

**Pontotoc County Rural Water District No. 8
Ada, Oklahoma**

Financial Statements and Auditor's Reports

Year Ended December 31, 2013

Audited by

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

BROKEN ARROW, OK

Pontotoc County Rural Water District No. 8
Ada, Oklahoma
Board of Directors
December 31, 2013

BOARD OF DIRECTORS

Chairman

J. E. Quinton

Vice Chairman

Joe Bradshaw

Secretary/Treasurer

Don Kite

Members

James Treas

Larry Little

Bennie Cope

Wade Pennington

MANAGER

Mike Welch

BOOKKEEPER

Joyce Williams

Pontotoc County Rural Water District No. 8
Ada, Oklahoma
December 31, 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. 8
Ada, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Pontotoc County Rural Water District No. 8 (the District), Ada, Oklahoma, as of and for the year ended December 31, 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

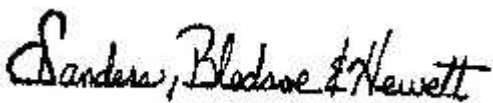
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of December 31, 2013, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 and 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2014 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

Pontotoc County Rural Water District No. 8
Management's Discussion and Analysis
December 31, 2013

Our discussion and analysis of the Rural Water District No. 8, Pontotoc County's financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2013. Please read it in conjunction with the District's financial statements that begin on page 11.

FINANCIAL HIGHLIGHTS

- The District's total operating revenues exceeded total operating expenses by \$274,676. Overall, the District had a net income of \$275,131, and its cash and cash equivalents increased by \$170,276 in the current fiscal year.
- The District is not indebted on any loans at this time.
- Membership in the District continues to increase, from 1,619 in 2012 to 1,673 in 2013.
- The District began allocating funds in 2013;
 - \$125,000 plus \$1 of the \$5 rate increase per meter into a Building Fund,
 - \$100,000 plus \$1 of the \$5 rate increase into a Capital Expenditure Fund,
 - \$275,000 plus \$3 of the \$5 rate increase to Future Water Expense Fund,
 - \$300,000 plus any excess into the Operating Fund.

Using This Report

This report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the District's basis of accounting.

Basis of Accounting

The District has elected to present its financial statements in the accrual basis of accounting. According to the accrual basis, revenues are recorded when earned and expenses are recognized when incurred. This policy is in accordance with generally accepted accounting principles.

The Financial Statements

One of the most important questions asked about the District's finances is, "Is the District as a whole better off or worse off as a result of the year's activities?" The statement of Assets, Liabilities and Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows report information about the District and about its activities in a way that helps answer this question.

These three statements report the District's net assets and the changes in them. You can think of the District's net assets – the difference between assets and liabilities – as one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in water rates paid or charged and the condition of the District's water system, to assess the overall health of the District.

The District has only one type of fund or activity, which is defined as *Business-type activities*. This is considered a proprietary fund. This means the District charges a fee to customers to help it cover all or most of the cost of certain services it provides.

Fixed Assets

At December 31, 2013 the District had \$2,604,548 invested in fixed assets, net of depreciation, including land, the water system, vehicles and equipment. The District made \$222,033 in improvements to the water system during the 2013 fiscal year.

Long-Term Debt

The District had no outstanding debt at December 31, 2013. New loan proceeds will be received soon on the construction projects.

Economic Factors and Next Year's Budget and Rates

The District attempts to absorb their rate and expense increases, but may be forced to increase customer rates if additional expenses are incurred.

The District's budget for fiscal year 2014 will remain much like previous years budgets. Your Board of Directors does anticipate small budget changes made primarily to better allow for office and field personnel operations, without the necessity of hiring additional part-time or permanent employees.

Contacting the District's Management

This report is designed to provide our customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the District Office at P.O. Box 127, Ada, OK 74820 or call (580) 436-3065.



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. 8
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. 8 (the District), Ada, Oklahoma, as of and for the year ended December 31, 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 April 7, 2014.

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

April 7, 2014

PONTOTOC COUNTY RURAL DISTRICT NO. 8
Disposition of Prior Year's Reportable Conditions
December 31, 2013

There were no prior year reportable conditions.

PONTOTOC COUNTY RURAL WATER DISTRICT NO. 8
Schedule of Audit Results
December 31, 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 noncompliance.

