

AUDIT REPORT

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

DECEMBER 31, 2013



KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

LONGTOWN RURAL WATER AND SEWER DISTRICT #1
PITTSBURG COUNTY, OKLAHOMA
DECEMBER 31, 2013

TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTORY SECTION:	
BOARD OF DIRECTORS	3
FINANCIAL SECTION:	
INDEPENDENT AUDITOR'S REPORT	4-6
BASIC FINANCIAL STATEMENTS:	
EXHIBIT A STATEMENT OF NET POSITION - MODIFIED CASH BASIS	7
EXHIBIT B STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - MODIFIED CASH BASIS	8
EXHIBIT C STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS	9
NOTES TO THE FINANCIAL STATEMENTS	10-19
SCHEDULE 1 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	20
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	20
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	21-23
REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	24-26
OTHER SUPPLEMENTARY INFORMATION:	
SUMMARY STATUS OF PRIOR YEAR AUDIT FINDINGS	27-28
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	29-31

LONGTOWN RURAL WATER AND SEWER DISTRICT #1
PITTSBURG COUNTY, OKLAHOMA
DECEMBER 31, 2013

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

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the Longtown Rural Water and Sewer District #1, as of and for the fiscal year ended December 31, 2013, as listed in the table of contents and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1. This includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of significant accounting

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

estimates made, by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the Longtown Rural Water and Sewer District #1, Pittsburg County, Oklahoma, as of December 31, 2013, and the respective changes in modified cash basis financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

Other Matters

Supplementary and Other Information

The introductory section listed in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the District. Such additional information has not been subjected to the auditing procedures applied in our audit of the basic financial statements, and accordingly, we do not express an opinion or provide an assurance on it.

Our 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, as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements of the Longtown Rural Water and Sewer District #1.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated April 15, 2014, on our consideration of the Longtown Rural Water and Sewer District #1'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 Longtown Rural Water and Sewer District #1'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

April 15, 2014

LONGTOWN RURAL WATER DISTRICT #1
PITTSBURG COUNTY, OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
DECEMBER 31, 2013

<u>ASSETS</u>	Total 2013	Total (Memo Only) 2012
<u>Current Assets:</u>		
Petty Cash	\$ 300	\$ 300
General Fund	239,751	272,092
Money Market	130,501	130,240
Savings - Waste Water	-	-
Inventory	81,307	78,970
Prepaid Insurance	19,131	18,663
Total Current Assets	470,989	500,265
<u>Restricted Assets:</u>		
Reserve Fund - Rural Development	177,316	175,762
Total Restricted Assets	177,316	175,762
<u>Capital Assets:</u>		
Land and Easements	28,701	28,701
Water Distribution System & Equipment	11,013,677	10,104,858
Less: Accumulated Depreciation	(2,960,522)	(2,745,614)
Total Capital Assets	8,081,856	7,387,946
<u>Other Assets:</u>		
ORWA Water Assistance Certificate	1,000	1,000
Total Other Assets	1,000	1,000
TOTAL ASSETS	\$ 8,731,162	\$ 8,064,973
<u>LIABILITIES</u>		
<u>Current Liabilities:</u>		
Meter Deposits	\$ 3,350	\$ 1,750
Payroll Taxes Payable	-	-
Waste Water Deposits	1,500	1,500
Current Portion of Long-Term Debt	58,308	-
Total Current Liabilities	63,158	3,250
<u>Long-Term Liabilities:</u>		
Notes Payable - USDA Rural Development	3,899,783	3,956,372
Notes Payable - OWRB	407,873	34,376
Less: Current Portion of Long-Term Debt	(58,308)	-
Total Long-Term Liabilities	4,249,348	3,990,749
TOTAL LIABILITIES	4,312,506	3,993,999
<u>NET POSITION</u>		
Net investment in capital assets	4,182,074	3,431,573
Restricted for debt service	177,316	175,762
Unrestricted	59,267	463,639
TOTAL NET POSITION	4,418,656	4,070,975
TOTAL LIABILITIES & NET POSITION	\$ 8,731,162	\$ 8,064,973

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 POSITION
- MODIFIED CASH BASIS -
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013

