

**Pontotoc County Rural Water District No. 9
Stonewall, Oklahoma**

**Financial Statements
and Reports of Independent Auditor**

September 30, 2011

Audited by

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

Broken Arrow, OK

Pontotoc County Rural Water District No. 9
Stonewall, Oklahoma
Board of Directors
September 30, 2011

BOARD OF DIRECTORS

Chairman

Mike Roberts

Vice-Chairman

Leon Brown

Secretary/Treasurer

Truman Teel

Member

Vacant

Member

Wayne Davis

Member

Vacant

Member

Melissa Moore

MANAGER

Curt Cooper

**Pontotoc County Rural Water District No. 9
Stonewall, 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. 9
Stonewall, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Pontotoc County Rural Water District No. 9 (the District), Stonewall, Oklahoma, as of and for the year ended September 30, 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 September 30, 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 March 5, 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

March 5, 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. 9
Stonewall, Oklahoma

We have audited the financial statements of the Pontotoc County Rural Water District No. 9 (the District), Stonewall, Oklahoma, as of and for the year ended September 30, 2011, which omitted the management discussion and analysis, and have issued our report thereon dated March 5, 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

March 5, 2012

Pontotoc County Rural Water District No. 9
Stonewall, Oklahoma
Disposition of Prior Year's Reportable Conditions
September 30, 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. 9
Stonewall, Oklahoma
Schedule of Audit Results
September 30, 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. 9

Stonewall, Oklahoma

Statement of Net Assets

September 30, 2011

ASSETS

Current assets:

Cash	\$	65,687
Investments with fiscal agents		16,493
Current portion of receivables		10,265
Inventory of supplies		29,007
Prepaid assets		5,085
Total current assets		<u>126,537</u>

Noncurrent assets:

Restricted investment with fiscal agents		16,902
Capital assets:		
Building and water systems, net		<u>351,778</u>
Total noncurrent assets		<u>368,680</u>

Total Assets 495,217

LIABILITIES

Current liabilities:

Accounts payable		3,848
Accrued liabilities		458
Total current liabilities		<u>4,306</u>

Noncurrent liabilities:

Due within one year		9,800
Due in more than one year		<u>128,904</u>
Total noncurrent liabilities		<u>138,704</u>

Total Liabilities 143,010

NET ASSETS

Invested in capital assets, net of related debt		213,074
Restricted for debt service		16,902
Unrestricted assets		<u>122,231</u>
Total Net Assets	\$	<u>352,207</u>

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

PONTOTOC COUNTY RURAL WATER DISTRICT NO. 9
Stonewall, Oklahoma
Statement of Activities
For the Year Ended September 30, 2011

Operating Revenues:

Water sales	\$ 243,741
Other fees	11,105
Total revenues from operations	254,846

Operating Expenses:

Salaries and benefits	33,999
Water purchases	132,844
Repairs and maintenance	25,758
Vehicle expense	5,666
Parts and supplies	105,652
Utilities and telephone	3,379
Insurance	5,211
Office expense and postage	3,424
Water tests	575
Depreciation	15,296
Dues and fees	348
Miscellaneous	416
Professional fees	2,200
Total expenses from operations	334,768

Operating Income (Loss)	(79,922)
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Non-Operating Revenues (Expenses):

Interest income	367
Interest paid on long-term debt	(7,182)
Total non-operating revenues (expenses)	(6,815)

Change in Net Assets	(86,737)
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Total Net Assets, Beginning of Period	438,944
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Total Net Assets, End of Period	\$ 352,207
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The accompanying notes to the financial statements are an integral part of this statement

PONTOTOC COUNTY RURAL WATER DISTRICT NO. 9
Stonewall, Oklahoma
Statement of Cash Flows
For the Year Ended September 30, 2011

Cash Flows from Operating Activities:

Receipts from customers	\$ 267,849
Payments to employees	(34,681)
Payments to vendors	<u>(278,289)</u>
Net Cash Provided by Operating Activities	<u>(45,121)</u>

Cash Flows from Investing Activities:

