

AUDIT REPORT

LONGTOWN RURAL WATER AND SEWER DISTRICT #1 PITTSBURG COUNTY, OKLAHOMA

DECEMBER 31, 2011



KERSHAW CPA & ASSOCIATES, PC

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LONGTOWN RURAL WATER AND SEWER DISTRICT #1
PITTSBURG COUNTY, OKLAHOMA
DECEMBER 31, 2011

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LONGTOWN RURAL WATER AND SEWER DISTRICT #1
PITTSBURG COUNTY, OKLAHOMA
DECEMBER 31, 2011

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>
PAUL HODGE	CHAIRMAN
RON BLEVINS	VICE CHAIRMAN
GLENN GLOVER	SECRETARY
ED CHAPPELL	DIRECTOR
DEAN CHOATE	DIRECTOR

KEY MANAGEMENT OFFICIALS

DENNIS SIZEMORE	MANAGER
TERRY GROGAN	FIELD SUPERVISOR
JANICE SHAVER	OFFICE MANAGER
DELVINA PADGETT	SEC./BOOKKEEPER

Unaudited

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Longtown Rural Water and Sewer District #1
Pittsburg County, Oklahoma

I have audited the accompanying financial statements of the Longtown Rural Water and Sewer District #1, Pittsburg County, as of and for the fiscal year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the Longtown Rural Water and Sewer District #1's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As described in Note 1, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the Longtown Rural Water and Sewer District #1, Pittsburg County, Oklahoma, as of December 31, 2011, and the respective changes in cash basis financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, I have also issued my report dated April 27, 2012, on my consideration of the Longtown Rural Water and Sewer District #1's internal control over financial reporting and on my 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 and should be considered in assessing the results of my audit.

Longtown Rural Water and Sewer District #1 has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34. However the District has not presented the Management's Discussion and Analysis required by the Governmental

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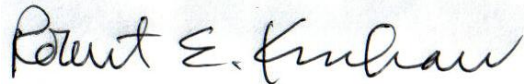
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Accounting Standards Board (GASB) that the GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The introductory and the other supplementary information sections listed in the accompanying table of contents are presented for the purpose of additional analysis and are 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 my audit of the basic financial statements, and accordingly, I do not express an opinion thereon.

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is not a required part of the financial statements of the Longtown Rural Water and Sewer District #1. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.



Robert E. Kershaw
Certified Public Accountant

April 27, 2012

LONGTOWN RURAL WATER DISTRICT #1
PITTSBURG COUNTY, OKLAHOMA
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
DECEMBER 31, 2011

<u>ASSETS</u>	Total 2011	Total (Memo Only) 2010
<u>Current Assets:</u>		
Petty Cash	\$ 300	\$ 300
General Fund	257,408	201,335
Money Market	129,979	129,635
Savings - Waste Water	-	-
Inventory	79,831	75,681
Prepaid Insurance	18,426	17,144
Total Current Assets	485,945	424,094
<u>Restricted Assets:</u>		
Reserve Fund - Rural Development	195,966	193,054
Total Restricted Assets	195,966	193,054
<u>Capital Assets:</u>		
Land and Easements	28,701	28,701
Water Distribution System & Equipment	6,228,059	5,547,873
Less: Accumulated Depreciation	(2,618,284)	(2,492,357)
Total Capital Assets	3,638,475	3,084,217
<u>Other Assets:</u>		
ORWA Water Assistance Certificate	1,000	1,000
Total Other Assets	1,000	1,000
TOTAL ASSETS	\$ 4,321,387	\$ 3,702,366
<u>LIABILITIES</u>		
<u>Current Liabilities:</u>		
Meter Deposits	\$ 2,350	\$ 13,274
Payroll Taxes Payable	-	1,832
Waste Water Deposits	1,500	1,500
Current Portion of Long-Term Debt	-	24,274
Total Current Liabilities	3,850	40,880
<u>Long-Term Liabilities:</u>		
Notes Payable - USDA Rural Development	1,517,753	1,044,681
Less: Current Portion of Long-Term Debt	-	(24,274)
Total Long-Term Liabilities	1,517,753	1,020,408
TOTAL LIABILITIES	1,521,603	1,061,288
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	2,120,722	2,039,536
Restricted for debt service	195,966	193,054
Unrestricted	483,096	408,489
TOTAL NET ASSETS	2,799,784	2,641,079
TOTAL LIABILITIES & NET ASSETS	\$ 4,321,387	\$ 3,702,366

