

AUDIT REPORT

MCINTOSH COUNTY RURAL WATER DISTRICT #5
MCINTOSH COUNTY, OKLAHOMA

DECEMBER 31, 2011



KERSHAW CPA & ASSOCIATES, PC

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MCINTOSH COUNTY RURAL WATER DISTRICT #5
MCINTOSH COUNTY, OKLAHOMA
DECEMBER 31, 2011

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MCINTOSH COUNTY RURAL WATER DISTRICT #5
MCINTOSH COUNTY, OKLAHOMA
DECEMBER 31, 2011

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>	<u>TERM EXPIRATION</u>
NICK SCOTT	CHAIRMAN	2015
GARY UPDYKE	VICE-CHAIRMAN	2014
LARRY GATELY	SECRETARY/TREASURER	2015
BOB FOREMAN	DIRECTOR	2014
LOYAL D. TAYLOR	DIRECTOR	2013
BILL VILLINES	DIRECTOR	2014
SANFORD NERO	DIRECTOR	2013
LAVETTE THOMPSON	DIRECTOR	2013
DARLENE COLEMAN*	DIRECTOR	2012

*Resigned in March 2012

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INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying financial statements of the McIntosh County Rural Water District #5, 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 McIntosh County Rural Water District #5'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 the Notes, 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 modified cash basis financial position of the McIntosh County Rural Water District #5, McIntosh County, Oklahoma, as of December 31, 2011, and the changes in modified cash basis financial position thereof for the year then ended in conformity with the basis of accounting described above.

In accordance with Government Auditing Standards, I have also issued my report dated April 6, 2012, on my consideration of the McIntosh County Rural Water District #5'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.

McIntosh County Rural Water District #5 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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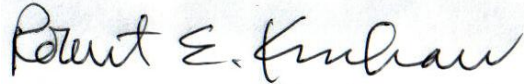
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Accounting Standards Board (GASB) that the GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The introductory and the any 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.



Robert E. Kershaw
Certified Public Accountant

April 6, 2012

MCINTOSH COUNTY RURAL WATER DISTRICT #5 (SHADY GROVE)
MCINTOSH COUNTY, OKLAHOMA
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
DECEMBER 31, 2011

	2011	Memo Only 2010
<u>ASSETS</u>		
<u>CURRENT ASSETS:</u>		
Cash and Cash Equivalents	\$ 28,079	\$ 80,908
Accounts Receivable, Net of Allowance for Doubtful Accounts	-	-
Prepaid Insurance	-	-
Restricted Cash and Cash Equivalents	33,347	38,802
Total Current Assets	61,426	119,710
<u>CAPITAL ASSETS:</u>		
Capital Assets, net of Accumulated Depreciation	1,802,309	1,734,891
TOTAL ASSETS	\$ 1,863,735	\$ 1,854,601
<u>LIABILITIES & NET ASSETS</u>		
<u>CURRENT LIABILITIES:</u>		
Accounts Payable	\$ -	\$ -
Payroll Taxes Payable	14,043	4,380
Current Portion of Long-Term Debt	12,445	11,886
Total Current Liabilities	26,488	16,266
<u>LONG-TERM LIABILITIES:</u>		
Long-Term Debt	708,220	720,107
Less: Current Portion	(12,445)	(11,886)
Total Long-Term Liabilities	695,775	708,221
TOTAL LIABILITIES	722,263	724,487
<u>NET ASSETS:</u>		
Invested in capital assets, net of related debt	1,094,090	1,014,784
Restricted for debt service	33,347	38,802
Unrestricted	14,036	76,528
TOTAL NET ASSETS	1,141,473	1,130,114
TOTAL LIABILITIES & NET ASSETS	\$ 1,863,735	\$ 1,854,601

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

MCINTOSH COUNTY RURAL WATER DISTRICT #5 (SHADY GROVE)

MCINTOSH COUNTY, OKLAHOMA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS - MODIFIED CASH BASIS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2011

	2011	Memo Only 2010
OPERATING REVENUES:		
Water Sales	\$ 347,090	\$ 355,956
Membership Income	11,755	29,911
Miscellaneous Operating Income	883	2,112
TOTAL OPERATING REVENUES	359,728	387,979
OPERATING EXPENSES:		
Water Purchased	221,768	217,120
Salaries and Payroll Taxes	68,693	69,753
Utilities & Telephone	12,028	13,244
Repairs & Supplies	31,076	61,881
Contract Services	10,139	42,134
Professional Fees	7,442	14,967
Insurance	9,387	10,075
Office Supplies & Postage	8,732	4,296
Miscellaneous Expenses	937	742
Bad Debts	3,847	3,331
Depreciation	48,828	39,310
TOTAL OPERATING EXPENSES	422,877	476,853
OPERATING INCOME (LOSS)	(63,149)	(88,874)
NON-OPERATING INCOME:		
Grant Income	105,714	404,566
Interest Income	102	212
Interest Expense	(31,421)	(30,493)
TOTAL NON-OPERATING INCOME(EXPENSES)	74,395	374,284
NET INCOME (LOSS)	11,246	285,410
TOTAL NET ASSETS, Beginning of Year	1,130,114	856,756
TOTAL NET ASSETS, Prior Year Adjustment	113	(12,053)
TOTAL NET ASSETS, End of Year	\$ 1,141,473	\$ 1,130,114
See Accountant's Audit Report & Notes Which Accompany These Financial Statements		

