

Sardis Lake Water Authority
Clayton, Oklahoma

Financial Statements and
Reports of Independent Auditor

June 30, 2014

Audited by

SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP

Broken Arrow, Oklahoma

Sardis Lake Water Authority
Clayton, Oklahoma
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June 30, 2014

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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, 2014, 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

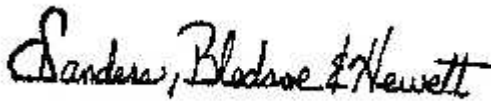
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of June 30, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in 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 19, 2014 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

Sardis Lake Water Authority
Clayton, Oklahoma
Statement of Net Assets
June 30, 2014

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 105,101
Accounts Receivable	48,427
Prepaid insurance	593
Total Current Assets	<u>154,121</u>

Non-current Assets:

Capital Assets	
Land	19,500
Vehicles	14,427
Office Equipment	757
Water System & Equipment	9,726,442
Less: Accumulated Depreciation	<u>(2,571,096)</u>
Total Non-current Assets	<u>7,190,030</u>

Other Assets:

Note Issuance Costs	111,711
Less: Accumulated Amortization (.025 per year)	<u>(32,274)</u>
Total Other Assets	<u>79,437</u>

Total Assets	<u>7,423,588</u>
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LIABILITIES

Current Liabilities:

Accounts Payable	8,902
Payroll Taxes Payable	3,178
Accrued Interest Payable	1,819
Note Payable - Shamrock Bank	<u>35,198</u>
Total Current Liabilities	<u>49,097</u>

Non-current Liabilities:

Note Payable - USDA	<u>3,219,045</u>
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Total Liabilities	<u>3,268,142</u>
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NET ASSETS

Invested in Capital Assets, Net of Related Debt	3,935,787
Restricted for Debt Service	92,577
Unrestricted	<u>127,082</u>
Total Net Assets	<u>\$ 4,155,446</u>

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 Changed in Net Assets
For the Year Ended June 30, 2014

Operating Revenues:	
Water Sales	\$ 529,879
Refunds and reimbursements	1,844
Total Operating Revenues	<u>531,723</u>
Operating Expenses:	
Personnel and payroll taxes	117,657
Chemicals	20,986
Fuel and vehicles	1,910
Insurance	42,102
Plant supplies	14,512
Contract labor	28,958
Licenses - DEQ	4,936
Testing fees	3,169
Maintenance and repairs	51,383
Office and postage	8,729
Professional fees	2,850
Utilities and telephone	73,184
Depreciation	244,604
Amortization	2,793
Total Operating Expenses	<u>617,773</u>
Operating Income (Loss)	(87,894)
Non-operating Revenues (Expenses):	
Interest income	152
Interest expense on debt	(62,322)
Total Non-operating Revenues (Expenses)	<u>(62,170)</u>
Change in Net Assets	(150,064)
Prior period adjustment	1,844
Total net assets, beginning of period	<u>4,303,666</u>
Total net assets, end of period	<u><u>\$ 4,155,446</u></u>

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, 2014

Cash Flows from Operating Activities:

Cash received from water sales	\$ 519,402
Cash paid to employees	(114,479)
Cash payments to suppliers for goods and services	(242,874)
Net cash used by operating activities	<u>162,049</u>

Cash Flows from Capital and Related Financing Activities:

Principal payments on debt	(56,918)
Interest payments on debt	(62,722)
Net cash provided by capital and related financing activities	<u>(119,640)</u>

Cash Flows from Investing Activities:

Refunds and reimbursements received	1,844
Investment income	152
Net cash provided by investing activities	<u>1,996</u>

Net change in cash	44,405
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Cash and cash equivalents, beginning of period	<u>60,696</u>
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Cash and cash equivalents, end of period	<u><u>\$ 105,101</u></u>
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Reconciliation of operating income to net cash used by operating activities:

Change in net assets from operating income	\$ (87,894)
Noncash and nonoperating items included in change in net assets:	
Depreciation and amortization	247,397
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(10,477)
(Increase) decrease in prepaid insurance	14,667
Increase (decrease) in accounts payable	(4,822)
Increase (decrease) in payroll taxes payable	3,178
Net cash provided by operating activities	<u><u>\$ 162,049</u></u>

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, 2014**

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, 2014**

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, 2014**

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, 2014.

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 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, 2014**

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, 2014, the carrying amount of The Authority's bank balance was \$105,101 and the respective bank balances totaled \$109,824. 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, 2014.

