

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

**Financial Statements  
and Reports of Independent Auditor**

**December 31, 2013**

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, 2013

**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, 2013, 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 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 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 opinions.

### **Opinions**

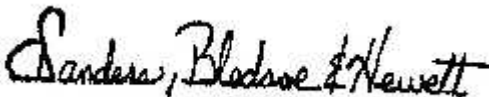
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of December 31, 2013, and the respective changes in financial position and cash flows thereof for the year then ended 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 governmental 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 the financial reporting for placing the basic financial statements in an 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 March 25, 2014 on our consideration of the District'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 or on 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 the Authority's internal control over financial reporting and compliance.



Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP



# SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

**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**

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

We have audited, 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, the accompanying financial statements of the Pontotoc County Rural Water District No. 6 (the District), Fittstown, Oklahoma, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 25, 2014.

**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 opinion 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 the 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 identified a certain deficiency in the internal controls that we considered 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 a 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 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. We consider the deficiency described in the accompanying schedule of findings and responses as item 13-1, to be a material weakness.

#### 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 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 that are required to be reported under *Government Auditing Standards*.

#### District's Response to Findings

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. 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 purpose.



Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP

March 25, 2014

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

Disposition of Prior Year's Reportable Conditions  
December 31, 2013

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, 2013

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:

13-1 – 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, 2013

ASSETS

Current assets:	
Cash	\$ 63,547
Current portion of receivables	16,200
Investments with fiscal agents	518
Total current assets	<u>80,265</u>
Noncurrent assets:	
Restricted investment with fiscal agents	49,800
Capital assets:	
Water system, net	119,142
Equipment, net	796
Building, net	3,585
Total noncurrent assets	<u>173,323</u>
Total Assets	<u>253,588</u>

LIABILITIES

Current liabilities:	
Accounts payable	1,034
Accrued liabilities	150
Total current liabilities	<u>1,184</u>
Noncurrent liabilities:	
Due within one year	19,107
Due in more than one year	44,947
Total noncurrent liabilities	<u>64,054</u>
Total Liabilities	<u>65,238</u>

NET ASSETS

Invested in capital assets, net of related debt	59,469
Restricted for debt service	21,876
Unrestricted assets	107,005
Total Net Assets	<u>\$ 188,350</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, 2013

Operating Revenues:	
Water sales	\$ 179,650
Operating Expenses:	
Salaries and benefits	35,840
Water purchases	88,986
Repairs and maintenance	12,440
Parts and supplies	11,384
Utilities and telephone	3,655
Office	2,230
Postage	1,514
Depreciation	14,945
Dues and fees	1,964
Professional fees	2,325
Total expenses from operations	<u>175,283</u>
Operating Income (Loss)	4,367
Non-Operating Revenues (Expenses):	
Interest income	124
Interest paid on long-term debt	<u>(3,652)</u>
Total non-operating revenues (expenses)	<u>(3,528)</u>
Change in Net Assets	839
Total Net Assets, Beginning of Period	<u>187,511</u>
Total Net Assets, End of Period	<u><u>\$ 188,350</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, 2013

Cash Flows from Operating Activities:	
Receipts from customers	\$ 180,353
Payments to employees	(35,840)
Payments to vendors	<u>(125,280)</u>
Net Cash Provided by Operating Activities	<u>19,233</u>
Cash Flows from Investing Activities:	
Interest revenue	<u>124</u>
Cash Flows from Financing Activities:	
Interest expense on debt	(3,698)
Principal payments on debt	<u>(18,178)</u>
Net Cash Provided by Financing Activities	<u>(21,876)</u>
Net Increase (Decrease) in Cash	(2,519)
Cash and cash equivalents, beginning of period	<u>116,384</u>
Cash and cash equivalents, end of period	<u><u>\$ 113,865</u></u>

Reconciliation of operating income (loss) to net cash provided  
by operating activities:

Operating Income	\$ 4,367
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	14,945
(Increase) decrease in accounts receivable	703
Increase (decrease) in payables	<u>(782)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 19,233</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, 2013

**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 31<sup>st</sup>, are detailed as follows:

	December 31,	
	2013	2012
Operating account - Citizens Bank	\$ 61,064	63,717
Maintenance account - Citizens Bank	2,704	2,701
Less: Outstanding checks	<u>(221)</u>	<u>(264)</u>
Total	<u>\$ 63,547</u>	<u>66,154</u>

Investments / Reserve Investments- (Reserves restricted to just the first \$49,800 of the balance)

Certificates of Deposit:

Citizens Bank, Ada, Oklahoma-	
CD No. 11989, 1/11/14 @ .15%	\$ 12,135
CD No. 18457, 8/13/14 @ .25%	12,330
CD No. 28906, 6/27/14 @ .15%	<u>25,853</u>
Total	<u>\$ 50,318</u>

**Pontotoc County Rural Water District No. 6**  
**Fittstown, Oklahoma**  
Notes to the Financial Statements  
December 31, 2013

**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

	Category			Bank	Carrying
	(A)	(B)	(C)	Balance	Amount
Cash	\$ 63,768			63,768	63,547
Investments	50,318			50,318	50,318
Total	<u>\$ 114,086</u>	<u>0</u>	<u>0</u>	<u>114,086</u>	<u>113,865</u>

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, 2013 were \$16,200. 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.

