

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

**Financial Statements  
and Reports of Independent Auditor**

**September 30, 2016**

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, 2016

**BOARD OF DIRECTORS**

**Chairman**

Wayne Case

**Vice-Chairman**

Jim Edwards

**Secretary/Treasurer**

Jack Blair

**Member**

Stanley Oglesby

**Member**

Leon Brown

**Member**

Mike Roberts

**Member**

Grant Ellis

**MANAGER**

Curt Cooper

**BOOKKEEPER**

Eric Stone

**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, 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**

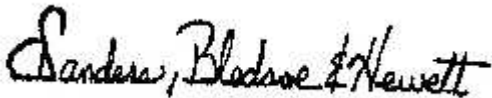
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of September 30, 2016, and the respective changes in financial position and cash flows thereof for the year then ended 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 December 23, 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

December 23, 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. 9  
Stonewall, 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. 9 (the District), Stonewall, Oklahoma, as of and for the year ended September 30, 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 December 23, 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 16-1, 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

December 23, 2016

**Pontotoc County Rural Water District No. 9**  
**Stonewall, Oklahoma**  
Disposition of Prior Year's Significant Deficiencies  
September 30, 2016

15-1 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, 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. 9**

**Stonewall, Oklahoma**

**Statement of Net Position**

**September 30, 2016**

ASSETS

Current assets:

Cash	\$ 155,765
Investments with fiscal agents	208,322
Current portion of receivables	33,698
Inventory of supplies	23,771
Prepaid assets	4,229
Total current assets	<u>425,785</u>

Noncurrent assets:

Capital assets:

Building and water systems, net	<u>407,882</u>
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Total Assets	<u>833,667</u>
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LIABILITIES

Current liabilities:

Accounts payable	23,949
Accrued liabilities	180
Total current liabilities	<u>24,129</u>

Noncurrent liabilities:

Due within one year	12,680
Due in more than one year	69,714
Total noncurrent liabilities	<u>82,394</u>

Total Liabilities	<u>106,523</u>
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NET POSITION

Invested in capital assets, net of related debt	325,488
Unrestricted assets	<u>401,656</u>
Total Net Position	<u>\$ 727,144</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 Revenues, Expenses and Changes in Net Position**  
**For the Year Ended September 30, 2016**

Operating Revenues:	
Water sales	\$ 373,050
Memberships	9,000
Other fees	1,091
Total revenues from operations	<u>383,141</u>
Operating Expenses:	
Salaries and benefits	26,842
Water purchases	193,871
Repairs and maintenance	50,856
Vehicle expense	2,308
Parts and supplies	3,189
Utilities and telephone	3,194
Insurance	6,895
Office expense and postage	5,539
Water tests	3,683
Depreciation	23,940
Dues and fees	424
Miscellaneous	
Professional fees	3,500
Total expenses from operations	<u>324,241</u>
Operating Income (Loss)	58,900
Non-Operating Revenues (Expenses):	
Interest income	2,036
FEMA grant	30,873
Interest paid on long-term debt	(2,325)
Total non-operating revenues (expenses)	<u>30,584</u>
Change in Net Position	89,484
Total Net Position, Beginning of Period	500,359
Prior period adjustment:	
Correction of fixed assets	<u>137,301</u>
Adjusted Net Position, Beginning of Period	637,660
Total Net Position, End of Period	<u><u>\$ 727,144</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**  
**Statement of Cash Flows**  
**For the Year Ended September 30, 2016**

<b>Cash Flows from Operating Activities:</b>	
Receipts from customers	\$ 384,274
Payments to employees	(26,807)
Payments to vendors	<u>(269,318)</u>
Net Cash Provided by Operating Activities	<u>88,149</u>
<b>Cash Flows from Investing Activities:</b>	
Interest revenue	2,036
Grant - FEMA	<u>30,873</u>
Net Cash Provided by Investing Activities	<u>32,909</u>
<b>Cash Flows from Financing Activities:</b>	
Interest expense on debt	(2,222)
Principal payments on debt	(14,290)
Acquisition of fixed assets	<u>(5,500)</u>
Net Cash Provided by Financing Activities	<u>(22,012)</u>
Net Increase (Decrease) in Cash	99,046
Cash and cash equivalents, beginning of period	<u>265,041</u>
Cash and cash equivalents, end of period	<u><u>\$ 364,087</u></u>
Operating Income	\$ 58,900
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	23,940
(Increase) decrease in accounts receivable	1,133
(Increase) decrease in supplies inventory	1,629
(Increase) decrease in prepaid insurance	965
Increase (decrease) in payables	<u>1,582</u>
Net Cash Provided by Operating Activities	<u><u>\$ 88,149</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, 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. 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 at September 30<sup>th</sup>, are detailed as follows:

	September 30,	
	2016	2015
Operating account - Citizens Bank	\$ 155,765	58,756
Maintenance account - Citizens Bank	-	-
Less: Outstanding checks	-	-
Total	<u>\$ 155,765</u>	<u>58,756</u>

The District’s cash deposits at September 30, 2016, 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, 2016

**Note A – Significant Accounting Policies – cont'd**

Investments – Investments at September 30, 2016 are detailed as follows:

*Certificates of Deposit:*

Oklahoma Heritage Bank, Roff, Oklahoma:	
Certificate of Deposit No. 10407, dated 1-17-16, due 1-17-17, @ 0.75%	\$ 101,847
Certificate of Deposit No. 10436, dated 1-16-16, due 1-16-17, @ 1.0%	102,010
First American Bank, Stonewall, Oklahoma:	
Certificate of Deposit No. 7198, dated 7-1-16, due 12-30-16, @ 0.40%	<u>4,465</u>
Total Certificates of Deposit	<u>\$ 208,322</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	Carrying
	(A)	(B)	(C)	Balance	Amount
Cash	\$ 155,765			58,756	58,756
Investments	<u>208,322</u>			<u>206,285</u>	<u>206,285</u>
Total	<u>\$ 364,087</u>	<u>0</u>	<u>0</u>	<u>265,041</u>	<u>265,041</u>

Accounts Receivable

Billings for accounts receivable at September 30, 2016 were \$33,698. 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.