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

LONGTOWN RURAL WATER DISTRICT #1
PITTSBURG COUNTY, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
- MODIFIED CASH BASIS -
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

	Total 2011	Total (Memo Only) 2010
<u>Operating Revenues:</u>		
Water Revenue	\$ 939,557	\$ 821,993
Miscellaneous Income	14,199	12,267
Total Operating Revenues	953,755	834,260
<u>Operating Expenses:</u>		
Water Rights	16,745	8,115
DEQ	8,936	17,816
Dues and Memberships	1,377	1,640
Electric and Gas	61,396	55,774
Chemicals	53,083	46,863
Office	11,420	10,028
Telephone	6,893	6,953
Salaries	264,555	265,232
Payroll Taxes	19,210	20,786
Employee Benefits	59,128	59,542
Professional Fees	8,875	6,210
Freight and Postage	456	5,900
Truck Expense	26,321	22,207
Operation and Maintenance	104,999	116,036
Insurance	24,000	23,537
Worker's Comp Insurance	9,681	9,299
Uniforms	770	1,097
Depreciation	125,927	125,541
Miscellaneous Expense	1,596	750
Total Operating Expenses	805,367	803,324
Operating Income (Loss)	148,388	30,936
<u>Non-Operating Revenues (Expenses):</u>		
Interest Income	3,279	2,427
Interest Expense	(41,214)	(47,578)
Membership Income	37,000	39,400
Total Non-operating Revenues (Expenses)	(936)	(5,751)
Net Income (Loss) Before Contributions	147,452	25,185
Capital Contributions - Grants	-	135,625
Change in Net Assets	147,452	160,810
Total Net Assets - Beginning	2,641,079	2,480,269
Total Net Assets - Prior Year Adjustment	11,253	-
Total Net Assets - Ending	\$ 2,799,784	\$ 2,641,079

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

**LONGTOWN RURAL WATER DISTRICT #1
PITTSBURG COUNTY, OKLAHOMA
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

	12/31/11	Memorandum Only 12/31/10
<u>Net Cash Flows from Operating Activities:</u>		
Cash Receipts from Customers	\$ 953,755	\$ 834,260
Payments to Suppliers & Laborers for Goods & Services	(686,705)	(678,712)
Receipts of Customer Meter Deposits, Net of Refunds	(10,924)	1,169
	256,126	156,717
<u>Net Cash Provided (Used) by Operating Activities</u>		
<u>Net Cash Flows from Capital & Related Financing Activities:</u>		
Additions to Capital Assets	(680,185)	(199,567)
Loan Proceeds	1,541,400	-
Capital Contributions	-	135,625
Principal paid on Debt	(1,068,328)	(23,210)
Interest paid on Debt	(41,214)	(47,578)
	(248,328)	(134,730)
<u>Net Cash Provided (Used) by Capital & Related Financing Activities</u>		
<u>Net Cash Flows from Investing Activities:</u>		
Increase in Memberships	37,000	39,400
Interest Income	3,279	2,427
	40,279	41,827
<u>Net Cash Provided (Used) by Investing Activities</u>		
<u>Net Increase (Decrease) in Cash and Cash Equivalents</u>	48,077	63,815
<u>Cash & Cash Equivalents, Beginning of Year</u>	524,324	460,509
<u>Cash & Cash Equivalents, Prior Year Adjustment</u>	11,253	-
<u>Cash & Cash Equivalents, End of Year (Includes Restricted Cash)</u>	\$ 583,654	\$ 524,324
<u>Reconciliation of operating income (loss) to net cash provided operating activities:</u>		
Operating Income (Loss)	\$ 148,388	\$ 30,936
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation & Amortization	125,927	125,541
(Increase)Decrease in Inventory	(4,151)	(1,923)
(Increase)Decrease in Prepaid Expenses	(1,282)	62
Increase(Decrease) in Meter Deposits	(10,924)	1,169
Increase(Decrease) in Payroll Tax Payable	(1,832)	932
	256,126	156,717
<u>Net Cash Provided (Used) by Operating Activities</u>	\$ 256,126	\$ 156,717

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

LONGTOWN RURAL WATER AND SEWER DISTRICT #1
PITTSBURG COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization & Reporting Entity

Longtown Rural Water and Sewer District #1, Pittsburg County, Oklahoma, was organized to acquire water and water rights and to build and acquire pipelines and other water distribution facilities, and to operate the same for the purpose of furnishing water to serve the needs of owners and occupants of land located within the District.

