

Pontotoc County Rural Water District No. 7  
Ada, Oklahoma

Financial Statements  
and Reports of Independent Auditor

September 30, 2013

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, 2013

**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, 2013

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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, 2013, 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**

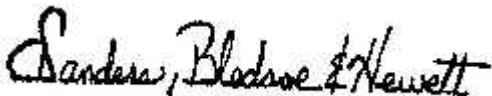
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of September 30, 2013, and the respective changes in financial position and cash flows thereof for the year then ended 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 27, 2013 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



# 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. 7  
Ada, 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. 7 (the District), Ada, Oklahoma, as of and for the year ended September 30, 2013, 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 27, 2013.

**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. We identified no deficiencies in the internal controls that we considered to be material weaknesses.

*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.

#### 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*.

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 27, 2013

Pontotoc County Rural Water District No. 7  
Ada, Oklahoma  
Disposition of Prior Year's Reportable Conditions  
September 30, 2013

There were no prior year reportable conditions.



Pontotoc County Rural Water District No. 7  
Ada, Oklahoma  
Schedule of Audit Results  
September 30, 2013

**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, 2013

**ASSETS**

Current assets:

Cash	\$ 253,414
Investments	1,262,126
Accounts receivable	97,200
Total current assets	<u>1,612,740</u>

Noncurrent assets:

Land and buildings	91,299
Office equipment and vehicles	234,705
Water system and improvements	3,549,099
Total capital assets	<u>3,875,103</u>
Less: Accumulated depreciation	<u>(2,166,898)</u>
Total noncurrent assets	<u>1,708,205</u>

Total Assets	<u>3,320,945</u>
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**LIABILITIES**

Current liabilities:

Accounts payable	73,287
Current portion of long-term debt	53,148
Total current liabilities	<u>126,435</u>

Noncurrent liabilities:

Long term debt	<u>655,480</u>
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Total Liabilities	<u>781,915</u>
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**NET ASSETS**

Invested in capital assets, net of related debt	999,577
Contributed capital	473,025
Unrestricted	<u>1,066,428</u>
Total Net Assets	<u><u>\$ 2,539,030</u></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, 2013

Operating Revenues:	
Water sales	\$ 970,781
Tap and reconnect fees	6,820
Impact fees	7,000
New membership fees	23,400
Miscellaneous	19,361
Total operating revenues	<u>1,027,362</u>
Operating Expenses:	
Salaries and benefits	180,198
Depreciation	104,708
Water purchases	474,811
Office and postage	11,696
Insurance and bonds	29,765
Line materials and maintenance	101,997
Contract services	3,582
Building and equipment maintenance	2,802
Vehicles	30,047
Professional fees	22,834
Utilities and telephone	9,096
Advertising	508
Manager's expense	4,208
Miscellaneous and refunds	136
Dues and fees	1,769
Total operating expenses	<u>978,157</u>
Net Income (Loss) from Operations	49,205
Non-operating Revenues (Expenses):	
Interest income	8,374
Chickasaw Nation reimbursement	86,719
Interest paid on debt	(33,598)
Total non-operating revenues (expenses)	<u>61,495</u>
Changes in Net Assets	110,700
Total Net Assets, Beginning of Period	<u>2,428,330</u>
Total Net Assets, End of Period	<u><u>\$ 2,539,030</u></u>

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, 2013

**Cash Flows from Operating Activities:**

Receipts from water sales	\$ 973,552
Payments to employees	(180,198)
Payments to vendors	(702,779)
	<hr/>
Net Cash Provided by Operating Activities	90,575
	<hr/>

**Cash Flows from Investing Activities:**

Interest on investments	8,374
Reimbursement from Chickasaw Nation	86,719
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Net Cash Provided by Investing Activities	95,093
	<hr/>

**Cash Flows from Financing Activities:**

Interest expenses on debt	(33,712)
Principal payments on debt	(50,660)
	<hr/>
Net Cash Provided by Financing Activities	(84,372)
	<hr/>

