

**AUDIT REPORT**  
**PEGGS WATER COMPANY, INC.**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

**AUDITED BY**  
**DREW KIMBLE**  
**CERTIFIED PUBLIC ACCOUNTANT**  
**104 S. Muskogee Ave.**  
**TAHLEQUAH, OKLAHOMA**

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**DREW KIMBLE**  
*Certified Public Accountant*  
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(918) 575 - 1873

INDEPENDENT AUDITOR'S REPORT

Board of Directors

Peggs Water Company, Inc.

**Report on the Financial Statements**

We have audited the accompanying financial statements of the Peggs Water Company (the District), as of and for the year ended December 31, 2019, which collectively comprise the District's basic 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. Management is also responsible for 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***

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 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, we 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 have obtained is sufficient and appropriate to provide a basis for our opinions.

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of business-type activities of Peggs Water Company, Inc.. as of December 31, 2019 and the respective changes in its financial position and its cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**Other Matters**

The District has not presented 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 (GASB), who considers 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*, we have also issued our report dated February 17, 2020, on our 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 our 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.



Drew Kimble, CPA

February 17, 2020

**PEGGS WATER COMPANY, INC.  
STATEMENT OF NET POSITION  
DECEMBER 31, 2019**

**ASSETS**

**CURRENT ASSETS**

CASH	\$ 245,899
SAVINGS	20,000
ACCOUNTS RECEIVABLE	35,800
INVENTORY	34,114
PREPAID INSURANCE	<u>7,509</u>

**TOTAL CURRENT ASSETS** 343,323

**NONCURRENT ASSETS**

RESTRICTED CASH	31,980
CAPITAL ASSETS, NET	<u>1,580,024</u>
<b>TOTAL NONCURRENT ASSETS</b>	<b>1,612,004</b>

**TOTAL ASSETS** \$ 1,955,326

**LIABILITIES**

**CURRENT LIABILITIES:**

ACCOUNTS PAYABLE	\$ 12,747
PAYROLL TAX PAYABLE	198
ACCRUED INTEREST	669
CURRENT PART LONG-TERM DEBT	<u>17,684</u>
<b>TOTAL CURRENT LIABILITIES</b>	<b><u>31,297</u></b>

**NON-CURRENT LIABILITIES:**

LONG TERM NOTE	<u>239,997</u>
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**TOTAL LIABILITIES** 271,294

**NET POSITION**

INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT	1,322,343
RESTRICTED FOR DEBT PURPOSE	31,980
UNRESTRICTED	<u>329,709</u>
<b>TOTAL NET POSITION</b>	<b>1,684,032</b>

**TOTAL LIABILITIES AND NET POSITION** \$ 1,955,326

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, 2019**

**OPERATING REVENUES:**

WATER SALES AND OTHER SALES	\$ 378,640
MEMBERSHIPS/CONNECT	13,650
TOTAL REVENUE FROM OPERATIONS	<u>392,290</u>

**OPERATING EXPENSES**

SALARY & CONTRACT LABOR	140,084
ACCOUNTING & BILLING	21,532
PROF FEES	1,959
OFFICE SUPPLIES, BANK CHARGES & POSTAGE	8,827
TELEPHONE	5,876
INSURANCE & BONDS	37,487
PAYROLL TAX & EMPLOYEE RELATED	16,421
AUTO EXPENSE	21,679
DUES & SUB & LICENSES FEE	2,118
WATER PURCHASED	2,579
LEASE & RENT EXPENSE	1,200
REPAIRS & MAINTENANCE	21,168
DEQ REGULATORY FEE	7,466
FIELD SUPPLIES/CHEMICALS	50,438
UTILITIES	36,954
DEPRECIATION EXPENSE	79,548
EMPLOYEE TRAINING & UNIFORMS	816
WATER TESTING	2,722
EQUIPMENT RENTAL	905
MISCELLANEOUS EXPENSE	<u>7,655</u>
TOTAL EXPENSE FROM OPERATIONS	<u>467,434</u>

OPERATING INCOME (LOSS) (75,144)

**NON OPERATING REVENUES (EXPENSES)**

INTEREST INCOME	914
EXPENSE- INTEREST	<u>(13,390)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(12,476)</u>

CHANGE IN NET POSITION (87,620)