**Pontotoc County Rural Water District No. 9**  
**Stonewall, Oklahoma**  
Notes to the Financial Statements  
September 30, 2016

**Note A – Significant Accounting Policies – cont'd**

Inventory

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

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

Subsequent Events

Management has evaluated subsequent events through December 1, 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.

Prior Period Adjustment

A prior period adjustment was made at September 30, 2016 to correct an error that left out fixed asset acquisitions from the 2014-15 fiscal year. This adjustment is shown on the current financial statements, and represents an increase retained earnings.

**Pontotoc County Rural Water District No. 9**  
**Stonewall, Oklahoma**  
Notes to the Financial Statements  
September 30, 2016

**Note B – Notes Payable**

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

The notes payable at September 30<sup>th</sup>, are detailed as follows:

	<u>2016</u>	<u>2015</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;	\$ 58,232	68,554
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>24,162</u>	<u>28,130</u>
Total	82,394	96,684
Less: Current maturities of long-term debt	<u>(12,680)</u>	<u>(11,949)</u>
Total Long-Term Debt	<u><u>\$ 69,714</u></u>	<u><u>84,735</u></u>

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

<u>Note No.</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020+</u>	<u>Total</u>
91-01	\$ 9,324	9,801	10,303	10,830	17,974	58,232
91-02	<u>3,356</u>	<u>3,528</u>	<u>3,708</u>	<u>3,898</u>	<u>9,672</u>	<u>24,162</u>
Totals	<u><u>\$ 12,680</u></u>	<u><u>13,329</u></u>	<u><u>14,011</u></u>	<u><u>14,728</u></u>	<u><u>27,646</u></u>	<u><u>82,394</u></u>

**Note C – Contributed Capital**

In the 2015-16 year, the District received \$30,873 of grant proceeds from FEMA. This was for repairs from damage caused by natural disasters faced by the District.



**PONTOTOC COUNTY RURAL WATER DISTRICT NO. 9****Stonewall, Oklahoma****Balance Sheet****September 30, 2016**

	SEPTEMBER 30,	
	2016	(memo only) 2015
<u>ASSETS</u>		
Current assets:		
Cash:		
Operating fund	\$ 155,765	58,756
Investments - Certificate of Deposits	208,322	206,285
Accounts receivable	33,698	34,831
Inventory	23,771	25,400
Prepaid insurance	4,229	5,194
Total current assets	425,785	330,466
Fixed assets:		
Building	14,420	14,420
Water systems	851,505	735,072
Vehicles and equipment	58,631	32,263
Total fixed assets	924,556	781,755
Less: accumulated depreciation	(516,674)	(492,734)
Total fixed assets (net)	407,882	289,021
Total Assets	\$ 833,667	619,487
<u>LIABILITIES AND FUND EQUITY</u>		
Current liabilities:		
Accounts payable	\$ 23,424	21,877
Taxes payable	525	490
Accrued interest	180	77
Current maturities of long-term debt	12,680	11,949
Total current liabilities	36,809	34,393
Long-Term debt, less current maturities:		
Notes payable	69,714	84,735
Total Liabilities	106,523	119,128
Fund equity:		
Retained earnings	727,144	500,359
Total Liabilities and Fund Equity	\$ 833,667	619,487

**PONTOTOC COUNTY RURAL WATER DISTRICT NO. 9**  
**Stonewall, Oklahoma**  
Statement of Revenue, Expenses and Changes in Retained Earnings  
For the Year Ended September 30, 2016

	2015-16	(memo only) 2014-15
Revenue from operations:		
Water sales	\$ 373,050	316,303
Memberships	9,000	4,000
Other fees	1,091	3,180
Total revenue from operations	<u>383,141</u>	<u>323,483</u>
Expenses from operations:		
Salaries and benefits	26,842	25,640
Water purchases	193,871	176,280
Repairs and maintenance	50,856	17,704
Vehicle expense	2,308	2,166
Parts and supplies	3,189	33,876
Utilities and telephone	3,194	3,365
Insurance	6,895	6,734
Office expense and postage	5,539	2,147
Water tests	3,683	2,278
Depreciation	23,940	23,390
Dues and fees	424	426
Miscellaneous	0	75
Professional fees	3,500	3,068
Total expenses from operations	<u>324,241</u>	<u>297,149</u>
Net Income (Loss) from Operations	58,900	26,334
Non-operating income (expenses):		
Interest earnings	2,036	818
FEMA grant	30,873	0
Donation from Chickasaw Nation	0	6,000
Interest paid on debt	(2,325)	(5,136)
Total non-operating expenses	<u>30,584</u>	<u>1,682</u>
Net Income (Loss)	89,484	28,016
Retained earnings, beginning of period	500,359	472,343
Prior period adjustment:		
Correction of fixed assets	<u>137,301</u>	<u>0</u>
Adjusted retained earnings, beginning of period	<u>637,660</u>	<u>472,343</u>
Retained earnings, end of period	<u><u>\$ 727,144</u></u>	<u><u>500,359</u></u>