

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

**Financial Statements
and Reports of Independent Auditor**

December 31, 2016

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, 2016

Board of Directors

Chairman

Stanley Graham

Vice-Chairman

Carl Tackett

Secretary/Treasurer

Lee Jackson

Members

Lee Sweat

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, 2016, 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, 2016, 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 30, 2017 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 30, 2017



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, 2016, 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 30, 2017.

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 16-1, not 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 30, 2017

Pontotoc County Rural Water District No. 6
Fittstown, Oklahoma
Disposition of Prior Year's Significant Deficiencies
December 31, 2016

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, 2016

Section 1 – Summary of Auditor’s Results

1. An unmodified opinion report was issued on the financial statements.
2. The audit disclosed a significant deficiency 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:

16-1 – 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, 2016

ASSETS

Current assets:

Cash	\$ 63,771
Current portion of receivables	16,082
Investments with fiscal agents	8,969
Total current assets	<u>88,822</u>

Noncurrent assets:

Restricted investment with fiscal agents	17,514
Capital assets:	
Water system, net	92,760
Equipment, net	705
Building, net	1,434
Total noncurrent assets	<u>112,413</u>

Total Assets	<u>201,235</u>
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LIABILITIES

Current liabilities:

Accounts payable	10,070
Accrued liabilities	34
Total current liabilities	<u>10,104</u>

Noncurrent liabilities:

Due within one year	4,900
Due in more than one year	12,614
Total noncurrent liabilities	<u>17,514</u>

Total Liabilities	<u>27,618</u>
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NET POSITION

Invested in capital assets, net of related debt	77,385
Restricted for debt service	17,514
Unrestricted assets	<u>78,718</u>
Total Net Position	<u>\$ 173,617</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 Revenue, Expenses and Changes in Net Position
For the Year Ended December 31, 2016

Operating Revenues:	
Water sales	\$ 171,762
Other income (Chickasaw Nation Department of Health)	65,469
Total revenues from operations	<u>237,231</u>
Operating Expenses:	
Salaries and benefits	38,710
Water purchases	118,712
Repairs and maintenance	10,920
Parts and supplies	10,797
Utilities and telephone	2,608
Office	4,249
Postage	1,513
Depreciation	14,948
Dues and fees	2,348
Professional fees	12,513
Total expenses from operations	<u>217,318</u>
Operating Income (Loss)	19,913
Non-Operating Revenues (Expenses):	
Interest income	137
Interest paid on long-term debt	(1,003)
Total non-operating revenues (expenses)	<u>(866)</u>
Change in Net Position	19,047
Total Net Position, Beginning of Period	<u>154,570</u>
Total Net Position, End of Period	<u><u>\$ 173,617</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, 2016

Cash Flows from Operating Activities:	
Receipts from customers	\$ 238,363
Payments to employees	(38,710)
Payments to vendors	<u>(159,890)</u>
Net Cash Provided by Operating Activities	<u>39,763</u>
Cash Flows from Investing Activities:	
Interest revenue	<u>137</u>
Cash Flows from Financing Activities:	
Interest expense on debt	(1,020)
Principal payments on debt	(7,346)
Additions to fixed assets	<u>(15,397)</u>
Net Cash Provided by Financing Activities	<u>(23,763)</u>
Net Increase (Decrease) in Cash	16,137
Cash and cash equivalents, beginning of period	<u>74,117</u>
Cash and cash equivalents, end of period	<u><u>\$ 90,254</u></u>

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

Operating Income (Loss)	\$ 19,913
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	14,948
(Increase) decrease in accounts receivable	1,132
Increase (decrease) in payables	<u>3,770</u>
Net Cash Provided by Operating Activities	<u><u>\$ 39,763</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, 2016

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:

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
Operating account - Citizens Bank	\$ 61,141	19,398
Maintenance account - Citizens Bank	2,712	2,709
Less: Outstanding checks	<u>(82)</u>	<u>(1,104)</u>
Total	<u><u>\$ 63,771</u></u>	<u><u>21,003</u></u>

Investments / Reserve Investments-

Certificates of Deposit:

Citizens Bank, Ada, Oklahoma-	
CD No. 11989, 1/11/17 @ .18%	\$ 12,300
CD No. 10743, 3/16/17 @ .45%	<u>5,214</u>
Total	<u><u>\$ 17,514</u></u>

Pontotoc County Rural Water District No. 6
Fittstown, Oklahoma
Notes to the Financial Statements
December 31, 2016

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	\$ 63,853			63,853	63,853
Investments	26,483			26,483	26,483
Total	<u>\$ 90,336</u>	<u>0</u>	<u>0</u>	<u>90,336</u>	<u>90,336</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 \$17,514 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, 2016 were \$16,022. 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 30, 2017, 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, 2016

