

AUDIT REPORT

MUSKOGEE COUNTY RURAL WATER DISTRICT #14
MUSKOGEE COUNTY, OKLAHOMA

DECEMBER 31, 2016

KERSHAW CPA & ASSOCIATES, PC

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MUSKOGEE COUNTY RURAL WATER DISTRICT #14
MUSKOGEE COUNTY, OKLAHOMA
DECEMBER 31, 2016

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MUSKOGEE COUNTY RURAL WATER DISTRICT #14
MUSKOGEE COUNTY, OKLAHOMA
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BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>
CHARLES MAYO	CHAIRMAN
JUDY JONES	VICE CHAIRMAN
KIM MCCLAIN	SECRETARY
DIANA MCCLELLAN	TREASURER
BRUCE REED	MEMBER

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Muskogee County Rural Water District #14
Muskogee County, Oklahoma

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the Muskogee County Rural Water District #14, as of and for the fiscal year ended December 31, 2016, 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.

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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 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 audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of the Muskogee County Rural Water District #14, Muskogee County, Oklahoma, as of December 31, 2016, and the changes in modified cash basis financial position and, where applicable, cash flows, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

Other Matters

Supplementary and Other Information

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

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Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 2, 2017, on our consideration of the Muskogee County Rural Water District #14'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 Muskogee County Rural Water District #14'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

August 2, 2017

EXHIBIT A

MUSKOGEE COUNTY RURAL WATER DISTRICT #14
MUSKOGEE COUNTY, OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
DECEMBER 31, 2016

	<u>2016</u>	<u>Memo Only 2015</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS:</u>		
Cash in Bank - Membership Acct	\$ 542	\$ 542
Cash in Bank - Operating Acct	19,126	19,872
Certificate of Deposit	9,140	9,121
Total Current Assets	<u>28,808</u>	<u>29,535</u>
<u>CAPITAL ASSETS:</u>		
Water System	154,598	152,986
Office Equipment	1,971	1,971
Less: Accumulated Depreciation	<u>(54,611)</u>	<u>(50,746)</u>
Net Capital Assets	<u>101,958</u>	<u>104,211</u>
TOTAL ASSETS	<u><u>\$ 130,767</u></u>	<u><u>\$ 133,747</u></u>
<u>LIABILITIES & NET POSITION</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>		
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	101,958	104,211
Restricted for debt service	-	-
Unrestricted	<u>28,808</u>	<u>29,535</u>
TOTAL NET POSITION	<u>130,767</u>	<u>133,747</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 130,767</u></u>	<u><u>\$ 133,747</u></u>

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

EXHIBIT B

**MUSKOGEE COUNTY RURAL WATER DISTRICT #14
MUSKOGEE COUNTY, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - MODIFIED CASH BASIS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2016**

	<u>2016</u>	<u>Memo Only 2015</u>
<u>OPERATING REVENUES:</u>		
Water Sales	\$ 13,102	\$ 12,011
Installation Fees	-	-
Membership Fees	-	-
	<u>13,102</u>	<u>12,011</u>
TOTAL OPERATING REVENUES	13,102	12,011
<u>OPERATING EXPENSES:</u>		
Water Purchases	4,589	4,510
Water Testing Fees	2,050	1,914
Line & Meter Supplies	-	-
Professional Fees	450	1,700
Insurance	1,342	1,342
Dues & Memberships	732	527
Office Supplies	236	188
Depreciation	3,865	3,825
Repairs & maintenance, including contract labor	2,836	2,418
Bank Charges	-	10
Bad Debt Expense	-	427
Rent	-	-
Miscellaneous	-	-
	<u>16,100</u>	<u>16,861</u>
TOTAL OPERATING EXPENSES	16,100	16,861
NET OPERATING INCOME (LOSS)	(2,999)	(4,850)
<u>OTHER REVENUES (EXPENSES):</u>		
Miscellaneous Income	-	429
Interest Income	19	19
	<u>19</u>	<u>448</u>
CHANGE IN NET POSITION	(2,980)	(4,402)
TOTAL NET POSITION, Beginning of Year	133,747	138,148
TOTAL NET POSITION, Prior Year Adjustment	-	-
TOTAL NET POSITION, End of Year	<u>\$ 130,767</u>	<u>\$ 133,747</u>

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

EXHIBIT C

**MUSKOGEE COUNTY RURAL WATER DISTRICT #14
MUSKOGEE COUNTY, OKLAHOMA
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2016**

	2016	Memorandum Only 2015
<u>Cash Flows from Operating Activities:</u>		
Cash Receipts from Customers	\$ 13,102	\$ 12,011
Payments to Suppliers for Goods & Services	(12,235)	(13,037)
Net Cash Provided (Used) by Operating Activities	866	(1,025)
<u>Cash Flows from Capital & Related Financing Activities:</u>		
Additions to Capital Assets	(1,612)	(858)
Proceeds from sale of Capital Assets	-	-
Principal Payments on Long-Term Debt	-	-
Interest Expense	-	-
Net Cash Provided (Used) by Capital & Related Financing Activities	(1,612)	(858)
<u>Cash Flows from Investing Activities:</u>		
Miscellaneous Income	-	429
Interest Income	19	19
Net Cash Provided (Used) by Investing Activities	19	448
Net Increase (Decrease) in Cash and Cash Equivalents	(727)	(1,435)
Cash & Cash Equivalents, Beginning of Year	29,535	30,971
Cash & Cash Equivalents, Prior Year Adjustment	-	-
Cash & Cash Equivalents, End of Year	<u>\$ 28,808</u>	<u>\$ 29,535</u>
<u>Reconciliation of operating income (loss) to net cash provided</u>		
<u>operating activities:</u>		
Net Operating Income (Loss)	\$ (2,999)	\$ (4,850)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	3,865	3,825
(Increase)Decrease in Accounts Receivable	-	-
Increase(Decrease) in Accounts Payable	-	-
Net Cash Provided (Used) by Operating Activities	<u>\$ 866</u>	<u>\$ (1,025)</u>

