

Pontotoc County Rural Water District No. 7
Ada, Oklahoma

Financial Statements
and Reports of Independent Auditors

September 30, 2012

Audited by

SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP

Broken Arrow, Oklahoma

Pontotoc County Rural Water District No. 7
Ada, Oklahoma

Board of Directors
September 30, 2012

Chairman

Jim Allred

Vice Chairman

Ronnie Britt

Secretary/Treasurer

Ernie Sheppard

Members

Spencer Leddy
Wayne Cobb
Leslie Penn
Carlton Gray

Manager

Buck Cooper

Pontotoc County Rural Water District No. 7
Ada, Oklahoma

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September 30, 2012

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SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

Independent Auditor's Report

Board of Directors
Pontotoc County Rural Water District No. 7
Ada, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Pontotoc County Rural Water District No. 7 (the District), Ada, Oklahoma, as of and for the year ended September 30, 2012 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 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 in the first paragraph present fairly, in all material respects, the financial position of the business-type activities of the District for the year ended September 30, 2012 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 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, grants 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 the internal control over financial reporting or on compliance.

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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is 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.

A handwritten signature in black ink that reads "Sanders, Bledsoe & Hewett". The script is cursive and fluid, with the ampersand being particularly stylized.

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

December 13, 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. 7
Ada, Oklahoma

We have audited the financial statements of the Pontotoc County Rural Water District No. 7 (the District), Ada, Oklahoma, as of and for the year ended September 30, 2012, which does not include the Management Discussion and Analysis, and have issued our report thereon dated December 13, 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 *Government Auditing Standards*.

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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be reportable

conditions. 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.

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 caused by error or fraud 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.

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 script is cursive and fluid, with the company name written in a single line.

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

December 13, 2012

Pontotoc County Rural Water District No. 7
Ada, Oklahoma

Disposition of Prior Year's Reportable Conditions
September 30, 2012

There were no prior year reportable conditions.

Pontotoc County Rural Water District No. 7
Ada, Oklahoma
Schedule of Audit Results
September 30, 2012

Section 1 – Summary of Auditor’s Results:

1. An unqualified opinion report was issued on the financial statements.
2. The audit disclosed no reportable conditions in the internal controls.
3. The audit disclosed no instances of non-compliance.

Section 2 - Findings Relating to the Financial Statements Required to be Reported in Accordance with GAGAS:

NONE

Pontotoc County Rural Water District No. 7

Ada, Oklahoma

Statement of Net Assets

September 30, 2012

ASSETS

Current assets:

Cash	\$ 210,153
Investments	1,204,091
Accounts receivable	43,390
Total current assets	<u>1,457,634</u>

Noncurrent assets:

Land and buildings	91,299
Office equipment and vehicles	234,705
Water system and improvements	<u>3,549,099</u>
Total capital assets	3,875,103
Less: Accumulated depreciation	<u>(2,062,190)</u>
Total noncurrent assets	<u>1,812,913</u>

Total Assets	<u>3,270,547</u>
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LIABILITIES

Current liabilities:

Accounts payable	82,815
Current portion of long-term debt	<u>50,614</u>
Total current liabilities	<u>133,429</u>

Noncurrent liabilities:

Long term debt	<u>708,788</u>
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Total Liabilities	<u>842,217</u>
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NET ASSETS

Invested in capital assets, net of related debt	1,053,511
Contributed capital	473,025
Unrestricted	<u>901,794</u>
Total Net Assets	<u>\$ 2,428,330</u>

The accompanying notes are an integral part of these financial statements.

