

AUDIT REPORT

MCCURTAIN COUNTY RURAL WATER DISTRICT #2
MCCURTAIN COUNTY, OKLAHOMA

DECEMBER 31, 2015



KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: RK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

MCCURTAIN COUNTY RURAL WATER DISTRICT #2
MCCURTAIN COUNTY, OKLAHOMA
DECEMBER 31, 2015

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KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We were engaged to audit the accompanying modified cash basis financial statements of the McCurtain County Rural Water District #2, as of and for the fiscal year ended December 31, 2015, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1. This includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an opinion.

Basis for Disclaimer of Opinion

Management did not maintain adequate, effective internal controls for the preparation, substantial accuracy and completeness of the financial statements, including reviewing proposed entries and understanding the nature and impact of proposed entries to the financial statements. Records were poorly maintained, inaccurate, and in some cases missing. As a result, we were unable to determine whether any adjustments to the amounts reported were necessary.

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Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

Other Matters

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2017, on our consideration of the McCurtain County Rural Water District #2'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* in considering McCurtain County Rural Water District #2's internal control over financial reporting and compliance.

Basis of Accounting

We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Kershaw CPA & Associates, P.C.

Kershaw CPA & Associates, PC

March 14, 2017

EXHIBIT A

MCCURTAIN COUNTY RURAL WATER DISTRICT #2
MCCURTAIN COUNTY, OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
DECEMBER 31, 2015

	Total 2015	Total (Memo Only) 2014
<u>ASSETS</u>		
<u>Current Assets:</u>		
Cash and Cash Equivalents:		
Operations & Maintenance Account	\$ 1,094	\$ 6,263
Gross Revenue Account	143,798	117,894
Certificate of Deposit	12,884	12,694
Renter/Homeowner Deposit Account	1,114	1,108
Depreciation Account	7,933	7,894
RD Deposit Account	1,195	1,189
Total Current Assets	<u>168,018</u>	<u>147,043</u>
<u>Capital Assets:</u>		
Water System	293,434	293,434
Highway Project	249,222	249,222
Office Equipment	1,294	1,294
Less: Accumulated Depreciation	<u>(155,394)</u>	<u>(133,687)</u>
Total Capital Assets	<u>388,556</u>	<u>410,262</u>
TOTAL ASSETS	<u><u>\$ 556,574</u></u>	<u><u>\$ 557,305</u></u>
<u>LIABILITIES</u>		
<u>Current Liabilities:</u>		
Current Portion of Long-Term Debt	<u>\$ -</u>	<u>\$ -</u>
Total Current Liabilities	<u>-</u>	<u>-</u>
<u>Long-Term Liabilities:</u>		
USDA Rural Development Notes Payable	-	-
Less: Current Portion of Long-Term Debt	<u>-</u>	<u>-</u>
Total Long-Term Liabilities	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	<u>-</u>	<u>-</u>
<u>NET POSITION</u>		
Net investment in capital assets	388,556	410,262
Restricted for capital improvements	12,884	12,694
Unrestricted	<u>155,134</u>	<u>134,349</u>
TOTAL NET POSITION	<u><u>556,574</u></u>	<u><u>557,305</u></u>
TOTAL LIABILITIES & NET POSITION	<u><u>\$ 556,574</u></u>	<u><u>\$ 557,305</u></u>

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

EXHIBIT B

MCCURTAIN COUNTY RURAL WATER DISTRICT #2
MCCURTAIN COUNTY, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
- MODIFIED CASH BASIS -
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015

	Total 2015	Total (Memo Only) 2014
<u>Operating Revenues:</u>		
Water Sales	\$ 139,459	\$ 131,351
Penalty Income	-	-
Reconnect Fees	650	525
Benefit Units	1,200	2,400
Other Income	2,270	2,304
Total Operating Revenues	143,579	136,579
<u>Operating Expenses:</u>		
Water Purchased	42,581	42,581
Salaries and related payroll expenses	34,965	14,088
Labor	-	-
Mileage & Travel	2,230	2,269
Repairs and Maintenance	29,355	33,093
Utilities	2,565	1,684
Insurance and Bond	6,549	6,347
Professional Fees	-	-
Dues, licenses & fees	475	437
Office Supplies & Postage	2,285	2,256
Deposit Refunds	-	-
Advertising	18	22
Petty Cash Expenses	2,400	2,400
Depreciation Expense	21,706	21,706
Miscellaneous	-	-
Total Operating Expenses	145,128	126,884
Operating Income (Loss)	(1,549)	9,696
<u>Non-Operating Revenues (Expenses):</u>		
Interest Income	818	797
Interest Expense	-	-
Total Non-operating Revenues (Expenses)	818	797
Net Income (Loss) Before Contributions	(731)	10,493
Capital Contributions	-	-
Change in Net Position	(731)	10,493
Total Net Position - Beginning	557,305	546,812
Total Net Position - Prior Year Adjustment	-	-
Total Net Position - Ending	\$ 556,574	\$ 557,305