MCINTOSH COUNTY RURAL WATER DISTRICT #5 (SHADY GROVE)
MCINTOSH COUNTY, OKLAHOMA
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

	2011	Memo Only 2010
<u>Net Cash Flows from Operating Activities:</u>		
Cash Receipts from Customers	\$ 359,728	\$ 387,979
Payments to Suppliers & Laborers for Goods & Services	(364,386)	(436,475)
Net Cash Provided (Used) by Operating Activities	(4,658)	(48,496)
<u>Net Cash Flows from Capital & Related Financing Activities:</u>		
Additions to Capital Assets	(116,247)	(449,518)
Gain on Disposal of Capital Assets	-	-
Grant Income	105,714	404,566
Loan Proceeds	-	95,028
Principal paid on Debt	(11,887)	(12,819)
Interest paid on Debt	(31,421)	(30,493)
Net Cash Provided (Used) by Capital & Related Financing Activities	(53,840)	6,764
<u>Net Cash Flows from Investing Activities:</u>		
Interest Income	102	212
Net Cash Provided (Used) by Investing Activities	102	212
Net Increase (Decrease) in Cash and Cash Equivalents	(58,397)	(41,521)
Cash & Cash Equivalents, Beginning of Year	119,710	167,598
Cash & Cash Equivalents, Prior Year Adjustment	113	(6,367)
Cash & Cash Equivalents, End of Year	\$ 61,426	\$ 119,710
<u>Reconciliation of operating income (loss) to net cash provided operating activities:</u>		
Operating Income (Loss)	\$ (63,149)	\$ (88,874)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	48,828	39,310
(Increase)Decrease in Accounts Receivable	-	-
(Increase)Decrease in Prepaid Insurance	-	-
Increase(Decrease) in Accounts Payable	9,663	1,068
Net Cash Provided (Used) by Operating Activities	\$ (4,658)	\$ (48,496)
See Accountant's Audit Report & Notes Which Accompany These Financial Statements		

MCINTOSH COUNTY RURAL WATER DISTRICT #5
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The District was organized as Shady Grove Rural Water District #5. Subsequently, the name was changed to McIntosh County Rural Water District #5. The District was organized as a rural water district to sell water to its members.

Enterprise Fund Accounting

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

Basis of Accounting

The District prepares its financial statements on the modified cash basis of accounting, which is a basis of accounting other than generally accepted accounting principles. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Under the modified cash basis of accounting, revenues are recorded when received and expenses are recorded when paid.

Assets, Liabilities, & Equity

Cash and Cash Equivalents

For the purposes of these financial statements, the District considers cash and cash equivalents to be currency on hand and demand deposits with banks. There were no non-monetary transactions.

Capital Assets

Capital assets are valued at cost, and depreciation is computed using the straight-line method. Assets lives range from 3 to 50 years.

Capitalization Policy

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.

MCINTOSH COUNTY RURAL WATER DISTRICT #5
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

Inventory

In accordance with the modified cash basis of accounting, the District does not maintain inventory records of parts or supplies, but charges these purchases to maintenance or supplies as they are received.

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.”

Revenues, expenditures & expenses

Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

Income Tax

The District conducts its affairs as a non-profit organization and, accordingly, has made no provision for income taxes.

Compensated Absences

The employees of the District receive no compensated leave.

MCINTOSH COUNTY RURAL WATER DISTRICT #5
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

Memorandum Totals

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

NOTE 2 - CASH AND INVESTMENTS

Custodial Credit Risk

At December 31, 2011, the District held deposits of approximately \$61,426 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 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.).

MCINTOSH COUNTY RURAL WATER DISTRICT #5
 MCINTOSH COUNTY, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2011

NOTE 3 - RESTRICTED CASH

Restrictions on cash are summarized as follows:

<u>Bank Account</u>	<u>Restrictions Imposed</u>
Debt Service	Payment of long-term debt
Special Account	Payment of line extension project
Reserve Account	To be used only for payment of long-term debt in arrears
ORWAAG Reserve	ORWAAG self insurance reserve deposit

NOTE 4 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended December 31, 2011, was as follows:

	Balance at Dec. 31, 2010	Additions	Deductions	Balance at Dec. 31, 2011
Land	\$ 18,974	\$ -	\$ -	\$ 18,974
Easements	1,516	-	-	1,516
Water System	1,531,240	-	-	1,531,240
Office Equipment	5,007	-	-	5,007
Buildings	49,229	5,520	-	54,749
Equipment	22,600	-	-	22,600
Rentiesville Area Line Extension	792,412	110,727	-	903,138
Subtotal	2,420,978	116,247	-	2,537,224
Less: Accum. Depr.	(686,087)	(48,828)	-	(734,915)
Total Capital Assets (Net of Depreciation)	<u>\$ 1,734,891</u>	<u>\$ 67,419</u>	<u>\$ -</u>	<u>\$ 1,802,309</u>

The addition to assets was for the project that was finished during the current year.

