

**Pontotoc County Rural Water District No. 6
Fittstown, Oklahoma**

**Financial Statements
and Reports of Independent Auditor**

December 31, 2011

Audited by

**SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP**

Broken Arrow, OK

Pontotoc County Rural Water District No. 6
Fittstown, Oklahoma
Board of Directors
December 31, 2011

Board of Directors

Chairman

Stanley Graham

Vice-Chairman

Carl Tackett

Secretary/Treasurer

Lee Sweat

Members

Lee Jackson

Buddy Johnson

Manager

Stephen Ryan

**Pontotoc County Rural Water District No. 6
Fittstown, Oklahoma**

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SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

Independent Auditor's Report

Board of Directors
Pontotoc County Rural Water District No. 6
Fittstown, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Pontotoc County Rural Water District No. 6 (the District), Fittstown, Oklahoma, as of and for the year ended December 31, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of December 31, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management has elected to omit the Management Discussion and Analysis, which is considered required supplementary information that is normally subjected to auditing procedures. Due to this omission, the usefulness and accessibility of the financial statements are limited to the District's management. The omission of this information does not affect the opinion expressed on the financial statements as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2012 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole on the basis of accounting described in Note A.



Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

February 28, 2012



SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

**Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards**

Board of Directors
Pontotoc County Rural Water District No. 6
Fittstown, Oklahoma

We have audited the financial statements of the Pontotoc County Rural Water District No. 6 (the District), Fittstown, Oklahoma, as of and for the year ended December 31, 2011, which omitted the management discussion and analysis, and have issued our report thereon dated February 28, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material 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 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 that are required to be reported under auditing standards generally accepted in the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the district's ability to record, process summarize and report financial data consistent with the assertions of management in the financial statements. This reportable condition is described in the accompanying schedule of audit results as item 11-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

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

A handwritten signature in black ink that reads "Sanders, Bledsoe & Hewett". The signature is written in a cursive, flowing style.

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

February 28, 2012

Pontotoc County Rural Water District No. 6
Fittstown, Oklahoma
Disposition of Prior Year's Reportable Conditions
December 31, 2011

Segregation of Duties

The study and evaluation of internal controls disclosed that the District has only one employee directly involved in the initiation and recording of financial transactions. This precludes the adequate separation of duties necessary to affect desirable controls and could result in more than a relatively low risk that errors or irregularities in amounts that would be material may occur and not be detected within a timely period. However, costs of additional personnel would have to be weighed to determine the economic feasibility of satisfying the segregation of duties. Thus, this condition continued in the current fiscal year.

Pontotoc County Rural Water District No. 6
Fittstown, Oklahoma
Schedule of Audit Results
December 31, 2011

Section 1 – Summary of Auditor’s Results

1. An unqualified opinion report was issued on the financial statements.
2. The audit disclosed a reportable condition in the internal controls which was not considered a material weakness.
3. The audit disclosed no instances of noncompliance.

Section 2 – Findings relating to the financial statements required to be reported in accordance with GAGAS:

11-1 – Lack of Segregation of Duties

Condition-

The inherent limitations resulting from a small number of employees performing functions that would normally be divided among employees were a larger number available prevent a proper segregation of accounting functions, which is necessary in order to assure adequate internal accounting controls.

Criteria-

An organization should ensure that there is a proper segregation of duties regarding cash collections and the payment of expenses.

Cause-

The District is not large enough to justify the hiring of additional personnel.

Effect-

There is always the possibility that not all collections are actually receipted or deposited, and the possibility that funds expended are not used for actual District obligations.

Recommendation-

The current procedures should not be changed. However, there should be additional personnel instilled into the collection, receipt, deposit, reconciliation and payment procedures when this becomes economically possible.

Response-

Additional personnel will be hired when the actual funds are available.

