

AUDIT REPORT
PEGGS WATER COMPANY, INC.
FOR THE YEAR ENDED DECEMBER 31, 2017

AUDITED BY
ALAN CHAPMAN
CERTIFIED PUBLIC ACCOUNTANT
401 S. Water St.
TAHLEQUAH, OKLAHOMA

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INDEPENDENT AUDITOR'S REPORT

Board of Directors

Peggs Water Company, Inc.

Report on the Financial Statements

I have audited the accompanying financial statements activities of Peggs Water Company (the District), as of and for the year ended December 31, 2017, 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 entity'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 entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of business-type activities of Peggs Water Company, Inc.. as of December 31, 2017 and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

(Continued)

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who consider it to be an essential part of financial reporting for placing the basic financial statements in the appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated February 19, 2018, on my consideration of Peggs Water Company, Inc.'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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Peggs Water Company, Inc. internal control over financial reporting and compliance.

February 19, 2018

A handwritten signature in cursive script that reads "Alan Chapman".

Alan Chapman, CPA

**PEGGS WATER COMPANY, INC.
STATEMENT OF NET POSITION
DECEMBER 31, 2017**

ASSETS

CURRENT ASSETS

BOCC	256,641
O&M	17,829
SAVINGS	100,169
ACCOUNTS RECEIVABLE	36,653
INVENTORY	<u>29,750</u>

TOTAL CURRENT ASSETS 441,041

RESTRICTED ASSETS

CIB-R.D RESERVE	<u>31,980</u>
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TOTAL RESTRICTED ASSETS 31,980

FIXED ASSETS

DISTRIBUTION SYSTEM	3,163,503
LAND	587
OFFICE EQUIPMENT	15,659
MACHINERY & EQUIPMENT	74,066
LESS ACCUMULATED DEPRECIATION	<u>(1,634,096)</u>

TOTAL (NET) CAPITAL ASSETS 1,619,719

OTHER ASSETS

PREPAID INSURANCE	2,657
PREPAID WK COMP	<u>4,936</u>

TOTAL OTHER ASSETS 7,593

TOTAL ASSETS 2,100,333

The accompanying notes and auditors report are an integral part of these financial statements.

**PEGGS WATER COMPANY, INC.
STATEMENT OF NET POSITION
DECEMBER 31, 2017**

LIABILITIES AND NET WORTH

CURRENT LIABILITIES

ACCOUNT PAYABLE	10,568
PAYROLL TAX PAYABLE	505
ACCRUED INTEREST	669
CURRENT PART LONG-TERM DEBT	<u>17,684</u>

TOTAL CURRENT LIABILITIES 29,425

LONG TERM LIABILITIES

LONG TERM NOTE	<u>276,277</u>
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TOTAL LONG TERM LIABILITIES 276,277

TOTAL LIABILITIES 305,702

EQUITY

MEMBER INVESTMENT	743,311
DONATED CAPITAL	805,248
UNRESTRICTED/RETAINED EARNINGS	214,091
RESTRICTED/NET PROFIT/ (LOSS)	<u>31,980</u>

TOTAL EQUITY 1,794,630

TOTAL LIABILITIES AND NET WORTH 2,100,333

The accompanying notes and auditors report are an integral part of these financial statements.

PEGGS WATER COMPANY, INC.
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2017

