

Sardis Lake Water Authority  
Clayton, Oklahoma

Financial Statements and  
Reports of Independent Auditor

June 30, 2016

Audited by

SANDERS, BLEDSOE & HEWETT  
CERTIFIED PUBLIC ACCOUNTANTS, LLP

Broken Arrow, Oklahoma

Sardis Lake Water Authority  
Clayton, Oklahoma  
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June 30, 2016

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# SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Sardis Lake Water Authority  
Clayton, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Sardis Lake Water Authority (the District), Clayton, Oklahoma, as of and for the year ended June 30, 2016, and the related notes to the financial statements 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**

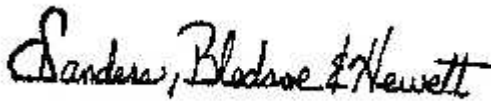
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of June 30, 2016, and the respective changes in financial position and cash flows thereof for the year then ended in 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 September 13, 2016 on our consideration of the Authority'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

September 13, 2016

Sardis Lake Water Authority  
Clayton, Oklahoma  
Statement of Net Position  
June 30, 2016

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 85,560
Accounts Receivable	38,240
Total Current Assets	123,800

Non-current Assets:

Capital Assets

Land	19,500
Vehicles	32,527
Office Equipment	757
Water System & Equipment	11,620,026
Less: Accumulated Depreciation	(3,110,180)
Total Non-current Assets	8,562,630

Other Assets:

Note Issuance Costs	111,711
Less: Accumulated Amortization	(37,860)
Total Other Assets	73,851

Total Assets	8,760,281
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**LIABILITIES**

Current Liabilities:

Accounts Payable	3,066
Payroll Taxes Payable	2,832
Accrued Interest Payable	2,340
Note Payable - Shamrock Bank	14,100
Total Current Liabilities	22,338

Non-current Liabilities:

Note Payable - USDA	3,399,756
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Total Liabilities	3,422,094
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**NET POSITION**

Net Investment in Capital Assets	5,162,874
Restricted for Debt Service	128,808
Unrestricted	46,505
Total Net Position	\$ 5,338,187

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

Sardis Lake Water Authority  
Clayton, Oklahoma

Statement of Revenues, Expenses, and Changes in Net Position  
For the Year Ended June 30, 2016

<b>Operating Revenues:</b>	
Water Sales	\$ 492,528
Refunds and reimbursements	7,149
Total Operating Revenues	499,677
 <b>Operating Expenses:</b>	
Personnel and payroll taxes	130,206
Chemicals	30,489
Fuel and vehicles	3,699
Insurance	32,287
Plant supplies	16,422
Contract labor	12,693
Licenses - DEQ	5,637
Testing fees	5,124
Maintenance and repairs	60,579
Office and postage	8,749
Professional fees	2,950
Utilities and telephone	74,362
Depreciation	293,753
Amortization	2,793
Total Operating Expenses	679,743
Operating Income (Loss)	(180,066)
 <b>Non-operating Revenues (Expenses):</b>	
Grant proceeds	1,478,539
Interest income	140
Interest expense on debt	(66,352)
Total Non-operating Revenues (Expenses)	1,412,327
Change in Net Position	1,232,261
Total Net Position, beginning of period	4,105,926
Total Net Position, end of period	\$ 5,338,187

The accompanying notes are an integral part of this statement

Sardis Lake Water Authority  
Clayton, Oklahoma  
Statement of Cash Flows  
For the Year Ended June 30, 2016

<b>Cash Flows from Operating Activities:</b>	
Cash received from water sales	\$ 491,238
Cash received from reimbursements	6,249
Cash paid to employees	(129,943)
Cash payments to suppliers for goods and services	(258,627)
Net cash used by operating activities	108,917
 <b>Cash Flows from Capital and Related Financing Activities:</b>	
Capital assets purchased	(1,607,983)
Loan proceeds	14,100
Grant proceeds	1,478,539
Principal payments on debt	(60,917)
Interest payments on debt	(67,799)
Net cash provided by capital and related financing activities	(244,060)
 <b>Cash Flows from Investing Activities:</b>	
Investment income	140
Net change in cash	(135,003)
Cash and cash equivalents, beginning of period	220,563
Cash and cash equivalents, end of period	\$ 85,560
 <b>Reconciliation of operating income to net cash used by operating activities:</b>	
Change in net assets from operating income	\$ (180,066)
Noncash and nonoperating items included in change in net assets:	
Depreciation and amortization	296,546
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(2,190)
(Increase) decrease in prepaid insurance	1,034
Increase (decrease) in accounts payable	(6,670)
Increase (decrease) in payroll taxes payable	263
Net cash provided by operating activities	\$ 108,917