Subsequent Events

Management has evaluated subsequent events through March 25, 2014, 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.

**Pontotoc County Rural Water District No. 6**  
**Fittstown, Oklahoma**  
Notes to the Financial Statements  
December 31, 2013

**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:

	12/31/2012			12/31/2013
	Amount	Additions	Deletions	Amount
Water system	\$ 582,534	-	-	582,534
Equipment	9,372	-	-	9,372
Building	10,754	-	-	10,754
Total Fixed Assets	602,660	-	-	602,660
Less: Accumulated Depreciation	(464,192)	(14,945)	-	(479,137)
Total	<u>\$ 138,468</u>	<u>(14,945)</u>	<u>-</u>	<u>123,523</u>

Accumulated Unpaid Vacation and Sick Pay

At December 31, 2013, 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, 2013

**Note B – Notes Payable**

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

The notes payable at December 31<sup>st</sup>, are detailed as follows:

	<u>2013</u>	<u>2012</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;	\$ 32,855	47,038
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;	22,396	25,207
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>8,803</u>	<u>9,987</u>
Total	64,054	82,232
Less: Current maturities of long-term debt	<u>(19,107)</u>	<u>(18,177)</u>
Total Long-Term Debt	<u><u>\$ 44,947</u></u>	<u><u>64,055</u></u>

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

<u>Note No.</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Thereafter</u>	<u>Total</u>
91-01	\$ 14,908	15,670	2,277	-	-	-	32,855
91-03	2,955	3,107	3,265	3,433	3,608	6,028	22,396
91-05	<u>1,244</u>	<u>1,308</u>	<u>1,375</u>	<u>1,445</u>	<u>1,519</u>	<u>1,912</u>	<u>8,803</u>
Totals	<u><u>\$ 19,107</u></u>	<u><u>20,085</u></u>	<u><u>6,917</u></u>	<u><u>4,878</u></u>	<u><u>5,127</u></u>	<u><u>7,940</u></u>	<u><u>64,054</u></u>



PONTOTOC COUNTY RURAL WATER DISTRICT NO. 6  
Fittstown, Oklahoma  
Balance Sheet  
December 31, 2013

	DECEMBER 31,	
	2013	(memo only) 2012
<u>ASSETS</u>		
Current assets:		
Cash-		
Operating fund	\$ 60,843	63,453
Savings account	2,704	2,701
Investments - Certificate of Deposits	518	430
Accounts receivable	16,200	16,903
Total current assets	80,265	83,487
Restricted assets:		
Investments - USDA RD reserve	49,800	49,800
Fixed assets:		
Water system	582,534	582,534
Equipment	9,372	9,372
Building	10,754	10,754
Total fixed assets	602,660	602,660
Less: accumulated depreciation	(479,137)	(464,192)
Total fixed assets (net)	123,523	138,468
Total Assets	\$ 253,588	271,755
<u>LIABILITIES AND FUND EQUITY</u>		
Current liabilities:		
Accounts payable	\$ 1,034	1,816
Accrued interest	150	196
Current maturities of long-term debt	19,107	18,177
Total current liabilities	20,291	20,189
Long-Term debt, less current maturities:		
Notes payable	44,947	64,055
Total Liabilities	65,238	84,244
Fund equity:		
Retained earnings	188,350	187,511
Total Liabilities and Fund Equity	\$ 253,588	271,755

PONTOTOC COUNTY RURAL WATER DISTRICT NO. 6  
Fittstown, Oklahoma  
Statement of Revenue, Expenses and Changes in Retained Earnings  
For the Year Ended December 31, 2013

	2013	(memo only) 2012
Revenue from operations:		
Water sales	\$ 179,650	197,382
Expenses from operations:		
Salaries and benefits	35,840	37,366
Water purchases	88,986	83,515
Repairs and maintenance	12,440	10,420
Parts and supplies	11,384	12,842
Utilities and telephone	3,655	3,950
Office	2,230	3,845
Postage	1,514	1,320
Depreciation	14,945	14,871
Dues and fees	1,964	1,284
Professional fees	2,325	2,275
Total expenses from operations	<u>175,283</u>	<u>171,688</u>
Net Income (Loss) from Operations	4,367	25,694
Non-operating income:		
Interest earnings	<u>124</u>	<u>286</u>
Non-operating expenses:		
Interest paid on debt	<u>(3,652)</u>	<u>(4,538)</u>
Net Income (Loss)	839	21,442
Retained earnings, beginning of period	<u>187,511</u>	<u>166,069</u>
Retained earnings, end of period	<u><u>\$ 188,350</u></u>	<u><u>187,511</u></u>