

# AUDIT REPORT

CHOCTAW COUNTY RURAL WATER, SEWER, GAS AND SOLID  
WASTE MANAGEMENT DISTRICT NO. 3  
SAWYER, OKLAHOMA

JULY 31, 2016

## KERSHAW CPA & ASSOCIATES, PC

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CHOCTAW COUNTY RURAL WATER, SEWER, GAS AND SOLID WASTE  
MANAGEMENT DISTRICT NO. 3  
SAWYER, OKLAHOMA  
JULY 31, 2016

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CHOCTAW COUNTY RURAL WATER, SEWER, GAS AND SOLID WASTE  
MANAGEMENT DISTRICT NO. 3  
SAWYER, OKLAHOMA  
JULY 31, 2016

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>
JANALENE EATON	CHAIRMAN
KENT GRIMES	VICE CHAIRMAN
PAUL YODER	SECRETARY
CHRIS CULVEY	TREASURER

BOOKKEEPER

KAREN WILLCOX

# KERSHAW CPA & ASSOCIATES, PC

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## INDEPENDENT AUDITOR'S REPORT

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

### *Report on the Financial Statements*

We have audited the accompanying financial statements of Choctaw County Rural Water, Sewer, Gas and Solid Waste Management District No. 3, as of and for the fiscal year ended July 31, 2016, as listed in the table of contents and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of significant accounting

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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*

We were not able to obtain sufficient audit evidence to support unusually high amounts for Office Supply Expense. Payments made to Walmart and other vendors could not be confirmed with respect to proper board authorization and the underlying supporting documentation for these expenses, which cleared the District's bank account and were reported in the District's financial statements.

## *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 respective financial position of the Choctaw County Rural Water, Sewer, Gas and Solid Waste Management District No. 3 as of July 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## *Other Matters*

### *Required Supplementary Information*

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

### *Supplementary and Other Information*

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

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audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

## *Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2016, on our consideration of the Choctaw County Rural Water, Sewer, Gas and Solid Waste Management District No. 3's internal control over financial reporting and 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 accordance with *Government Auditing Standards* in considering Choctaw County Rural Water, Sewer, Gas and Solid Waste Management District No. 3's internal control over financial reporting and compliance.

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

December 16, 2016

**CHOCTAW COUNTY RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT DISTRICT NO. 3**  
**STATEMENT OF NET POSITION**  
**JULY 31, 2016**

	2016	Memorandum Only 2015
<b><u>ASSETS</u></b>		
<b><u>CURRENT ASSETS:</u></b>		
Cash in Bank	\$ 10,890	\$ 6,461
Accounts Receivable	8,619	8,857
Prepaid Insurance	2,237	2,072
<b>Total Current Assets</b>	<b>21,746</b>	<b>17,390</b>
<b><u>NON-CURRENT ASSETS:</u></b>		
Restricted Cash - Reserve Account	7,707	7,590
Capital Assets, Net of Accumulated Depreciation	534,392	553,310
<b>Total Non-Current Assets</b>	<b>542,099</b>	<b>560,900</b>
<b>TOTAL ASSETS</b>	<b>563,845</b>	<b>578,290</b>
<b><u>LIABILITIES &amp; NET POSITION</u></b>		
<b><u>CURRENT LIABILITIES:</u></b>		
Accounts Payable	5,758	4,160
Accrued Interest Payable	325	350
Customer Deposits Payable	2,275	2,275
Notes Payable - Current Portion	8,155	7,797
<b>Total Current Liabilities</b>	<b>16,513</b>	<b>14,582</b>
<b><u>LONG-TERM LIABILITIES:</u></b>		
Notes Payable - Long-term Portion	91,634	99,781
<b>TOTAL LIABILITIES</b>	<b>108,147</b>	<b>114,363</b>
<b><u>NET POSITION:</u></b>		
Net investment in capital assets	442,757	453,529
Restricted for debt service	7,707	7,590
Unrestricted	5,233	2,808
<b>TOTAL NET POSITION</b>	<b>\$ 455,698</b>	<b>\$ 463,927</b>