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

**SARDIS LAKE WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR YEAR ENDED JUNE 30, 2016**

**Note 1 – Summary of Significant Accounting Policies:**

**1-A. Reporting Entity**

The Sardis Lake Water Authority is an Oklahoma public trust and was formed pursuant to a Declaration of Trust dated June 21, 1989, as amended by the Amendment to Declaration of Trust dated January 28, 1993, under the provisions of Title 60, Oklahoma Statutes 2011, 176 et seq., for the benefit of Pushmataha County, Oklahoma, and the instrument creating such Authority has been heretofore filed with the County Clerk of Pushmataha County, Oklahoma, and the Secretary of State of the State of Oklahoma; in addition, notice of filing such instrument with the Secretary of State has been given to the Office of the State Auditor and Inspector, as required by law.

The purpose of this Trust is to institute, furnish, provide and supply to the inhabitants, owners and occupants of property and to industrial, commercial and mercantile establishments and enterprises, located in Pushmataha, Latimer, LeFlore and Pittsburg counties, any or all improvements, services and physical facilities, except gas and electric utilities, for the safeguarding of public health, the protection of persons and property and the conservation and implementation of public welfare, of such kinds and characters that the same may be an authorized or proper function of the Beneficiary of this Trust, or any component thereof, or by law made subject to the supervision of its governing body or of its officers, which said improvements, services and physical facilities may be supplementary or wholly extraneous to any such improvement, service or physical facility that presently is, or hereafter may be furnished, provided or supplied by or under the supervision of the Beneficiary or any component thereof.

The financial statements of the Sardis Lake Water Authority have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

The accounting policies of The Authority conform to Generally Accepted Accounting Principles (GAAP) as applicable to governmental units. The Proprietary fund applies Financial Accounting Standards Board (FASB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails.



**SARDIS LAKE WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR YEAR ENDED JUNE 30, 2016**

**Note 1 – Summary of Significant Accounting Policies (cont'd):**

**1-A. Reporting Entity (cont'd)**

In evaluating how to define the Sardis Lake Water Authority, for financial reporting purposes, management has considered if it is a component unity of a primary government.

The Board of Trustees of this Trust shall at all times consist of not less than five (5) members, nor more than fifteen (15). The Board of Directors of Rural Water District No. 1, Pushmataha County, Oklahoma, shall recommend two (2) individuals who serve on said Board to serve as Trustees on this trust. The Board of Directors of Rural Water District No. 5, Pushmataha County, Oklahoma, shall recommend two (2) individuals who serve on said Board to serve as Trustees on this Trust. The Board of Directors of Rural Water District No. 2, Latimer County, Oklahoma, shall recommend two (2) individuals who serve on said Board to serve as Trustees on this Trust. The Board of Trustees of the Clayton Public Works Authority shall recommend two (2) individuals who serve on said Board to serve as Trustees on this Trust. An individual recommended to serve as Trustee on this Trust may not represent more than one of the above-mentioned organizations at the same time. Each Trustee shall serve a four-year term. The Board of County Commissioners of the Beneficiary may, at any time, upon a majority vote of said Board, remove any Trustee from office, without cause, the objective of this provision being to insure at all times the control of this Trust by said Board of County Commissioners of said Beneficiary.

**1-B. Basis of Accounting:**

The Authority uses the accrual basis of accounting. Under the accrual method of accounting, revenues are recognized when they are earned, and their expenses are recognized when they are incurred. Interest and other expenses paid during construction are capitalized to the extent they exceed interest earnings.

**1-C. Estimates:**

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

**SARDIS LAKE WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR YEAR ENDED JUNE 30, 2016**

**Note 1 – Summary of Significant Accounting Policies (cont'd):**

**1-D. Cash and Cash Equivalents:**

The Authority considers cash and cash equivalents in proprietary funds to be cash on hand and demand deposits.

**1-E. Receivables**

Accounts Receivable consist of the utilities billed that have not been collected at June 30, 2016.

**1-F. Inventory of Supplies**

Inventory of supplies is not reported on the financial statements of the Authority. The amount of inventory on hand is not material to the financial statements.

**1-G. Departure from GAAP**

The Authority has elected to omit the Management Discussion & Analysis, which is required supplementary information necessary to supplement the financial statements as determined by accounting principles generally accepted in the United States. The Management Discussion & Analysis is not required to be part of the financial statements and as such, does not affect our opinion on the financial statements presented.