B. Basis of Accounting

The accompanying financial statements have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Revenues are recognized when received and expenses are recorded when paid and depreciation is computed on fixed assets. Principal note payments reduce liabilities.

C. Assets, Liabilities, & Equity

Cash & Cash Equivalents

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

Inventories

A perpetual system of inventory is kept on a first-in, first-out basis. A physical inventory at cost is taken on or about yearend and reconciled to books.

Capital Assets

Property and equipment are stated at cost. Additions are capitalized whereas expenditures for maintenance and repairs are charged to expense. The cost and related accumulate depreciation of assets retired or sold are removed from the appropriated asset and depreciation accounts, and the resulting gain or loss is reflected in income, except for the gain or loss on assets traded where it is reflected in the basis of newly acquired asset.

It is the policy of the company to provide depreciation based on the estimated useful life of the individual units of property and equipment. The straight line method of depreciation is used over the estimated life of 5 to 50 years.

LONGTOWN RURAL WATER AND SEWER DISTRICT #1
PITTSBURG COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

Capitalization Policy - Purchases of capital items in excess of \$1,000.00 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 assets and displayed in three components:

1. Invested in capital assets, net of related debt—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.
2. Restricted net assets—Consists of net assets with 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 assets—All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

D. 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.

E. Income Tax Status

The District is exempt from income taxes under Section 501(c)(6) of the Internal Revenue Code.

F. Enterprise Fund

The Enterprise Fund is used to account for the operations of the District that are financed and operated in a manner similar to private business enterprises where the intent is that costs of providing goods or services be recovered in whole or part through user fees or charges.

LONGTOWN RURAL WATER AND SEWER DISTRICT #1
PITTSBURG COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

G. Compensated Absences

The employees of the District receive on to three weeks per year vacation and six sick days per year. There is no accumulation of sick or vacation days.

H. Estimates

The preparation of financial statements in conformity with accounting principles generally in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

I. 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.

Finance-related Legal & Contractual Provisions

The reserve requirement for the USDA Note Payable is \$174,504.00, which the District has set aside in a restricted 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 December 31, 2011, the District held deposits of approximately \$583,654 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.

LONGTOWN RURAL WATER AND SEWER DISTRICT #1
PITTSBURG COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

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 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 (\$174,504), 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, 2011, the District was required to have at least \$174,504.00 set aside in the reserve account; as of that date the account balance for the reserve account was \$194,509, which complies with the covenants of the loan agreement.

NOTE 5 - CAPITAL ASSETS

Capital asset activity, resulting from the modified cash basis transactions, for the fiscal year ended December 31, 2011, was as follows:

LONGTOWN RURAL WATER AND SEWER DISTRICT #1
PITTSBURG COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

	Balance at Dec. 31, 2010	Additions	Deductions	Balance at Dec. 31, 2011
Land & Easement	\$ 28,701	\$ -	\$ -	\$ 28,701
Water System	2,916,007	-	-	2,916,007
Water Towers	152,339	-	-	152,339
Office & Whse. Bldg	36,190	-	-	36,190
Office Equipment	86,919	-	-	86,919
Plant Equipment	322,032	-	-	322,032
Field Equipment	137,027	24,992	-	162,019
Water Plant	1,309,108	-	-	1,309,108
Clear Well Tank	112,413	-	-	112,413
Office Building	195,826	-	-	195,826
Alarm System	13,583	-	-	13,583
Construction in Progress	266,430	655,193	-	921,623
Subtotal	5,576,574	680,185	-	6,256,759
Less: Accum. Depr.	(2,492,357)	(125,927)	-	(2,618,284)
Total Capital Assets (Net of Depreciation)	<u>\$ 3,084,217</u>	<u>\$ 554,258</u>	<u>\$ -</u>	<u>\$ 3,638,475</u>

The additions to capital assets included the capital improvement project and a new Chevrolet pickup.

