

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

**Financial Statements
and Reports of Independent Auditor**

December 31, 2012

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, 2012

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**

TABLE OF CONTENTS

	<u>Page</u>
Board of Directors	<i>i</i>
Table of Contents	<i>ii</i>
Independent Auditor's Report	1
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	3
Disposition of Prior Year's Reportable Conditions	5
Schedule of Audit Results	6
 <u>COMBINED FINANCIAL STATEMENTS:</u>	
Statement of Net Assets	7
Statement of Activities	8
Statement of Cash Flows	9
Notes to Financial Statements	10
 <u>OTHER SUPPLEMENTARY INFORMATION:</u>	
Balance Sheet	14
Statement of Revenue, Expenses and Changes in Retained Earnings	15



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, 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 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 December 31, 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.

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 February 28, 2013 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.

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

February 28, 2013



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. 6
Fittstown, Oklahoma

We have audited the financial statements of the Pontotoc County Rural Water District No. 6 (the District), Fittstown, Oklahoma, as of and for the year ended December 31, 2012, which omitted the management discussion and analysis, and have issued our report thereon dated February 28, 2013. 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

Management of the District is responsible for establishing and maintaining effective 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 12-1.

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 script is cursive and fluid, with the names connected together.

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

February 28, 2013

Pontotoc County Rural Water District No. 6
Fittstown, Oklahoma

Disposition of Prior Year's Reportable Conditions
December 31, 2012

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, 2012

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:

12-1 – 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 Assets
December 31, 2012

ASSETS

Current assets:

Cash	\$ 66,154
Current portion of receivables	16,903
Investments with fiscal agents	430
Total current assets	<u>83,487</u>

Noncurrent assets:

Restricted investment with fiscal agents	49,800
Capital assets:	
Water system, net	132,873
Equipment, net	1,293
Building, net	4,302
Total noncurrent assets	<u>188,268</u>

Total Assets	<u>271,755</u>
--------------	----------------

LIABILITIES

Current liabilities:

Accounts payable	1,816
Accrued liabilities	196
Total current liabilities	<u>2,012</u>

Noncurrent liabilities:

Due within one year	18,177
Due in more than one year	64,055
Total noncurrent liabilities	<u>82,232</u>

Total Liabilities	<u>84,244</u>
-------------------	---------------

NET ASSETS

Invested in capital assets, net of related debt	56,236
Restricted for debt service	21,876
Unrestricted assets	<u>109,399</u>
Total Net Assets	<u>\$ 187,511</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 Activities
For the Year Ended December 31, 2012

Operating Revenues:	
Water sales	<u>\$ 197,382</u>
Operating Expenses:	
Salaries and benefits	37,366
Water purchases	83,515
Repairs and maintenance	10,420
Parts and supplies	12,842
Utilities and telephone	3,950
Office	3,845
Postage	1,320
Depreciation	14,871
Dues and fees	1,284
Professional fees	<u>2,275</u>
Total expenses from operations	<u>171,688</u>
Operating Income (Loss)	25,694
Non-Operating Revenues (Expenses):	
Interest income	286
Interest paid on long-term debt	<u>(4,538)</u>
Total non-operating revenues (expenses)	<u>(4,252)</u>
Change in Net Assets	21,442
Total Net Assets, Beginning of Period	<u>166,069</u>
Total Net Assets, End of Period	<u><u>\$ 187,511</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, 2012

Cash Flows from Operating Activities:	
Receipts from customers	\$ 196,415
Payments to employees	(37,366)
Payments to vendors	<u>(119,433)</u>
Net Cash Provided by Operating Activities	<u>39,616</u>
Cash Flows from Investing Activities:	
Interest revenue	286
Purchase of fixed assets	<u>(739)</u>
Net Cash Provided by Investing Activities	<u>(453)</u>
Cash Flows from Financing Activities:	
Interest expense on debt	(4,583)
Principal payments on debt	<u>(17,293)</u>
Net Cash Provided by Financing Activities	<u>(21,876)</u>
Net Increase (Decrease) in Cash	17,287
Cash and cash equivalents, beginning of period	<u>99,097</u>
Cash and cash equivalents, end of period	<u><u>\$ 116,384</u></u>

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

Operating Income	\$ 25,694
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	14,871
(Increase) decrease in accounts receivable	(967)
Increase (decrease) in payables	<u>18</u>
Net Cash Provided by Operating Activities	<u><u>\$ 39,616</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, 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 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:

	December 31,	
	2012	2011
Operating account - Citizens Bank	\$ 63,717	32,933
Maintenance account - Citizens Bank	2,701	2,696
Less: Outstanding checks	(264)	(234)
Total	<u>\$ 66,154</u>	<u>35,395</u>

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

Certificates of Deposit:

Citizens Bank, Ada, Oklahoma-	
CD No. 11989, 7/11/12 @ .15%	\$ 12,117
CD No. 18457, 8/13/12 @ .25%	12,299
CD No. 28906, 12/28/12 @ .15%	<u>25,814</u>
Total	<u>\$ 50,230</u>