**1-H. Capital Assets**

Purchased or constructed capital assets in excess of \$500 are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Water System	40 to 50
Office Equipment	3 to 10
Equipment	5 to 50
Vehicles	3 to 5

**SARDIS LAKE WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR YEAR ENDED JUNE 30, 2016**

**Note 1 – Summary of Significant Accounting Policies (cont'd):**

**I-J. Retained Earnings**

Unreserved retained earnings represent the net assets available for future operations or distribution. Reserved retained earnings represent the net assets that have been legally identified for specific purpose.

**Note 2 – Cash and cash Equivalents:**

**2-A. Cash Deposits**

As of June 30, 2016, the carrying amount of The Authority's bank balance was \$85,560 and the respective bank balances totaled \$85,560. Of the bank total, all was insured through the Federal Depository Insurance Corporation (FDIC).

The table presented below is designed to disclose the level of custody credit risk assumed by The Authority based upon how its deposits were insured at June 30, 2016.

Category – 1 Insured by FDIC or collateralized with securities held by the Authority or by its agent in its name

Category – 2 Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name

Category – 3 Uninsured and uncollateralized

<u>Types of Deposit</u>	<u>Bank Balance</u>	<u>Carrying Balance</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>Market Value</u>
Demand Deposits:						
Shamrock Bank	<u>\$ 85,560</u>	<u>85,560</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>85,560</u>

**SARDIS LAKE WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR YEAR ENDED JUNE 30, 2016**

**Note 3 – Change in Debt:**

At June 30, 2016, debt is as follows:

**Rural Development:**

**Loan # 91-05-**

Date of Note – 03/25/2013, Term – 40 years  
Current Principal Amount - \$1,384,146  
Interest Rate (Fixed) – 1.875  
Payment - \$4,358 monthly

**Loan # 91-06-**

Date of Note – 03/25/2013, Term – 40 years  
Current Principal Amount - \$1,719,069  
Interest Rate (Fixed) – 1.875%  
Payment - \$5,412 monthly

**Loan # 91-07-**

Date of Note – 02/20/2015, Term – 40 years  
Current Principal Amount - \$263,815  
Interest Rate (Fixed) – 2.25  
Payment - \$857 monthly

**Loan # 91.08-**

Date of Note – 02/20/2015, Term – 40 years  
Current Principal Amount - \$32,725  
Interest Rate (Fixed) – 2.25%  
Payment - \$107 monthly

**Shamrock Bank:**

Date of Note – 09/08/2015, Term – 1 year  
Current Principal Amount - \$14,100  
Interest Rate (Fixed) – 2.10%  
Payment - \$14,100 due 09/08/2016

**Summary of Note Balances:**

Note Balances at June 30, 2015	\$3,460,673
Issued	14,100
Retired	(60,917)
Note Balance at June 30, 2016	<u>\$3,413,856</u>

**SARDIS LAKE WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR YEAR ENDED JUNE 30, 2016**

**Note 3 – Change in Debt** (cont'd):

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

Year	Total	Rural Dev.	Shamrock
2017	\$ 78,626	64,526	14,100
2018	65,765	65,765	-
2019	67,028	67,028	-
2020	68,316	68,316	-
2021	69,627	69,627	-
2021-26	368,761	368,761	-
2026-31	405,514	405,514	-
2031-36	446,082	446,082	-
2036-41	490,574	490,574	-
2041-46	539,594	539,594	-
2046+	813,968	813,968	-
Total	<u>\$ 3,413,855</u>	<u>3,399,755</u>	<u>14,100</u>

The Authority was in default on both Rural Development notes and thus established a reserve account as required by the loan agreement. The reserve requirement payment is 10% of the monthly payment which totals \$1,164.60 per month. The balance at June 30, 2016 was \$26,440.

**Note 4 – Changes in Fixed Assets:**

Description	6/30/2015	Additions	Retirements	6/30/2016
Land	\$ 19,500	-	-	19,500
Vehicles	14,427	18,100	-	32,527
Office Equipment	757	-	-	757
Water Treatment Plan	2,336,237	-	-	2,336,237
Waterline	6,757,170	-	-	6,757,170
Water Towers	662,126	-	-	662,126
Const in Progress (Clarifier)	274,610	1,589,883	-	1,864,493
Total Assets	10,064,827	1,607,983	-	11,672,810
Less:				
Accumulated Depreciation	(2,816,427)	(293,753)	-	(3,110,180)
Net Fixed Assets	<u>\$ 7,248,400</u>	<u>1,314,230</u>	<u>-</u>	<u>8,562,630</u>

**SARDIS LAKE WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR YEAR ENDED JUNE 30, 2016**

**Note 5 – Insurance:**

The Authority's facilities are insured under a blanket property and general liability insurance policy. The Authority also has insurance coverage on its vehicles.

