

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

Financial Statements and Auditor's Reports

Year Ended December 31, 2011

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, 2011

BOARD OF DIRECTORS

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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, 2011

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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, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of December 31, 2011, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting generally accepted in the United States of America.

The Management Discussion and Analysis on pages 5-6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 22, 2012 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, grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance.

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 signature is written in a cursive, flowing style.

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

February 22, 2012

Pontotoc County Rural Water District No. 8
Management's Discussion and Analysis
December 31, 2011

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, 2011. Please read it in conjunction with the District's financial statements that begin on page 11.

FINANCIAL HIGHLIGHTS

- The District's total operating expenses exceeded total operating revenues by \$238,686. Overall, the District had a net income of \$239,601, and its cash and cash equivalents increased by \$50,171 in the current fiscal year.
- The District was able to entirely pay off their loan balance in 2010 with the liquidated certificates of deposit and other cash resources.
- The District was awarded a Community Development Block Grant in 2010 for waterline improvements, the \$224,999 grant will be matched by \$225,001 of local funds. Grant proceeds of \$142,791 were received in 2011 for water line replacement and upgrade projects. The District has expended \$203,546 in matching funds on these projects through December 31, 2011.

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, 2011 the District had \$2,468,927 invested in fixed assets, net of depreciation, including land, the water system, vehicles and equipment. The District made \$380,399 in improvements to the water system during the 2011 fiscal year as part of the \$450,000 Community Development Block Grant project for waterline replacements and upgrades that was started in 2010. The District also purchased three acres of land for \$37,298 to build an office building.

Long-Term Debt

The District had no outstanding debt at December 31, 2011. New loan proceeds will be received in 2012 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 2012 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

**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. 8
Ada, Oklahoma

We have audited the financial statements of the Pontotoc County Rural Water District (the District) No. 8, Ada, Oklahoma, as of and for the year ended December 31, 2011, and have issued our report thereon dated February 22, 2012. 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.

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 generally accepted auditing standards.

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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. 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.

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.

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.



Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

February 22, 2012

PONTOTOC COUNTY RURAL DISTRICT NO. 8
Disposition of Prior Year's Reportable Conditions
December 31, 2011

There were no prior year reportable conditions.

PONTOTOC COUNTY RURAL WATER DISTRICT NO. 8
Schedule of Audit Results
December 31, 2011

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, 2011

ASSETS:

Current assets:

Cash	\$ 660,781
Accounts Receivable	52,922
Prepaid insurance	7,799
Total current assets	721,502

Noncurrent assets:

Reserved cash - rent deposits	9,364
Loan costs-net of amortization	12,248

Capital assets:

Land	37,298
Water distribution system-net of depreciation	2,424,669
Furniture and fixtures-net of depreciation	265
Vehicles-net of depreciation	6,695
Total noncurrent assets	2,490,539

Total Assets	3,212,041
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LIABILITIES:

Current liabilities:

Accounts payable	26,625
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Noncurrent liabilities:

Refundable deposits	9,364
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Total Liabilities	35,989
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NET ASSETS:

Invested in capital assets, net of related debt	2,468,927
Unrestricted	707,125

Total Net Assets	\$ 3,176,052
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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, 2011

Operating Revenues:	
Water revenue	\$ 764,832
Benefit units	76,950
Other sales and services	<u>47,414</u>
Total operating revenues	<u>889,196</u>
Operating Expenses:	
Salaries and taxes	139,877
Fringe benefits	13,094
Testing	4,615
Utilities	44,530
Telephone	4,872
Water purchases	53,714
Office	14,995
Insurance	14,270
Line materials	142,101
Line repairs	80,171
Rent	7,200
Postage	10,046
Dues and fees	4,555
Vehicles	14,465
Professional fees	3,148
Miscellaneous	7,331
Depreciation	90,302
Amortization	<u>1,224</u>
Total expenses from operations	<u>650,510</u>
Operating Income (Loss)	238,686
Non-Operating Revenues (Expenses):	
Interest income	915
Grant proceeds	<u>142,791</u>
Total Non-Operating Revenues (Expenses)	<u>143,706</u>
Change in Net Assets	382,392
Total Net Assets, beginning of period	<u>2,793,660</u>
Total Net Assets, end of period	<u>\$ 3,176,052</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, 2011

Cash Flows from Operating Activities:

Receipts from customers	\$ 879,031
Receipts from other entities	9,200
Payments to employees	(152,806)
Payments to vendors	<u>(411,263)</u>
Net Cash Provided by (used in) Operating Activities	<u>324,162</u>

Cash Flows from Financing Activities:

Capital asset (additions) sale	(417,697)
Grant proceeds	<u>142,791</u>
Net Cash Provided by (used in) Financing Activities	<u>(274,906)</u>

Cash Flows from Investing Activities:

Interest earned on investments	<u>915</u>
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Net increase (decrease) in cash and cash equivalents	50,171
Cash and cash equivalents, beginning of period	<u>619,974</u>
Cash and cash equivalents, end of period	<u><u>\$ 670,145</u></u>

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

Operating Income (loss)	\$ 238,686
Adjustments to reconcile net income to net cash provided (used) by operating activities:	
Depreciation Expense	90,302
Amortization Expense	1,224
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	(2,758)
(Increase) decrease in prepaid insurance	(1,725)
Increase (decrease) in accounts payable	(5,362)
Increase (decrease) in taxes payable	165
Increase (decrease) in rent deposits	<u>3,630</u>
Net cash provided by operating activities	<u><u>\$ 324,162</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, 2011**

Note A – Significant Accounting Policies

Basis of Accounting

The accrual basis of accounting is followed for all accounts. Revenues are recorded when earned and expenses are recognized when incurred. This policy is accordance with generally accepted accounting principles.