NOTE 6 - LONG-TERM DEBT

The District had a note payable with to the United States Department of Agriculture Rural Development (USDA), payable in 480 monthly installments of \$5,899.00 until maturity, including interest at 4.50%. The loan was approved in 1998 in the original amount of \$1,310,700.00. The purpose of the loan was to make improvements and additions to the water distribution system. Repayment of the loan began in May 1999. The note is secured by all facilities of the District. This loan was paid off by the new USDA loan during the year.

The District has a note payable with to the United States Department of Agriculture Rural Development (USDA), payable in 480 monthly installments of \$14,542.00 until maturity, including interest at 3.00%. The loan dated October 4, 2011 is for an original amount of \$4,062,000.00. The purpose of the loan was to make improvements and additions to the water distribution system and pay off the existing USDA Note 91-01. Repayment of the loan began in November 2011. The note is secured by all facilities of the District. As of December 31, 2011, the District has received loan proceeds in the amount of \$1,541,399.81.

LONGTOWN RURAL WATER AND SEWER DISTRICT #1
PITTSBURG COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended December 31, 2011:

	Balance at Dec. 31, 2010	Additions	Deductions	Balance at Dec. 31, 2011
Notes Payable - USDA RD 91-07	\$ 1,044,681.41	\$ -	\$ 1,044,681.41	\$ -
Notes Payable - USDA RD 91-08	\$ -	\$ 1,541,399.81	\$ 23,646.57	\$ 1,517,753.24
Total Long-Term Debt	<u>\$ 1,044,681.41</u>	<u>\$ 1,541,399.81</u>	<u>\$ 1,068,327.98</u>	<u>\$ 1,517,753.24</u>

Debt Services Requirements to Maturity

The amortization schedule will be available once all loan proceeds have been received.

NOTE 7 - FUND EQUITY

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

1. Invested in capital assets, net of related debt
2. Restricted net assets
3. Unrestricted net assets

The restricted net assets include assets restricted for the repayment of refundable water deposits and those related to Note 4 above.

NOTE 8 - CONTINGENCIES

Litigation

The District currently has no pending litigation.

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.

LONGTOWN RURAL WATER AND SEWER DISTRICT #1
PITTSBURG COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 9 - RETIREMENT AND DEFERRED COMPENSATION PLAN

The District has a money purchase retirement plan for eligible employees. The District contributes 5% of each participant's base salary. Employees are required to complete one year of service before they become a Plan participant. Employees are vested at 20% per year.

NOTE 10 - SUBSEQUENT EVENTS

The District did not have any subsequent events through April 27, 2012, 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, 2011.

NOTE 11- PRIOR YEAR ADJUSTMENT

A prior year adjustment was made to correct the Renter Deposit Account.

**LONGTOWN RURAL WATER DISTRICT #1
PITTSBURG COUNTY, OKLAHOMA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

<u>Federal Grantor/ Program Title</u>	<u>Federal CFDA No.</u>	<u>Award Amount</u>	<u>Federal Expenditures</u>
USDA Rural Development:			
Loan:			
Water and Waste Disposal Systems for Rural Communities	10.760	\$ 1,541,400	\$ 1,541,400
Total		<u>\$ 1,541,400</u>	<u>\$ 1,541,400</u>

**LONGTOWN RURAL WATER DISTRICT #1
PITTSBURG COUNTY, OKLAHOMA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2011**

NOTE 1 - GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards of the Longtown Rural Water District #1 (the "District").

The District's reporting entity is defined in Note 1 to the District's basic financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the schedule.

NOTE 2 - BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is present using the modified cash basis of accounting, which is described in Note 1 to the District's basic financial statements.

