

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

**Financial Statements  
and Reports of Independent Auditor**

**September 30, 2012**

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, 2012

**BOARD OF DIRECTORS**

**Chairman**

Mike Roberts

**Vice-Chairman**

Leon Brown

**Secretary/Treasurer**

Truman Teel

**Member**

Vacant

**Member**

Wayne Davis

**Member**

Vacant

**Member**

Melissa Moore

**MANAGER**

Curt Cooper

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

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# SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

## **Independent Auditor's Report**

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

We have audited the accompanying financial statements of the business-type activities of the Pontotoc County Rural Water District No. 9 (the District), Stonewall, Oklahoma, as of and for the year ended September 30, 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 September 30, 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 1, 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 1, 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. 9  
Stonewall, Oklahoma

We have audited the financial statements of the Pontotoc County Rural Water District No. 9 (the District), Stonewall, Oklahoma, as of and for the year ended September 30, 2012, which omitted the management discussion and analysis, and have issued our report thereon dated February 1, 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

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 ampersand being particularly stylized.

Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP

February 1, 2013

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

Disposition of Prior Year's Reportable Conditions  
September 30, 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. 9**  
**Stonewall, Oklahoma**  
Schedule of Audit Results  
September 30, 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. 9**

**Stonewall, Oklahoma**

**Statement of Net Assets**

**September 30, 2012**

**ASSETS**

Current assets:

Cash	\$ 62,249
Investments with fiscal agents	33,778
Current portion of receivables	33,194
Inventory of supplies	21,131
Prepaid assets	5,740
Total current assets	<u>156,092</u>

Noncurrent assets:

Capital assets:

Building and water systems, net	<u>332,964</u>
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Total Assets	<u>489,056</u>
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**LIABILITIES**

Current liabilities:

Accounts payable	415
Accrued liabilities	<u>189</u>
Total current liabilities	<u>604</u>

Noncurrent liabilities:

Due within one year	10,301
Due in more than one year	<u>118,603</u>
Total noncurrent liabilities	<u>128,904</u>

Total Liabilities	<u>129,508</u>
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**NET ASSETS**

Invested in capital assets, net of related debt	204,060
Unrestricted assets	<u>155,488</u>
Total Net Assets	<u>\$ 359,548</u>

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

**PONTOTOC COUNTY RURAL WATER DISTRICT NO. 9**  
**Stonewall, Oklahoma**  
Statement of Activities  
For the Year Ended September 30, 2012

**Operating Revenues:**

Water sales	\$ 296,299
Other fees	15,670
Total revenues from operations	<u>311,969</u>

**Operating Expenses:**

Salaries and benefits	25,606
Water purchases	139,556
Repairs and maintenance	60,960
Vehicle expense	7,073
Parts and supplies	26,491
Utilities and telephone	3,859
Insurance	7,565
Office expense and postage	3,491
Water tests	815
Depreciation	18,814
Dues and fees	883
Miscellaneous	230
Professional fees	2,575
Total expenses from operations	<u>297,918</u>

Operating Income (Loss)	14,051
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**Non-Operating Revenues (Expenses):**

Interest income	83
Interest paid on long-term debt	<u>(6,793)</u>
Total non-operating revenues (expenses)	<u>(6,710)</u>

Change in Net Assets	7,341
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Total Net Assets, Beginning of Period	<u>352,207</u>
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Total Net Assets, End of Period	<u><u>\$ 359,548</u></u>
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The accompanying notes to the financial statements are an integral part of this statement

**PONTOTOC COUNTY RURAL WATER DISTRICT NO. 9**  
**Stonewall, Oklahoma**  
Statement of Cash Flows  
For the Year Ended September 30, 2012

**Cash Flows from Operating Activities:**

Receipts from customers	\$ 289,040
Payments to employees	(25,956)
Payments to vendors	<u>(249,710)</u>

Net Cash Provided by Operating Activities	<u>13,374</u>
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**Cash Flows from Investing Activities:**

Interest revenue	<u>83</u>
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**Cash Flows from Financing Activities:**

Interest expense on debt	(6,712)
Principal payments on debt	<u>(9,800)</u>

Net Cash Provided by Financing Activities	<u>(16,512)</u>
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Net Increase (Decrease) in Cash	(3,055)
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Cash and cash equivalents, beginning of period	<u>99,082</u>
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Cash and cash equivalents, end of period	<u><u>\$ 96,027</u></u>
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Operating Income	\$ 14,051
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Adjustments to reconcile operating income to net cash provided  
(used) by operating activities:

Depreciation Expense	18,814
(Increase) decrease in accounts receivable	(22,929)
(Increase) decrease in supplies inventory	7,876
(Increase) decrease in prepaid insurance	(655)
Increase (decrease) in payables	<u>(3,783)</u>

Net Cash Provided by Operating Activities	<u><u>\$ 13,374</u></u>
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The accompanying notes to the financial statements are an integral part of this statement

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

Prior Year Information

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

Cash

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

	September 30,	
	2012	2011
Operating account - Citizens Bank	\$ 59,850	63,282
Maintenance account - Citizens Bank	2,399	2,398
Less: Outstanding checks	-	-
Credit Union account - Liberty Bell Credit Union	-	7
Total	<u>\$ 62,249</u>	<u>65,687</u>

Cash – The District’s cash deposits at September 30, 2012, 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, 2012

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

Investments – Investments at September 30, 2012 are detailed as follows:

*Certificates of Deposit:*

Oklahoma Heritage Bank, Roff, Oklahoma Certificate of Deposit No. 10325, dated 10-17-11, due 1-17-13, @ .80%	\$ 29,386
First American Bank, Stonewall, Oklahoma Certificate of Deposit No. 7198, dated 7-4-12 due 1-2-13, @ 0.95%	<u>4,392</u>
Total Certificates of Deposit	<u>\$ 33,778</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	\$ 62,249			62,249	62,249
Investments	33,778			33,778	33,778
Total	<u>\$ 96,027</u>	<u>0</u>	<u>0</u>	<u>96,027</u>	<u>96,027</u>

Accounts Receivable

Billings for accounts receivable at September 30, 2012, were \$33,194. 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, 2012

**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

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, 2012, no determination of the aggregate dollar value of vacation or sick pay had been made.