Note A – Significant Accounting Policies – cont'd

Fixed Assets

Any items purchased or constructed in excess of \$1,000 and a useful life of over two years is considered a fixed asset by the District, and will be depreciated over a specific time. 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:

	12/31/2015			12/31/2016
	Amount	Additions	Deletions	Amount
Water system	\$ 582,534	15,000	-	597,534
Equipment	9,763	397	-	10,160
Building	10,754	-	-	10,754
Total Fixed Assets	603,051	15,397	-	618,448
Less: Accumulated Depreciation	(508,601)	(14,948)	-	(523,549)
Total	<u>\$ 94,450</u>	<u>449</u>	<u>-</u>	<u>94,899</u>

Accumulated Unpaid Vacation and Sick Pay

At December 31, 2016, no determination of the aggregate dollar value of vacation or sick pay had been made.

Pontotoc County Rural Water District No. 6
Fittstown, Oklahoma
Notes to the Financial Statements
December 31, 2016

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>2016</u>	<u>2015</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;	\$ 0	2,276
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;	12,638	16,334
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>4,876</u>	<u>6,251</u>
Total	17,514	24,861
Less: Current maturities of long-term debt	<u>(4,900)</u>	<u>(6,916)</u>
Total Long-Term Debt	<u><u>\$ 12,614</u></u>	<u><u>17,945</u></u>

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

<u>Note No.</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>Total</u>
91-03	\$ 3,455	3,631	3,817	1,735	12,638
91-05	<u>1,445</u>	<u>1,519</u>	<u>1,597</u>	<u>315</u>	<u>4,876</u>
Totals	<u><u>\$ 4,900</u></u>	<u><u>5,150</u></u>	<u><u>5,414</u></u>	<u><u>2,050</u></u>	<u><u>17,514</u></u>

PONTOTOC COUNTY RURAL WATER DISTRICT NO. 6
Fittstown, Oklahoma
Balance Sheet
December 31, 2016

	DECEMBER 31,	
	2016	(memo only) 2015
<u>ASSETS</u>		
Current assets:		
Cash-		
Operating fund	\$ 61,059	19,113
Savings account	2,712	2,709
Investments - Certificate of Deposits	8,969	2,495
Accounts receivable	16,082	17,214
Total current assets	88,822	41,531
Restricted assets:		
Investments - USDA RD reserve	17,514	49,800
Fixed assets:		
Water system	597,534	582,534
Equipment	10,160	9,763
Building	10,754	10,754
Total fixed assets	618,448	603,051
Less: accumulated depreciation	(523,549)	(508,601)
Total fixed assets (net)	94,899	94,450
Total Assets	\$ 201,235	185,781
<u>LIABILITIES AND FUND EQUITY</u>		
Current liabilities:		
Accounts payable	\$ 10,070	6,300
Accrued interest	34	50
Current maturities of long-term debt	4,900	6,916
Total current liabilities	15,004	13,266
Long-Term debt, less current maturities:		
Notes payable	12,614	17,945
Total Liabilities	27,618	31,211
Fund equity:		
Retained earnings	173,617	154,570
Total Liabilities and Fund Equity	\$ 201,235	185,781

PONTOTOC COUNTY RURAL WATER DISTRICT NO. 6
Fittstown, Oklahoma
Statement of Revenue, Expenses and Changes in Retained Earnings
For the Year Ended December 31, 2016

	2016	(memo only) 2015
Revenue from operations:		
Water sales	\$ 171,762	158,316
Other income (Chickasaw Nation Dept. of Health)	65,469	0
Total revenue from operations	<u>237,231</u>	<u>158,316</u>
Expenses from operations:		
Salaries and benefits	38,710	40,100
Water purchases	118,712	110,006
Repairs and maintenance	10,920	5,054
Parts and supplies	10,797	10,441
Utilities and telephone	2,608	2,382
Office	4,249	2,223
Postage	1,513	1,666
Depreciation	14,948	14,729
Dues and fees	2,348	6,832
Professional fees	12,513	7,005
Total expenses from operations	<u>217,318</u>	<u>200,438</u>
Net Income (Loss) from Operations	19,913	(42,122)
Non-operating income:		
Interest earnings	<u>137</u>	<u>122</u>
Non-operating expenses:		
Interest paid on debt	<u>(1,003)</u>	<u>(1,740)</u>
Net Income (Loss)	19,047	(43,740)
Retained earnings, beginning of period	<u>154,570</u>	<u>198,310</u>
Retained earnings, end of period	<u><u>\$ 173,617</u></u>	<u><u>154,570</u></u>