NOTE 3 - RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Federal awards revenues are reported in the District's basic financial statements as follows:

		<u>Federal Sources</u>
General		\$ 1,541,400
Total		<u>\$ 1,541,400</u>

NOTE 4 - RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the accompanying schedule agree with the amounts reported in the related federal financial reports except for changes made to reflect amounts in accordance with the modified cash basis of accounting.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Longtown Rural Water and Sewer District #1
Pittsburg County, Oklahoma

I have audited the financial statements of the Longtown Rural Water and Sewer District #1, Pittsburg County, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles, as of December 31, 2011 and have issued my report thereon dated April 27, 2012. The Longtown Rural Water and Sewer District #1 has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, except that the District did not present the required MD&A. I conducted my audit in accordance with U.S. generally accepted auditing standards, 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.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Longtown Rural Water and Sewer District #1's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Longtown Rural Water and Sewer District #1's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Longtown Rural Water and Sewer District #1's internal control over financial reporting.

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.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be

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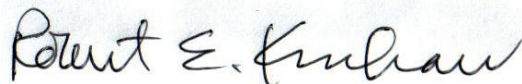
material weakness, as defined above. However, I identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings that I consider to be significant deficiencies in internal control over financial reporting. Those deficiencies are listed as Item 11-01 and 11-02. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Longtown Rural Water and Sewer District #1's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is included in the Schedule of Findings as Item 11-03. The results of my tests disclosed no instances of other matters that are required to be reported under *Government Auditing Standards*.

Longtown Rural Water and Sewer District #1's response to the findings identified in my audit is described in the accompanying Schedule of Findings. I did not audit Longtown Rural Water and Sewer District #1's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of the Board of Directors and management of the Longtown Rural Water and Sewer District #1, Pittsburg County, Oklahoma and is not intended to be and should not be used by anyone other than these specified parties.



Robert E. Kershaw
Certified Public Accountant

April 27, 2012

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors
Longtown Rural Water and Sewer District #1
Pittsburg County, Oklahoma

Compliance

I have audited the compliance of the Longtown Rural Water and Sewer District #1 with compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal financial assistance programs for the year ending December 31, 2011. The Longtown Rural Water and Sewer District #1's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Longtown Rural Water and Sewer District #1. My responsibility is to express an opinion on the Longtown Rural Water and Sewer District #1's compliance based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," and in accordance with Oklahoma Statutes. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Longtown Rural Water and Sewer District #1's compliance with those requirements and performing such other procedures, as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the Longtown Rural Water and Sewer District #1's compliance with those requirements.

As described in Note 1, these financial statements were prepared on the modified cash basis as accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In my opinion, the Longtown Rural Water and Sewer District #1 complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2011.

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Internal Control Over Compliance

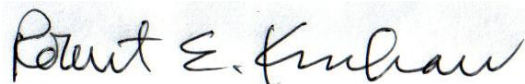
The management of the Longtown Rural Water and Sewer District #1 is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered the Longtown Rural Water and Sewer District #1's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the Longtown Rural Water and Sewer District #1's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be presented or detected by the entity's internal control.

My consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the board of directors and management of Longtown Rural Water and Sewer District #1, Oklahoma, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Robert E. Kershaw, CPA
April 27, 2012

LONGTOWN RURAL WATER AND SEWER DISTRICT #1
PITTSBURG COUNTY, OKLAHOMA
SUMMARY STATUS OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2011

INTERNAL CONTROL FINDINGS:

Item 10-01: Segregation of Duties

Criteria: A good system of internal control requires a proper segregation of duties to prevent one person from being in a position to authorize, execute, and record the same transaction.

Condition: Due to the size of the District's major areas of internal control, that would be prevalent in a larger District, such segregation of duties is not available for this size operation. Duties are concentrated in the hands of a few individuals, who are responsible for all phases of the accounting functions. Because of this lack of division of responsibility, internal control is determined to be weak, and in some instances, non-existent.

Cause/Effect: Due to the limited number of personnel, a breach of internal controls could occur and not be detected in the normal course of operations.

Recommendation: The Board should continue to be actively involved in the operations of the organization.

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

Item 10-02: Meter Deposits

Criteria: It is the responsibility of the District to properly report and account for the financial information.

Condition: The Meter Deposit Liability has not been accurately posted with all transactions.

Cause/Effect: Customers could potentially not receive proper reimbursement on their deposit and the organization's balance sheet could be incorrect with respect to the deposit account. Also, the District does not have a restricted account for meter deposits in an amount sufficient to cover the meter deposit liability.