Section 2 – Findings relating to the financial statements required to be reported in accordance with GAGAS:

NONE

PONTOTOC COUNTY RURAL WATER DISTRICT NO. 8
STATEMENT OF NET ASSETS
DECEMBER 31, 2013

ASSETS:

Current assets:

Cash	\$ 1,101,633
Accounts Receivable	62,214
Prepaid insurance	9,342
Total current assets	<u>1,173,189</u>

Noncurrent assets:

Reserved cash - rent deposits	6,760
Loan costs-net of amortization	9,800
Capital assets:	
Land	40,218
Water distribution system-net of depreciation	2,546,066
Furniture and fixtures-net of depreciation	1,538
Vehicles-net of depreciation	16,726
Total noncurrent assets	<u>2,621,108</u>

Total Assets	<u>3,794,297</u>
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LIABILITIES:

Current liabilities:

Accounts payable	28,565
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Noncurrent liabilities:

Refundable deposits	<u>11,660</u>
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Total Liabilities	<u>40,225</u>
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NET ASSETS:

Invested in capital assets, net of related debt	2,604,548
Unrestricted	<u>1,149,524</u>

Total Net Assets	<u>\$ 3,754,072</u>
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The accompanying notes are an integral part of the financial statements

PONTOTOC COUNTY RURAL WATER DISTRICT NO. 8
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013

Operating Revenues:	
Water revenue	\$ 825,255
Benefit units	70,900
Other sales and services	30,115
Total operating revenues	<u>926,270</u>
Operating Expenses:	
Salaries and taxes	157,007
Fringe benefits	33,273
Testing	5,376
Utilities	40,173
Telephone	4,489
Water purchases	48,110
Office	8,170
Insurance	19,662
Line materials	83,005
Line repairs	86,448
Rent	8,550
Postage	10,141
Dues and fees	5,375
Vehicles	14,583
Credit card	6,082
Miscellaneous	4,627
Depreciation	115,299
Amortization	1,224
Total expenses from operations	<u>651,594</u>
Operating Income (Loss)	274,676
Non-Operating Revenues (Expenses):	
Interest income	<u>455</u>
Change in Net Assets	275,131
Total Net Assets, beginning of period	<u>3,478,941</u>
Total Net Assets, end of period	<u><u>\$ 3,754,072</u></u>

The accompanying notes are an integral part of the financial statements

PONTOTOC COUNTY RURAL WATER DISTRICT NO. 8
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013

Cash Flows from Operating Activities:

Receipts from customers	\$ 929,378
Payments to employees	(190,333)
Payments to vendors	<u>(347,191)</u>
Net Cash Provided by (used in) Operating Activities	<u>391,854</u>

Cash Flows from Financing Activities:

Capital asset (additions) sale	<u>(222,033)</u>
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Cash Flows from Investing Activities:

Interest earned on investments	<u>455</u>
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Net increase (decrease) in cash and cash equivalents 170,276

Cash and cash equivalents, beginning of period 938,117

Cash and cash equivalents, end of period \$ 1,108,393

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

Operating Income (loss)	\$ 274,676
Adjustments to reconcile net income to net cash provided (used) by operating activities:	
Depreciation Expense	115,299
Amortization Expense	1,224
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	3,108
(Increase) decrease in prepaid insurance	(478)
Increase (decrease) in accounts payable	(5,520)
Increase (decrease) in taxes payable	(53)
Increase (decrease) in rent deposits	<u>3,598</u>
Net cash provided by operating activities	<u><u>\$ 391,854</u></u>

The accompanying notes are an integral part of the financial statements

PONTOTOC COUNTY RURAL WATER DISTRICT NO. 8
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

Note A – Significant Accounting Policies

Business Activity

Pontotoc County Rural Water District No. 8 (the District) was formed under the provisions of Title 82, O.S. 1981, Sections 1324.1-1324.26 inclusive. The District operates as a nontaxable government agency to service residents of the Pontotoc County Rural Water District No. 8. The District's primary income is from the sale of water to its members in an area around Latta, Oklahoma.

Basis of Accounting

The financial statements are prepared on an accrual basis of accounting, which is in compliance with accounting principles generally accepted in the United States of America (GAAP), and which recognizes revenues when earned and expenses as incurred. Interest earnings on certificates of deposit are recorded when such interest is actually received by the District. Generally accepted accounting principles include all relevant Government Accounting Standards Board (GASB) pronouncements.

Cash

The District's cash accounts are with the Citizens Bank, Ada, Oklahoma, and are detailed as follows:

	December 31,	
	2013	2012
Operating Account	\$ 1,102,383	931,500
Less: Outstanding checks	(750)	(1,445)
Balance	<u>\$ 1,101,633</u>	<u>930,055</u>

Reserved Account

The reserve account is a rental deposit account. These funds have been deposited in a checking account at Citizens Bank, Ada, Oklahoma, which is insured by the federal government. At December 31, 2013, the reserved balance was \$6,760.

At December 31, 2013, the District allocated the above cash balances and the rental deposit (reserve) account balance into the following areas:

\$ 139,955 into the Building Fund
114,955 into the Capital Expenditure Fund
326,401 into the Future Water Expense Fund
527,082 (remaining funds) into the Operating Fund
\$1,108,393 Total

PONTOTOC COUNTY RURAL WATER DISTRICT NO. 8
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

Note A – Significant Accounting Policies – cont'd

Collateral Pledged

It appears that all funds were adequately insured by FDIC coverage and additional collateral pledged by Citizens Bank as of December 31, 2013.

Investments

The District had no outstanding investments at December 31, 2013.

