

# AUDIT REPORT

PITTSBURG COUNTY RURAL WATER DISTRICT #11  
PITTSBURG COUNTY, OKLAHOMA

OCTOBER 31, 2016

## KERSHAW CPA & ASSOCIATES, PC

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PITTSBURG COUNTY RURAL WATER DISTRICT #11  
PITTSBURG COUNTY, OKLAHOMA  
OCTOBER 31, 2016

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Pittsburg County Rural Water District #11  
Pittsburg County, Oklahoma

### *Report on the Financial Statements*

We have audited the accompanying modified cash basis financial statements of Pittsburg County Rural Water District #11, as of and for the fiscal year ended October 31, 2016, and the related notes to the financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express opinions 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. 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

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express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of significant accounting estimates made, by management, as well as evaluating the overall presentation of the financial statements.

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

## *Basis for Qualified Opinion*

The modified cash basis of accounting requires that items, having substantial support in U.S. generally accepted accounting principles, such as capitalizing assets at historical cost and recording depreciation, be recorded in the financial statements. The District has not maintained accurate capital asset records to support the historical cost of past capital asset purchases and the related depreciation. Documentation supporting historical cost and depreciation was not readily available for our review. The amount by which this departure would affect the assets, net position, and expenses of the District is not readily determinable.

Also, the customer billing records have not been accurately maintained. This created a scope limitation on the audit. However, bank statements were used to verify revenue cash receipts. The amount by which this limitation would affect the revenues is not reasonably determinable.

## *Qualified Opinion*

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the Pittsburg County Rural Water District #11, Pittsburg County, Oklahoma, as of October 31, 2016, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in conformity with the basis of accounting described in Note 1.

## *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.

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## *Other Matters*

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2019, on our consideration of Pittsburg County Rural Water District #11'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 solely 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 effectiveness of Pittsburg County Rural Water District #11's 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 Pittsburg County Rural Water District #11's internal control over financial reporting and compliance.

*Kershaw CPA & Associates, P.C.*

Kershaw CPA & Associates, PC  
Muskogee, Oklahoma

October 30, 2019

## EXHIBIT A

PITTSBURG COUNTY RURAL WATER DISTRICT #11  
PITTSBURG COUNTY, OKLAHOMA  
STATEMENT OF NET POSITION - MODIFIED CASH BASIS  
OCTOBER 31, 2016

	<u>10/31/2016</u>	<u>Memo Only 10/31/2015</u>
<b><u>ASSETS</u></b>		
<b><u>Current Assets:</u></b>		
Cash and Cash Equivalents	\$ 150,269	\$ 86,757
Investments	19,211	19,163
<b>Total Current Assets</b>	<u>169,480</u>	<u>105,920</u>
<b><u>Non-current Assets:</u></b>		
Restricted Cash	14,891	29,058
Capital Assets, Net of Depreciation	406,561	395,768
<b>Total Non-current Assets</b>	<u>421,452</u>	<u>424,826</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 590,932</u></u>	<u><u>\$ 530,746</u></u>
<b><u>LIABILITIES</u></b>		
<b><u>Current Liabilities:</u></b>		
Current Portion of Long-Term Debt	\$ 4,860	\$ 4,769
<b>Total Current Liabilities</b>	<u>4,860</u>	<u>4,769</u>
<b><u>Non-current Liabilities:</u></b>		
Notes Payable	166,735	171,382
Less: Current Portion of Long-Term Debt	(4,860)	(4,769)
<b>Total Long-Term Liabilities</b>	161,875	166,613
<b>TOTAL LIABILITIES</b>	166,735	171,382
<b><u>NET POSITION</u></b>		
Net investment in capital assets	239,825	224,386
Restricted for debt service	14,891	29,058
Unrestricted	169,480	105,920
<b>TOTAL NET POSITION</b>	<u>424,197</u>	<u>359,364</u>
<b>TOTAL LIABILITIES &amp; NET POSITION</b>	<u><u>\$ 590,932</u></u>	<u><u>\$ 530,746</u></u>

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

## EXHIBIT B

PITTSBURG COUNTY RURAL WATER DISTRICT #11  
PITTSBURG COUNTY, OKLAHOMA  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
- MODIFIED CASH BASIS -  
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2016