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

## EXHIBIT B

**CHOCTAW COUNTY RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT DISTRICT NO. 3  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION  
FOR THE TWELVE MONTHS ENDED JULY 31, 2016**

	<u>2016</u>	<u>Memorandum Only 2015</u>
<b><u>OPERATING REVENUES:</u></b>		
Water Sales	\$ 96,625	\$ 89,685
Other Income	7,476	4,735
	<hr/>	<hr/>
<b>TOTAL OPERATING REVENUES</b>	<b>104,101</b>	<b>94,420</b>
	<hr/>	<hr/>
<b><u>OPERATING EXPENSES:</u></b>		
Water Purchased	9,728	14,169
Salaries and Payroll Taxes	41,852	42,168
Advertising	-	-
Professional Fees	2,842	3,500
Auto and truck	2,975	3,266
Contract Labor	728	-
Dues and fees	160	108
Insurance	2,520	2,736
Office	10,179	5,750
Postage	949	900
Repairs and maintenance	7,511	3,180
Taxes, licenses and permits	-	-
Telephone and internet	2,563	2,537
Travel and meetings	208	83
Utilities	1,140	1,181
Water tests and lab fees	1,925	1,668
Bad Debt	230	224
Miscellaneous	1,355	946
Depreciation	20,918	21,008
	<hr/>	<hr/>
<b>TOTAL OPERATING EXPENSES</b>	<b>107,782</b>	<b>103,424</b>
	<hr/>	<hr/>
<b>OPERATING INCOME (LOSS)</b>	<b>(3,681)</b>	<b>(9,005)</b>
	<hr/>	<hr/>
<b><u>NON-OPERATING REVENUES (EXPENSES):</u></b>		
Interest Income	118	124
Interest Expense	(4,666)	(4,986)
	<hr/>	<hr/>
<b>CHANGE IN NET POSITION</b>	<b>(8,229)</b>	<b>(13,867)</b>
	<hr/>	<hr/>
<b>TOTAL NET POSITION, Beginning of Year</b>	<b>463,927</b>	<b>478,088</b>
	<hr/>	<hr/>
<b>TOTAL NET POSITION, Prior Year Adjustment</b>	<b>-</b>	<b>(294)</b>
	<hr/>	<hr/>
<b>TOTAL NET POSITION, End of Year</b>	<b>\$ 455,698</b>	<b>\$ 463,927</b>
	<hr/> <hr/>	<hr/> <hr/>

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

## EXHIBIT C

**CHOCTAW COUNTY RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT DISTRICT NO. 3  
STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JULY 31, 2016**

	<u>2016</u>	<u>Memorandum Only 2015</u>
<b><u>Cash Flows from Operating Activities:</u></b>		
Receipts from Customers	\$ 104,339	\$ 92,823
Payments to Suppliers for Goods & Services	(43,579)	(40,754)
Payments to Employees & Laborers	(41,852)	(42,168)
Receipts of Customer Utility Deposits, Net of Refunds	-	300
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>18,908</b>	<b>10,201</b>
<b><u>Cash Flows from Capital &amp; Related Financing Activities:</u></b>		
Additions to Capital Assets	(2,000)	-
Loan Proceeds	-	-
Principal paid on Debt	(7,788)	(7,474)
Interest paid on Debt	(4,691)	(5,006)
<b>Net Cash Provided (Used) by Capital &amp; Related Financing Activities</b>	<b>(14,479)</b>	<b>(12,479)</b>
<b><u>Cash Flows from Investing Activities:</u></b>		
Interest Income	118	124
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>118</b>	<b>124</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>4,547</b>	<b>(2,154)</b>
Cash & Cash Equivalents, Beginning of Year	14,051	16,499
Cash & Cash Equivalents, Prior Year Adjustment	-	(294)
<b>Cash &amp; Cash Equivalents, End of Year</b>	<b>\$ 18,597</b>	<b>\$ 14,051</b>
<b><u>Reconciliation of operating income (loss) to net cash provided</u></b>		
<b><u>operating activities:</u></b>		
Operating Income (Loss)	\$ (3,681)	\$ (9,005)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	20,918	21,008
(Increase)Decrease in Accounts Receivable	238	(1,597)
(Increase)Decrease in Prepaid Insurance	(165)	(211)
Increase(Decrease) in Accounts Payable	1,597	(295)
Increase(Decrease) in Customer Deposits	-	300
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>\$ 18,908</b>	<b>\$ 10,201</b>