	Total 2013	Total (Memo Only) 2012
<u>Operating Revenues:</u>		
Water Revenue	\$ 887,955	\$ 943,562
Miscellaneous Income	23,997	9,505
Total Operating Revenues	911,952	953,067
<u>Operating Expenses:</u>		
Water Rights	18,992	21,477
DEQ	13,531	9,844
Dues and Memberships	1,399	1,375
Electric and Gas	63,821	63,893
Chemicals	106,083	58,418
Office	30,923	29,228
Telephone	8,371	6,540
Salaries	286,655	275,115
Payroll Taxes	23,238	25,226
Employee Benefits	55,515	59,948
Professional Fees	8,392	10,614
Freight and Postage	1,641	815
Truck Expense	27,937	20,513
Operation and Maintenance	57,571	88,614
Insurance	24,823	31,706
Worker's Comp Insurance	10,312	9,830
Uniforms	1,175	850
Depreciation	214,909	127,329
Miscellaneous Expense	609	667
Total Operating Expenses	955,897	842,003
Operating Income (Loss)	(43,945)	111,064
<u>Non-Operating Revenues (Expenses):</u>		
Interest Income	1,862	1,552
Interest Expense	(121,787)	(92,523)
Gain on Sale of Assets	2,300	-
Membership Income	52,500	29,000
Total Non-operating Revenues (Expenses)	(65,125)	(61,971)
Net Income (Loss) Before Contributions	(109,070)	49,093
Capital Contributions - Grants	457,852	1,222,098
Change in Net Position	348,781	1,271,191
Total Net Position - Beginning	4,070,975	2,799,784
Total Net Position - Prior Year Adjustment	(1,100)	-
Total Net Position - Ending	\$ 4,418,656	\$ 4,070,975

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, 2013**

	<u>12/31/13</u>	<u>Memorandum Only 12/31/12</u>
<u>Cash Flows from Operating Activities:</u>		
Cash Receipts from Customers	\$ 911,952	\$ 953,067
Payments to Suppliers & Laborers for Goods & Services	(743,793)	(714,049)
Receipts of Customer Meter Deposits, Net of Refunds	500	(600)
	<u>168,659</u>	<u>238,418</u>
<u>Net Cash Provided (Used) by Operating Activities</u>		
<u>Cash Flows from Capital & Related Financing Activities:</u>		
Additions to Capital Assets	(908,819)	(3,876,800)
Proceeds from sale of capital assets	2,300	-
Loan Proceeds	473,386	2,554,977
Capital Contributions	457,852	1,222,098
Principal paid on Debt	(158,240)	(81,981)
Interest paid on Debt	(120,027)	(92,523)
	<u>(253,548)</u>	<u>(274,229)</u>
<u>Net Cash Provided (Used) by Capital & Related Financing Activities</u>		
<u>Cash Flows from Investing Activities:</u>		
Increase in Memberships	52,500	29,000
Interest Income	1,862	1,552
	<u>54,362</u>	<u>30,552</u>
<u>Net Cash Provided (Used) by Investing Activities</u>		
<u>Net Increase (Decrease) in Cash and Cash Equivalents</u>	<u>(30,527)</u>	<u>(5,259)</u>
<u>Cash & Cash Equivalents, Beginning of Year</u>	578,395	583,654
<u>Cash & Cash Equivalents, Prior Year Adjustment</u>	-	-
<u>Cash & Cash Equivalents, End of Year (Includes Restricted Cash)</u>	<u>\$ 547,868</u>	<u>\$ 578,395</u>
<u>Reconciliation of operating income (loss) to net cash provided operating activities:</u>		
Operating Income (Loss)	\$ (43,945)	\$ 111,064
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation & Amortization	214,909	127,329
(Increase)Decrease in Inventory	(2,337)	862
(Increase)Decrease in Prepaid Expenses	(467)	(237)
Increase(Decrease) in Meter Deposits	500	(600)
Increase(Decrease) in Payroll Tax Payable	-	-
	<u>168,659</u>	<u>238,418</u>
<u>Net Cash Provided (Used) by Operating Activities</u>	<u>\$ 168,659</u>	<u>\$ 238,418</u>

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, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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 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 assets, 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).

LONGTOWN RURAL WATER AND SEWER DISTRICT #1
PITTSBURG COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

C. Measurement Focus and Basis of Accounting

Measurement Focus

The District utilizes an economic resources measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), net financial position, and cash flows. All assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent or financial or nonfinancial) associated with their activities are generally reported within the limitations of the modified cash basis of accounting.

Basis of Accounting

The financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modifications to the cash basis of accounting to report in the statements of net position cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include investments, capital assets and related depreciation, and short-term and long-term liabilities arising from cash transactions or events.

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue billed or provided services not yet collected and other accrued revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

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.

LONGTOWN RURAL WATER AND SEWER DISTRICT #1
PITTSBURG COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

D. Financial Position

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 the 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 accumulated 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.

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.