**Note 6 – Contingent Liabilities/Litigation:**

The Sardis Lake Water Authority is party to various legal proceedings which normally occur in governmental operations. These legal proceedings are not likely to have a material adverse impact on the financial statements of the Authority.

**Note 7 – Other Items of Note**

In 2014-15, the Authority was awarded two additional loans from Rural Development in the total amount of \$299,000, all of which was received in the 2014-15 fiscal year. In addition, the Authority obtained two grants from Rural Development in the total amount of \$1,377,700, which was received in the 2014-15 and 2015-16 fiscal years, and additional grants from the Choctaw Nation in the amount of \$222,640. These funds will be used for system improvements and expansion, and the construction of a water clarifier for the Authority. This major construction program was started in the 2014-15 fiscal year, and was substantially completed in 2015-16, with an additional \$1,589,883 being added to fixed assets for these projects.

Since the bulk of these funds were federal, and the amount expended was in excess of \$750,000, a Single Audit was performed to ensure that federal funds were used in compliance with all federal guidelines, and a Schedule of Federal Awards is also included in this audit report.

**Note 8 – Subsequent Events**

Management has evaluated subsequent events through September 13, 2016, 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.



**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  
Sardis Lake Water Authority  
Clayton, 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 Sardis Lake Water Authority (the District), Clayton, Oklahoma, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 13, 2016.

**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. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in the internal controls that we considered to be a material weakness.

*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. We consider the deficiency described in the accompanying schedule of findings and responses as item 16-1 to be a material weakness.

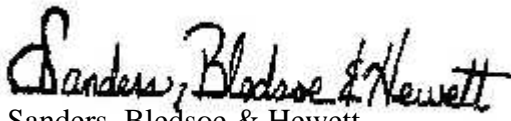
#### Compliance

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*.

#### District's Response to Findings

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

September 13, 2016





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

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors  
Sardis Lake Water Authority  
Clayton, Oklahoma

Compliance

We have audited the compliance of Sardis Lake Water Authority, (the District) Clayton, Oklahoma, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2016. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance)*. Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2016.

### Internal Control Over Compliance

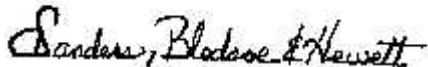
The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be detected or prevented by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information of the Board of Directors, management and the Federal Clearinghouse, 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

September 13, 2016

**SARDIS LAKE WATER AUTHORITY**  
**Schedule of Audit Results**  
**June 30, 2016**

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, item 16-1, which was not considered a material weakness.
3. The audit disclosed no instances of noncompliance.
4. The audit disclosed no reportable conditions in the internal controls over major programs.
5. An unqualified opinion was issued on the compliance of major programs.
6. The audit disclosed no audit findings which are required to be reported under the Uniform Guidance OMB Circular.
7. The program determined to be major is the USDA/Rural Development Grants.
8. The dollar threshold used to determine between Type A and Type B programs was \$750,000.
9. The district was determined not to be a low-risk auditee.

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

16-1 – 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-

Response to this finding is attached.

Section 3 – Findings and Questioned Costs for Federal Awards:

NONE

# **SARDIS LAKE WATER AUTHORITY**

Clayton, Oklahoma

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Telephone 918-569-4685  
Fax 918-569-4685

Post Office Box 430  
Clayton, OK 74536-0430

## **Corrective Action Plan**

June 30, 2016

USDA Rural Development  
RR 4 Box 1118  
Atoka, OK 74525-9803

Sardis Lake Water Authority, Clayton, Oklahoma, respectfully submits the following corrective action plan for the year ended June 30, 2016.

Independent Public Accounting Firm:

Sanders, Bledsoe and Hewett, CPAs, LLP  
P. O. Box 1310  
Broken Arrow, OK 74013-1310

Audit Period: July 1, 2015 to June 30, 2016

The Findings from the June 30, 2016 Schedule of Findings and Questioned Costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule. Section A of the schedule, Summary of Audit Results, does not include findings and is not addressed.