INCOME

WATER	\$ 400,910	
SERVICE CHGS	3,930.00	
PENALTIES	5,908.10	
ALLOWANCES	<u>(12,113.32)</u>	
 TOTAL INCOME		 398,634

EXPENSES

SALARY & CONTRACT LABOR	\$ 136,467	
ACCOUNTING & BILLING	21,328	
PROF FEES	1,959	
BAD DEBTS	2,235	
OFFICE SUPPLIES, BANK CHARGES & POSTAGE	9,516	
TELEPHONE	4,793	
INSURANCE & BONDS	35,740	
PAYROLL TAX & EMPLOYEE RELATED	16,041	
AUTO EXPENSE	22,841	
DUES & SUB & LICENSES FEE	2,357	
WATER PURCHASED	2,460	
LEASE & RENT EXPENSE	1,275	
REPAIRS & MAINTENANCE	13,371	
DEQ REGULATORY FEE	7,219	
FIELD SUPPLIES/CHEMICALS	38,694	
UTILITIES	30,394	
DEPRECIATION EXPENSE	76,747	
EMPLOYEE TRAINING	731	
WATER TESTING	2,415	
EQUIPMENT RENTAL	232	
MISCELLANEOUS EXPENSE	<u>7,122</u>	
 TOTAL EXPENSE		 <u>433,937</u>

NET OPERATING PFT/ LOSS (35,303)

NO OPERATING INCOME & EXPENSE

INCOME-INTEREST	\$ 512	
INCOME-MISC EXPENSE	1,107	
INCOME-MEMBERSHIP CONNECTIONS	21,315	
EXPENSE- INTEREST	<u>(15,122)</u>	
 TOTAL NON-OPERATING INCOME- EXPENSE		 <u>7,812</u>

CHANGE IN NET POSITION \$ (27,491)

The accompanying notes and auditors report are an integral part of these financial statements.

PEGGS WATER COMPANY, INC.
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED
DECEMBER 31, 2017

CASH FLOW FROM OPERATING ACTIVITIES

CASH INFLOWS:	
PAYMENTS RECEIVED FROM CUSTOMERS	402,851
CASH OUTFLOWS:	
PAYMENTS TO SUPPLIERS FOR GOODS & SERVICES	<u>(360,558)</u>
NET CASH PROVIDED USED BY OPERATING ACTIVITIES	<u>42,293</u>

CASH FLOWS FROM NO-CAPITAL FINANCING ACTIVITIES

PRINCIPAL REDUCTION OF LONG-TERM DEBT (NET)	(16,824)
BORROWED ON LONG TERM NOTES	-
INTEREST PAYMENTS ON NOTES	<u>(15,122)</u>
NET CASH PROVIDED (USED) FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(31,946)

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

MISC. INCOME	22,422
PURCHASE OF CAPITAL ASSETS	<u>-</u>
NET CASH PROVIDED USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	22,422

CASH FLOWS FROM INVESTING ACTIVITIES

INTEREST RECEIVED FROM INVESTMENTS	<u>511</u>
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NET CASH INFLOW (OUTFLOW) FROM ALL ACTIVITIES 33,280

PRIOR PERIOD ADJUSTMENT	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>373,337</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>406,617</u>

CASH AND CASH EQUIVALENTS

UNRESTRICTED CASH AND CASH EQUIVALENTS	374,639
RESTRICTED CASH AND CASH EQUIVALENTS	<u>31,980</u>
	406,619

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

OPERATING INCOME LOSS	(35,303)
DEPRECIATION	76,747
INCREASE DECREASE IN ACCOUNTS & GRANTS RECEIVABLE	4,217
INCREASE DECREASE IN PREPAID EXPENSES	2,415
INCREASE DECREASE IN INVENTORY	1,027
INCREASE DECREASE IN PAYABLES	<u>(6,810)</u>

NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>42,293</u>
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The accompanying notes and auditors report are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

**PEGGS WATER COMPANY, INC.
P.O. BOX 190
HULBERT, OK 74441**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Peggs Water Company, Inc. was incorporated on March 18, 1985 under the Non-Profit Corporation Act. It is exempt from federal and state income tax under section 115 of the internal Revenue code. It's purpose is to provide for the use and benefit of its members a water treatment and distribution system, operations and maintenance.

The membership consists of approximately 807 users, each entitled to one vote. The board of Directors consists of 5 members serving 3- year terms. The vacant Board seats are elected at the annual meeting, and following, the Board of Directors meet and elect a chairman, Vice-chairman, and secretary-treasurer.

