

Pontotoc County Rural Water District No. 7
Ada, Oklahoma

Financial Statements
and Reports of Independent Auditor

September 30, 2015

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, 2015

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, 2015

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SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

INDEPENDENT AUDITOR'S REPORT

December 4, 2015

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, 2015, 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

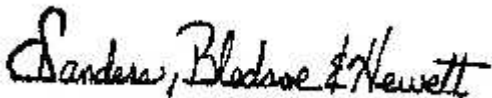
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of September 30, 2015, and the respective changes in financial position and cash flows thereof for the year then ended 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 4, 2015 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, 2015, 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 4, 2015.

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 4, 2015

Pontotoc County Rural Water District No. 7
Ada, Oklahoma
Disposition of Prior Year's Reportable Conditions
September 30, 2015

There were no prior year reportable conditions.

Pontotoc County Rural Water District No. 7
Ada, Oklahoma
Schedule of Audit Results
September 30, 2015

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, 2015

ASSETS

Current assets:

Cash	\$ 251,720
Investments	1,385,199
Accounts receivable	104,551
Total current assets	<u>1,741,470</u>

Noncurrent assets:

Land and buildings	91,299
Office equipment and vehicles	262,043
Water system and improvements	3,741,296
Total capital assets	<u>4,094,638</u>
Less: Accumulated depreciation	<u>(2,385,974)</u>
Total noncurrent assets	<u>1,708,664</u>

Total Assets	<u>3,450,134</u>
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LIABILITIES

Current liabilities:

Accounts payable	90,284
Current portion of long-term debt	58,593
Total current liabilities	<u>148,877</u>

Noncurrent liabilities:

Long term debt	<u>541,041</u>
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Total Liabilities	<u>689,918</u>
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NET ASSETS

Invested in capital assets, net of related debt	1,109,030
Contributed capital	473,025
Unrestricted	<u>1,178,161</u>
Total Net Assets	<u><u>\$ 2,760,216</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, 2015

Operating Revenues:	
Water sales	\$ 984,928
Tap and reconnect fees	9,290
Impact fees	5,882
New membership fees	21,600
Miscellaneous	11,126
Total operating revenues	<u>1,032,826</u>
Operating Expenses:	
Salaries and benefits	189,211
Depreciation	111,348
Water purchases	458,666
Office and postage	10,965
Insurance and bonds	18,627
Line materials and maintenance	25,415
Contract services	6,006
Building and equipment maintenance	20,602
Vehicles	14,230
Professional fees	15,868
Utilities and telephone	11,620
Advertising	320
Manager's expense	6,450
Miscellaneous and refunds	176
Dues and fees	10,550
Total operating expenses	<u>900,054</u>
Net Income (Loss) from Operations	132,772
Non-operating Revenues (Expenses):	
Interest income	10,348
Interest paid on debt	(28,492)
Total non-operating revenues (expenses)	<u>(18,144)</u>
Changes in Net Assets	114,628
Total Net Assets, Beginning of Period	<u>2,645,588</u>
Total Net Assets, End of Period	<u><u>\$ 2,760,216</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, 2015

Cash Flows from Operating Activities:

Receipts from water sales	\$ 1,015,077
Payments to employees	(189,211)
Payments to vendors	<u>(574,354)</u>
Net Cash Provided by Operating Activities	<u>251,512</u>

Cash Flows from Investing Activities:

Interest on investments	10,348
Sale (purchase) of fixed assets	<u>(2,250)</u>
Net Cash Provided by Investing Activities	<u>8,098</u>

Cash Flows from Financing Activities:

Interest expenses on debt	(28,482)
Principal payments on debt	<u>(55,881)</u>
Net Cash Provided by Financing Activities	<u>(84,363)</u>