Pontotoc County Rural Water District No. 6
Fittstown, Oklahoma
Notes to the Financial Statements
December 31, 2012

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	\$ 66,418			66,418	66,154
Investments	50,230			50,230	50,230
Total	<u>\$ 116,648</u>	<u>0</u>	<u>0</u>	<u>116,648</u>	<u>116,384</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 \$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, 2012 were \$16,903. 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. 6
Fittstown, Oklahoma
Notes to the Financial Statements
December 31, 2012

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:

	12/31/2011			12/31/2012
	Amount	Additions	Deletions	Amount
Water system	\$ 582,534	-	-	582,534
Equipment	8,633	739	-	9,372
Building	10,754	-	-	10,754
Total Fixed Assets	601,921	739	-	602,660
Less: Accumulated Depreciation	(449,321)	(14,871)	-	(464,192)
Total	<u>\$ 152,600</u>	<u>(14,132)</u>	<u>-</u>	<u>138,468</u>

Accumulated Unpaid Vacation and Sick Pay

At December 31, 2012, 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, 2012

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>2012</u>	<u>2011</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;	\$ 47,038	60,530
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;	25,207	27,882
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>9,987</u>	<u>11,113</u>
Total	82,232	99,525
Less: Current maturities of long-term debt	<u>(18,177)</u>	<u>(17,293)</u>
Total Long-Term Debt	<u><u>\$ 64,055</u></u>	<u><u>82,232</u></u>

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

Note No.	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Thereafter</u>	<u>Total</u>
91-01	\$ 14,182	14,908	15,670	2,278	-	-	47,038
91-03	2,811	2,955	3,106	3,265	3,432	9,638	25,207
91-05	1,184	1,244	1,308	1,375	1,445	3,431	9,987
Totals	<u><u>\$ 18,177</u></u>	<u><u>19,107</u></u>	<u><u>20,084</u></u>	<u><u>6,918</u></u>	<u><u>4,877</u></u>	<u><u>13,069</u></u>	<u><u>82,232</u></u>

PONTOTOC COUNTY RURAL WATER DISTRICT NO. 6

Fittstown, Oklahoma

Balance Sheet

December 31, 2012

	<u>DECEMBER 31,</u>	
	<u>2012</u>	<u>(memo only) 2011</u>
<u>ASSETS</u>		
Current assets:		
Cash-		
Operating fund	\$ 63,453	32,699
Savings account	2,701	2,696
Investments - Certificate of Deposits	430	13,902
Accounts receivable	<u>16,903</u>	<u>15,936</u>
Total current assets	<u>83,487</u>	<u>65,233</u>
Restricted assets:		
Investments - USDA RD reserve	<u>49,800</u>	<u>49,800</u>
Fixed assets:		
Water system	582,534	582,534
Equipment	9,372	8,633
Building	<u>10,754</u>	<u>10,754</u>
Total fixed assets	602,660	601,921
Less: accumulated depreciation	<u>(464,192)</u>	<u>(449,321)</u>
Total fixed assets (net)	<u>138,468</u>	<u>152,600</u>
 Total Assets	 <u><u>\$ 271,755</u></u>	 <u><u>267,633</u></u>
 <u>LIABILITIES AND FUND EQUITY</u>		
Current liabilities:		
Accounts payable	\$ 1,816	1,798
Accrued interest	196	241
Current maturities of long-term debt	<u>18,177</u>	<u>17,293</u>
Total current liabilities	<u>20,189</u>	<u>19,332</u>
Long-Term debt, less current maturities:		
Notes payable	<u>64,055</u>	<u>82,232</u>
Total Liabilities	<u>84,244</u>	<u>101,564</u>
Fund equity:		
Retained earnings	<u>187,511</u>	<u>166,069</u>
Total Liabilities and Fund Equity	<u><u>\$ 271,755</u></u>	<u><u>267,633</u></u>

PONTOTOC COUNTY RURAL WATER DISTRICT NO. 6
Fittstown, Oklahoma
Statement of Revenue, Expenses and Changes in Retained Earnings
For the Year Ended December 31, 2012

	2012	(memo only) 2011
Revenue from operations:		
Water sales	\$ 197,382	195,160
Expenses from operations:		
Salaries and benefits	37,366	34,460
Water purchases	83,515	80,454
Repairs and maintenance	10,420	10,033
Parts and supplies	12,842	16,174
Utilities and telephone	3,950	3,651
Office	3,845	1,304
Postage	1,320	1,343
Depreciation	14,871	13,168
Dues and fees	1,284	1,822
Professional fees	2,275	2,275
Total expenses from operations	171,688	164,684
Net Income (Loss) from Operations	25,694	30,476
Non-operating income:		
Interest earnings	286	919
ODOT reimbursement	0	57,698
Total non-operating income	286	58,617
Non-operating expenses:		
ODOT - move lines	0	(57,698)
Interest paid on debt	(4,538)	(5,431)
Total non-operating expenses	(4,538)	(63,129)
Net Income (Loss)	21,442	25,964
Retained earnings, beginning of period	166,069	140,105
Retained earnings, end of period	\$ 187,511	166,069