NOTE 5 - LONG-TERM DEBT

The District has a note payable (Note 91-04) dated October 31, 1991 to the United States Department of Agriculture Rural Development (USDA), payable in monthly installments of \$1,461, which began November 28, 1992, until maturity, including interest at 5.0%. The original amount of the loan was \$300,000.00. The final payment is scheduled for October 31, 2031. The note is secured by a mortgage on the District's water system, including revenues, real property easements, permits, leases and water rights.

In December 2009, the District borrowed an additional \$504,000 from USDA to extend the Rentiesville Area water line. This 40 year note is payable (Note 91-06) to the United States Department of Agriculture Rural Development (USDA), in monthly installments of \$2,148, until maturity, including interest at 4.125%.

MCINTOSH COUNTY RURAL WATER DISTRICT #5
 MCINTOSH 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 December 31, 2010	Additions	Deductions	Balance at December 31, 2011
USDA RD Note 91-04	\$ 224,684.28	\$ -	\$ (6,444.65)	\$ 218,239.63
USDA RD Note 91-06	495,422.56	-	(5,442.58)	489,979.98
Total Long-Term Debt	<u>\$ 720,106.84</u>	<u>\$ -</u>	<u>\$ (11,887.23)</u>	<u>\$ 708,219.61</u>

Debt Services Requirements to Maturity

The annual debt service requirements to maturity, including principal and interest, for long-term debt, as of December 31, 2011, are as follows:

Year Ended Dec. 31,	USDA RD Note 91-04			USDA RD Note 91-06		
	Principal	Interest	Annual Payment	Principal	Interest	Annual Payment
2012	\$ 6,774	\$ 10,758	\$ 17,532	\$ 5,671	\$ 20,105	\$ 25,776
2013	7,120	10,412	17,532	5,909	19,867	25,776
2014	7,485	10,047	17,532	6,158	19,618	25,776
2015	7,868	9,664	17,532	6,416	19,360	25,776
2016	8,270	9,262	17,532	6,686	19,090	25,776
2017-2021	48,147	39,513	87,660	37,891	90,989	128,880
2022-2026	61,790	25,870	87,660	46,553	82,327	128,880
2027-2031	70,786	8,446	79,231	57,197	71,683	128,880
2032-2036	-	-	-	76,246	52,634	128,880
2037-2041	-	-	-	93,204	35,676	128,880
2042-2046	-	-	-	111,695	17,185	128,880
2047-2048	-	-	-	36,354	1,020	37,375
Total	<u>\$ 218,240</u>	<u>\$ 123,971</u>	<u>\$ 342,211</u>	<u>\$ 489,980</u>	<u>\$ 449,555</u>	<u>\$ 939,535</u>

NOTE 6 - 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

Restricted assets are described in Note 3 above.

MCINTOSH COUNTY RURAL WATER DISTRICT #5
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 7 - CONTINGENCIES

Litigation

According to management there were no known contingent liabilities at December 31, 2011, 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 - RETIREMENT AND DEFERRED COMPENSATION PLAN

The District has not retirement or deferred compensation plan. There are no post-employment benefits provided.

NOTE 9 - SUBSEQUENT EVENTS

The District did not have any subsequent events through April 6, 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.

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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
McIntosh County Rural Water District #5
McIntosh County, Oklahoma

I have audited the financial statements of the McIntosh County Rural Water District #5, McIntosh County, as of December 31, 2011, 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, and have issued my report thereon dated April 6, 2012. The McIntosh County Rural Water District #5, McIntosh County, 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 McIntosh County Rural Water District #5 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 McIntosh County Rural Water District #5's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the McIntosh County Rural Water District #5'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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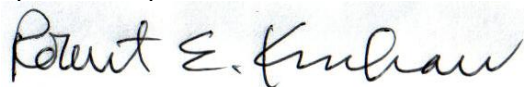
material weakness, as defined above. However, I identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings that I consider to be significant deficiencies in internal control over financial reporting. Those deficiencies are listed as Item 11-01. 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 McIntosh County Rural Water District #5, McIntosh County'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 11-02. The results of my tests disclosed no instances of other matters that are required to be reported under *Government Auditing Standards*.

McIntosh County Rural Water District #5's response to the findings identified in my audit is described in the accompanying Schedule of Findings. I did not audit McIntosh County Rural Water District #5'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 McIntosh County Rural Water District #5, McIntosh County, Oklahoma and is not intended to be and should not be used by anyone other than these specified parties.



Robert E. Kershaw, CPA

April 6, 2012

MCINTOSH COUNTY RURAL WATER DISTRICT #5
MCINTOSH COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS
DECEMBER 31, 2011

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.

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.

COMPLIANCE FINDINGS:

Item 11-02: Payroll Reporting and Compliance

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

Condition: Payroll taxes for the current year were not calculated in timely manner and the related reports were not timely filed.

Cause/Effect: The past due reports 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: Management is aware of past problems and is working to correct these issues going forward.