Pontotoc County Rural Water District No. 7

Ada, Oklahoma

Statement of Activities

For the Year Ended September 30, 2012

Operating Revenues:

Water sales	\$ 878,234
Tap and reconnect fees	8,993
Impact fees	12,500
New membership fees	37,100
Miscellaneous	19,558
Total operating revenues	<u>956,385</u>

Operating Expenses:

Salaries and benefits	171,919
Depreciation	105,204
Water purchases	411,782
Office and postage	17,638
Insurance and bonds	24,049
Line materials and maintenance	120,605
Contract services	1,950
Building and equipment maintenance	211
Vehicles	29,931
Professional fees	7,524
Utilities and telephone	10,340
Advertising	423
Manager's expense	5,019
Miscellaneous and refunds	1,591
Dues and fees	23,497
Total operating expenses	<u>931,683</u>

Net Income (Loss) from Operations	24,702
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Non-operating Revenues (Expenses):

Interest income	11,668
Chickasaw Nation reimbursement	39,660
Interest paid on debt	<u>(36,160)</u>
Total non-operating revenues (expenses)	<u>15,168</u>

Changes in Net Assets	39,870
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Total Net Assets, Beginning of Period	<u>2,388,460</u>
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Total Net Assets, End of Period	<u><u>\$ 2,428,330</u></u>
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The accompanying notes to the financial statements are an integral part of this statement

Pontotoc County Rural Water District No. 7

Ada, Oklahoma

Statement of Cash Flows

For the Year Ended September 30, 2012

Cash Flows from Operating Activities:

Receipts from water sales	\$ 1,039,462
Payments to employees	(171,919)
Payments to vendors	<u>(687,353)</u>
Net Cash Provided by Operating Activities	<u>180,190</u>

Cash Flows from Investing Activities:

Interest on investments	11,668
Reimbursement from Chickasaw Nation	39,660
Sale (purchase) of fixed assets	<u>(31,909)</u>
Net Cash Provided by Investing Activities	<u>19,419</u>

Cash Flows from Financing Activities:

Interest expenses on debt	(36,160)
Principal payments on debt	<u>(48,212)</u>
Net Cash Provided by Financing Activities	<u>(84,372)</u>

Net increase (decrease) in cash and cash equivalents	115,237
Cash & cash equivalents, beginning of period	<u>1,299,007</u>
Cash & cash equivalents, end of period	<u><u>\$ 1,414,244</u></u>

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

Operating income (loss)	\$ 24,702
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	105,204
Change in assets and liabilities:	
Accounts receivable	83,077
Accounts payable	<u>(32,793)</u>
Net cash provided by operating activities	<u><u>\$ 180,190</u></u>

The accompanying notes are an integral part of the financial statements

Pontotoc County Rural Water District No. 7
Ada, Oklahoma

Notes to Financial Statements
September 30, 2012

Note A – Significant Accounting Policies

Basis of Accounting

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

Cash and Investments

The District's accounts are with the First National Bank & Trust Company – Ada, Oklahoma, and are detailed as follows:

	September 30	
	2012	2011
Revenue account	\$ 40,528	42,799
Sweep account	169,625	113,471
Total Cash	<u>\$ 210,153</u>	<u>156,270</u>

The bookkeeper is authorized by the Board of Directors to invest certain amounts of money from available funds. The types of investments available are specified in and limited by Oklahoma statutes, which include certificates of deposit and governmental securities. Investments are recorded on the financial records and in the financial statements at cost. Income from investments is recorded when collected.

The District had the following outstanding investments at September 30, 2012:

Oklahoma Heritage Bank – Ada, Oklahoma

Certificate of Deposit, dated March 13, 2012, due March 13, 2013, at .65 percent	\$ 211,850
Certificate of Deposit, dated June 11, 2012, due Dec. 11, 2012, at .50 percent	55,000
Certificate of Deposit, dated Dec. 8, 2011, due Dec. 8, 2012, at 1.00 percent	235,988
Money Market Account	49,771

BancFirst – Konawa, Oklahoma

Money Market Account	50,919
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Pontotoc County Rural Water District No. 7

