

# AUDIT REPORT

PUSHMATAHA COUNTY RURAL WATER DISTRICT #5  
NASHOBA, OKLAHOMA

DECEMBER 31, 2016



## KERSHAW CPA & ASSOCIATES, PC

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PUSHMATAHA COUNTY RURAL WATER DISTRICT #5  
PUSHMATAHA COUNTY, OKLAHOMA  
DECEMBER 31, 2016

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Pushmataha County Rural Water District #5  
Nashoba, Oklahoma

### *Report on the Financial Statements*

We were engaged to audit the accompanying modified cash basis financial statements of the Pushmataha County Rural Water District #5, 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. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an opinion.

### *Basis for Disclaimer of Opinion*

Management did not maintain adequate, effective internal controls for the preparation, substantial accuracy and completeness of the financial statements, including maintaining a complete general ledger accounting system. The District discontinued its use of Sage Accounting software for preparing a general ledger. The general ledger included activity only through September 2016.

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## *Disclaimer of Opinion*

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

## *Other Matters*

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 11, 2017, on our consideration of the Pushmataha County Rural Water District #5'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 Pushmataha County Rural Water District #5'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 11, 2017

**PUSHMATAHA COUNTY RURAL WATER DISTRICT #5  
STATEMENT OF NET POSITION - MODIFIED CASH BASIS  
DECEMBER 31, 2016**

	<u>2016</u>
<b><u>ASSETS</u></b>	
<b><u>Current Assets:</u></b>	
Cash	\$ 18,714
Investments	<u>9,115</u>
<b>Total Current Assets</b>	<b><u>27,829</u></b>
<b><u>Noncurrent Assets:</u></b>	
Restricted Investments	36,283
Other Capital Assets, Net of Accumulated Depreciation	<u>1,590,778</u>
<b>Total Noncurrent Assets</b>	<b><u>1,627,061</u></b>
<b>TOTAL ASSETS</b>	<b><u>\$ 1,654,891</u></b>
<b><u>LIABILITIES &amp; NET POSITION</u></b>	
<b><u>Current Liabilities:</u></b>	
Current Portion of Long-Term Debt	<u>\$ 10,857</u>
<b>Total Current Liabilities</b>	<b><u>10,857</u></b>
<b><u>Long-term Liabilities:</u></b>	
Notes Payable	383,958
Less: Current Portion of Long-Term Debt	<u>(10,857)</u>
<b>Total Long-term Liabilities</b>	<b><u>373,101</u></b>
<b>TOTAL LIABILITIES</b>	<b><u>383,958</u></b>
<b><u>Net Position:</u></b>	
Net investment in capital assets	1,243,103
Restricted for debt service	28,308
Unrestricted	<u>(479)</u>
<b>TOTAL NET POSITION</b>	<b><u>1,270,933</u></b>
<b>TOTAL LIABILITIES &amp; NET POSITION</b>	<b><u>\$ 1,654,891</u></b>

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

**PUSHMATAHA COUNTY RURAL WATER DISTRICT #5**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>2016</u>
<b><u>Operating Revenue:</u></b>	
Water Sales	\$ 130,579
Memberships	8,887
Other Income	<u>1,169</u>
Total Operating Revenue	<u>140,635</u>
<b><u>Operating Expenses:</u></b>	
Salaries & taxes	26,045
Water Purchases	40,296
Utilities and telephone	2,891
Depreciation Expense	63,385
Supplies and materials	973
Office Expense	3,023
Insurance	4,749
Contract Labor	425
Professional fees	2,150
Postage	1,473
Mileage & Travel	3,918
Dues and fees	5,319
Miscellaneous	<u>418</u>
Total Operating Expenses	<u>155,065</u>
Operating Income (Loss)	<u>(14,430)</u>
<b>Other Revenues and (Expenses):</b>	
Interest Income	228
Interest Expense	<u>(17,953)</u>
Total Other Revenues and (Expenses)	<u>(17,724)</u>
Net Income (Loss) Before Contributions	<u>(32,154)</u>
Capital Contributions	<u>-</u>
Change in Net Position	(32,154)
Total Net Position, Beginning of Year	1,308,979
Total Net Position, Prior Year Adjustment	<u>(5,892)</u>
Total Net Position, End of Year	<u><u>\$ 1,270,933</u></u>