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

EXHIBIT C

**MCCURTAIN COUNTY RURAL WATER DISTRICT #2
MCCURTAIN COUNTY, OKLAHOMA
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015**

	2015	Memorandum Only 2014
<u>Cash Flows from Operating Activities:</u>		
Receipts from Customers	\$ 143,579	\$ 136,579
Payments to Suppliers & Laborers for Goods & Services	(123,421)	(105,177)
Net Cash Provided (Used) by Operating Activities	20,157	31,402
<u>Cash Flows from Capital & Related Financing Activities:</u>		
Additions to Capital Assets	-	-
Grant Income	-	-
Loan Proceeds	-	-
Principal paid on Debt	-	-
Interest paid on Debt	-	-
Net Cash Provided (Used) by Capital & Related Financing Activities	-	-
<u>Cash Flows from Investing Activities:</u>		
Increase in Investments	818	797
Net Cash Provided (Used) by Investing Activities	818	797
Net Increase (Decrease) in Cash and Cash Equivalents	20,975	32,199
Cash & Cash Equivalents, Beginning of Year	147,043	114,844
Cash & Cash Equivalents, Prior Year Adjustment	-	-
Cash & Cash Equivalents, End of Year	\$ 168,018	\$ 147,043
<u>Reconciliation of operating income (loss) to net cash provided operating activities:</u>		
Operating Income (Loss)	\$ (1,549)	\$ 9,696
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	21,706	21,706
Increase(Decrease) in Accounts Payable	-	-
Increase(Decrease) in Renters Deposits	-	-
Net Cash Provided (Used) by Operating Activities	\$ 20,157	\$ 31,402

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

MCCURTAIN COUNTY RURAL WATER DISTRICT #2
MCCURTAIN COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1.C, these financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) established by the Governmental Accounting Standards Board (GASB). These modified cash-basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

A. Financial Reporting Entity

McCurtain County Rural Water District #2 (the District), is a Water District organized under the laws of the State of Oklahoma. The District provides water service to rural residents of McCurtain County, Oklahoma. The activities of the District constitute the entire reporting entity. There are no component or oversight units.

B. Basis of Presentation

The accounts of the District are organized on the basis of proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net position, revenues and expenses. Enterprise Funds account for activities (1) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (2) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (3) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

C. Measurement Focus and Basis of Accounting

Measurement Focus

MCCURTAIN COUNTY RURAL WATER DISTRICT #2
MCCURTAIN COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

The District utilizes an 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 position (or cost recovery), net financial position, and cash flows. All assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent or financial or nonfinancial) associated with their activities are generally reported within the limitations of the modified cash basis of accounting.

Basis of Accounting

The financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modifications to the cash basis of accounting to report in the statements of net position cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include investments, capital assets and related depreciation, and short-term and long-term liabilities arising from cash transactions or events.

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue billed or provided services not yet collected and other accrued revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

If the District utilized the basis of accounting recognized as generally accepted in the United States, the fund financial statements for proprietary fund types would use the accrual basis of accounting.

MCCURTAIN COUNTY RURAL WATER DISTRICT #2
MCCURTAIN COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

D. Financial Position

Cash & Cash Equivalents

For the purpose of financial reporting, "cash & cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less.

Investments

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

Accounts Receivable

As a result of the use of the cash basis of accounting, accounts receivable, allowances for doubtful accounts and other revenue related receivables are not reported in the financial statements.

Capital Assets

Capital assets have been combined and recorded at cost in the financial statements and are not depreciated. The District did not maintain individual records or real and personal property. The District began recording depreciation expense for known assets included in the financial statements. However, prior year accumulated depreciation is unknown. The useful life for the system is 25 years and 5 years for equipment.

The capitalization threshold has been set at \$1,000.00 for new asset purchases.

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.

MCCURTAIN COUNTY RURAL WATER DISTRICT #2
MCCURTAIN COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

Equity Classification

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

1. *Net investment in capital assets* – 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 and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.
2. *Restricted* - Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction 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 amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment of capital assets or the restricted component of net position.

It is the District's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

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.

Benefit units represent a membership connection fee required of each member at the time they request service. This nonrefundable fee is designed to cover the estimated cost of hook-up costs to the District's system. As such, the fees are recorded as operating revenue.

MCCURTAIN COUNTY RURAL WATER DISTRICT #2
MCCURTAIN COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

E. Income Tax Status

The District is conducting its affairs as a non-profit organization and has made no provision for federal income tax.

