District did not have strong internal controls in place for ensuring validity of financial records and reports, and in some instances internal control is virtually non-existent.

Cause/Effect: Due to the weak internal control system, the general ledger did not include all income and expenses for the year. However, other evidence including bank statements and previous year's comparisons were used in audit procedures to determine any adjustments necessary to correct the general ledger.

Recommendation: All revenue and expenses should be properly classified and documented. The Board should continue to be actively involved in the operations of the District.

PUSHMATAHA COUNTY RURAL WATER DISTRICT #2  
ALBION, OKLAHOMA  
SCHEDULE OF FINDINGS  
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Response: Due to the limited number of personnel, verification of the accuracy of the accounting records is not always possible.

Item 10-03: Customer Deposits

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

Condition: The Deposit Liability has not been accurately posted with all transactions.

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: All deposit refunds and final bills should be accurately posted to reconcile the liability account at yearend. A Meter Deposit Ledger should be properly maintained so that an accurate liability amount can be reported.

Response: Due to the limited number of personnel, verification of the accuracy of the accounting records is not always possible.

COMPLIANCE FINDINGS:

Item 10-04: Payroll Reporting and Compliance

Criteria: The District is required to withhold one half social security tax and applicable federal and state income tax from gross wages and timely remit such funds to the United States Treasury, the Oklahoma Tax Commission and the OESC. Reporting payroll activity on IRS forms 941, Oklahoma forms OW-8, OES-3 is required at various periods during the year, monthly, quarterly or annually.

Condition: Payroll taxes for the current were not paid in a timely manner and are still past due.

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

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

Response: The District was not aware of the past due taxes until the last month of the year. At that time, the District began trying to get caught up.