### **B. Findings – Financial Statements Audit**

#### **Reportable Conditions**

##### **16-01 Segregation of Duties**

Sardis Lake Water Authority is working on the problem as funds are available. We are delegating some duties to board members for better segregation.

Sardis Lake Water Authority  
Clayton, Oklahoma  
Balance Sheet  
June 30, 2016

	<b>June 30,</b>	
		(Memorandum) (Only)
<b><u>ASSETS</u></b>	<b>2016</b>	<b>2015</b>
Current Assets:		
Cash and Cash Equivalents	\$ 85,560	220,563
Accounts Receivable	38,240	36,050
Prepaid insurance	0	1,034
Total Current Assets	123,800	257,647
Non-current Assets:		
Capital Assets		
Land	19,500	19,500
Vehicles	32,527	14,427
Office Equipment	757	757
Water System & Equipment	11,620,026	9,755,533
Construction in Progress	0	274,610
Less: Accumulated Depreciation	(3,110,180)	(2,816,427)
Total Non-current Assets	8,562,630	7,248,400
Other Assets:		
Note Issuance Costs	111,711	111,711
Less: Accumulated Amortization (.025 per year)	(37,860)	(35,067)
Total Other Assets	73,851	76,644
Total Assets	\$ 8,760,281	7,582,691
<b><u>LIABILITIES &amp; EQUITY</u></b>		
Current Liabilities:		
Accounts Payable	\$ 3,066	9,736
Payroll Taxes Payable	2,832	2,569
Accrued Interest Payable	2,340	3,787
Note Payable - Shamrock Bank	14,100	0
Total Current Liabilities	22,338	16,092
Non-current Liabilities:		
Note Payable - USDA	3,399,756	3,460,673
Total Liabilities	3,422,094	3,476,765
<b><u>OWNERS EQUITY</u></b>		
Contributed Capital	1,600,340	121,801
Retained Earnings	3,737,847	3,984,125
Total Owners Equity	5,338,187	4,105,926
Total Liabilities & Equity	\$ 8,760,281	7,582,691

Sardis Lake Water Authority  
Clayton, Oklahoma

Statement of Revenues, Expenses, and Changes in Retained Earnings  
For the Year Ended June 30, 2016

	2015-16	(Memorandum Only) 2014-15
Operating Revenues:		
Water Sales	\$ 492,528	487,211
Refunds and reimbursements	7,149	23,480
Total Operating Revenues	499,677	510,691
Operating Expenses:		
Personnel and payroll taxes	130,206	123,939
Chemicals	30,489	21,706
Fuel and vehicles	3,699	821
Insurance	32,287	26,608
Plant supplies	16,422	19,086
Contract labor	12,693	37,082
Licenses - DEQ	5,637	6,230
Testing fees	5,124	4,392
Maintenance and repairs	60,579	43,581
Office and postage	8,749	6,260
Professional fees	2,950	5,450
Utilities and telephone	74,362	76,715
Depreciation	293,753	245,331
Amortization	2,793	2,793
Total Operating Expenses	679,743	619,994
Operating Income (Loss)	(180,066)	(109,303)
Non-operating Revenues (Expenses):		
Interest income	140	65
DOT highway relocation fees	0	28,516
DOT highway relocation costs	0	(27,490)
Interest expense on debt	(66,352)	(63,109)
Total Non-operating Revenues (Expenses)	(66,212)	(62,018)
Change in Retained Earnings	(246,278)	(171,321)
Retained Earnings, beginning of period	3,984,125	4,155,446
Retained Earnings, end of period	\$ 3,737,847	3,984,125

SARDIS LAKE WATER AUTHORITY  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED JUNE 30, 2016

<u>Federal Grantor / Pass Through Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Grantor's/ Pass-through No.</u>	<u>Program or Award Amount</u>	<u>Balance at 7/1/15</u>	<u>Revenue Collected</u>	<u>Total Expenditures</u>	<u>Balance at 6/30/16</u>
<u>United States Dept. of Agriculture-</u>							
<u>Passed Through the Okla. Office of Rural Development:</u>							
Rural Development Grant	10.760	804390460	\$ 1,334,700	0	1,334,700	1,334,700	0
	10.760	736267238	* 43,000	0	32,519	32,519	0
			<u>\$ 1,377,700</u>	<u>0</u>	<u>1,367,219</u>	<u>1,367,219</u>	<u>0</u>

\* - The first allocation (\$10,181) of this grant was received and expended in the 2014-15 fiscal year.