Net increase (decrease) in cash and cash equivalents 175,247

Cash & cash equivalents, beginning of period 1,461,672

Cash & cash equivalents, end of period \$ 1,636,919

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

Operating income (loss)	\$ 132,772
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	111,348
Change in assets and liabilities:	
Accounts receivable	(16,971)
Accounts payable	<u>24,372</u>
Net cash provided by operating activities	<u><u>\$ 251,521</u></u>

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, 2015

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:

	September 30	
	<u>2015</u>	<u>2014</u>
Revenue account	\$ 40,623	38,473
Sweep account	<u>211,097</u>	<u>100,953</u>
Total Cash	<u><u>\$ 251,720</u></u>	<u><u>139,426</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, 2015:

Oklahoma Heritage Bank – Ada, Oklahoma

Certificate of Deposit, dated March 13, 2015, due March 13, 2016	\$ 211,850
Certificate of Deposit, dated June 11, 2015, due Dec. 11, 2015	55,000
Certificate of Deposit, dated Dec. 8, 2014, due Dec. 8, 2015	235,988
Money Market Account	63,842

BancFirst – Konawa, Oklahoma

Money Market Account	118,153
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Pontotoc County Rural Water District No. 7
Ada, Oklahoma
Notes to Financial Statements
September 30, 2015

Vision Bank – Ada, Oklahoma

NOW Account	\$ 26,604
NOW Account	29,452
Certificate of Deposit, dated Aug. 7, 2015, due Feb. 7, 2016	30,025
Certificate of Deposit, dated Aug. 7, 2015, due Feb. 7, 2016	31,236
Certificate of Deposit, dated Aug. 7, 2015, due Feb. 7, 2016	11,681

Farmers State Bank – Allen, Oklahoma

*Certificate of Deposit, dated July 13, 2015, due Jan. 4, 2016	122,439
Certificate of Deposit, dated July 5, 2015, due Dec. 30, 2015	166,040
Certificate of Deposit, dated July 20, 2015, due Jan. 18, 2016	101,811

Landmark Bank – Ada, Oklahoma

Money Market Account	18,767
Money Market Account (Rural Development Reserve)	<u>162,312</u>

Total Investments	<u>\$ 1,385,199</u>
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Accounts Receivable

Net billings for accounts receivable at September 30, 2015 were \$104,551. Allowance for doubtful accounts was not computed because the effects of bad debt on the financial statements are not considered material.

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

Pontotoc County Rural Water District No. 7
Ada, Oklahoma
Notes to Financial Statements
September 30, 2015

Collateral Pledged

All funds were adequately insured by the Federal Deposit Insurance Corporation or additional collateral pledged by individual banks as of September 30, 2015.

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,	
	2015	2014
Note 01-0504001, 5 percent mortgage payable to GMAC Commercial Mortgage Corp. in monthly installments of \$2,539 until 2017	\$ 44,127	71,655
Note 01-0504003, 5 percent mortgage payable to GMAC Commercial Mortgage Corp. in monthly installments of \$1,105 until 2020	53,518	63,837
Note 01-0504005, 5 percent mortgage payable to GMAC Commercial Mortgage Corp. in monthly installments of \$845 until 2019	37,243	45,341
Note 91-01, 4.375% USDA A Rural Development. in monthly installments of \$2,542 until 2044	<u>464,746</u>	<u>474,682</u>
Total	599,634	655,514
Less: current portion	<u>(58,593)</u>	<u>(55,804)</u>
Long-term debt, less current maturities	<u>\$ 541,041</u>	<u>559,710</u>

Pontotoc County Rural Water District No. 7
Ada, Oklahoma
Notes to Financial Statements
September 30, 2015

The estimated principal maturities for the next five years are detailed as follows:

	<u>Loan 4001</u>	<u>Loan 4003</u>	<u>Loan 4005</u>	<u>Loan 91-01</u>	<u>Total</u>
2015-16	\$ 28,917	10,829	8,469	10,378	58,593
2016-17	15,210	11,383	8,902	10,841	46,336
2017-18	-	11,966	9,358	11,325	32,649
2018-19	-	12,578	9,837	11,830	34,245
2019-20	-	6,762	677	12,358	19,797
2020-25	-	-	-	70,575	70,575
2025-30	-	-	-	87,799	87,799
2030+	-	-	-	249,640	249,640
Totals	<u>\$ 44,127</u>	<u>53,518</u>	<u>37,243</u>	<u>464,746</u>	<u>599,634</u>

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 \$121,532 (*) 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.

