

AUDIT REPORT

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

DECEMBER 31, 2019



KERSHAW CPA & ASSOCIATES, PC

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PITTSBURG COUNTY, OKLAHOMA
DECEMBER 31, 2019

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	10-20
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 <i>GOVERNMENT AUDITING STANDARDS</i>	21-22
SCHEDULE OF FINDINGS	23

LONGTOWN RURAL WATER AND SEWER DISTRICT #1
PITTSBURG COUNTY, OKLAHOMA
DECEMBER 31, 2019

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>
PAUL HODGE	CHAIRMAN
AL TANKERSLEY	VICE CHAIRMAN
FRANK ALBRO	SECRETARY/TREASURER
DEAN CHOATE	DIRECTOR
PENNIE EMBRY	DIRECTOR

KEY MANAGEMENT OFFICIALS

RODNEY HELMS	MANAGER
ERIC ELLIS	FIELD SUPERVISOR
JANICE SHAVER	OFFICE MANAGER
DELVINA PADGETT	SEC./BOOKKEEPER

Unaudited

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INDEPENDENT AUDITOR'S REPORT

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

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, 2019, 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

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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, 2019, 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.

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.

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 and assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 1, 2020, 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 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 Longtown Rural Water and Sewer District #1's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in compliance with

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Government Auditing Standards in considering Longtown Rural Water and Sewer District #1's internal control over financial reporting and compliance.

Kershaw CPA & Associates, P.C.

Kershaw CPA & Associates, PC
Muskogee, Oklahoma

April 1, 2020

LONGTOWN RURAL WATER DISTRICT #1
PITTSBURG COUNTY, OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
DECEMBER 31, 2019

<u>ASSETS</u>	Total 2019	Total (Memo Only) 2018
<u>Current Assets:</u>		
Petty Cash	\$ 435	\$ 300
General Fund	270,256	286,716
Investments	189,857	110,680
Inventory	79,046	72,270
Prepaid Insurance	21,251	22,160
Total Current Assets	<u>560,845</u>	<u>492,126</u>
<u>Restricted Assets:</u>		
Reserve Fund - Rural Development	250,010	255,366
RWD #4 Construction Acct	-	-
Trust Account - OWRB Loan	9,939	9,773
Total Restricted Assets	<u>259,949</u>	<u>265,139</u>
<u>Capital Assets:</u>		
Land and Easements	28,701	28,701
Water Distribution System & Equipment	12,211,230	12,200,030
Less: Accumulated Depreciation	<u>(4,473,583)</u>	<u>(4,189,256)</u>
Total Capital Assets	<u>7,766,348</u>	<u>8,039,474</u>
<u>Other Assets:</u>		
ORWA Water Assistance Certificate	1,000	1,000
Total Other Assets	<u>1,000</u>	<u>1,000</u>
TOTAL ASSETS	<u>\$ 8,588,142</u>	<u>\$ 8,797,739</u>
<u>LIABILITIES</u>		
<u>Current Liabilities:</u>		
Meter Deposits	\$ 2,600	\$ 2,900
Waste Water Deposits	1,500	1,500
Current Portion of Long-Term Debt	<u>100,487</u>	<u>97,809</u>
Total Current Liabilities	<u>104,587</u>	<u>102,209</u>
<u>Long-Term Liabilities:</u>		
Notes Payable - USDA Rural Development	3,522,209	3,589,944
Notes Payable - OWRB	282,655	312,733
Less: Current Portion of Long-Term Debt	<u>(100,487)</u>	<u>(97,809)</u>
Total Long-Term Liabilities	<u>3,704,377</u>	<u>3,804,868</u>
TOTAL LIABILITIES	<u>3,808,964</u>	<u>3,907,077</u>
<u>NET POSITION</u>		
Net investment in capital assets	3,961,484	4,136,797
Restricted for debt service	259,949	265,139
Unrestricted	<u>557,745</u>	<u>488,727</u>
TOTAL NET POSITION	<u>4,779,178</u>	<u>4,890,662</u>
TOTAL LIABILITIES & NET POSITION	<u>\$ 8,588,142</u>	<u>\$ 8,797,739</u>

