

# AUDIT REPORT

PUSHMATAHA COUNTY RURAL WATER DISTRICT #2  
ALBION, OKLAHOMA

DECEMBER 31, 2015

## KERSHAW CPA & ASSOCIATES, PC

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PUSHMATAHA COUNTY RURAL WATER DISTRICT #2  
ALBION, OKLAHOMA  
DECEMBER 31, 2015

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## INDEPENDENT AUDITOR'S REPORT

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

### *Report on the Financial Statements*

We have audited the accompanying modified cash basis financial statements of the Pushmataha 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also

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includes evaluating the appropriateness of accounting policies used, and the reasonableness of significant accounting estimates made, by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

## *Basis for Qualified Opinion*

As discussed in Item 15-03 of the Schedule of Findings, the District has not maintained accurate records to support the debit card transaction account. We were unable to obtain sufficient appropriate audit evidence about the debit card expenses of \$4,788.78 because of the lack of documentation. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

## *Qualified Opinion*

In our opinion, except for the possible effects of the matter described in the “Basis for Qualified Opinion” paragraph, the financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of the Pushmataha County Rural Water District #2, Pushmataha County, Oklahoma, as of December 31, 2015, and the changes in modified cash basis financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

## *Other Matters*

### *Other Reporting Required by Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated March 26, 2019, on our consideration of the Pushmataha 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 solely 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 effectiveness of Pushmataha County Rural Water District #2’s 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 Pushmataha County Rural Water District #2’s internal control over financial reporting and compliance.

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## *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 26, 2019

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

<u>ASSETS</u>	<u>2015</u>
<b><u>CURRENT ASSETS:</u></b>	
Cash:	
Petty Cash Card	\$ -
Operating	53,045
Savings Account	76,636
Savings Account #2	4,508
Total Current Assets	<u>134,190</u>
<b><u>OTHER ASSETS:</u></b>	
ORWA Investment	<u>2,000</u>
Total Restricted Assets	<u>2,000</u>
<b><u>CAPITAL ASSETS:</u></b>	
Water Distribution Facilities	677,952
Equipment	91,116
Buildings	30,553
Land	2,250
	<u>801,871</u>
Less: Accumulated Depreciation	<u>(526,404)</u>
Net Capital Assets	<u>275,467</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 411,657</u></u>
<b><u>LIABILITIES &amp; NET POSITION</u></b>	
<b><u>CURRENT LIABILITIES:</u></b>	
Customer Meter Deposits	\$ 8,907
Current Portion of Long-Term Debt	-
Total Current Liabilities	<u>8,907</u>
<b><u>LONG-TERM LIABILITIES:</u></b>	
Notes Payable	-
Less: Current Portion	-
Total Long-Term Liabilities	<u>-</u>
<b>TOTAL LIABILITIES</b>	<u>8,907</u>
<b><u>NET POSITION:</u></b>	
Net investment in capital assets	275,467
Restricted for debt service	-
Unrestricted	127,283
<b>TOTAL NET POSITION</b>	<u>402,750</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u><u>\$ 411,657</u></u>

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 POSITION - MODIFIED CASH BASIS  
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2015**

	<u>2015</u>
<b><u>OPERATING REVENUES:</u></b>	
Water Sales	\$ 213,349
Late Fees	-
Benefit Units/Meters	4,750
Grant Income	-
Service Fees	-
<b>TOTAL OPERATING REVENUES</b>	<u>218,099</u>
<b><u>OPERATING EXPENSES:</u></b>	
Salaries	63,607
Payroll Taxes	4,283
Director's Fees	1,140
Water Purchases	58,414
Small Tools	-
Utilities	8,422
Truck Expense	10,495
Supplies, Repairs & Maintenance	53,857
Office Supplies & Postage	6,832
Legal and Audit	2,049
Dues & Fees	46
Water Tests	3,622
Insurance and Bonds	9,210
Mileage	1,177
Depreciation	26,593
Miscellaneous	1,886
Bank Charges	150
Returned Checks	1,696
<b>Total Operating Expenses</b>	<u>253,478</u>
<b>NET OPERATING INCOME (LOSS)</b>	<u>(35,380)</u>
<b><u>OTHER REVENUES (EXPENSES):</u></b>	
Interest Income	399
Interest Expense	-
Gain on Sale of Equipment	-
Miscellaneous	4,064
<b>Total Other Revenues (Expenses)</b>	<u>4,462</u>
<b>CHANGE IN NET POSITION</b>	<u>(30,917)</u>
<b>CAPITAL CONTRIBUTIONS - Membership Income</b>	-
<b>TOTAL NET POSITION, Beginning of Year</b>	433,667
<b>TOTAL NET POSITION, Prior Year Adjustment</b>	-
<b>TOTAL NET POSITION, End of Year</b>	<u><u>\$ 402,750</u></u>