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

CHOCTAW COUNTY RURAL WATER, SEWER, GAS AND SOLID WASTE  
MANAGEMENT DISTRICT NO. 3  
NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Choctaw County Rural Water, Sewer, Gas and Solid Waste Management District No. 3 (the "District") was created under the provisions of Title 82, Oklahoma Statutes, Sections 1324.1-1324.26 inclusive, for the purpose of providing water to the members of the District it serves. Membership in the water district consists of water users who have paid the required membership and connection fees.

Enterprise Fund Accounting

The accompanying financial statements reflect the District's financial condition, results of operations and cash flows within the framework of "enterprise fund" accounting. As defined, enterprise funds are established to account for the financing of self supporting activities of governmental units which render services on a user charge basis to the general public.

Basis of Accounting

The accrual basis of accounting is followed for all accounts. Revenues are recorded when earned and expenses are recognized when incurred. This policy is in accordance with generally accepted accounting principles.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial Position

Cash and Cash Equivalents

Cash is comprised of deposits in demand accounts and highly liquid investments with an original maturity of three months or less. At July 31, 2016, all deposits were fully insured by FDIC.

CHOCTAW COUNTY RURAL WATER, SEWER, GAS AND SOLID WASTE  
MANAGEMENT DISTRICT NO. 3  
NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2016

Capital Assets

Capital assets are valued at cost, and depreciation is computed using the straight-line method. The estimated useful life of these assets is range from 5 to 40 years. Included in these assets are the leases, rights and organizations expenses of the District, which are being amortized over a 40 year period.

Capitalization Policy

The District does not have a specific capitalization threshold. Capitalization is determined on a case by case basis for items that increase the capacity or operation efficiency or extend the useful life of any asset. Repairs and maintenance are expensed as incurred.

Allowance for Doubtful Accounts

The Allowance for Doubtful Accounts is computed as 5% of Accounts Receivable.

Inventory

The District does not include an inventory amount in its financial statements. All items purchased for inventory are expensed immediately.

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 that are attributable to the acquisition, construction, or

CHOCTAW COUNTY RURAL WATER, SEWER, GAS AND SOLID WASTE  
MANAGEMENT DISTRICT NO. 3  
NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2016

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 in 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.

Income Tax

As a political subdivision of the State of Oklahoma, the District is exempt from income taxes.

Memorandum Totals

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

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

As a local government unit, the District is subject to various federal, state, and local laws and contractual regulations. In accordance with Government Auditing Standards, the auditor has issued a report on his consideration of the District's internal control over

CHOCTAW COUNTY RURAL WATER, SEWER, GAS AND SOLID WASTE  
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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 reserve requirement for the USDA Note Payable is \$6,972, which the District has set aside in a restricted investment (Edward Jones) account.

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 July 31, 2016, the District held deposits of approximately \$18,597 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

CHOCTAW COUNTY RURAL WATER, SEWER, GAS AND SOLID WASTE  
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NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2016

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 loan agreement with the United States Department of Agriculture Rural Development (USDA) requires the District to set aside into a Reserve Account an accumulated amount equal to the sum of the annual installment (\$6,972), after which deposits may be suspended, except to replace withdrawals. The District cannot withdraw funds from the reserve account without USDA approval. As of July 31, 2016, the District was required to have at least \$6,972.00 set aside in the reserve account; as of that date the account balance for the reserve account was \$7,707.25, which complies with the covenants of the loan agreement.