Recommendation: All deposit refunds and final bills should be accurately posted to reconcile the liability account at yearend. A Meter Deposit Ledger should be properly maintained so that an accurate liability amount can be reported.

Response: The District hopes to improve this for future years.

LONGTOWN RURAL WATER AND SEWER DISTRICT #1
PITTSBURG COUNTY, OKLAHOMA
SUMMARY STATUS OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2011

COMPLIANCE FINDINGS:

Item 10-03: Payroll Reporting and Compliance

Criteria: The District is required to withhold one half social security tax and applicable federal and state income tax from gross wages and timely remit such funds to the United States Treasury, the Oklahoma Tax Commission and the OESC. Reporting payroll activity on IRS forms 941, Oklahoma forms OW-8, OES-3 is required at various periods during the year, monthly, quarterly or annually.

Condition: State withholding tax due to the Oklahoma Tax Commission was not properly reported and the related tax paid.

Cause/Effect: The past due taxes have left the District subject to penalties by the taxing agencies.

Recommendation: The District needs to get in compliance with the federal and state payroll tax requirements.

Response: The District was not aware of the discrepancy as it occurred during the transition from one software program to another. The issue will be resolved and the related tax paid.

Current Status: All of the findings still exist in the current year.

LONGTOWN RURAL WATER AND SEWER DISTRICT #1
PITTSBURG COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2011

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issue: Unqualified

Internal control over financial reporting:

Material weaknesses identified? yes no

Significant deficiencies identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted?

yes no

Federal Awards

Internal control over major programs:

Material weaknesses identified? yes no

Significant deficiencies identified that are not considered to be material weaknesses? yes none reported

Type of auditor's report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

yes no

Identification of major programs:

#10.760 Water and Waste Disposal Systems for Rural Communities

Dollar threshold used to distinguish between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

yes no

SECTION II - FINANCIAL STATEMENT FINDINGS

INTERNAL CONTROL FINDINGS:

Item 11-01: 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.

LONGTOWN RURAL WATER AND SEWER DISTRICT #1
PITTSBURG COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2011

Condition: Due to the size of the District's major areas of internal control, that would be prevalent in a larger District, such segregation of duties is not available for this size operation. Duties are concentrated in the hands of a few individuals, who are responsible for all phases of the accounting functions. Because of this lack of division of responsibility, internal control is determined to be weak, and in some instances, non-existent.

Cause/Effect: Due to the limited number of personnel, a breach of internal controls could occur and not be detected in the normal course of operations.

Recommendation: The Board should continue to be actively involved in the operations of the organization.

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

Item 11-02: Meter Deposits

Criteria: It is the responsibility of the District to properly report and account for the financial information.

Condition: The Meter Deposit Liability has not been accurately posted with all transactions.

Cause/Effect: Customers could potentially not receive proper reimbursement on their deposit and the organization's balance sheet could be incorrect with respect to the deposit account. Also, the District does not have a restricted account for meter deposits in an amount sufficient to cover the meter deposit liability.

Recommendation: All deposit refunds and final bills should be accurately posted to reconcile the liability account at yearend. A Meter Deposit Ledger should be properly maintained so that an accurate liability amount can be reported.

Response: The District is changing the way renter deposits and related activity are entered in the general ledger and hopes to improve this for future years.

COMPLIANCE FINDINGS:

Item 11-03: Payroll Reporting and Compliance

Criteria: The District is required to withhold one half social security tax and applicable federal and state income tax from gross wages and timely remit such funds to the United States Treasury, the Oklahoma Tax Commission and the OESC. Reporting payroll activity on IRS forms 941, Oklahoma forms OW-8, OES-3 is required at various periods during the year, monthly, quarterly or annually.

Condition: Some of the current year taxes were not paid in a timely manner.

LONGTOWN RURAL WATER AND SEWER DISTRICT #1
PITTSBURG COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2011

Cause/Effect: The past due taxes have left the District subject to penalties by the taxing agencies.

Recommendation: The District needs to get in compliance with the federal and state payroll tax requirements.

Response: All of the taxes were paid but were paid a few days short of the deadline dates resulting in penalties.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None