Interest revenue	<u>367</u>
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Cash Flows from Financing Activities:

Interest expense on debt	(7,189)
Principal payments on debt	<u>(9,323)</u>
Net Cash Provided by Financing Activities	<u>(16,512)</u>

Net Increase (Decrease) in Cash (61,266)

Cash and cash equivalents, beginning of period 160,348

Cash and cash equivalents, end of period \$ 99,082

Operating Income	\$ (79,922)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	15,296
(Increase) decrease in accounts receivable	13,003
(Increase) decrease in supplies inventory	5,862
(Increase) decrease in prepaid insurance	1,249
Increase (decrease) in payables	<u>(609)</u>
Net Cash Provided by Operating Activities	<u><u>\$ (45,121)</u></u>

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

Pontotoc County Rural Water District No. 9
Stonewall, Oklahoma
Notes to the Financial Statements
September 30, 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. The District has converted their financial statements to comply with GASB Statement No. 34 “Basic Financial Statements and Management’s Discussion and Analysis for State and Local Government.” This statement establishes new financial reporting requirements for state and local governments throughout the United States.

Prior Year Information

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

Cash

The District’s accounts are with the Citizens Bank in Ada, Oklahoma and Liberty Bell Federal Credit Union in Shawnee, Oklahoma and at September 30th, are detailed as follows:

	September 30,	
	2011	2010
Operating account - Citizens Bank	\$ 63,282	20,447
Maintenance account - Citizens Bank	2,398	2,394
Less: Outstanding checks	-	-
Credit Union account - Liberty Bell Credit Union	7	7
 Total	 \$ 65,687	 22,848

Cash – The District’s cash deposits at September 30, 2011, are categorized to give an indication of the level of risk assumed by the District at year-end.

Pontotoc County Rural Water District No. 9
Stonewall, Oklahoma
Notes to the Financial Statements
September 30, 2011

Note A – Significant Accounting Policies – cont’d

Investments – Investments at September 30, 2011 are detailed as follows:

Certificates of Deposit:

Communication Federal Credit Union, Shawnee, Oklahoma Certificate of Deposit No. 10, dated 6-3-11, due 12-3-11, @ 1.44%	\$ 12,138
First American Bank, Stonewall, Oklahoma Certificate of Deposit No. 7198, dated 7-6-11 due 1-4-12, @ 0.95%	<u>4,355</u>
Total Certificate of Deposits	<u>\$ 16,493</u>

Deposit Categories of Credit Risk:

- (A) Insured by Federal Deposit Insurance (\$250,000)
- (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	\$ 65,687			65,687	65,687
Investments	33,395			33,395	33,395
Total	\$ 99,082	0	0	99,082	99,082

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 reserve account balance currently required is \$16,512. The district has a certificate of deposit reserved in the amount of \$16,902 for the reserve requirement.

Pontotoc County Rural Water District No. 9
Stonewall, Oklahoma
Notes to the Financial Statements
September 30, 2011

Note A – Significant Accounting Policies – cont’d

All restricted assets are nevertheless liquid and have been included as cash and cash equivalents for the purpose of the cash flow statement. The total in cash reserves at September 30, 2011, was \$16,902.

Accounts Receivable

Billings for accounts receivable at September 30, 2011, were \$10,265. 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.

Inventory

Supplies inventory is valued at the lower of cost or market, using the FIFO method (first in, first out).

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

Accumulated Unpaid Vacation and Sick Pay

At September 30, 2011, no determination of the aggregate dollar value of vacation or sick pay had been made.