LONGTOWN RURAL WATER AND SEWER DISTRICT #1
PITTSBURG COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

Equity Classification

Equity is classified as net position and displayed in three components:

1. Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.
2. Restricted – Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted - Net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

It is the District's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

E. 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.

F. Income Tax Status

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

LONGTOWN RURAL WATER AND SEWER DISTRICT #1
PITTSBURG COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

G. Compensated Absences

On May 16, 2013, at a regular scheduled board meeting, the District board members adopted a new policy for sick days and vacations days. The policy is as follows:

1. Sick days will now be known as "personal" leave. The total personal leave each year is 8 days or 64 hours and can be carried over from year to year, but not to exceed 240 hours.
2. Vacation time can now be carried over from year to year but not to exceed 240 hours.
 - a. 1 year of service = 1 week or 40 hours paid vacation
 - b. 2 years to 5 years of service = 2 weeks or 80 hours
 - c. 5 years or more of service = 3 weeks or 120 hours

H. 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.

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.

LONGTOWN RURAL WATER AND SEWER DISTRICT #1
PITTSBURG COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 3 - CASH AND INVESTMENTS

Custodial Credit Risk

At December 31, 2013, the District held deposits of approximately \$547,868 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.).

LONGTOWN RURAL WATER AND SEWER DISTRICT #1
PITTSBURG COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

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, 2013, 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 \$177,316, which complies with the covenants of the loan agreement.

The loan agreement with the Oklahoma Water Resources Board for the District's basic financing requires that certain monies be put in a trust type account. These funds are restricted to servicing the loan with the OWRB. Monthly payments are made to a debt service account and then invested upon receipt by the loan trustee, Bancfirst. Semi-annual payments are then made by the trustee from this account to OWRB. When funds are received by the Trustee they are immediately invested in securities guaranteed by the United States Government.

NOTE 5 - CAPITAL ASSETS

Capital asset activity, resulting from the modified cash basis transactions, for the fiscal year ended December 31, 2013, was as follows:

	Balance at Dec. 31, 2012	Additions	Deductions	Balance at Dec. 31, 2013
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	1,500	-	88,419
Plant Equipment	322,032	-	-	322,032
Field Equipment	187,050	-	-	187,050
Water Plant	1,309,108	5,113,804	-	6,422,912
Clear Well Tank	112,413	-	-	112,413
Office Building	195,826	-	-	195,826
Alarm System	13,583	14,025	-	27,607
Construction in Progress	4,773,392	872,661	(5,093,170)	552,883
Subtotal	10,133,559	6,001,989	(5,093,170)	11,042,379
Less: Accum. Depr.	(2,745,614)	(214,909)	-	(2,960,522)
Total Capital Assets (Net of Depreciation)	<u>\$ 7,387,946</u>	<u>\$ 5,787,080</u>	<u>\$ (5,093,170)</u>	<u>\$ 8,081,856</u>

LONGTOWN RURAL WATER AND SEWER DISTRICT #1
PITTSBURG COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

The additions to capital assets included the capital improvement projects, an automated meter reading interface for the software, lab building at the water plant, and security system upgrades. The USDA Rural Development Water Plant Project was completed and reclassified as Water Plant.

NOTE 6 - LONG-TERM DEBT

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, 2012, the District has received all loan proceeds for this loan.

In December 2012, the District entered into a Loan Agreement for Drinking Water SRF Loan dated December 20, 2012, by and between the District and the OWRB (the "Drinking Water SRF Loan Agreement"). The security for the Note includes a pledge and assignment of revenues derived by the District from its operation of the water system of the District pursuant to the terms of the Loan Agreement. The Note is further secured by a Mortgage with Power of Sale and Security Agreement dated December 20, 2012 by the District to the OWRB and the provisions of the Trust Agreement dated December 1, 2012. The loan is for a principal sum of Five Hundred Seventy Thousand and 00/100 Dollars (\$570,000.00) or so much thereof as is advanced together with interest at a rate of 1.57% per annum and an administrative fee at rate of 0.5% per annum thereon from the date of each respective advance. The interest and administrative fee payments shall be made on a semi-annual basis, commencing on March 15, 2013, and continuing each March 15 and September 15 thereafter for the term of the Loan. The Borrower shall commence repayment of principal on the earlier of (i) the March 15 or September 15 next following the date the Project is completed, as certified to the OWRB by the District, or (ii) September 15, 2013, and shall continue to repay principal semiannually for the term of the Loan according to the Amortization Table to be provided by the OWRB.