Federal Income Tax

The District is exempt from federal and state income taxes.

Note C – Accumulated Unpaid Vacation and Sick Pay

At September 30, 2015, no determination of the aggregate dollar value of vacation or sick pay had been made.

Note D -Insurance and Surety Bond Coverage

At September 30, 2015, the District had appropriate coverage against all major perils.

Note E – Subsequent Events

Management has evaluated subsequent events through December 4, 2015, 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, 2015

	<u>SEPTEMBER 30</u>	
	<u>2015</u>	<u>(memo only) 2014</u>
<u>ASSETS</u>		
Current Assets:		
Cash in bank	\$ 251,720	139,426
Investments	1,385,199	1,322,246
Accounts receivable	104,551	87,580
Total current assets	<u>1,741,470</u>	<u>1,549,252</u>
Fixed Assets:		
Land & building	91,299	91,299
Office equipment & vehicles	262,043	262,043
Water system & improvements	3,741,296	3,739,046
Total fixed assets	<u>4,094,638</u>	<u>4,092,388</u>
Less: accumulated depreciation	<u>(2,385,974)</u>	<u>(2,274,626)</u>
Total fixed assets (net)	<u>1,708,664</u>	<u>1,817,762</u>
Total Assets	<u><u>\$ 3,450,134</u></u>	<u><u>3,367,014</u></u>
 <u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 90,284	65,912
Current maturities of long-term debt	58,593	55,804
Total current liabilities	<u>148,877</u>	<u>121,716</u>
Long-Term Debt:		
Notes payable	541,041	599,710
Total Liabilities	<u>689,918</u>	<u>721,426</u>
Fund Equity:		
Contributed capital	473,025	473,025
Retained earnings	2,287,191	2,172,563
Total fund equity	<u>2,760,216</u>	<u>2,645,588</u>
Total Liabilities and Fund Equity	<u><u>\$ 3,450,134</u></u>	<u><u>3,367,014</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, 2015

	2014-15	(memo only) 2013-14
Revenues from Operations:		
Water sales	\$ 984,928	928,994
Tap and reconnect fees	9,290	7,800
New membership fees	21,600	30,200
Impact fees	5,882	9,000
Miscellaneous	11,126	20,486
Total revenues from operations	<u>1,032,826</u>	<u>996,480</u>
Expenses from Operations:		
Salaries and benefits	189,211	181,233
Depreciation	111,348	107,728
Water purchases	458,666	427,288
Advertising	320	337
Office and postage	10,965	17,685
Insurance and bonds	18,627	23,884
Line materials and maintenance	25,415	30,201
Contract labor	6,006	1,955
Building and equipment maintenance	20,602	4,356
Vehicles	14,230	25,418
Professional fees	15,868	22,493
Utilities and telephone	11,620	9,874
Dues and fees	10,550	4,495
Manager's expense	6,450	5,139
Miscellaneous and refunds	176	3,809
Total expenses from operations	<u>900,054</u>	<u>865,895</u>
Net Income (Loss) from Operations	132,772	130,585
Other Income:		
Interest earnings	<u>10,348</u>	<u>7,231</u>
Other Expenses:		
Interest paid on debt	<u>(28,492)</u>	<u>(31,258)</u>
Net Income (Loss)	114,628	106,558
Retained earnings, beginning of period	<u>2,172,563</u>	<u>2,066,005</u>
Retained earnings, end of period	<u><u>\$ 2,287,191</u></u>	<u><u>2,172,563</u></u>