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

Types of Deposit	Bank Balance	Carrying Balance	1	2	3	Market Value
Demand Deposits:						
Shamrock Bank	\$ 82,508	77,785	77,785	-	-	77,785
Shamrock Bank	27,316	27,316	27,316	-	-	27,316
Total	<u>\$ 109,824</u>	<u>105,101</u>	<u>105,101</u>	<u>-</u>	<u>-</u>	<u>105,101</u>

**SARDIS LAKE WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2014**

Note 3 – Change in Debt:

At June 30, 2014, debt is as follows:

Rural Development

Loan # 91-05-

Date of Note – 03/25/2013
Term – 40 years
Current Principal Amount - \$1,435,816
Interest Rate (Fixed) – 1.875
Payment - \$4,358

Loan # 91.06-

Date of Note – 03/25/2013
Term – 40 years
Current Principal Amount - \$1,783,229
Interest Rate (Fixed) – 1.875%
Payment - \$5,412

Shamrock Bank, N.A.

Loan # 4013985

Date of Note – 07/28/2003
Term – 11/1/2006
Current Principal Amount - \$35,198
Interest Rate (Fixed) – 5.00%
Payment – accrued interest due monthly beginning December 01, 2005, a final payment of outstanding principal plus all accrued interest due payable on October 01, 2014.

Summary of Note Balances:

Note Balances at June 30, 2013	\$3,311,161
Issued	0
Retired	<u>(56,918)</u>
Note Balance at June 30, 2014	<u>\$3,254,243</u>

**SARDIS LAKE WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2014**

Note 3 – Change in Debt (cont'd):

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, 2014 was \$13,780.

The Authority has received maturity date extensions on its note payable to Shamrock Bank, N.A. The Authority did not receive approval from Rural Development to make the promissory note and has been notified by Rural Development that the indebtedness is unsecured and cannot be enforced.

Note 4 – Changes in Fixed Assets:

<u>6/30/2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>6/30/2014</u>
\$ 19,500	-	-	19,500
14,427	-	-	14,427
757	-	-	757
2,336,237	-	-	2,336,237
6,728,079	-	-	6,728,079
662,126	-	-	662,126
<u>9,761,126</u>	<u>-</u>	<u>-</u>	<u>9,761,126</u>
 (2,326,492)	 (244,604)	 -	 (2,571,096)
 <u>\$ 7,434,634</u>	 <u>(244,604)</u>	 <u>-</u>	 <u>7,190,030</u>

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.

**SARDIS LAKE WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2014**

Note 7 – Going Concern:

Statements on Auditing Standards (SAS) No. 59 states the auditor's responsibility in all audits is to evaluate whether conditions or events identified during the audit indicate there could be substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time, not to exceed one year beyond the date of the financial statements being audited. The Authority is able to maintain daily operations, but cannot meet its loan obligations to Rural Development in the amount of \$11,646 per month, which has put the Authority in default. The Board is analyzing every opportunity to increase revenues to put the Authority in a position to cover the loan requirements with Rural Development's assistance.



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, 2014, 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 19, 2014.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting in order to determine our auditing procedures that are appropriate for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 13-1 to be a material weakness.

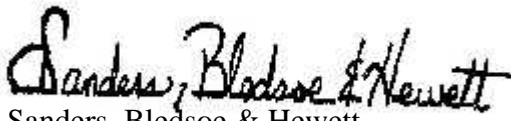
Compliance

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 19, 2014

**Sardis Lake Water Authority
Clayton, Oklahoma**

**Schedule of Findings and Questioned Costs
June 30, 2014**

B. Findings – Financial Statements Audit

Reportable Conditions

14-01 Segregation of Duties

Criteria: Segregation of duties over custody, bookkeeping and reconciliation is important to have adequate control over financial assets. Receiving reports are not attached to invoices. This is a repeat finding.

Condition: Due to its limited size, the Authority employs one individual who is responsible for certain duties that are incompatible with the objectives of effective internal control.

Cause: The Authority's limited size and resources result in the inability to provide sufficient staffing to fully segregate incompatible duties.

Effect: Without proper segregation of duties, the risk that errors, fraud or illegal acts could occur and not be detected within a timely basis increases.

Recommendation: Efficient segregation of duties is difficult in a small environment; however, this segregation of duties is an important one to seriously consider. The risk of errors or irregularities is somewhat mitigated by having an independent individual reconcile bank statements monthly. We recommend the Authority assess the feasibility of segregating the cash collection duties from those posting and adjusting customer accounts and posting to the accounting ledgers to the extent reasonably possible.

SARDIS LAKE WATER AUTHORITY

Clayton, Oklahoma

Sardis Lake Water Authority

Telephone 918-569-4685

Fax 918-569-4685

Post Office Box 430
Clayton, OK 74536-0430

Corrective Action Plan

June 30, 2014

USDA Rural Development
Gaylene Riley
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, 2014.

Independent Public Accounting Firm:

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

Audit Period: July 1, 2013 to June 30, 2014

The Findings from the June 30, 2014 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

13-02. 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.