Ada, Oklahoma

Notes to Financial Statements September 30, 2012

Vision Bank – Ada, Oklahoma

NOW Account	\$ 17,468
NOW Account	17,823
Certificate of Deposit, dated Feb. 7, 2012, due Feb. 7, 2013, at .60 percent	29,733
Certificate of Deposit, dated Feb. 7, 2012, due Feb. 7, 2013, at .60 percent	30,932
Certificate of Deposit, dated Feb. 7, 2012, due Feb. 7, 2013, at .60 percent	11,592

Farmers State Bank – Allen, Oklahoma

*Certificate of Deposit, dated July 13, 2012, due Jan. 10, 2013, at 1.00 percent	120,095
Certificate of Deposit, dated July 11, 2012, due Jan. 8, 2013, at .60 percent	162,301
Certificate of Deposit, dated July 25, 2012, due Jan. 21, 2013, at .50 percent	99,890

Landmark Bank – Ada, Oklahoma

Money Market Account	17,442
Money Market Account (Rural Development Reserve)	<u>93,287</u>

Total Investments	<u>\$ 1,204,091</u>
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Accounts Receivable

Net billings for accounts receivable at September 30, 2012 were \$43,390.

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:

Building	40 years
Office equipment and vehicles	5 – 10 years
Water system and improvements	10 – 40 years

Federal Income Tax

The District is exempt from federal and state income taxes.

Pontotoc County Rural Water District No. 7

Ada, Oklahoma

Notes to Financial Statements
September 30, 2012

Collateral Pledged

All funds were adequately insured by the Federal Deposit Insurance Corporation or additional collateral pledged by individual banks as of September 30, 2012.

Contributed Capital

During the 1998-99 fiscal year, the District received \$14,517 from the Oklahoma Department of Transportation to relocate some water lines. In 1999-00, additional funds were received from the Oklahoma Department of Transportation in the amount of \$58,508 for the relocation of water lines. In 2000-01, the District was awarded a CDBG grant from the Oklahoma Department of Commerce in the amount of \$150,000. These funds were processed through the Pontotoc County Commissioners' office. These funds were used to construct a new water standpipe and water lines. The District was awarded additional CDBG funding in the 2001-02 fiscal year in the amount of \$250,000, which were also processed by the Pontotoc County Commissioners' office.

Note B – Long-term Debt

Long-term debt at year end is summarized as follows:

	<u>September 30,</u>	
	<u>2012</u>	<u>2011</u>
Note 01-0504001, 5 percent mortgage payable to GMAC Commercial Mortgage Corp. in monthly installments of \$2,539 until 2017	\$ 122,729	146,473
Note 01-0504003, 5 percent mortgage payable to GMAC Commercial Mortgage Corp. in monthly installments of \$1,105 until 2020	82,966	91,872
Note 01-0504005, 5 percent mortgage payable to GMAC Commercial Mortgage Corp. in monthly installments of \$845 until 2019	60,298	67,260
Note 91-01, 4.375% USDA A Rural Development. in monthly installments of \$2,542 until 2044	<u>493,295</u>	<u>502,009</u>
Total	759,288	807,614
Less: current portion	<u>(50,614)</u>	<u>(48,212)</u>
Long-term debt, less current maturities	<u>\$ 708,674</u>	<u>759,402</u>

Pontotoc County Rural Water District No. 7
Ada, Oklahoma

Notes to Financial Statements
September 30, 2012

The estimated maturities for the next five years are detailed as follows:

Fiscal Year	Loan No. 10504001	Loan No. 10504003	Loan No. 10504005	Loan No. 91-01	Total
2012-13	\$ 24,897	9,323	7,291	9,103	50,614
2013-14	26,171	9,800	7,664	9,510	53,145
2014-15	27,510	10,302	8,056	9,934	55,802
2015-16	28,917	10,829	8,468	10,378	58,592
2016-17	15,234	11,383	8,901	10,841	46,359
Thereafter	0	31,329	19,918	443,529	494,776
Total	\$ 122,729	82,966	60,298	493,295	759,288

Reserved Cash

The loan agreement with USDA Rural Development requires that the District maintain a reserve account and any disbursements require prior USDA Rural Development approval. The reserve account balance currently required is \$30,504. The district has a certificate of deposit reserved in the amount of \$120,095 (*) for the reserve requirement (Farmers State Bank – Investment Account). All restricted assets are nevertheless liquid and have been included as cash and cash equivalents for the purpose of the cash flow statement.