NOTE 5 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended July 31, 2016, was as follows:

CHOCTAW COUNTY RURAL WATER, SEWER, GAS AND SOLID WASTE  
MANAGEMENT DISTRICT NO. 3  
NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2016

	Balance at July 31, 2015	Additions	Deductions	Balance at July 31, 2016
Water distribution system	\$ 735,902	\$ 2,000	\$ -	\$ 737,902
Tools and equipment	3,749	-	-	3,749
Trucks and tractors	14,000	-	-	14,000
Office building	41,625	-	-	41,625
Office furniture and equipment	8,702	-	-	8,702
Total Depreciated capital assets	<u>803,978</u>	<u>2,000</u>	<u>-</u>	<u>805,978</u>
Less accumulated depreciation for:				
Water distribution system	(216,106)	(18,423)		(234,529)
Tools and equipment	(3,162)	(283)		(3,445)
Trucks and tractors	(14,000)	-		(14,000)
Office building	(10,502)	(1,150)		(11,652)
Office furniture & equipment	(6,898)	(1,062)		(7,961)
Total Accumulated Depreciation	<u>(250,668)</u>	<u>(20,918)</u>	<u>-</u>	<u>(271,586)</u>
Total Capital Assets (Net of Depreciation)	<u>\$ 553,310</u>	<u>\$ (18,918)</u>	<u>\$ -</u>	<u>\$ 534,392</u>

The current year addition was for new service to a new 4" line.

NOTE 6 - LONG-TERM DEBT

Long-term debt for the District is a promissory note dated September 4, 1997, in the amount of \$126,500, payable to USDA Rural Development, formally known as Farmers Home Administration. The note is secured by certain real property and all other net assets of the District. The monthly payments on this note are \$581, with a fixed interest rate of 4.5% for 40 years.

Effective October 10, 2013, the District has a note payable to First United Bank in the amount of \$20,100.00 at 4.5% interest with monthly payments of \$458.94 and maturing October 10, 2017.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended July 31, 2016:

	Balance at July 31, 2015	Additions	Deductions	Balance at July 31, 2016
USDA Rural Development	\$ 95,861.75	\$ -	\$ (2,713.13)	\$ 93,148.62
First United Bank	\$ 11,716.08	\$ -	\$ (5,075.26)	\$ 6,640.82
Total Long-Term Debt	<u>\$ 107,577.83</u>	<u>\$ -</u>	<u>\$ (7,788.39)</u>	<u>\$ 99,789.44</u>

Debt Services Requirements to Maturity

The annual debt service requirements to maturity, including principal and interest, for long-term debt, as of July 31, 2016, are as follows:

CHOCTAW COUNTY RURAL WATER, SEWER, GAS AND SOLID WASTE  
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NOTES TO FINANCIAL STATEMENTS  
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Long-Term Note Payable - USDA Rural Development

Year Ending June 30,	Principal	Interest	Total
2017	\$ 2,838	\$ 4,134	\$ 6,972
2018	2,969	4,003	6,972
2019	3,105	3,867	6,972
2020	3,248	3,724	6,972
2021	3,397	3,575	6,972
2022-2026	19,475	15,385	34,860
2027-2031	24,379	10,481	34,860
2032-2036	30,517	4,343	34,860
2037	3,220	38	3,259
	<u>\$ 93,149</u>	<u>\$ 49,550</u>	<u>\$ 142,699</u>

Long-Term Note Payable - First United Bank

Year Ending June 30,	Principal	Interest	Total
2017	\$ 5,317	\$ 191	\$ 5,507
2018	1,324	10	1,334
2019	-	-	-
2020	-	-	-
2021	-	-	-
	<u>\$ 6,641</u>	<u>\$ 201</u>	<u>\$ 6,841</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

According to management there were no known contingent liabilities at July 31, 2016, which would have a material effect on the financial statements.