The more significant of the government's accounting policies are describe below.

A. Reporting Entity

The Peggs Water Company, Inc. complies with GASB Statement No 14, "The Financial Reporting Entity." This statement establishes standards for defining and reporting on the financial reporting entity. It defines component units as legally separate organizations for which the elected officials of the primary government are financially accountable and together organizations for which the nature and significance of their relationship with primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The Peggs Water Company, Inc. considered all potential component units in determining what organizations should be included in the financial statements. Based on these criteria, there are no component units to include in the Peggs Water Company, Inc financial statements.

B. Measurement Focus and Basis of Accounting and Basis of Presentation- Fund Accounting

The Peggs Water Company, Inc fund is enterprise fund. Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. These activities are finance primarily by user charges and the measurements of financial activity focuses on net income measurement similar to the private sector.

PEGGS WATER COMPANY, INC.
P.O. BOX 190
HULBERT, OK 74441

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting and Basis of Presentation- Fund Accounting (Continued)

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with Generally Accepted Accounting Principles (GAAP) promulgated in the United States of America. The accounting and financial reporting treatment is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation are included on the statement of net assets. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) in net total assets. Depreciation expense is provide for capital assets based upon estimated useful lives.

Financial activity is accounted for on the flow of economic resources measurement focus using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recoded at the time liabilities are incurred. In compliance with the Governmental Accounting Standards Board (GASB) Statement No. 34 "Basic Financial Statement- and Management's Discussion and Analysis-for State and Local Governments which requires the classification of net assets into three components- invested in capital assets, net of related debt, restricted; and unrestricted.

C. Assets, Liabilities, and Net Assets

1. Deposits and investments

Oklahoma statutes authorize the Peggs Water Company, Inc. to invest in certificates of deposit, repurchase agreements, passbooks, banker's acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the Peggs Water Company, Inc. can invest in direct debt securities of the United States unless such investment is expressly prohibited by law.

All the bank deposits are held at financial institutions and are carried at cost. For purposes of statement of cash flows, the Peggs Water Company, Inc. considers cash and highly liquid investment with an initial maturity of three months or less to be cash equivalents.

**PEGGS WATER COMPANY, INC.
P.O. BOX 190
HULBERT, OK 74441**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities, and Net Assets (Continued)

Custodial Credit Risk

At December, 31, 2017 the Peggs Water Company, Inc. held deposits of approximately \$406,617 at financial institutions. The Company's cash deposits, including interest-bearing certificates of deposit, are not entirely covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the district of by its agent in the Company's name.

Investment Interest Rate

The Peggs Water Company, Inc. 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 Peggs Water Company, Inc. has no Policy that limits its investment Choices other than the limitation of state law as follows:

- a. Direct obligations of 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 saving 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 agreement with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgment or bond or revenue anticipation notes of public trusts whose beneficiary is 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.

PEGGS WATER COMPANY, INC.
P.O. BOX 190
HULBERT, OK 74441

1. SUMMARY OF SIGNIFICAN ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities, and Net Assets (Continued)

f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a-f).

The investments held at December 31, 2017 are as follows:

Type	Weighted Average Maturity (Months)	Credit Rating	Market Value	Cost
Investments Cert. Savings	N/A	N/A	<u>\$ 20,000</u>	<u>\$ 20,000</u>
Total Investments			<u>\$ 20,000</u>	<u>\$ 20,000</u>

Concentration of Investment Credit Risk

The Peggs Water Company, Inc. places no limit on the amount it may invest in any one issuer.

2. Fair Value of Financial Instruments

The Peggs Water Company, Inc. financial statements include cash and investments. The District's estimates of fair values of its financial instruments recoded in the accompanying balance sheet. the carrying amount of these financial instruments approximates fair value because of the short maturity of these instrument.

3. Estimates

The Preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement and the reported amounts of revenues and expense during the reporting period. Accordingly, actual results could differ from those estimates.