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

**PUSHMATAHA COUNTY RURAL WATER DISTRICT #5  
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016**

	<u>2016</u>
<b><u>Cash Flows from Operating Activities:</u></b>	
Cash Receipts from Customers	\$ 140,635
Payments to Suppliers and Laborers for Goods & Services	<u>(91,680)</u>
Net Cash Provided (Used) by Operating Activities	<u>48,955</u>
<b><u>Cash Flows from Capital &amp; Related Financing Activities:</u></b>	
Additions to Capital Assets	(6,487)
Capital Contributions	-
Loan Proceeds	-
Principal paid on Debt	(10,355)
Interest paid on Debt	<u>(17,953)</u>
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(34,795)</u>
<b><u>Cash Flows from Investing Activities:</u></b>	
Interest Income	<u>228</u>
Net Cash Provided (Used) by Investing Activities	<u>228</u>
Net Increase (Decrease) in Cash and Cash Equivalents	14,389
Cash & Cash Equivalents, Beginning of Year	48,668
Cash & Cash Equivalents, Prior Year Adjustment	<u>55</u>
Cash & Cash Equivalents, End of Year	<u><u>\$ 63,112</u></u>
<b><u>Reconciliation of operating income (loss) to net cash provided</u></b>	
<u>operating activities:</u>	
Operating Income (Loss)	\$ (14,430)
Adjustments to reconcile operating income (loss) to net cash	
provided (used) by operating activities	
Depreciation	<u>63,385</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 48,955</u></u>

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

PUSHMATAHA COUNTY RURAL WATER DISTRICT #5  
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. Organization & Reporting Entity

Pushmataha County Rural Water District #5 (the District) was formed under the provisions of Title 82, O.S. 1981, Sections 1324.1-1324.26 inclusive. The District operates as a nontaxable government agency to service residents of Pushmataha County Rural Water District #5. The District's primary income is from the sale of water to its members in an area around Nashoba, 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 position, revenues and expenses. Enterprise Funds account for activities (1) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (2) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (3) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

C. Measurement Focus and Basis of Accounting

Measurement Focus



PUSHMATAHA COUNTY RURAL WATER DISTRICT #5  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

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 #5  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

D. Financial Position

Cash and Cash Equivalents

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

Capital Assets

Capital assets are stated at the cost and depreciation has been computed using the straight-line method based on the estimated useful lives of the assets as follows:

Water System	40 years
Buildings	30 Years
Equipment	5 Years

Purchases of capital items in excess of \$500.00 that increase the capacity or operation efficiency or extend the useful life of any asset are capitalized. Repairs and maintenance are expensed as incurred.

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 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

PUSHMATAHA COUNTY RURAL WATER DISTRICT #5  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

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.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting used by the District requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

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.

PUSHMATAHA COUNTY RURAL WATER DISTRICT #5  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

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 \$64,112 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name.

Investment Interest Rate Risk

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

Investment Credit Risk

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

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

PUSHMATAHA COUNTY RURAL WATER DISTRICT #5  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

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 agreements with the United States Department of Agriculture Rural Development (USDA) require the District to set aside into a Reserve Account the sum of the annual installment for each loan (\$16,212 for 1<sup>st</sup> loan and \$12,096 for the 2<sup>nd</sup> loan for a total of \$28,308), after which deposits may be suspended, except to replace withdrawals. The District cannot withdraw funds from the reserve account without USDA approval. As of December 31, 2016, the account balance for the reserve account was \$36,283.07 (\$14,011.52 Savings and \$22,271.55 Reserve CD).