	Total FYE 10/31/2016	Memo Only Total FYE 10/31/2015
<b><u>Operating Revenues:</u></b>		
Water Sales	\$ 201,460	\$ 218,290
Meter Tap Fees	750	2,250
Other Income	-	775
Total Operating Revenues	<u>202,210</u>	<u>221,314</u>
<b><u>Operating Expenses:</u></b>		
Water Purchased	51,962	105,594
Salaries & Wages	43,799	40,199
Payroll Taxes	3,306	4,757
Employee Benefits	10,362	10,387
Office	2,074	2,394
Utilities & Telephone	1,939	1,937
Insurance	4,163	2,091
Repairs & Maintenance	1,490	8,552
Miscellaneous	1,120	139
Memberships, Dues & Licenses	319	896
Professional Fees	7,553	42,116
Contract Services	5,583	7,522
Field Supplies	2,408	3,456
Travel	3,000	2,750
Depreciation Expense	26,657	25,783
Total Operating Expenses	<u>165,735</u>	<u>258,573</u>
Operating Income (Loss)	36,474	(37,258)
<b><u>Non-Operating Revenues (Expenses):</u></b>		
Interest Income	206	179
Interest Expense	(7,617)	(8,172)
Total Non-operating Revenues (Expenses)	<u>(7,412)</u>	<u>(7,993)</u>
Net Income (Loss) Before Contributions	29,063	(45,251)
Capital Contributions	35,770	-
Change in Net Position	64,833	(45,251)
Total Net Position - Beginning	359,364	404,615
Total Net Position - Prior Year Adjustment	-	-
Total Net Position - Ending	<u>\$ 424,197</u>	<u>\$ 359,364</u>

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

## EXHIBIT C

**PITTSBURG COUNTY RURAL WATER DISTRICT #11  
PITTSBURG COUNTY, OKLAHOMA  
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS  
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2016**

	October 31, 2016	Memo Only October 31, 2015
<b><u>Cash Flows from Operating Activities:</u></b>		
Cash Receipts from Customers	\$ 202,210	\$ 221,314
Payments to Suppliers for Goods & Services	(95,279)	(192,591)
Payments to Employees & Laborers	(43,799)	(40,199)
Receipts of Customer Utility Deposits, Net of Refunds	-	-
	<u>63,132</u>	<u>(11,475)</u>
<b>Net Cash Provided (Used) by Operating Activities</b>		
<b><u>Cash Flows from Capital &amp; Related Financing Activities:</u></b>		
Additions to Capital Assets	(37,450)	-
Grant Income	35,770	-
Principal paid on Debt	(4,647)	(9,825)
Interest paid on Debt	(7,617)	(8,172)
	<u>(13,944)</u>	<u>(17,997)</u>
<b>Net Cash Provided (Used) by Capital &amp; Related Financing Activities</b>		
<b><u>Cash Flows from Investing Activities:</u></b>		
Interest Income	206	179
(Increase)Decrease in Investments	(48)	22,347
	<u>157</u>	<u>22,526</u>
<b>Net Cash Provided (Used) by Investing Activities</b>		
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	49,345	(6,946)
<b>Cash &amp; Cash Equivalents, Beginning of Year</b>	115,815	122,761
<b>Cash &amp; Cash Equivalents, Prior Year Adjustment</b>	-	-
<b>Cash &amp; Cash Equivalents, End of Year</b>	<u>\$ 165,160</u>	<u>\$ 115,815</u>
<b><u>Reconciliation of operating income (loss) to net cash provided operating activities:</u></b>		
Operating Income (Loss)	\$ 36,474	\$ (37,258)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	26,657	25,783
Increase(Decrease) in Renters Deposits	-	-
	<u>26,657</u>	<u>25,783</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>\$ 63,132</u>	<u>\$ (11,475)</u>

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



PITTSBURG COUNTY RURAL WATER DISTRICT #11  
PITTSBURG COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2016

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. Reporting Entity

Rural Water District #11, Pittsburg County, Oklahoma (the "District") was formed July 9, 1975 by the Board of County Commissioners of Pittsburg County, Oklahoma under provisions of the Rural Water District Act (Title 82 Oklahoma Statutes 1961, Sections 1301 to 1321). The District is managed by a five member Board of Directors. Members of the Board are elected by the membership of the District at its annual meeting. Membership in the District is attained by paying membership dues and receiving services from the District. The activities of the District constitute the entire reporting entity. There are no other component or oversight units. The District is a political subdivision of the state of Oklahoma.

B. Basis of Presentation

The accounts of the District are organized on the basis of proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net position, revenues and expenses. Enterprise Funds account for activities (1) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (2) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (3) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

PITTSBURG COUNTY RURAL WATER DISTRICT #11  
PITTSBURG COUNTY, OKLAHOMA  
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C. Measurement Focus and Basis of Accounting

Measurement Focus

The District utilizes an economic resources measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (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.

PITTSBURG COUNTY RURAL WATER DISTRICT #11  
PITTSBURG COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2016

D. 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.

Investments

Investments classified in the financial statements consist entirely of certificates of deposit whose original maturity term exceeds three months. Investments are carried at cost, which approximates fair value.