PONTOTOC COUNTY RURAL WATER DISTRICT NO. 6
 Fittstown, Oklahoma
 Statement of Net Assets
 December 31, 2011

ASSETS

Current assets:	
Cash	\$ 35,395
Current portion of receivables	15,936
Investments with fiscal agents	13,902
Total current assets	<u>65,233</u>
Noncurrent assets:	
Restricted investment with fiscal agents	49,800
Capital assets:	
Water system, net	146,604
Equipment, net	977
Building, net	5,019
Total noncurrent assets	<u>202,400</u>
Total Assets	<u>267,633</u>

LIABILITIES

Current liabilities:	
Accounts payable	1,798
Accrued liabilities	241
Total current liabilities	<u>2,039</u>
Noncurrent liabilities:	
Due within one year	17,293
Due in more than one year	82,232
Total noncurrent liabilities	<u>99,525</u>
Total Liabilities	<u>101,564</u>

NET ASSETS

Invested in capital assets, net of related debt	53,075
Restricted for debt service	21,876
Unrestricted assets	91,118
Total Net Assets	<u>\$ 166,069</u>

The accompanying notes to the financial statements are an integral part of this statement

PONTOTOC COUNTY RURAL WATER DISTRICT NO. 6
 Fittstown, Oklahoma
 Statement of Activities
 For the Year Ended December 31, 2011

Operating Revenues:	
Water sales	<u>\$ 195,160</u>
Operating Expenses:	
Salaries and benefits	34,460
Water purchases	80,454
Repairs and maintenance	10,033
Parts and supplies	16,174
Utilities and telephone	3,651
Office	1,304
Postage	1,343
Depreciation	13,168
Dues and fees	1,822
Professional fees	2,275
Total expenses from operations	<u>164,684</u>
Operating Income (Loss)	30,476
Non-Operating Revenues (Expenses):	
Interest income	919
Reimbursement from ODOT	57,698
Interest paid on long-term debt	(5,431)
ODOT - move lines	<u>(57,698)</u>
Total non-operating revenues (expenses)	<u>(4,512)</u>
Change in Net Assets	25,964
Total Net Assets, Beginning of Period	<u>140,105</u>
Total Net Assets, End of Period	<u><u>\$ 166,069</u></u>

The accompanying notes to the financial statements are an integral part of this statement

PONTOTOC COUNTY RURAL WATER DISTRICT NO. 6
 Fittstown, Oklahoma
 Statement of Cash Flows
 For the Year Ended December 31, 2011

Cash Flows from Operating Activities:	
Receipts from customers	\$ 249,184
Payments to employees	(34,460)
Payments to vendors	<u>(176,735)</u>
Net Cash Provided by Operating Activities	<u>37,989</u>
Cash Flows from Investing Activities:	
Interest revenue	919
Purchase of fixed assets	<u>(18,936)</u>
Net Cash Provided by Investing Activities	<u>(18,017)</u>
Cash Flows from Financing Activities:	
Interest expense on debt	(5,425)
Principal payments on debt	<u>(16,451)</u>
Net Cash Provided by Financing Activities	<u>(21,876)</u>
Net Increase (Decrease) in Cash	(1,904)
Cash and cash equivalents, beginning of period	<u>101,001</u>
Cash and cash equivalents, end of period	<u><u>\$ 99,097</u></u>
<u>Reconciliation of operating income (loss) to net cash provided</u>	
<u>by operating activities:</u>	
Operating Income	\$ 30,476
Adjustments to reconcile operating income to net cash provided	
(used) by operating activities:	
Depreciation Expense	13,168
(Increase) decrease in accounts receivable	(3,674)
Increase (decrease) in payables	<u>(1,981)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 37,989</u></u>

The accompanying notes to the financial statements are an integral part of this statement

Pontotoc County Rural Water District No. 6
Fittstown, Oklahoma
Notes to the Financial Statements
December 31, 2011

Note A – Significant Accounting Policies

Basis of Accounting

The accrual basis of accounting is followed for all accounts. Revenues are recorded when earned and liabilities are recognized when incurred. This policy is in accordance with generally accepted accounting principles.