Fixed Assets

Depreciation of the waterworks system and improvements is provided using the straight-line method based on a forty-year life. Equipment is depreciated over a 5-7 year life. Depreciation expense for the year is presented as an operating expense and closed, along with other operating expenses, directly to retained earnings.

The fixed asset information for the District is shown below:

	12/31/2012 Amount	Additions	Deletions	12/31/2013 Amount
Land	\$ 40,218	-	-	40,218
Office equipment	24,455	1,712	-	26,167
Plant and water sys.	3,996,097	220,321	-	4,216,418
Vehicles	67,388	-	-	67,388
Total Fixed Assets	4,128,158	222,033	-	4,350,191
Less: Accumulated Depreciation	(1,630,344)	(115,299)	-	(1,745,643)
Total	<u>\$ 2,497,814</u>	<u>106,734</u>	<u>-</u>	<u>2,604,548</u>

Prior Year Information

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

Note B – Accounts Receivable

Billings for accounts receivable at December 31, 2013 were \$62,214. Allowance for doubtful accounts was not computed on these amounts.

PONTOTOC COUNTY RURAL WATER DISTRICT NO. 8
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

Note C – Long-Term Debt

The District has no long-term debt at December 31, 2013.

Note D – Contributed Capital

In 2012, the District received the final \$82,209 of a total \$225,000 of grant proceeds on a Community Development Block Grant. These funds are paid directly to the contractor that was awarded the project for water line replacement and upgrades to the water system. This grant is required to be matched by District funds.

Note E – Subsequent Events

Management has evaluated subsequent events through April 7, 2014, 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. 8
BALANCE SHEET
DECEMBER 31, 2013

	DECEMBER 31,	
	2013	(memo only) 2012
<u>ASSETS</u>		
Current Assets:		
Cash in bank	\$ 1,101,633	930,055
Accounts receivable	62,214	65,322
Prepaid insurance	9,342	8,864
Total current assets	<u>1,173,189</u>	<u>1,004,241</u>
Fixed Assets:		
Land	40,218	40,218
Water distribution system	4,216,418	3,996,097
Furniture and fixtures	26,167	24,455
Vehicles	67,388	67,388
Total fixed assets	<u>4,350,191</u>	<u>4,128,158</u>
Less: accumulated depreciation	<u>(1,745,643)</u>	<u>(1,630,344)</u>
Total fixed assets (net of depreciation)	<u>2,604,548</u>	<u>2,497,814</u>
Reserved Assets:		
Rental deposit account	<u>6,760</u>	<u>8,062</u>
Other Assets:		
Loan costs	18,368	18,368
Less: accumulated amortization	<u>(8,568)</u>	<u>(7,344)</u>
Total other assets	<u>9,800</u>	<u>11,024</u>
Total Assets	<u>\$ 3,794,297</u>	<u>3,521,141</u>
<u>LIABILITIES AND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 25,674	31,194
Payroll taxes payable	2,891	2,944
Rent deposits	11,660	8,062
Total current liabilities	<u>40,225</u>	<u>42,200</u>
Equity:		
Contributed capital	225,000	225,000
Retained earnings	<u>3,529,072</u>	<u>3,253,941</u>
Total Equity	<u>3,754,072</u>	<u>3,478,941</u>
Total Liabilities and Equity	<u>\$ 3,794,297</u>	<u>3,521,141</u>

PONTOTOC COUNTY RURAL WATER DISTRICT NO. 8
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
FOR YEAR ENDED DECEMBER 31, 2013

	2013	(memo only) 2012
Revenue from operations:		
Water revenue	\$ 825,255	754,463
Benefit units	70,900	68,800
Material reimbursements (ODOT)	-	47,507
Miscellaneous reimbursements	30,115	34,862
Total revenue from operations	<u>926,270</u>	<u>905,632</u>
Expenses from operations:		
Salaries and taxes	157,007	151,130
Fringe benefits	33,273	30,171
Testing	5,376	3,034
Utilities	40,173	39,906
Telephone	4,489	4,093
Water purchases	48,110	49,466
Office	8,170	9,695
Insurance	19,662	16,211
Line materials	83,005	144,397
Line repairs	86,448	87,431
Rent	8,550	7,200
Postage	10,141	9,172
Dues and fees	5,375	1,307
Vehicles	14,583	16,301
Professional fees	-	1,975
Credit card	6,082	5,216
Miscellaneous	4,627	4,637
Depreciation	115,299	102,761
Amortization	1,224	1,224
Total expenses from operations	<u>651,594</u>	<u>685,327</u>
Net Income (Loss) From Operations	274,676	220,305
Non-operating revenue:		
Interest earnings	<u>455</u>	<u>375</u>
Net Income (Loss)	275,131	220,680
Retained earnings, beginning of period	<u>3,253,941</u>	<u>3,033,261</u>
Retained earnings, end of period	<u><u>\$ 3,529,072</u></u>	<u><u>3,253,941</u></u>