Net increase (decrease) in cash and cash equivalents	101,296
Cash & cash equivalents, beginning of period	<hr/> 1,414,244
Cash & cash equivalents, end of period	<hr/> <hr/> \$ 1,515,540

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

Operating income (loss)	\$ 49,205
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	104,708
Change in assets and liabilities:	
Accounts receivable	(53,810)
Accounts payable	(9,528)
	<hr/>
Net cash provided by operating activities	\$ 90,575
	<hr/> <hr/>

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, 2013

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:

	<b>September 30</b>	
	<u>2013</u>	<u>2012</u>
Revenue account	\$ 38,600	40,528
Sweep account	<u>214,814</u>	<u>169,625</u>
Total Cash	<u><u>\$ 253,414</u></u>	<u><u>210,153</u></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, 2013:

**Oklahoma Heritage Bank – Ada, Oklahoma**

Certificate of Deposit, dated March 13, 2013, due March 13, 2014, at .75 percent	\$ 211,850
Certificate of Deposit, dated June 11, 2013, due Dec. 11, 2013, at .50 percent	55,000
Certificate of Deposit, dated Dec. 8, 2012, due Dec. 8, 2013, at .75 percent	235,988
Money Market Account	54,548

**BancFirst – Konawa, Oklahoma**

Money Market Account	72,675
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Pontotoc County Rural Water District No. 7  
Ada, Oklahoma  
Notes to Financial Statements  
September 30, 2013

**Vision Bank – Ada, Oklahoma**

NOW Account	\$ 20,283
NOW Account	21,697
Certificate of Deposit, dated Feb. 7, 2013, due Feb. 7, 2014, at .20 percent	29,853
Certificate of Deposit, dated Feb. 7, 2013, due Feb. 7, 2014, at .20 percent	31,057
Certificate of Deposit, dated Feb. 7, 2013, due Feb. 7, 2014, at .20 percent	11,637

**Farmers State Bank – Allen, Oklahoma**

*Certificate of Deposit, dated July 13, 2013, due Jan. 7, 2014, at .40 percent	120,931
Certificate of Deposit, dated July 8, 2013, due Jan. 5, 2014, at .50 percent	163,512
Certificate of Deposit, dated July 22, 2013, due Jan. 20, 2014, at .40 percent	100,589

**Landmark Bank – Ada, Oklahoma**

Money Market Account	17,450
Money Market Account (Rural Development Reserve)	<u>115,056</u>

<b>Total Investments</b>	<b><u>\$ 1,262,126</u></b>
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**Accounts Receivable**

Net billings for accounts receivable at September 30, 2013 were \$97,200.

**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, 2013

**Collateral Pledged**

All funds were adequately insured by the Federal Deposit Insurance Corporation or additional collateral pledged by individual banks as of September 30, 2013.

**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:

	September 30,	
	2013	2012
Note 01-0504001, 5 percent mortgage payable to GMAC Commercial Mortgage Corp. in monthly installments of \$2,539 until 2017	\$ 97,812	122,729
Note 01-0504003, 5 percent mortgage payable to GMAC Commercial Mortgage Corp. in monthly installments of \$1,105 until 2020	73,628	82,966
Note 01-0504005, 5 percent mortgage payable to GMAC Commercial Mortgage Corp. in monthly installments of \$845 until 2019	52,997	60,298
Note 91-01, 4.375% USDA A Rural Development. in monthly installments of \$2,542 until 2044	<u>484,192</u>	<u>493,295</u>
Total	708,629	759,288
Less: current portion	<u>(53,148)</u>	<u>(50,614)</u>
Long-term debt, less current maturities	<u>\$ 655,481</u>	<u>708,674</u>

Pontotoc County Rural Water District No. 7  
Ada, Oklahoma  
Notes to Financial Statements  
September 30, 2013

The estimated principal 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
2013-14	\$ 26,172	9,801	7,665	9,510	53,148
2014-15	27,511	10,302	8,057	9,934	55,804
2015-16	28,918	10,830	8,469	10,378	58,595
2016-17	15,211	11,384	8,903	10,841	46,339
2017-18		11,966	9,358	11,325	32,649
2018-23		19,345	10,545	64,674	94,564
2023-28				80,456	80,456
Thereafter				287,074	287,074
Total	\$ 97,812	73,628	52,997	484,192	708,629

**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 \$120,931 (\*) 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, 2013, no determination of the aggregate dollar value of vacation or sick pay had been made.