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

MUSKOGEE COUNTY RURAL WATER DISTRICT #14
MUSKOGEE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES & OPERATIONS

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. Reporting Entity

Muskogee County Rural Water District No. 14 (the "District") was created under the provisions of the laws of the State of Oklahoma in 2001 as a non-profit corporation. The District was formed for the purpose of acquiring water and water rights and to build and acquire pipelines and other facilities, to serve the needs of owners and occupants of land located within the District, and others as authorized by the bylaws.

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).

MUSKOGEE COUNTY RURAL WATER DISTRICT #14
MUSKOGEE COUNTY, OKLAHOMA
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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.

MUSKOGEE COUNTY RURAL WATER DISTRICT #14
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NOTES TO FINANCIAL STATEMENTS
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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.

D. Budgetary Data

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

E. Cash and Investments

The District considers all highly liquid investments with an original maturity of three months or less to be a cash equivalent.

F. Capital Assets (Property, Plant & Equipment)

The District's capital assets are stated at cost. Depreciation is computed using the straight-line method over the estimated useful life of the assets. Expenditures for major renewals and betterments which extend the useful lives of the fixed assets are capitalized. Expenditures for maintenance and repairs are expensed as incurred.

<u>Class of Asset</u>	<u>Estimated Useful Life</u>
Water Distribution System	40 years
Furniture, Fixtures & Equipment	5 years

Capitalization Policy - Purchases of capital items in excess of \$300.00 that increase the capacity or operation efficiency or extend the useful life of any asset are capitalized. Repairs and maintenance are expensed as incurred.

G. Income Taxes

The District is organized as a not-for-profit entity and is exempt from paying Federal and State Income Taxes.

H. Long-Term Debt

Long-term debt is reported at face value, net of applicable discounts and deferred loss on refunding. Costs related to

MUSKOGEE COUNTY RURAL WATER DISTRICT #14
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the issuance of debt are deferred and amortized over the lives of various debt issues.

I. 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.

J. 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.

K. Memorandum Totals

MUSKOGEE COUNTY RURAL WATER DISTRICT #14
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The “memorandum only” captions above the total columns mean that totals are presented for overview information purposes only.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

Finance-related Legal & Contractual Provisions

The District does not have any long-term loans and therefore does not have any reserve account or budget requirements.

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, 2016, the District held deposits of approximately \$28,808 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.

MUSKOGEE COUNTY RURAL WATER DISTRICT #14
MUSKOGEE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
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Investment Credit Risk

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

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

NOTE 4 - CAPITAL ASSETS

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

	Balance at Dec. 31, 2015	Additions	Deductions	Balance at Dec. 31, 2016
Water System	\$ 152,986	\$ 1,612	\$ -	\$ 154,598
Office Equipment	1,971	-	-	1,971
Subtotal	154,957	1,612	-	156,569
Less: Accum. Depr.	(50,746)	(3,865)	-	(54,611)
Total Capital Assets (Net of Depreciation)	<u>\$ 104,211</u>	<u>\$ (2,253)</u>	<u>\$ -</u>	<u>\$ 101,958</u>

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NOTES TO FINANCIAL STATEMENTS
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The current year capital asset additions included the following:

- Meter Installation

NOTE 5 - 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, 2016:

	Balance at December 31, 2015	Additions	Deductions	Balance at December 31, 2016
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, 2016, are as follows:

Year Ending December 31,	Principal	Interest	Total
2017	\$ -	\$ -	\$ -
2018	-	-	-
2019	-	-	-
2020	-	-	-
2021	-	-	-
2022-2027	-	-	-
Total	\$ -	\$ -	\$ -

NOTE 6 - 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

MUSKOGEE COUNTY RURAL WATER DISTRICT #14
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NOTES TO FINANCIAL STATEMENTS
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NOTE 7 - CONTINGENCIES

Litigation

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

Federally Assisted Programs

In the normal course of operations, the District participates in various federal or state/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

NOTE 8 - ECONOMIC DEPENDANCE

The District purchases 100% of the water sold to its membership from the Boynton Public Works Authority.

NOTE 9 - SUBSEQUENT EVENTS

The District did not have any subsequent events through August 2, 2017, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending December 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
Muskogee County Rural Water District #14
Muskogee County, 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 Muskogee County Rural Water District #14, as of and for the year ended December 31, 2016, 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 August 2, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Muskogee County Rural Water District #14'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 Muskogee County Rural Water District #14's internal control. Accordingly, we do not express an opinion on the effectiveness of Muskogee County Rural Water District #14'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 deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control

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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 Item 16-01.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Muskogee County Rural Water District #14'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*.

Muskogee County Rural Water District #14's Response to Findings

Muskogee County Rural Water District #14's response to the findings identified in our audit is described in the accompanying Schedule of Findings. Muskogee County Rural Water District #14'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

August 2, 2017

MUSKOGEE COUNTY RURAL WATER DISTRICT #14
MUSKOGEE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS
DECEMBER 31, 2016

Item 16-01: 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 the Manager, who is 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.