TOTAL NET POSITION, BEGINNING OF PERIOD	<u>1,771,652</u>
TOTAL NET POSITION, END OF PERIOD	<u>\$ 1,684,032</u>

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, 2019**

**CASH FLOW FROM OPERATING ACTIVITIES**

RECEIPTS FROM CUSTOMERS	\$ 392,423
PAYMENTS TO EMPLOYEES	(140,084)
PAYMENTS TO VENDORS	<u>(242,427)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>9,912</u>

**CASH FLOWS FROM FINANCING ACTIVITIES**

PRINCIPAL REDUCTION OF LONG-TERM DEBT (NET)	(18,589)
INTEREST PAYMENTS ON NOTES	<u>(13,390)</u>
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(31,979)

**CASH FLOWS FROM INVESTING ACTIVITIES**

INTEREST INCOME	914
CHEROKEE NATION INCOME	-
MISC. INCOME	-
PURCHASE OF CAPITAL ASSETS	<u>(9,153)</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(8,239)

NET INCREASE (DECREASE) IN CASH (30,306)

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>328,184</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 297,878</u>

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

OPERATING INCOME LOSS	\$ (75,144)
DEPRECIATION	79,548
(INCREASE) DECREASE IN PREPAID EXPENSES	2,784
(INCREASE) DECREASE IN INVENTORY	-
(INCREASE) DECREASE IN ACCOUNTS RECEIVABLE	133
INCREASE (DECREASE) IN PAYABLES	<u>2,591</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 9,912</u>

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, 2019**

**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, 2019 the Peggs Water Company, Inc. held deposits of approximately \$297,879 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 or 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, 2019 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.**  
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**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 an aged schedule of accounts receivable as of December 31, 2019:

<u>Current</u>	<u>1-30 Days</u>	<u>31-60 Days</u>	<u>Over 60 Days</u>	<u>Prepayments</u>	<u>Total</u>
29,130	3,937	5,467	995	(3,729)	35,800

**PEGGS WATER COMPANY, INC.**  
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**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
<b>CAPITAL ASSETS</b>				
DISTRIBUTION SYSTEM	3,210,293	6,046	-	3,216,339
LAND	587	-	-	587
SHOP BUILDING	62,460	1,807	-	64,267
OFFICE EQUIPMENT	16,657	1,300	-	17,957
MACHINERY & EQUIPMENT	<u>74,066</u>	<u>-</u>	<u>=</u>	<u>74,066</u>
 TOTAL CAPITAL ASSETS	 3,364,063	 9,153	 -	 3,373,216
 LESS: ACCUMULATED DEPRECIATION	 <u>1,713,644</u>	 <u>79,548</u>	 <u>=</u>	 <u>1,793,192</u>
 NET BOOK VALUE	 <u><u>1,650,420</u></u>	 <u><u>70,396</u></u>	 <u><u>=</u></u>	 <u><u>1,580,024</u></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, 2019.

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, 2019, was \$239,997. including the current portion.

The maturities for the next five years plus the total amounts due thereafter are detailed as follows:

2020	\$ 19,469.42
2021	20,474.56
2022	21,588.13
2023	22,670.03
2024-2028	106,930.60
2029-2033	39,724.44
Thereafter	<u>9,140.01</u>
Totals	\$239,997.19



**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>258,586</u>	=	<u>18,589</u>	<u>239,997</u>
Totals	<u>258,586</u>	=	<u>18,589</u>	<u>239,997</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.

**PEGGS WATER COMPANY, INC.  
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**III. Other Information (Continued)**

**C. Subsequent Events**

Management has evaluated subsequent events through February 17, 2020, which is the date the financial statements were available to be issued and have determined that no additional information needs to be added to the financial statements.

**GOVERNMENTAL AUDITING STANDARDS**

**DREW KIMBLE**  
*Certified Public Accountant*

104 S. Muskogee Ave  
Tahlequah, OK 74464  
(918) 575 - 1873

**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  
Peggs Water Company, Inc.

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, the accompanying financial statements of the Peggs Water Company (the District), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 17, 2020.

**Internal Control Over Financial Reporting**

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting in order to determine our auditing procedures that are appropriate for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we did not identify a significant deficiency in the internal controls that we do not consider to be a material weakness.

*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 material misstatement of the District's financial statements will not be

prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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. We consider this deficiency, described in the accompanying schedule of findings and responses, not to be a material weakness.

### **Compliance**

As part of obtaining reasonable assurance about whether the District's financial statements are free of misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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*.

### **District's Response to Findings**

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District'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.

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purposes.



Drew Kimble, CPA

February 17, 2020

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

*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.