Note C – Accumulated Unpaid Vacation and Sick Pay

At September 30, 2012, no determination of the aggregate dollar value of vacation or sick pay had been made.

Pontotoc County Rural Water District No. 7

Ada, Oklahoma

Balance Sheet
September 30, 2012

	SEPTEMBER 30	
	2012	(memo only) 2011
<u>ASSETS</u>		
Current Assets:		
Cash in bank	\$ 210,153	156,270
Investments	1,204,091	1,142,737
Accounts receivable	43,390	126,467
Total current assets	<u>1,457,634</u>	<u>1,425,474</u>
Fixed Assets:		
Land & building	91,299	91,299
Office equipment & vehicles	234,705	230,966
Water system & improvements	<u>3,549,099</u>	<u>3,520,929</u>
Total fixed assets	3,875,103	3,843,194
Less: accumulated depreciation	<u>(2,062,190)</u>	<u>(1,956,986)</u>
Total fixed assets (net)	<u>1,812,913</u>	<u>1,886,208</u>
Total Assets	<u>\$ 3,270,547</u>	<u>3,311,682</u>
<u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 82,815	115,608
Current maturities of long-term debt	<u>50,614</u>	<u>48,212</u>
Total current liabilities	<u>133,429</u>	<u>163,820</u>
Long-Term Debt:		
Notes payable	<u>708,788</u>	<u>759,402</u>
Total Liabilities	<u>842,217</u>	<u>923,222</u>
Fund Equity:		
Contributed capital	473,025	473,025
Retained earnings	<u>1,955,305</u>	<u>1,915,435</u>
Total fund equity	<u>2,428,330</u>	<u>2,388,460</u>
Total Liabilities and Fund Equity	<u>\$ 3,270,547</u>	<u>3,311,682</u>

Pontotoc County Rural Water District No. 7**Ada, Oklahoma**

Statement of Revenues, Expenses, and Changes in Retained Earnings

For the Years Ended September 30, 2012

	2011-12	(memo only) 2010-11
Revenues from Operations:		
Water sales	\$ 878,234	1,024,128
Tap and reconnect fees	8,993	6,390
New membership fees	37,100	33,997
Impact fees	12,500	6,500
Miscellaneous	19,558	35,530
Total revenues from operations	956,385	1,106,545
Expenses from Operations:		
Salaries and benefits	171,919	166,170
Depreciation	105,204	101,007
Water purchases	411,782	483,973
Advertising	423	515
Office and postage	17,638	15,734
Insurance and bonds	24,049	30,660
Line materials and maintenance	120,605	33,946
Contract labor	1,950	3,012
Building and equipment maintenance	211	4,782
Vehicles	29,931	29,972
Professional fees	7,524	17,847
Utilities and telephone	10,340	14,182
Dues and fees	23,497	3,706
Manager's expense	5,019	6,477
Miscellaneous and refunds	1,591	205
Total expenses from operations	931,683	912,188
Net Income (Loss) from Operations	24,702	194,357
Other Income:		
Chickasaw Nation reimbursement	39,660	-
Interest earnings	11,668	14,633
Total other income	51,328	14,633
Other Expenses:		
Interest paid on debt	(36,160)	(38,722)
Net Income (Loss)	39,870	170,268
Retained earnings, beginning of period	1,915,435	1,745,167
Retained earnings, end of period	\$ 1,955,305	1,915,435