F. Compensated Absences

The employees of the District receive no compensated leave.

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.

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.

NOTE 3 - CASH AND INVESTMENTS

Custodial Credit Risk

At December 31, 2015, the District held deposits of approximately \$168,018 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:

MCCURTAIN COUNTY RURAL WATER DISTRICT #2
MCCURTAIN COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

- 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. However, the District considers the Certificate of Deposit reserved for capital improvements

NOTE 5 - CAPITAL ASSETS

Capital asset activity, resulting from the modified cash basis transactions, for the fiscal year ended December 31, 2015, was as follows:

	Balance at Dec. 31, 2014	Additions	Deductions	Balance at Dec. 31, 2015
Water System	\$ 293,434	\$ -	\$ -	\$ 293,434
Highway Project	249,222	-	-	249,222
Office Equipment	1,294	-	-	1,294
Subtotal	543,949	-	-	543,949
Less: Accum. Depr.	(133,687)	(21,706)	-	(155,394)
Total Capital Assets (Net of Depreciation)	<u>\$ 410,262</u>	<u>\$ (21,706)</u>	<u>\$ -</u>	<u>\$ 388,556</u>

MCCURTAIN COUNTY RURAL WATER DISTRICT #2
MCCURTAIN COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

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, 2015:

	Balance at Dec. 31, 2014	Additions	Deductions	Balance at Dec. 31, 2015
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, 2015, are as follows:

Year Ended December 31,	Principal	Interest	Annual Payment
2016	\$ -	\$ -	\$ -
2017	-	-	-
2018	-	-	-
2019	-	-	-
2020	-	-	-
2021-2025	-	-	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 7 - FUND EQUITY

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

1. Net investment in capital assets
2. Restricted
3. Unrestricted

The restricted amounts are described in Note 4 above.

NOTE 8 - CONTINGENCIES

Litigation

The District currently has no pending litigation.

MCCURTAIN COUNTY RURAL WATER DISTRICT #2
MCCURTAIN COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

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 - RETIREMENT & DEFERRED COMPENSATION PLANS

The District has no retirement or deferred compensation plan. There are no post-employment benefits provided.

NOTE 10 - RENTER/HOMEOWNER DEPOSIT ESCROW ACCOUNT

The District no longer charges customers a deposit fee and the deposits left in the account are due to be refunded back to customers. The deposits were refunded in 2007.

NOTE 11 - ESTIMATES

The preparation of financial statements in conformity with the modified cash basis of accounting used by the District requires management to make estimates and assumptions that could affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense). Accordingly, actual results could differ from those estimates.

NOTE 12 - 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, 2015.

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INDEPENDENT AUDITOR'S 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
McCurtain County Rural Water District #2
McCurtain County, Oklahoma

We were engaged to audit, in accordance with the 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, the modified cash basis financial statements of the McCurtain County Rural Water District #2, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles, and have issued our report thereon dated March 14, 2017, which was a disclaimer of opinion because inadequate accounting records precluded us from performing sufficient audit procedures on the financial statements.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the McCurtain County Rural Water District #2's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 McCurtain County Rural Water District #2's internal control. Accordingly, we do not express an opinion on the effectiveness of McCurtain County Rural Water District #2's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that

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is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings that we consider to be significant deficiencies. Those deficiencies are listed as Items 15-01 and 15-02.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the McCurtain County Rural Water District #2'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 instances of noncompliance that are required to be reported under Government Auditing Standards, which are included in the Schedule of Findings at Item 15-03. The results of our tests disclosed no instances of other matters that are required to be reported under *Government Auditing Standards*.

McCurtain County Rural Water District #2's Response to Findings

McCurtain County Rural Water District #2's response to the findings identified in our audit is described in the accompanying Schedule of Findings. McCurtain County Rural Water District #2's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an

KERSHAW CPA & ASSOCIATES, PC

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integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

March 14, 2017

MCCURTAIN COUNTY RURAL WATER DISTRICT #2
MCCURTAIN COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS
DECEMBER 31, 2015

INTERNAL CONTROL FINDINGS:

Item 15-01: 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

Item 15-02: Capital Asset Recordkeeping

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 does not have strong internal controls in place for ensuring validity of financial records and reports, and in some instances is virtually non-existent.

Cause/Effect: Due to the weak internal control system, only minimal capital assets records are being maintained.

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Recommendation: Periodic physical inventories required for good internal control should be conducted.

Response: The District is aware of the problem.

COMPLIANCE FINDINGS:

Item 15-03: 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 year were not paid in a timely manner and were still past due at fiscal yearend.

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 is aware of the problem. Payments of \$20,742.08 for past payroll taxes were made during this year to try to bring the District into compliance.