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, 2019

	Total 2019	Total (Memo Only) 2018
<u>Operating Revenues:</u>		
Water Revenue	\$ 1,181,143	\$ 1,209,761
Miscellaneous Income	17,406	14,446
Total Operating Revenues	1,198,549	1,224,207
<u>Operating Expenses:</u>		
Water Rights	12,352	12,903
DEQ	15,613	15,951
Dues and Memberships	1,958	1,960
Electric and Gas	76,160	68,087
Chemicals	179,492	138,229
Office	26,007	26,014
Telephone	9,208	10,009
Salaries	325,388	319,556
Payroll Taxes	25,601	25,340
Employee Benefits	55,212	62,592
Professional Fees	9,354	5,750
Freight and Postage	1,367	1,208
Truck Expense	27,597	31,409
Operation and Maintenance	140,951	146,655
Insurance	36,318	35,885
Worker's Comp Insurance	7,832	8,605
Uniforms	1,733	645
Depreciation	284,327	278,322
Miscellaneous Expense	4,115	1,155
Total Operating Expenses	1,240,585	1,190,274
Operating Income (Loss)	(42,037)	33,933
<u>Non-Operating Revenues (Expenses):</u>		
Interest Income	9,377	5,079
Interest Expense	(113,724)	(116,345)
Gain on Sale of Assets	-	-
Membership Income	34,900	47,300
Total Non-operating Revenues (Expenses)	(69,447)	(63,965)
Net Income (Loss) Before Contributions	(111,484)	(30,032)
Capital Contributions - Grants	-	-
Change in Net Position	(111,484)	(30,032)
Total Net Position - Beginning	4,890,662	4,924,264
Total Net Position - Prior Year Adjustment	-	(3,569)
Total Net Position - Ending	\$ 4,779,178	\$ 4,890,662

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, 2019**

	<u>12/31/19</u>	<u>Memorandum Only 12/31/18</u>
<u>Cash Flows from Operating Activities:</u>		
Cash Receipts from Customers	\$ 1,198,549	\$ 1,224,207
Payments to Suppliers & Laborers for Goods & Services	(962,126)	(907,519)
Receipts of Customer Meter Deposits, Net of Refunds	(300)	(600)
	<u>236,122</u>	<u>316,088</u>
<u>Net Cash Provided (Used) by Operating Activities</u>		
<u>Cash Flows from Capital & Related Financing Activities:</u>		
Additions to Capital Assets	(11,200)	(61,040)
Proceeds from sale of capital assets	-	-
Loan Proceeds	-	-
Capital Contributions	-	-
Principal paid on Debt	(97,813)	(95,192)
Interest paid on Debt	(113,724)	(116,345)
	<u>(222,737)</u>	<u>(272,577)</u>
<u>Net Cash Provided (Used) by Capital & Related Financing Activities</u>		
<u>Cash Flows from Investing Activities:</u>		
Increase in Memberships	34,900	47,300
Interest Income	9,377	5,079
	<u>44,277</u>	<u>52,379</u>
<u>Net Cash Provided (Used) by Investing Activities</u>		
<u>Net Increase (Decrease) in Cash and Cash Equivalents</u>	<u>57,662</u>	<u>95,890</u>
<u>Cash & Cash Equivalents, Beginning of Year</u>	<u>662,835</u>	<u>570,514</u>
<u>Cash & Cash Equivalents, Prior Year Adjustment</u>	<u>-</u>	<u>(3,569)</u>
<u>Cash & Cash Equivalents, End of Year (Includes Restricted Cash)</u>	<u>\$ 720,497</u>	<u>\$ 662,835</u>
<u>Reconciliation of operating income (loss) to net cash provided</u>		
<u>operating activities:</u>		
Operating Income (Loss)	\$ (42,037)	\$ 33,933
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation & Amortization	284,327	278,322
(Increase)Decrease in Inventory	(6,777)	4,165
(Increase)Decrease in Prepaid Expenses	909	267
Increase(Decrease) in Meter Deposits	(300)	(600)
	<u>236,122</u>	<u>316,088</u>
<u>Net Cash Provided (Used) by Operating Activities</u>	<u>\$ 236,122</u>	<u>\$ 316,088</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, 2019

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, 2019

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, 2019

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, 2019

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, 2019

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, 2019

NOTE 3 - CASH AND INVESTMENTS

Custodial Credit Risk

At December 31, 2019, the District held deposits of approximately \$720,497 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, 2019

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, 2019, 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 \$250,010.16, 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, 2019, was as follows:

	Balance at Dec. 31, 2018	Additions	Deductions	Balance at Dec. 31, 2019
Land & Easement	\$ 28,701	\$ -	\$ -	\$ 28,701
Water System	2,916,007	-	-	2,916,007
Water Towers	152,339	-	-	152,339
Office & Whse. Bldg	58,834	11,200	-	70,034
Office Equipment	97,476	-	-	97,476
Plant Equipment	383,072	-	-	383,072
Field Equipment	195,109	-	-	195,109
Water Plant	6,422,912	-	-	6,422,912
Clear Well Tank	112,413	-	-	112,413
Office Building	195,826	-	-	195,826
Alarm System	27,608	-	-	27,608
RWD#4 System	1,034,793	-	-	1,034,793
AMR System	603,641	-	-	603,641
Subtotal	12,228,730	11,200	-	12,239,930
Less: Accum. Depr.	(4,189,256)	(284,327)	-	(4,473,583)
Total Capital Assets (Net of Depreciation)	<u>\$ 8,039,474</u>	<u>\$ (273,127)</u>	<u>\$ -</u>	<u>\$ 7,766,348</u>

LONGTOWN RURAL WATER AND SEWER DISTRICT #1
PITTSBURG COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

The additions include a new barn.

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, 2019

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended December 31, 2019:

	Balance at Dec. 31, 2018	Additions	Deductions	Balance at Dec. 31, 2019
Notes Payable - USDA RD 91-08	\$ 3,589,943.81	\$ -	\$ 67,735.08	\$ 3,522,208.73
Notes Payable - OWRB	\$ 312,733.45	\$ -	\$ 30,078.20	\$ 282,655.25
Total Long-Term Debt	<u>\$ 3,902,677.26</u>	<u>\$ -</u>	<u>\$ 97,813.28</u>	<u>\$ 3,804,863.98</u>

Debt Services Requirements to Maturity

USDA RD 91-08

Year Ending December 31,	Principal	Interest	Total
2020	\$ 69,791	\$ 104,713	\$ 174,504
2021	71,914	102,590	174,504
2022	74,102	100,402	174,504
2023	76,355	98,149	174,504
2024	78,678	95,826	174,504
2025-2029	430,775	441,745	872,520
2030-2034	500,395	372,125	872,520
2035-2039	581,267	291,253	872,520
2040-2044	675,210	197,310	872,520
2045-2049	784,335	88,185	872,520
2050-2051	179,386	3,081	182,468
Total	<u>\$ 3,522,209</u>	<u>\$ 1,895,379</u>	<u>\$ 5,417,588</u>

OWRB ORF-13-0005-DW

Year Ending December 31,	Principal	Interest	Admin Fees	Total
2020	\$ 30,696	\$ 4,389	\$ 1,398	\$ 36,483
2021	31,360	3,885	1,237	36,483
2022	32,022	3,384	1,078	36,483
2023	32,698	2,871	914	36,483
2024	33,378	2,355	750	36,483
2025-2028	122,500	3,937	1,254	127,691
Total	<u>\$ 282,655</u>	<u>\$ 20,821</u>	<u>\$ 6,631</u>	<u>\$ 310,107</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

LONGTOWN RURAL WATER AND SEWER DISTRICT #1
PITTSBURG COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

- 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.

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 - CONSOLIDATION OF PITTSBURG CO. RWD #4

In 2014, the District consolidated with and took over operations of Pittsburg County RWD #4. The District applied for and received a DWSRF loan from OWRB in the amount of \$600,000.00 to improve the infrastructure of RWD #4. Upon the successful consolidation of the Districts, the loan was forgiven per guidelines provided by the Environmental Protection Agency. These funds were included in the 2014 financial statements.

NOTE 11 - SUBSEQUENT EVENTS

The District did not have any subsequent events through April 1, 2020, which is the date the financial statements were issued, for events

LONGTOWN RURAL WATER AND SEWER DISTRICT #1
PITTSBURG COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

requiring recording or disclosure in the financial statements for the year ending December 31, 2019.

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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
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, 2019, 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 1, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, 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.

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

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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 at Item 19-01 that we consider to be significant deficiencies.

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 no instances of noncompliance or 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

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
Muskogee, Oklahoma

April 1, 2020

LONGTOWN RURAL WATER AND SEWER DISTRICT #1
PITTSBURG COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS
DECEMBER 31, 2019

INTERNAL CONTROL FINDINGS:

Item 19-01: Segregation of Duties

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

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

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

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

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

COMPLIANCE FINDINGS:

None