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

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

	<u>2015</u>
<b><u>Cash Flows from Operating Activities:</u></b>	
Cash Receipts from Customers	\$ 218,099
Cash Receipts from Others	-
Payments to Suppliers for Goods & Services	(162,405)
Payments to Employees & Laborers	<u>(63,607)</u>
Net Cash Provided (Used) by Operating Activities	<u>(7,913)</u>
<b><u>Cash Flows from Capital &amp; Related Financing Activities:</u></b>	
Additions to Capital Assets	-
Gain on Sale of Equipment	-
Proceeds from long-term debt	-
Principal paid on long-term debt	-
Interest paid on Debt	<u>-</u>
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>-</u>
<b><u>Cash Flows from Investing Activities:</u></b>	
Miscellaneous Income	4,064
Interest Income	<u>399</u>
Net Cash Provided (Used) by Investing Activities	<u>4,462</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(3,451)
Cash & Cash Equivalents, Beginning of Year	137,641
Cash & Cash Equivalents, Prior Year Adjustment	<u>-</u>
Cash & Cash Equivalents, End of Year	<u><u>\$ 134,190</u></u>
<b><u>Reconciliation of operating income (loss) to net cash provided</u></b>	
<b><u>operating activities:</u></b>	
Operating Income (Loss)	\$ (35,380)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation	26,593
Increase(Decrease) in Security Deposits	<u>874</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ (7,913)</u></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, 2015

NOTE 1 - SUMMARY OF 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. 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.

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 assets, revenues and expenses. Enterprise Funds account for activities (1) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (2) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt 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).

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

C. Measurement Focus and Basis of Accounting

Measurement Focus

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.

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

D. Financial Position

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, 2015. Inventory items are valued at cost. However, because of the District's use of the modified cash basis of accounting the balance of inventory is not included in the financial statements.

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 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

PUSHMATAHA COUNTY RURAL WATER DISTRICT #2  
ALBION, OKLAHOMA  
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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.

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

PUSHMATAHA COUNTY RURAL WATER DISTRICT #2  
ALBION, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
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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.

NOTE 3 - CASH AND INVESTMENTS

Custodial Credit Risk

At December 31, 2015, the District held deposits of approximately \$136,190 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.

PUSHMATAHA COUNTY RURAL WATER DISTRICT #2  
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NOTES TO FINANCIAL STATEMENTS  
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- 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.

NOTE 5 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended December 31, 2015, was as follows:

	Balance at Dec. 31, 2014	Additions	Deductions	Balance at Dec. 31, 2015
Water Distribution Facilities	\$ 677,952	\$ -	\$ -	\$ 677,952
Equipment	91,116	-	-	91,116
Buildings	30,553	-	-	30,553
Land	2,250	-	-	2,250
Subtotal	801,871	-	-	801,871
Less: Accum. Depr.	(499,811)	(26,593)	-	(526,404)
Total Capital Assets (Net of Depreciation)	<u>\$ 302,060</u>	<u>\$ (26,593)</u>	<u>\$ -</u>	<u>\$ 275,467</u>

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:

PUSHMATAHA COUNTY RURAL WATER DISTRICT #2  
ALBION, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
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	Balance at December 31, 2014	Additions	Deductions	Balance at December 31, 2015
Notes Payable	\$ -	\$ -	\$ -	\$ -
Total Long-Term Debt	\$ -	\$ -	\$ -	\$ -

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 Ending December 31,	
2016	\$ -
2017	-
2018	-
2019	-
2020	-
2021-2025	-
Total	<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

NOTE 8 - CONTINGENCIES

Litigation

According to management there were no known contingent liabilities at December 31, 2015, 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

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

The modified cash basis of accounting does not require recording of the accumulated unpaid vacation benefits as a liability in the financial statements. However, it is the District's position 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 \$1.90 per 1,000 gallons of water.

NOTE 11 - INSURANCE COVERAGE

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

- 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 the modified cash basis of accounting used by the Districts 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.



PUSHMATAHA COUNTY RURAL WATER DISTRICT #2  
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NOTES TO FINANCIAL STATEMENTS  
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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, 2015.

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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

We have audited, 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 Pushmataha 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 26, 2019, which was qualified because of the scope limitation on the debit card transactions.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Pushmataha 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 Pushmataha County Rural Water District #2's internal control. Accordingly, we do not express an opinion on the effectiveness of Pushmataha 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 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

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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, 15-02 and 15-03.

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

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

Pushmataha County Rural Water District #2's response to the findings identified in our audit is described in the accompanying Schedule of Findings. Pushmataha 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 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 26, 2019

PUSHMATAHA COUNTY RURAL WATER DISTRICT #2  
ALBION, 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 of the organization.

Item 15-02: 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.

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

Item 15-03: Recording Financial Transactions

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 opened a new bank account to be used by the manager for debit card transactions only.

Cause/Effect: The District did not have strong internal controls in place for recording financial transactions for this account. Invoices for the debit card transactions were not properly maintained.

Recommendation: The District needs to have policies and procedures in place that document all expenses with proper invoices.

Response: The District is aware of the problem and is putting additional controls in place.

COMPLIANCE FINDINGS:

None