LONGTOWN RURAL WATER AND SEWER DISTRICT #1
PITTSBURG COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended December 31, 2013:

	Balance at Dec. 31, 2012	Additions	Deductions	Balance at Dec. 31, 2013
Notes Payable - USDA RD 91-	\$ 3,956,372.47	\$ -	\$ 56,589.81	\$ 3,899,782.66
Notes Payable - OWRB	\$ 34,376.40	\$ 475,146.67	\$ 101,650.00	\$ 407,873.07
Total Long-Term Debt	<u>\$ 3,990,748.87</u>	<u>\$ 475,146.67</u>	<u>\$ 158,239.81</u>	<u>\$ 4,307,655.73</u>

Debt Services Requirements to Maturity

USDA RD 91-08

Year Ending December 31,	Principal	Interest	Total
2014	\$ 58,308	\$ 116,196	\$ 174,504
2015	60,081	114,423	174,504
2016	61,909	112,595	174,504
2017	63,792	110,712	174,504
2018	65,732	108,772	174,504
2019-2023	359,894	512,626	872,520
2024-2028	418,059	454,461	872,520
2029-2033	485,624	386,896	872,520
2034-2038	564,109	308,411	872,520
2039-2043	655,279	217,241	872,520
2044-2048	761,183	111,337	872,520
2049-2051	345,813	11,159	356,972
Total	<u>\$ 3,899,783</u>	<u>\$ 2,564,829</u>	<u>\$ 6,464,612</u>

The amortization schedule for the OWRB loan 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 position and displayed in three components:

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

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

LONGTOWN RURAL WATER AND SEWER DISTRICT #1
PITTSBURG COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

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.

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 15, 2014, 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, 2013.

**LONGTOWN RURAL WATER DISTRICT #1
PITTSBURG COUNTY, OKLAHOMA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013**

<u>Federal Grantor/ Program Title</u>	<u>Federal CFDA No.</u>	<u>Award Amount</u>	<u>Federal Expenditures</u>
<u>USDA Rural Development:</u>			
Grant:			
Water and Waste Disposal Systems for Rural Communities	10.760	\$ 1,594,450	\$ 372,352
<u>Environmental Protection Agency:</u>			
Loan:			
<u>Passed Through Oklahoma Water Resources Board/ Drinking Water State Revolving Fund</u>	66.468	\$ 570,000	\$ 473,386
Grant:			
<u>Passed Through Oklahoma Water Resources Board/ Cap Grants for Drinking Water State Revolving Funds (ARRA)</u>	66.468	\$ 85,500	\$ 85,500
Total		<u>\$ 2,249,950</u>	<u>\$ 931,238</u>

**LONGTOWN RURAL WATER DISTRICT #1
PITTSBURG COUNTY, OKLAHOMA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2013**

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:

Federal Sources

General	\$ 931,238
Total	<u>\$ 931,238</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.

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes, the modified cash basis financial statements of the Longtown Rural Water and Sewer District #1, as of and for the year ended December 31, 2013, 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 April 15, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Longtown Rural Water and Sewer District #1'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 Longtown Rural Water and Sewer District #1's internal control. Accordingly, we do not express an opinion on the effectiveness of Longtown Rural Water and Sewer District #1's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

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 Items 13-01 and 13-02.

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, 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 one instance of noncompliance that is required to be reported under Government Auditing Standards, which is included in the Schedule of Findings as Item 13-03. The results of our 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 Findings

Longtown Rural Water and Sewer District #1's response to the findings identified in our audit is described in the accompanying Schedule of Findings. Longtown Rural Water and Sewer District #1's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

This report is intended 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

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

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

April 15, 2014

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR FEDERAL PROGRAM AND ON 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

Report on Compliance for Each Major Federal Program

We have audited the Longtown Rural Water and Sewer District #1's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Longtown Rural Water and Sewer District #1's major federal programs for the year ended December 31, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Longtown Rural Water and Sewer District #1's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB 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 we 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 we considered necessary in the circumstances.

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on Longtown Rural Water and Sewer District #1's compliance.

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.

Opinion on Each Major Federal Program

In our opinion, the Longtown Rural Water and Sewer District #1 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

Report on Internal Control Over Compliance

Management of the Longtown Rural Water and Sewer District #1 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Longtown Rural Water and Sewer District #1's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Longtown Rural Water and Sewer District #1's internal control over compliance.

A deficiency in 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 to detect and correct, noncompliance with a type of compliance requirement of a federal program a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

April 15, 2014

LONGTOWN RURAL WATER AND SEWER DISTRICT #1
PITTSBURG COUNTY, OKLAHOMA
SUMMARY STATUS OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2013

INTERNAL CONTROL FINDINGS:

Item 12-01: 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 12-02: 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.

LONGTOWN RURAL WATER AND SEWER DISTRICT #1
PITTSBURG COUNTY, OKLAHOMA
SUMMARY STATUS OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2013

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:

None

Current Status: Both 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, 2013

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
- #66.468 Drinking Water State Revolving Fund

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 13-01: 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, 2013

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 13-02: 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. The Meter Deposit Ledger is being maintained, however the liability account is not adjusted accordingly.

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 13-03: 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.

LONGTOWN RURAL WATER AND SEWER DISTRICT #1
PITTSBURG COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2013

Condition: Some of the current year payroll tax forms were not filed in a timely manner.

Cause/Effect: The past due tax returns 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 the 941 tax returns were not filed. This was corrected in the subsequent year.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None