Pontotoc County Rural Water District No. 9
Stonewall, Oklahoma
Notes to the Financial Statements
September 30, 2011

Note B – Notes Payable

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

The notes payable at September 30th, are detailed as follows:

	<u>2011</u>	<u>2010</u>
Note No. 91-01, Rural Economic & Community Development, issued for \$204,000, dated 09-30-91, at 5.00% interest, due in monthly installments of \$1,002, until paid;	\$ 99,423	106,289
Note No. 91-02, Rural Economic & Community Development, issued for \$71,400, dated 09-30-91, at 5.00% interest due in monthly installments of \$374, until paid;	<u>39,281</u>	<u>41,738</u>
Total	138,704	148,027
Less: Current maturities of long-term debt	<u>(9,800)</u>	<u>(9,322)</u>
Total Long-Term Debt	<u><u>\$ 128,904</u></u>	<u><u>138,705</u></u>

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

<u>Note No.</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>	<u>Thereafter</u>	<u>Total</u>
91-01	\$ 7,217	7,586	7,974	8,382	8,811	59,454	99,424
91-02	2,583	2,715	2,854	3,000	3,153	24,976	39,281
Totals	<u><u>\$ 9,800</u></u>	<u><u>10,301</u></u>	<u><u>10,828</u></u>	<u><u>11,382</u></u>	<u><u>11,964</u></u>	<u><u>84,430</u></u>	<u><u>138,705</u></u>

PONTOTOC COUNTY RURAL WATER DISTRICT NO. 9

Stonewall, Oklahoma

Balance Sheet

September 30, 2011

	SEPTEMBER 30,	
	2011	(memo only) 2010
<u>ASSETS</u>		
Current assets:		
Cash:		
Operating fund	\$ 63,282	20,447
Maintenance account	2,398	2,394
Credit union account	7	7
Investments - Certificate of Deposits	16,493	16,270
Investment - Securities	0	104,462
Accounts receivable	10,265	23,268
Inventory	29,007	34,869
Prepaid insurance	5,085	6,334
Total current assets	126,537	208,051
Restricted assets:		
Investment - CD USDA RD reserve	16,902	16,768
Fixed assets:		
Building	14,420	14,420
Water systems	709,572	709,572
Vehicles and equipment	32,263	32,263
Total fixed assets	756,255	756,255
Less: accumulated depreciation	(404,477)	(389,181)
Total fixed assets (net)	351,778	367,074
 Total Assets	\$ 495,217	591,893
 <u>LIABILITIES AND FUND EQUITY</u>		
Current liabilities:		
Accounts payable	\$ 3,848	3,775
Taxes payable	350	1,032
Accrued interest	108	115
Current maturities of long-term debt	9,800	9,322
Total current liabilities	14,106	14,244
Long-Term debt, less current maturities:		
Notes payable	128,904	138,705
Total Liabilities	143,010	152,949
Fund equity:		
Retained earnings	352,207	438,944
Total Liabilities and Fund Equity	\$ 495,217	591,893

PONTOTOC COUNTY RURAL WATER DISTRICT NO. 9

Stonewall, Oklahoma

**Statement of Revenue, Expenses and Changes in Retained Earnings
For the Year Ended September 30, 2011**

	<u>2010-11</u>	<u>(memo only) 2009-10</u>
Revenue from operations:		
Water sales	\$ 243,741	249,338
Other fees	11,105	9,200
Total revenue from operations	<u>254,846</u>	<u>258,538</u>
Expenses from operations:		
Salaries and benefits	33,999	34,951
Water purchases	132,844	106,953
Repairs and maintenance	25,758	35,889
Vehicle expense	5,666	4,999
Parts and supplies	105,652	31,633
Utilities and telephone	3,379	2,747
Insurance	5,211	4,710
Office expense and postage	3,424	4,268
Water tests	575	715
Depreciation	15,296	14,480
Dues and fees	348	517
Miscellaneous	416	653
Professional fees	2,200	2,150
Total expenses from operations	<u>334,768</u>	<u>244,665</u>
Net Income (Loss) from Operations	(79,922)	13,873
Non-operating income (expenses):		
Interest earnings	367	5,221
Interest paid on debt	<u>(7,182)</u>	<u>(7,636)</u>
Total non-operating expenses	<u>(6,815)</u>	<u>(2,415)</u>
Net Income (Loss)	(86,737)	11,458
Retained earnings, beginning of period	<u>438,944</u>	<u>427,486</u>
Retained earnings, end of period	<u>\$ 352,207</u>	<u>438,944</u>