Capital Assets

The District has not maintained capital assets records. However, an amount has been carried forward in the financial statements. New purchases of capital items in excess of \$2,000.00 that increase the capacity or operation efficiency or extend the useful life of any asset are capitalized. Repairs and maintenance are expensed as incurred. Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	20-50 years
Water system	30-50 years
Equipment	5-10 years
Improvements	10-20 years

Long-Term Debt

Long-term debt is reported at face value, net of applicable discounts and deferred loss on refunding. Costs related to the issuance of debt are deferred and amortized over the lives of various debt issues.

Equity Classification

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

PITTSBURG COUNTY RURAL WATER DISTRICT #11  
PITTSBURG COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2016

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. Use of Estimates

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

PITTSBURG COUNTY RURAL WATER DISTRICT #11  
PITTSBURG COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2016

G. 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.

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 October 31, 2016, the District held deposits of approximately \$184,371 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.

PITTSBURG COUNTY RURAL WATER DISTRICT #11  
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NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2016

- 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 (USDA) Rural Development requires the District to set aside into a Reserve Account an accumulated amount equal to the sum of the annual installment (\$12,264), after which deposits may be suspended, except to replace withdrawals. The District cannot withdraw funds from the reserve account without USDA approval. As of October 31, 2016, the District had a balance of \$14,890.82 in the account, 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 October 31, 2016, was as follows:

PITTSBURG COUNTY RURAL WATER DISTRICT #11  
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NOTES TO FINANCIAL STATEMENTS  
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	Balance at Oct. 31, 2015	Additions	Deductions	Balance at Oct. 31, 2016
Capital assets not being depreciated:				
Construction in Progress	\$ -	\$ -	\$ -	\$ -
Total capital assets not being depreciated	\$ -	\$ -	\$ -	\$ -
Other capital assets:				
Water Facilities	1,026,343	37,450	-	1,063,793
Equipment	3,983	-	-	3,983
Total depreciable assets	1,030,326	37,450	-	1,067,776
Less Accum. Depreciation for:				
Water Facilities	630,637	26,595	-	657,232
Equipment	3,920	62	-	3,983
Total accumulated depreciation	634,558	26,657	-	661,215
Other capital assets, net	395,768	10,793	-	406,561
Total Capital Assets, Net	\$ 395,768	\$ 10,793	\$ -	\$ 406,561

NOTE 6 - LONG-TERM DEBT

The District has a note payable to USDA Rural Development. The note had an original principal balance of \$225,000.00 payable at 4.50% interest with monthly payments of \$1,022 for 40 years.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended October 31, 2016:

	Balance at Oct. 31, 2015	Additions	Deductions	Balance at Oct. 31, 2016
Note Payable - USDA	\$ 171,382	\$ -	\$ (4,647)	\$ 166,735
Total Long-Term Debt	\$ 171,382	\$ -	\$ (4,647)	\$ 166,735

Debt Services Requirements to Maturity

The annual debt service requirements to maturity, including principal and interest, for long-term debt, as of October 31, 2016, are as follows:

PITTSBURG COUNTY RURAL WATER DISTRICT #11  
PITTSBURG COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
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Note Payable - USDA:

Year Ended October 31,	Principal	Interest	Annual Payment
2017	\$ 4,860	\$ 7,404	\$ 12,264
2018	5,184	7,080	12,264
2019	5,419	6,845	12,264
2020	5,664	6,600	12,264
2021	5,921	6,343	12,264
2022-2026	33,879	27,441	61,320
2027-2031	42,279	19,041	61,320
2032-2036	52,763	8,557	61,320
2037	10,766	236	11,002
Total	<u>\$ 166,735</u>	<u>\$ 89,547</u>	<u>\$ 256,282</u>

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 is described in 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.



PITTSBURG COUNTY RURAL WATER DISTRICT #11  
PITTSBURG COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2016

NOTE 9 - ECONOMIC DEPENDENCE

The District and the Kiowa Public Works Authority have jointly negotiated a contract whereby the District agrees to purchase its water needs from the Kiowa Public Works Authority. The current price is \$2.737 per 1,000 gallons used. This contract for the sale and purchase of water was entered into November 2006 and shall extend for a term of 45 years from the date of the initial delivery of any water as shown by first bill submitted by the seller to the purchaser and thereafter shall be automatically extended for successive like terms until terminated by mutual consent of the seller and purchaser.

Effective July 1, 2013, Kiowa Public Works Authority has raised the rate to \$4.50 per 1,000 gallons. The District was involved in litigation against Kiowa Public Works Authority in regards to this increase.