Cash

The District's accounts are with the Citizens Bank in Ada, Oklahoma and, at December 31st, are detailed as follows:

	December 31,	
	2011	2010
Operating account - Citizens Bank	\$ 32,933	17,095
Maintenance account - Citizens Bank	2,696	2,689
Less: Outstanding checks	(234)	(272)
Total	\$ 35,395	19,512

Investments – Investments at December 31, 2011 are detailed as follows:

Certificate of Deposit:

Citizen Bank, Ada, Oklahoma- Certificate of Deposit No. 10743, dated 3-16-11 due 3-14-13, @ 1.20%	<u>\$ 13,726</u>
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Reserve Investments- (restricted to just the first \$49,800 of the balance)

Certificates of Deposit:

Citizens Bank, Ada, Oklahoma- CD No. 11989, 7/11/11 @ .25%	\$ 12,090
CD No. 18457, 8/13/11 @ .55%	12,116
CD No. 28906, 12/31/11 @ .29%	25,769
Total	\$ 49,975

Pontotoc County Rural Water District No. 6
Fittstown, Oklahoma
Notes to the Financial Statements
December 31, 2011

Note A – Significant Accounting Policies – cont’d

Deposit Categories of Credit Risk:

- (A) Insured by Federal Deposit Insurance
- (B) Collateralized with securities held by the pledging financial institution’s trust department or agent in the District’s name
- (C) Uncollateralized

	<u>Category</u>			<u>Bank Balance</u>	<u>Carrying Amount</u>
	<u>(A)</u>	<u>(B)</u>	<u>(C)</u>		
Cash	\$ 35,629			35,629	35,395
Investments	63,702			63,702	63,702
Total	\$ 99,331	0	0	99,331	99,097

Restricted Cash

The loan agreements with USDA Rural Development require that the District maintain a reserve account and any disbursements require prior USDA Rural Development approval. The district has certificate of deposits reserved in the amount of \$49,800 for the reserve requirement.

All restricted assets are nevertheless liquid and have been included as cash and cash equivalents for the purpose of the cash flow statement.

Accounts Receivable

Billings for accounts receivable at December 31, 2011 were \$15,936. Allowance for doubtful accounts was computed as a percentage of the amount collectible at year-end, but the effect of bad debt on the financial statements is not considered material.

Pontotoc County Rural Water District No. 6
Fittstown, Oklahoma
Notes to the Financial Statements
December 31, 2011

Note A – Significant Accounting Policies – cont’d

Fixed Assets

Fixed assets are valued at cost, depreciation is computed by use of the straight-line method. The estimated useful lives of these assets are as follows:

Land	N/A
Office furniture & fixtures	5-10 years
Equipment & tools	10-15 years
Transportation equipment	5 years
Water & sewer system	50 years
Buildings	40 years
Computer equipment	5-7 years

The fixed asset information for the District is shown below:

	12/31/2010			12/31/2011
	Amount	Additions	Deletions	Amount
Water system	\$ 564,066	18,468	-	582,534
Equipment	8,165	468	-	8,633
Building	10,754	-	-	10,754
Total Fixed Assets	582,985	18,936	-	601,921
Less: Accumulated Depreciation	(436,153)	(13,168)	-	(449,321)
Total	\$ 146,832	5,768	-	152,600

Accumulated Unpaid Vacation and Sick Pay

At December 31, 2011, no determination of the aggregate dollar value of vacation or sick pay had been made.

Prior Year Information

Prior year information is shown on the financial statements for comparative purposes only. No assurance is given on prior year amounts.

Pontotoc County Rural Water District No. 6
Fittstown, Oklahoma
Notes to the Financial Statements
December 31, 2011

Note B – Notes Payable

Notes payable consist of three notes to the Office of Rural Economic & Community Development.