**Note B – Notes Payable**

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

**Pontotoc County Rural Water District No. 9**  
**Stonewall, Oklahoma**  
Notes to the Financial Statements  
September 30, 2012

**Note B – Notes Payable**

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

	<u>2012</u>	<u>2011</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;	\$ 92,205	99,423
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>36,699</u>	<u>39,281</u>
Total	128,904	138,704
Less: Current maturities of long-term debt	<u>(10,301)</u>	<u>(9,800)</u>
Total Long-Term Debt	<u><u>\$ 118,603</u></u>	<u><u>128,904</u></u>

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

<u>Note No.</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>	<u>Thereafter</u>	<u>Total</u>
91-01	\$ 7,586	7,974	8,382	8,811	9,262	50,190	92,205
91-02	<u>2,715</u>	<u>2,854</u>	<u>3,000</u>	<u>3,153</u>	<u>3,314</u>	<u>21,663</u>	<u>36,699</u>
Totals	<u><u>\$ 10,301</u></u>	<u><u>10,828</u></u>	<u><u>11,382</u></u>	<u><u>11,964</u></u>	<u><u>12,576</u></u>	<u><u>71,853</u></u>	<u><u>128,904</u></u>



**PONTOTOC COUNTY RURAL WATER DISTRICT NO. 9****Stonewall, Oklahoma****Balance Sheet****September 30, 2012**

	SEPTEMBER 30,	
	2012	(memo only) 2011
<u>ASSETS</u>		
Current assets:		
Cash:		
Operating fund	\$ 59,850	63,282
Maintenance account	2,399	2,398
Credit union account	0	7
Investments - Certificate of Deposits	0	16,493
Investment - Securities	33,778	0
Accounts receivable	33,194	10,265
Inventory	21,131	29,007
Prepaid insurance	5,740	5,085
Total current assets	<u>156,092</u>	<u>126,537</u>
Restricted assets:		
Investment - CD USDA RD reserve	<u>0</u>	<u>16,902</u>
Fixed assets:		
Building	14,420	14,420
Water systems	709,572	709,572
Vehicles and equipment	<u>32,263</u>	<u>32,263</u>
Total fixed assets	756,255	756,255
Less: accumulated depreciation	<u>(423,291)</u>	<u>(404,477)</u>
Total fixed assets (net)	<u>332,964</u>	<u>351,778</u>
 Total Assets	 <u>\$ 489,056</u>	 <u>495,217</u>
 <u>LIABILITIES AND FUND EQUITY</u>		
Current liabilities:		
Accounts payable	\$ 415	3,848
Taxes payable	0	350
Accrued interest	189	108
Current maturities of long-term debt	<u>10,301</u>	<u>9,800</u>
Total current liabilities	<u>10,905</u>	<u>14,106</u>
Long-Term debt, less current maturities:		
Notes payable	<u>118,603</u>	<u>128,904</u>
Total Liabilities	<u>129,508</u>	<u>143,010</u>
Fund equity:		
Retained earnings	<u>359,548</u>	<u>352,207</u>
Total Liabilities and Fund Equity	<u>\$ 489,056</u>	<u>495,217</u>

**PONTOTOC COUNTY RURAL WATER DISTRICT NO. 9****Stonewall, Oklahoma****Statement of Revenue, Expenses and Changes in Retained Earnings  
For the Year Ended September 30, 2012**

	2011-12	(memo only) 2010-11
Revenue from operations:		
Water sales	\$ 296,299	243,741
Other fees	15,670	11,105
Total revenue from operations	<u>311,969</u>	<u>254,846</u>
Expenses from operations:		
Salaries and benefits	25,606	33,999
Water purchases	139,556	132,844
Repairs and maintenance	60,960	25,758
Vehicle expense	7,073	5,666
Parts and supplies	26,491	105,652
Utilities and telephone	3,859	3,379
Insurance	7,565	5,211
Office expense and postage	3,491	3,424
Water tests	815	575
Depreciation	18,814	15,296
Dues and fees	883	348
Miscellaneous	230	416
Professional fees	2,575	2,200
Total expenses from operations	<u>297,918</u>	<u>334,768</u>
Net Income (Loss) from Operations	14,051	(79,922)
Non-operating income (expenses):		
Interest earnings	83	367
Interest paid on debt	<u>(6,793)</u>	<u>(7,182)</u>
Total non-operating expenses	<u>(6,710)</u>	<u>(6,815)</u>
Net Income (Loss)	7,341	(86,737)
Retained earnings, beginning of period	<u>352,207</u>	<u>438,944</u>
Retained earnings, end of period	<u>\$ 359,548</u>	<u>352,207</u>