**Note D -Insurance and Surety Bond Coverage**

At December 31, 2013, the District had appropriate coverage against all major perils.

**Note E – Subsequent Events**

Management has evaluated subsequent events through December 28, 2013, 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. 7**  
**Ada, Oklahoma**  
Balance Sheet  
September 30, 2013

	<u>SEPTEMBER 30</u>	
	<u>2013</u>	<u>(memo only) 2012</u>
<u>ASSETS</u>		
Current Assets:		
Cash in bank	\$ 253,414	210,153
Investments	1,262,126	1,204,091
Accounts receivable	97,200	43,390
Total current assets	<u>1,612,740</u>	<u>1,457,634</u>
Fixed Assets:		
Land & building	91,299	91,299
Office equipment & vehicles	234,705	234,705
Water system & improvements	3,549,099	3,549,099
Total fixed assets	<u>3,875,103</u>	<u>3,875,103</u>
Less: accumulated depreciation	<u>(2,166,898)</u>	<u>(2,062,190)</u>
Total fixed assets (net)	<u>1,708,205</u>	<u>1,812,913</u>
Total Assets	<u><u>\$ 3,320,945</u></u>	<u><u>3,270,547</u></u>
 <u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 73,287	82,815
Current maturities of long-term debt	53,148	50,614
Total current liabilities	<u>126,435</u>	<u>133,429</u>
Long-Term Debt:		
Notes payable	<u>655,480</u>	<u>708,788</u>
Total Liabilities	<u>781,915</u>	<u>842,217</u>
Fund Equity:		
Contributed capital	473,025	473,025
Retained earnings	2,066,005	1,955,305
Total fund equity	<u>2,539,030</u>	<u>2,428,330</u>
Total Liabilities and Fund Equity	<u><u>\$ 3,320,945</u></u>	<u><u>3,270,547</u></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, 2013

	2012-13	(memo only) 2011-12
Revenues from Operations:		
Water sales	\$ 970,781	878,234
Tap and reconnect fees	6,820	8,993
New membership fees	23,400	37,100
Impact fees	7,000	12,500
Miscellaneous	19,361	19,558
Total revenues from operations	<u>1,027,362</u>	<u>956,385</u>
Expenses from Operations:		
Salaries and benefits	180,198	171,919
Depreciation	104,708	105,204
Water purchases	474,811	411,782
Advertising	508	423
Office and postage	11,696	17,638
Insurance and bonds	29,765	24,049
Line materials and maintenance	101,997	120,605
Contract labor	3,582	1,950
Building and equipment maintenance	2,802	211
Vehicles	30,047	29,931
Professional fees	22,834	7,524
Utilities and telephone	9,096	10,340
Dues and fees	1,769	23,497
Manager's expense	4,208	5,019
Miscellaneous and refunds	136	1,591
Total expenses from operations	<u>978,157</u>	<u>931,683</u>
Net Income (Loss) from Operations	49,205	24,702
Other Income:		
Chickasaw Nation reimbursement	86,719	39,660
Interest earnings	8,374	11,668
Total other income	<u>95,093</u>	<u>51,328</u>
Other Expenses:		
Interest paid on debt	<u>(33,598)</u>	<u>(36,160)</u>
Net Income (Loss)	110,700	39,870
Retained earnings, beginning of period	<u>1,955,305</u>	<u>1,915,435</u>
Retained earnings, end of period	<u><u>\$ 2,066,005</u></u>	<u><u>1,955,305</u></u>