On April 9, 2015, the District and the Town of Kiowa/Kiowa PWA entered into a Settlement Agreement and Mutual Release ("Agreement"). In exchange for the releases and other covenants and terms contained in the agreement, the Kiowa PWA shall deliver to the District 20,000,000 gallons of treated, potable water at no charge to the District. The delivery of this Free Water shall be made in increments of 833,333 gallons per month for 24 consecutive months beginning May 1, 2015. All water delivered to the District during the 24 months that exceeds 833,333 gallons per month, shall be paid for by the District at the rate as provided for in the Agreement. All water delivered to the District following the 24 months through the end of the term of the 1997 Contract, shall be paid for by the District at the rate as provided for in this agreement. The rate per 1,000 gallons to be paid by the District shall be \$3.50 per 1,000 gallons commencing May 1, 2015, which remains in effect until April 30, 2016. The rate per 1,000 shall be adjusted annually during the remaining term of the 1997 Contract. Notwithstanding any provision in the 1997 Contract regarding how and when the rate per 1,000 gallons shall be adjusted, this Agreement shall control and all rate adjustment provisions in this Agreement shall act in substitution and replacement of such price adjustment provisions.

NOTE 10 - SUBSEQUENT EVENTS

The District did not have any subsequent events through October 30, 2019, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending October 31, 2016.

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

To the Board of Directors  
Pittsburg County Rural Water District #11

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 Pittsburg County Rural Water District #11, as of and for the year ended October 31, 2016, and the related notes to the financial statements, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles, and have issued our report thereon dated October 30, 2019, which was qualified for the improper capital asset recordkeeping and the scope limitation on billing records.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Pittsburg County Rural Water District #11'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 Pittsburg County Rural Water District #11's internal control. Accordingly, we do not express an opinion on the effectiveness of Pittsburg County Rural Water District #11's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or

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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. We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings as Items 16-01, 16-02 and 16-03 that we consider to be significant deficiencies.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Pittsburg County Rural Water District #11'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 16-04. The results of our tests disclosed no instances of other matters that are required to be reported under *Government Auditing Standards*.

## Pittsburg County Rural Water District #11's Response to Findings

Pittsburg County Rural Water District #11's response to the findings identified in our audit is described in the accompanying Schedule of Findings. Pittsburg County Rural Water District #11's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

October 30, 2019

PITTSBURG COUNTY RURAL WATER DISTRICT #11  
PITTSBURG COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS  
OCTOBER 31, 2016

INTERNAL CONTROL FINDINGS:

Item 16-01: Segregation of Duties

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

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

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

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

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

Item 16-02: Customer Billing Records

Criteria: Internal control refers to the methods and procedures used to provide reasonable assurance regarding the achievement of objectives in the following categories: Safeguarding assets, Ensuring validity of financial records and reports, Promoting adherence to policies, procedures, regulations and laws, and Promoting effectiveness and efficiency of operations. Internal control also refers to how an entity processes, summarizes and records the financial transactions. In general terms, internal controls are simply good business practices.

Condition: The District did not maintain an adequate billing system.

Cause/Effect: This has resulted in a failure to maintain records in an accurate manner. The financial statements may contain misstatements and omit financial information.

PITTSBURG COUNTY RURAL WATER DISTRICT #11  
PITTSBURG COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS  
OCTOBER 31, 2016

Recommendation: A current customer list for water services needs to be established and monthly invoices and payments need to be reflected in the financial statements.

Response: The District hopes to improve the system going forward.

Item 16-03: General Ledger

Criteria: Same as Item 16-02 above.

Condition: The District did not maintain a complete, accurate double-entry general ledger system.

Cause/Effect: The District maintained general ledger spreadsheets for income and expenses that include multiple errors and misclassifications. These spreadsheets are being prepared extended periods of time past the date of the transactions when they should be prepared each month when the bank statements are received. Adjustments were made in order to get the funds in the general ledger to balance. Prior to adjustment, the financial statements contained misstatements and omitted financial information.

Recommendation: The District needs to prepare financial statements with a complete general ledger system.

Response: The District hopes to improve the system going forward.

COMPLIANCE FINDINGS:

Item 16-04: 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 tax returns for the current year were not filed correctly.

Cause/Effect: The District filed form 941-SS rather than form 941 multiple times during the year. This form is for workers in the

PITTSBURG COUNTY RURAL WATER DISTRICT #11  
PITTSBURG COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS  
OCTOBER 31, 2016

American Samoa, Guam, the Commonwealth of the Northern Mariana Islands, and the U.S. Virgin Islands. The District has received multiple IRS notices regarding filing problems. These outstanding issues leave the District out of compliance with the requirements of the taxing agencies and subject to penalties.

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

Response: The District is aware of the problems and hopes to remedy them going forward.