New Reporting Standard

In June 1999, the GASB issued 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. It creates new information and restructures much of the information that governments have presented in the past. Comparability with reports issued in all prior years is affected.

Cash

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

	December 31,	
	2011	2010
Operating Account	\$ 661,286	614,559
Less: Outstanding checks	(505)	(2,112)
Balance	\$ 660,781	612,447

Collateral Pledged

It appears that all funds were adequately insured by FDIC coverage and additional collateral pledged by Citizens Bank as of December 31, 2011.

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, 2011 the reserved balance was \$9,364.

PONTOTOC COUNTY RURAL WATER DISTRICT NO. 8
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

Note A – Significant Accounting Policies – cont'd

Investments

The District had no outstanding investments at December 31, 2011.

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:

	12/31/2010 Amount	Additions	Deletions	12/31/2011 Amount
Land	\$ -	37,298	-	37,298
Office equipment	24,455	-	-	24,455
Plant and water sys.	3,459,477	91,344	-	3,550,821
Vehicles	43,493	-	-	43,493
Const. in progress	51,388	289,055	-	340,443
Total Fixed Assets	3,578,813	417,697	-	3,996,510
Less: Accumulated Depreciation	(1,437,281)	(90,302)	-	(1,527,583)
Total	<u>\$ 2,141,532</u>	<u>327,395</u>	<u>-</u>	<u>2,468,927</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, 2011 were \$52,922. Allowance for doubtful accounts was not computed on these amounts.

PONTOTOC COUNTY RURAL WATER DISTRICT NO. 8
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

Note C – Long-Term Debt

The District has no long-term debt at December 31, 2011.

Note D – Contributed Capital

In 2011, the District received \$142,791 of a total \$224,999 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.

PONTOTOC COUNTY RURAL WATER DISTRICT NO. 8
BALANCE SHEET
DECEMBER 31, 2011

<u>ASSETS</u>	DECEMBER 31,	
	2011	(memo only) 2010
Current Assets:		
Cash in bank	\$ 660,781	612,447
Accounts receivable	52,922	50,164
Prepaid insurance	7,799	6,074
Total current assets	721,502	668,685
Fixed Assets:		
Land	37,298	0
Water distribution system	3,550,821	3,459,477
Construction in progress	340,443	51,388
Furniture and fixtures	24,455	24,455
Vehicles	43,493	43,493
Total fixed assets	3,996,510	3,578,813
Less: accumulated depreciation	(1,527,583)	(1,437,281)
Total fixed assets (net of depreciation)	2,468,927	2,141,532
Reserved Assets:		
Rental deposit account	9,364	7,527
Other Assets:		
Loan costs	18,368	18,368
Less: accumulated amortization	(6,120)	(4,896)
Total other assets	12,248	13,472
Total Assets	\$ 3,212,041	2,831,216
<u>LIABILITIES AND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 24,171	29,533
Payroll taxes payable	2,454	2,289
Rent deposits	9,364	5,734
Total current liabilities	35,989	37,556
Equity:		
Contributed capital	142,791	0
Retained earnings	3,033,261	2,793,660
Total Equity	3,176,052	2,793,660
Total Liabilities and Equity	\$ 3,212,041	2,831,216

PONTOTOC COUNTY RURAL WATER DISTRICT NO. 8
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
FOR YEAR ENDED DECEMBER 31, 2011

	2011	(memo only) 2010
Revenue from operations:		
Water revenue	\$ 764,832	717,155
Benefit units	76,950	75,500
Material reimbursements (ODOT)	9,200	15,030
Miscellaneous reimbursements	38,214	52,806
Total revenue from operations	889,196	860,491
Expenses from operations:		
Salaries and taxes	139,877	136,553
Fringe benefits	13,094	16,701
Testing	4,615	5,891
Utilities	44,530	38,007
Telephone	4,872	4,452
Water purchases	53,714	46,591
Office	14,995	13,925
Insurance	14,270	14,265
Line materials	142,101	85,046
Line repairs	80,171	95,086
Rent	7,200	7,200
Postage	10,046	4,042
Dues and fees	4,555	10,502
Vehicles	14,465	11,254
Professional fees	3,148	2,012
Miscellaneous	7,331	7,421
Depreciation	90,302	91,600
Amortization	1,224	1,224
Total expenses from operations	650,510	591,772
Net Income (Loss) From Operations	238,686	268,719
Non-operating revenue:		
Interest earnings	915	746
Non-operating expenses:		
Interest paid on long-term debt	0	(3,503)
Net Income (Loss)	239,601	265,962
Retained earnings, beginning of period	2,793,660	2,527,698
Retained earnings, end of period	\$ 3,033,261	2,793,660