

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

**Financial Statements  
and Reports of Independent Auditor**

**December 31, 2015**

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, 2015

**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, 2015, 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, 2015, 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, 2016 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

March 25, 2016



# 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, 2015, 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, 2016.

**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 15-1, 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, 2016

**Pontotoc County Rural Water District No. 6**  
**Fittstown, Oklahoma**  
Disposition of Prior Year's Reportable Conditions  
December 31, 2015

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, 2015

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:

15-1 – 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 Position  
 December 31, 2015

ASSETS

Current assets:

Cash	\$	21,822
Current portion of receivables		17,214
Investments with fiscal agents		2,495
Total current assets		41,531

Noncurrent assets:

Restricted investment with fiscal agents		49,800
Capital assets:		
Water system, net		91,679
Equipment, net		620
Building, net		2,151
Total noncurrent assets		144,250

Total Assets		185,781
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LIABILITIES

Current liabilities:

Accounts payable		6,300
Accrued liabilities		50
Total current liabilities		6,350

Noncurrent liabilities:

Due within one year		6,916
Due in more than one year		17,945
Total noncurrent liabilities		24,861

Total Liabilities		31,211
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NET POSITION

Invested in capital assets, net of related debt		69,589
Restricted for debt service		49,800
Unrestricted assets		35,181
Total Net Position	\$	154,570

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 Revenue, Expenses and Changes in Net Position  
 For the Year Ended December 31, 2015

Operating Revenues:	
Water sales	\$ 158,316
Operating Expenses:	
Salaries and benefits	40,100
Water purchases	110,006
Repairs and maintenance	5,054
Parts and supplies	10,441
Utilities and telephone	2,382
Office	2,223
Postage	1,666
Depreciation	14,729
Dues and fees	6,832
Professional fees	7,005
Total expenses from operations	200,438
Operating Income (Loss)	(42,122)
Non-Operating Revenues (Expenses):	
Interest income	122
Interest paid on long-term debt	(1,740)
Total non-operating revenues (expenses)	(1,618)
Change in Net Position	(43,740)
Total Net Position, Beginning of Period	198,310
Total Net Position, End of Period	\$ 154,570

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, 2015

Cash Flows from Operating Activities:	
Receipts from customers	\$ 158,778
Payments to employees	(35,530)
Payments to vendors	(145,195)
	(21,947)
Net Cash Provided by Operating Activities	(21,947)
Cash Flows from Investing Activities:	
Interest revenue	122
	122
Cash Flows from Financing Activities:	
Interest expense on debt	(1,791)
Principal payments on debt	(20,085)
Additions to fixed assets	(391)
	(22,267)
Net Cash Provided by Financing Activities	(22,267)
Net Increase (Decrease) in Cash	(44,092)
Cash and cash equivalents, beginning of period	118,209
Cash and cash equivalents, end of period	\$ 74,117

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

Operating Income (Loss)	\$ (42,122)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	14,729
(Increase) decrease in accounts receivable	462
Increase (decrease) in payables	4,984
	4,984
Net Cash Provided by Operating Activities	\$ (21,947)

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, 2015

**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,	
	2015	2014
Operating account - Citizens Bank	\$ 19,398	51,151
Maintenance account - Citizens Bank	2,709	2,706
Less: Outstanding checks	(1,104)	(231)
Total	\$ 21,003	53,626

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

Certificates of Deposit:

Citizens Bank, Ada, Oklahoma-	
CD No. 11989, 1/11/16 @ .15%	\$ 12,178
CD No. 28906, 6/24/16 @ .15%	25,934
CD No. 10743, 3/16/17 @ .15%	14,183
Total	\$ 52,295

**Pontotoc County Rural Water District No. 6**  
**Fittstown, Oklahoma**  
Notes to the Financial Statements  
December 31, 2015

**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 Balance	Carrying Amount
	(A)	(B)	(C)		
Cash	\$ 22,107			22,107	21,003
Investments	52,295			52,295	52,295
<b>Total</b>	<b>\$ 74,402</b>	<b>0</b>	<b>0</b>	<b>74,402</b>	<b>73,298</b>

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, 2015 were \$17,154. 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, 2016, 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, 2015