PEGGS WATER COMPANY, INC.
P.O. BOX 190
HULBERT, OK 74441

1. SUMMARY OF SIGNIFICAN ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities, and Net Assets (Continued)

4. Inventory

Inventory consists primarily of distribution repair supplies and is counted annually. The inventory is values at the lower of cost or market on a first -in-first-out basis, but not in excess of market.

5. Accounts Receivable

Accounts Receivable consist primarily of charges for water sales. Management has not establish a provision for uncollectable accounts. Such amount are written off the month in which management determines they are uncollectible.

6. Restricted Assets

The terms of the loan agreement with the Rural Development require that the Company maintain funds for the use of servicing debt in the amount of 125% of the total annual payment. The balance in the restricted cash account is sufficient to fulfill this requirement.

7. Capital Assets

The water storage and delivery system and furniture and equipment are recorded at cost. Donated Capital assets are Reported and estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

All reported assets are depreciated on the straight-line basis over their estimated useful lives ranging from five to fifty years.

Assets purchased with a value of \$750 or more that benefit more that one period will be depreciated.

PEGGS WATER COMPANY, INC.
P.O. BOX 190
HULBERT, OK 74441

1. SUMMARY OF SIGNIFICAN ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities, and Net Assets (Continued)

8. Equity Classifications

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

- a. Invested in capital assets, net of related debt- Consisted of capital assets including restricted capital assets, net of accumulated depreciation and reduce by the outstanding balances of any mortgages, notes, or other borrowings that are attributable to the acquisitions, construction, or improvement of those assets.
- b. Restricted net assets-Consists of net assets with constraints place on the use either by (1) external groups such as creditors, grantor, contributor, or laws or regulations of their governments; or (2) law through constitutional provisions or enabling legislation, or (3) elected restrictions by management concerning cash to be used for capital improvements.
- c. Unrestricted net assets- All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

II. Detailed Notes Concerning the Funds

B. Accounts Receivable

Following is and aged schedule of accounts receivable as of December 31, 2014:

<u>Current</u>	<u>1-30 Days</u>	<u>31-60 Days</u>	<u>Over 60 Days</u>	<u>Prepayments</u>	<u>Total</u>
30,602	8,195	2,105	758	(5,007)	36,653

**PEGGS WATER COMPANY, INC.
P.O. BOX 190
HULBERT, OK 74441**

II. Detailed Notes Concerning the Funds (Continued)

C. Changes in Capital Assets

Capital assets activity for the year was as follows:

	BEGINNING OF YEAR	ADDITIONS	DELETIONS	END OF YEAR
CAPITAL ASSETS				
DISTRIBUTION SYSTEM	3,163,503	-	-	3,163,503
LAND	587	-	-	587
OFFICE EQUIPMENT	15,659	-	-	15,659
MACHINERY & EQUIPMENT	<u>74,066</u>	<u>-</u>	<u>=</u>	<u>74,066</u>
 TOTAL CAPITAL ASSETS	 3,253,815	 -	 -	 3,253,815
 LESS: ACCUMULATED DEPRECIATION	 <u>1,557,349</u>	 <u>76,747</u>	 <u>=</u>	 <u>1,634,096</u>
 NET BOOK VALUE	 <u>1,696,466</u>	 <u>(76,747)</u>	 <u>=</u>	 <u>1,619,719</u>

**PEGGS WATER COMPANY, INC.
P.O. BOX 190
HULBERT, OK 74441**

II. Detailed Notes Concerning the Funds (Continued)

D. Long-Term Debt

The following is a summary of Peggs Water Company, Inc. long-term debt at December 31, 2017.

The Company has financed its water distribution system with four revenue mortgages from Rural Development with maturity dates of 2002-2035. Substantially all fixed assets, accounts receivable and assignment of revenues were pledged as security for the notes.