CHOCTAW COUNTY RURAL WATER, SEWER, GAS AND SOLID WASTE  
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NOTES TO FINANCIAL STATEMENTS  
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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 AND SICK LEAVE BENEFITS

Accumulated unpaid vacation and sick leave 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 - SUBSEQUENT EVENTS

The District did not have any subsequent events through December 16, 2016, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending July 31, 2016.

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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  
Choctaw County Rural Water, Sewer, Gas  
and Solid Waste Management District No. 3  
Sawyer, 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 financial statements of the Choctaw County Rural Water, Sewer, Gas and Solid Waste Management District No. 3, as of and for the year ended July 31, 2016, and the related notes to the financial statements, and have issued our report thereon dated December 16, 2016, which was qualified for the scope limitation on office expenses. Management has omitted the MD&A required by accounting principles generally accepted in the United States of America.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Choctaw County Rural Water, Sewer, Gas and Solid Waste Management District No. 3'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 Choctaw County Rural Water, Sewer, Gas and Solid Waste Management District No. 3's internal control. Accordingly, we do not express an opinion on the effectiveness of Choctaw County Rural Water, Sewer, Gas and Solid Waste Management District No. 3'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

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significant deficiencies. 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 16-01, 16-02 & 16-03.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Choctaw County Rural Water, Sewer, Gas and Solid Waste Management District No. 3'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 as Item 16-04. The results of our tests disclosed no instances of other matters that are required to be reported under *Government Auditing Standards*.

## Choctaw County Rural Water, Sewer, Gas and Solid Waste Management District No. 3's Response to Findings

Choctaw County Rural Water, Sewer, Gas and Solid Waste Management District No. 3's response to the findings identified in our audit is described in the accompanying Schedule of Findings. Choctaw County Rural Water, Sewer, Gas and Solid Waste Management District No. 3'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

December 16, 2016

CHOCTAW COUNTY RURAL WATER, SEWER, GAS AND SOLID WASTE  
MANAGEMENT DISTRICT NO. 3  
SCHEDULE OF FINDINGS  
JULY 31, 2016

INTERNAL CONTROL FINDINGS:

Item 16-01: Bank Reconciliation

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: Proper reconciliations were not consistently made of the cash balances per the general ledger with bank statements.

Cause/Effect: Reconciliations were prepared in QuickBooks up until June 2015. However, the general ledger included duplicate entries that were not corrected. The financial statements may contain misstatements and omit financial information.

Recommendation: Monthly bank reconciliations need to be performed on each bank account and the balance agree with that reflected in the financial statements and the general ledger.

Response: The District is aware of the problem.

Item 16-02: Debit Card Transactions

Criteria: See Item 16-01 above.

Condition: The District uses a debit card for many transactions.

Cause/Effect: The District did not have strong internal controls in place for documenting debit card transactions & documenting proper authorization of those transactions. 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.

CHOCTAW COUNTY RURAL WATER, SEWER, GAS AND SOLID WASTE  
MANAGEMENT DISTRICT NO. 3  
SCHEDULE OF FINDINGS  
JULY 31, 2016

Item 16-03: Bill Payments

Criteria: See Item 16-01 above.

Condition: The District has become delinquent with paying current year invoices.

Cause/Effect: The District did not have strong internal controls in place for paying bills. Payroll taxes were being paid late, which is also included as a compliance finding below. The District did not pay the invoice for Workers Compensation insurance during the current year.

Recommendation: The District needs to have policies and procedures in place for paying invoices on time.

Response: The District is aware of the problem.

COMPLIANCE FINDINGS:

Item 16-04: 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 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.