**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:

	12/31/2014			12/31/2015
	Amount	Additions	Deletions	Amount
Water system	\$ 582,534	-	-	582,534
Equipment	9,372	391	-	9,763
Building	10,754	-	-	10,754
<b>Total Fixed Assets</b>	<b>602,660</b>	<b>391</b>	<b>-</b>	<b>603,051</b>
Less: Accumulated Depreciation	(493,872)	(14,729)	-	(508,601)
<b>Total</b>	<b>\$ 108,788</b>	<b>(14,338)</b>	<b>-</b>	<b>94,450</b>

Accumulated Unpaid Vacation and Sick Pay

At December 31, 2015, 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, 2015

**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>2015</u>	<u>2014</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;	\$ 2,276	17,947
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;	16,334	19,440
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>6,251</u>	<u>7,559</u>
Total	24,861	44,946
Less: Current maturities of long-term debt	<u>(6,916)</u>	<u>(20,086)</u>
Total Long-Term Debt	<u>\$ 17,945</u>	<u>24,860</u>

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

<u>Note No.</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>Total</u>
91-01	\$ 2,276		-	-	-	2,276
91-03	3,265	3,433	3,608	3,793	2,234	16,333
91-05	<u>1,375</u>	<u>1,445</u>	<u>1,519</u>	<u>1,597</u>	<u>316</u>	<u>6,252</u>
Totals	<u>\$ 6,916</u>	<u>4,878</u>	<u>5,127</u>	<u>5,390</u>	<u>2,550</u>	<u>24,861</u>

PONTOTOC COUNTY RURAL WATER DISTRICT NO. 6  
 Fittstown, Oklahoma  
 Balance Sheet  
 December 31, 2015

	DECEMBER 31,	
	2015	(memo only) 2014
<u>ASSETS</u>		
Current assets:		
Cash-		
Operating fund	\$ 19,113	50,920
Savings account	2,709	2,706
Investments - Certificate of Deposits	2,495	14,783
Accounts receivable	17,214	17,676
Total current assets	41,531	86,085
Restricted assets:		
Investments - USDA RD reserve	49,800	49,800
Fixed assets:		
Water system	582,534	582,534
Equipment	9,763	9,372
Building	10,754	10,754
Total fixed assets	603,051	602,660
Less: accumulated depreciation	(508,601)	(493,872)
Total fixed assets (net)	94,450	108,788
 Total Assets	 \$ 185,781	 244,673
 <u>LIABILITIES AND FUND EQUITY</u>		
Current liabilities:		
Accounts payable	\$ 6,300	1,316
Accrued interest	50	101
Current maturities of long-term debt	6,916	20,086
Total current liabilities	13,266	21,503
Long-Term debt, less current maturities:		
Notes payable	17,945	24,860
Total Liabilities	31,211	46,363
Fund equity:		
Retained earnings	154,570	198,310
Total Liabilities and Fund Equity	\$ 185,781	244,673

PONTOTOC COUNTY RURAL WATER DISTRICT NO. 6  
 Fittstown, Oklahoma  
 Statement of Revenue, Expenses and Changes in Retained Earnings  
 For the Year Ended December 31, 2015

	2015	(memo only) 2014
Revenue from operations:		
Water sales	\$ 158,316	168,294
Expenses from operations:		
Salaries and benefits	40,100	38,420
Water purchases	110,006	88,942
Repairs and maintenance	5,054	6,935
Parts and supplies	10,441	9,217
Utilities and telephone	2,382	2,450
Office	2,223	3,356
Postage	1,666	1,684
Depreciation	14,729	14,735
Dues and fees	6,832	1,793
Professional fees	7,005	2,375
Total expenses from operations	<u>200,438</u>	<u>169,907</u>
Net Income (Loss) from Operations	(42,122)	(1,613)
Non-operating income:		
Interest earnings	<u>122</u>	<u>236</u>
Non-operating expenses:		
Interest paid on debt	<u>(1,740)</u>	<u>(2,719)</u>
Net Income (Loss)	(43,740)	(4,096)
Prior period adjustment - CD not reported	0	14,056
Retained earnings, beginning of period	<u>198,310</u>	<u>188,350</u>
Retained earnings, end of period	<u>\$ 154,570</u>	<u>198,310</u>