NOTE 5 - 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 Distribution System	\$ 2,478,013	\$ 6,487	\$ -	\$ 2,484,500
Building	40,611	-	-	40,611
Equipment	14,648	-	-	14,648
Office Equipment	2,721	-	-	2,721
Subtotal	2,535,993	6,487	-	2,542,480
Less: Accum. Depr.	(888,316)	(63,385)	-	(951,702)
Total Capital Assets				
(Net of Depreciation)	\$ 1,647,677	\$ (56,899)	\$ -	\$ 1,590,778

NOTE 6 - LONG TERM DEBT

Notes Payable - USDA Rural Development

On September 7, 1993, the District incurred Note No. 91-01 due to USDA Rural Development in the amount of \$275,000 with a fixed interest rate of 5.00% with 480 monthly payments of principal and interest of \$1,351.00. The note is secured by the assets and revenues of the District.

On February 14, 2006, the District incurred Note No. 91-05 due to USDA Rural Development in the amount of \$230,000 with a fixed interest rate of 4.25% with 480 monthly payments of principal and interest of

PUSHMATAHA COUNTY RURAL WATER DISTRICT #5  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

\$1,008.00. The note is secured by the assets and revenues of the District.

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
USDA RD Note 91-01	\$ 189,191	\$ -	\$ 6,910	\$ 182,281
USDA RD Note 91-05	\$ 205,123	\$ -	\$ 3,445	\$ 201,678
Total Long-Term Debt	<u>\$ 394,313</u>	<u>\$ -</u>	<u>\$ 10,355</u>	<u>\$ 383,958</u>

Debt Services Requirements to Maturity

Note Payable - USDA RURAL DEVELOPMENT 91-01

Year Ending December 31,	Principal	Interest	Total
2017	\$ 7,263	\$ 8,949	\$ 16,212
2018	7,635	8,578	16,212
2019	8,025	8,187	16,212
2020	8,436	7,776	16,212
2021	8,867	7,345	16,212
2022-2026	51,624	29,436	81,060
2027-2031	66,252	14,808	81,060
2032-2033	24,180	1,002	25,182
Total	<u>\$ 182,281</u>	<u>\$ 86,082</u>	<u>\$ 268,362</u>

Note Payable - USDA RURAL DEVELOPMENT 91-05

Year Ending December 31,	Principal	Interest	Total
2017	\$ 3,594	\$ 8,502	\$ 12,096
2018	3,750	8,346	12,096
2019	3,912	8,184	12,096
2020	4,082	8,014	12,096
2021	4,259	7,837	12,096
2022-2026	24,228	36,252	60,480
2027-2031	29,954	30,526	60,480
2032-2036	37,032	23,448	60,480
2037-2041	45,782	14,698	60,480
2042-2046	45,084	4,086	49,170
Total	<u>\$ 201,678</u>	<u>\$ 149,893</u>	<u>\$ 351,570</u>

NOTE 7 - FUND EQUITY

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

PUSHMATAHA COUNTY RURAL WATER DISTRICT #5  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

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

The District restricted amounts are described in Note 4 above.

NOTE 8 - 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.

Grant Program Involvement

In the normal course of operations, the District participates in various Federal or State grant or 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 - SUBSEQUENT EVENTS

The District did not have any subsequent events through August 11, 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  
Pushmataha County Rural Water District #5  
Nashoba, Oklahoma

We were engaged to audit, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes, the modified cash basis financial statements of the Pushmataha County Rural Water District #5, 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 11, 2017, which was a disclaimer of opinion because inadequate accounting records precluded us from performing sufficient audit procedures on the financial statements.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Pushmataha County Rural Water District #5'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 #5's internal control. Accordingly, we do not express an opinion on the effectiveness of Pushmataha County Rural Water District #5'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



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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 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 Pushmataha County Rural Water District #5'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 #5's Response to Findings

Pushmataha County Rural Water District #5's response to the findings identified in our audit is described in the accompanying Schedule of Findings. Pushmataha County Rural Water District #5'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.

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## 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 11, 2017

PUSHMATAHA COUNTY RURAL WATER DISTRICT #5  
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 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 District.

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