A Debt service reserve account as part of the loan agreement must maintain a minimum balance of 125% of the maximum annual amount required for debt service. Earnings From the debt service and debt service reserve accounts are placed into the debt service reserve fund. Semi-annual note payments are made each February 15th, and August 15th, from the debt service account. The balance of the notes on December 31, 2017, was \$293,961. including the current portion.

Debt Service Requirements on the notes are as follows:

Year Ended Dec. 31,	TOTAL	PRINCIPAL	INTEREST
2018	31,980.00	17,683.51	14,296.49
2019	31,980.00	18,489.38	13,490.62
2020	31,980.00	19,469.42	12,510.58
2021	31,980.00	20,474.56	11,505.44
2022-2035	<u>273,783.39</u>	<u>217,844.13</u>	<u>95,117.34</u>
Totals	<u>401,703.39</u>	<u>293,961.00</u>	<u>107,742.39</u>

**PEGGS WATER COMPANY, INC.
P.O. BOX 190
HULBERT, OK 74441**

II. Detailed Notes Concerning the Funds (Continued)

E. Changes in General Long-Term Debt

Long-term debt consists of notes payable. The following is a summary of the changes in general long-term debt, of the Company for the fiscal year.

	Balance Beg. of Year	Advances	Payments	Balance End of Year
Notes Payable	<u>310,785</u>	=	<u>16,824</u>	<u>293,961</u>
Totals	<u>310,785</u>	=	<u>16,824</u>	<u>293,961</u>

III. Other Information

A. Risk Management

The Peggs Water Company, Inc. is exposed to various risk of loss related to torts: theft of, damage to, and destruction of assets: errors and omissions: injuries to employees and natural disaster. The District purchases commercial insurance to cover these risks, including general and auto liability, property damage, and public officials liability. There were no significant reductions in insurance coverage from the prior year. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

B. Arbitrage Agreement

The Peggs Water Company, Inc. should monitor their obligation related to the arbitrage agreement signed when they obtained their loan from the OWRB. The arbitrage calculations are normally due every five years.

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

To the Board of Directors
Peggs Water Company, Inc.

I 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. The financial statements of the business-type activities Peggs Water Company, Inc., as of and for the year ended December 31, 2017 and have issued our report thereon dated February 19, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Peggs Water Company, Inc. internal control over financial reporting as a basis for designing my audit procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Peggs Water Company, Inc. internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on 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 noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Peggs Water Company, Inc.'s financial statements are free of misstatement, we performed tests of its 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,

Report on Compliance (continued)

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*.

Purpose of this Report

This report is intended solely for the information and use of the Board of Directors, management, and all applicable federal and state agencies, and is not intended to be and should not be used by anyone other than these specified parties.

February 19, 2018

Alan Chapman, CPA

A handwritten signature in black ink that reads "Alan Chapman". The signature is written in a cursive style with a prominent initial "A".

**PEGGS WATER COMPANY, INC.
P.O. BOX 190
HULBERT, OK 74441**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Criteria: The Peggs Water Company, Inc. management is responsible for internal controls over financial reporting. This include controls over the fair and complete presentation of the Peggs Water Company, Inc. annual financial statements in accordance with GAAP. The preparation of financial statement in accordance with GAAP requires internal controls over both (1) recording, processing and summarizing accounting data (i.e., maintaining books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting). Professional audit standards clearly indicate that the external financial statement auditor cannot take the responsibility for any part of managements control activities or be a component of the internal controls over financial reporting.

Condition: Management is responsible for the preparation and fair presentation of the financial statement in accordance with applicable financial reporting. Accordingly, the Peggs Water Company, Inc. ability to prepare financial statements in accordance with (GAAP). The Size of the Peggs Water Company, Inc. accounting and administrative staff preclude certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties. This situation dictates that the Board remain involved in the financial affairs of the organization to provide oversight and independent review functions.

Responsible Official's Response: The Peggs Water Company, Inc. concurs with the recommendation and will strive to expand their knowledge and understanding of the presentation and disclosure of the financial statements.