The notes payable at December 31st, are detailed as follows:

	<u>2011</u>	<u>2010</u>
Note No. 91-01, Rural Economic & Community Development, issued for \$275,000, dated 01-11-77, at 5.00% interest, due in monthly installments of \$1,351, until paid;	\$ 60,530	73,366
Note No. 91-03, Rural Economic & Community Development, issued for \$68,000, dated 11-17-80, at 5.00% interest, due in monthly installments of \$334, until paid;	27,882	30,426
Note No. 91-05, Rural Economic & Community Development, issued for \$28,000, dated 11-17-80, at 5.00% interest due in monthly installments of \$138, until paid;	<u>11,113</u>	<u>12,184</u>
Total	99,525	115,976
Less: Current maturities of long-term debt	<u>(17,293)</u>	<u>(16,450)</u>
Total Long-Term Debt	<u>\$ 82,232</u>	<u>99,526</u>

The scheduled maturities for the next five (5) years, and in total thereafter, are detailed as follows:

<u>Note No.</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Thereafter</u>	<u>Total</u>
91-01	\$ 13,492	14,182	14,908	15,670	2,279	-	60,531
91-03	2,675	2,811	2,955	3,106	3,265	13,070	27,882
91-05	1,126	1,184	1,244	1,308	1,376	4,874	11,112
Totals	<u>\$ 17,293</u>	<u>18,177</u>	<u>19,107</u>	<u>20,084</u>	<u>6,920</u>	<u>17,944</u>	<u>99,525</u>

PONTOTOC COUNTY RURAL WATER DISTRICT NO. 6
 Fittstown, Oklahoma
 Balance Sheet
 December 31, 2011

	DECEMBER 31,	
	2011	(memo only) 2010
<u>ASSETS</u>		
Current assets:		
Cash-		
Operating fund	\$ 32,699	16,823
Savings account	2,696	2,689
Investments - Certificate of Deposits	13,902	31,689
Accounts receivable	15,936	12,262
Total current assets	65,233	63,463
Restricted assets:		
Investments - USDA RD reserve	49,800	49,800
Fixed assets:		
Water system	582,534	564,066
Equipment	8,633	8,165
Building	10,754	10,754
Total fixed assets	601,921	582,985
Less: accumulated depreciation	(449,321)	(436,153)
Total fixed assets (net)	152,600	146,832
Total Assets	\$ 267,633	260,095
<u>LIABILITIES AND FUND EQUITY</u>		
Current liabilities:		
Accounts payable	\$ 1,798	3,779
Accrued interest	241	235
Current maturities of long-term debt	17,293	16,450
Total current liabilities	19,332	20,464
Long-Term debt, less current maturities:		
Notes payable	82,232	99,526
Total Liabilities	101,564	119,990
Fund equity:		
Retained earnings	166,069	140,105
Total Liabilities and Fund Equity	\$ 267,633	260,095

PONTOTOC COUNTY RURAL WATER DISTRICT NO. 6
Fittstown, Oklahoma
Statement of Revenue, Expenses and Changes in Retained Earnings
For the Year Ended December 31, 2011

	2011	(memo only) 2010
Revenue from operations:		
Water sales	\$ 195,160	141,205
Expenses from operations:		
Salaries and benefits	34,460	40,177
Water purchases	80,454	67,654
Repairs and maintenance	10,033	4,668
Parts and supplies	16,174	14,401
Utilities and telephone	3,651	3,868
Office	1,304	1,610
Postage	1,343	1,441
Depreciation	13,168	15,734
Dues and fees	1,822	612
Professional fees	2,275	12,880
Total expenses from operations	164,684	163,045
Net Income (Loss) from Operations	30,476	(21,840)
Non-operating income:		
Interest earnings	919	970
ODOT reimbursement	57,698	-
Total non-operating income	58,617	970
Non-operating expenses:		
ODOT - move lines	(57,698)	-
Interest paid on debt	(5,431)	(6,137)
Total non-operating expenses	(63,129)	(6,137)
Net Income (Loss)	25,964	(27,007)
Retained earnings, beginning of period	140,105	167,112
Retained earnings, end of period	\$ 166,069	140,105