

*FINANCIAL STATEMENTS*

*OF*

***ADAMSON RURAL  
WATER DISTRICT NO. 8  
PITTSBURG COUNTY, OKLAHOMA***

October 31, 2016



***Clothier & Company CPA's P.C.***

P.O. Box 1495 \* Muskogee, Ok 74402  
(918) 687-0189 FAX (918) 687-3594  
cccpa@yahoo.com



**ADAMSON RURAL WATER DISTRICT NO. 8**  
**Table of Contents**  
**October 31, 2016**

Independent Auditors' Report	2-3
Management Discussion and Analysis	I-II
Assets, Liabilities and Net Assets-Modified Cash Basis	4
Revenues, Expenses and Changes in Net Assets-Modified Cash Basis	5
Statement of Cash Flows-Modified Cash Basis	6
Notes to the Financial Statements	7-9
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	10-11



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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Adamson Rural Water District No. 8  
Pittsburg County Oklahoma

We have audited the accompanying statements of assets, liabilities and fund balances-modified cash basis as described in Note 1, and the revenues, expenses, and changes in fund balance-modified cash basis of Adamson Rural Water District No. 8, Pittsburg County, Oklahoma, as of and for the year ended October 31, 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 in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. 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.

### **Auditors' 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. 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 auditors' 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 entity'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 of the effectiveness of the entity'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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of Adamson Rural Water District No. 8 as of October 31, 2016, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

## **Basis of Accounting**

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

## **Other-Matters**

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Adamson Rural Water District N. 8, Pittsburg County, Oklahoma's basic financial statements. The management's discussion and analysis information on pages I-II, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2017, on our consideration of the District's internal control over financial reporting and on our test of its compliance with certain provision 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 and 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 District's internal control over financial reporting and compliance.



Clothier & Company, CPA's, P.C.  
Muskogee, Oklahoma  
March 23, 2017

Management Discussion and Analysis  
For year ended October 31, 2016

For Adamson Rural Water District #8, this is our presentation of the Management's Discussion and Analysis (MD&A). This analysis serves as an introduction to the financial statements for users to facilitate whether overall financial health has improved or deteriorated as a result of the past year's operation. A required component of the MD&A is to briefly describe the reasons for change in our assets, liabilities, revenue, and expenditures compared to the previous (2015) year.

**Business Activities:**

In this fiscal year, the District's total revenue increased by \$5,111 from 2015 and their expenses increased \$12,112 from 2015.

The District changed 38 customer meters and installed 15 new meters, which were new customers during the year. The District also added more to the automating of booster stations and water towers. These are capital improvements.

For the year ended October 31, 2016 total assets exceeded liabilities by \$1,009,395. The balance sheet has a net decrease of \$69,336 from 2015, which is attributable to the switch from accrual to cash basis of accounting.

**Future Activities of Adamson Rural Water District #8:**

In view of the ever changing technological advances, the District has high-speed internet and has a website to make it easier for some of our customers who pay bills on line to have the option of doing the same with their water bills. Customers are also able to report leaks and problems with their service on-line along with being kept up-to-date with what's going on with their water. The Consumer Confidence Report (CCR) is viewable on our website. The District's By-Laws and Rules and Regulations are also viewable on the website.

**Overall Outlook:**

The District continues to upgrade water lines, towers, valves, and other appurtenances whenever necessary along with doing routine maintenance day-to-day. Our system water loss continues to improve and we continue to improve the distribution system. The District remains financially strong as we make improvements throughout the system, meeting the EPA & DEQ standards, and paying our bills.

The economy still affects our efforts, and the cost of materials, fuel, etc. continue to increase. This is all out of our control; however, it has not stopped our service to our customers.

Mike Dunagan,  
Manager

**ADAMSON RURAL WATER DISTRICT NO. 8**  
**Assets, Liabilities and Net Assets-Modified Cash Basis**  
**October 31, 2016**

**ASSETS**

**Current Assets**

Cash and Cash Equivalents	\$377,286	
Accounts Receivable	0	
Inventory	0	
Prepaid Expenses	0	
<b>Total Current Assets</b>		377,286

**Fixed Assets**

Field Equipment	93,113	
Office Equipment	10,961	
Trucks and Equipment	155,422	
Building Improvements	22,350	
Water Plant	2,410,118	
Less: Accumulated Depreciation	(2,070,885)	
<b>Total Fixed Assets</b>		621,079

**Other Assets**

Bond Costs	169,852	
Less: Accumulated Amortization	(153,735)	
<b>Total Other Assets</b>		16,117

**Total Assets**

\$1,014,482

**LIABILITIES AND NET ASSETS**

**Current Liabilities**

Accounts Payable	\$0	
Accrued Expenses	5,087	
<b>Total Current Liabilities</b>		5,087

**Long Term Liabilities**

Notes Payable	0	
<b>Total Long Term Liabilities</b>		0

**Net Assets**

Invested in Capital Assets	621,079	
Restricted for Debt Service	0	
Unrestricted Net Assets	365,789	
Current Income (Loss)	22,527	
<b>Total Net Assets</b>		1,009,395

**Total Liabilities and Net Assets**

\$1,014,482

See accompany footnotes and independent auditors' reoport.

**ADAMSON RURAL WATER DISTRICT NO. 8**  
**Revenues, Expenses and Changes in Net Assets-Modified Cash Basis**  
**October 31, 2016**

<b>Revenue</b>	
Water Sales	\$826,981
Benefit Unit Sales	9,950
<b>Total Revenue</b>	836,931
 <b>Cost of Sales</b>	
Water Purchases	290,436
Vehicle Expenses	4,243
Equipment Maintenance/Rental	2,342
Water Testing	9,208
Field Supplies	50,016
Fuel	11,016
Plant Repairs	282
Contract Labor	0
<b>Total Cost of Sales</b>	367,543
<b>Gross Profit</b>	469,388
 <b>Operating Expenses</b>	
Salaries	243,608
Payroll Taxes	20,555
Insurance	48,909
Workman's Compensation Insurance	13,155
Accounting/Legal	6,210
Maintenance Agreements	4,066
License/Permits	246
DEQ Fees	495
Miscellaneous	4,058
Maintenance Supplies	498
Bank Charges	0
Advertising	11,353
Office Supplies	5,493
Telephone	5,992
Utilities	16,203
Depreciation	102,567
Credit Card Fees	25
<b>Total Operating Expense</b>	483,433
<b>Operating Income</b>	(14,045)
Interest Income	619
Gain on sale of assets	22,000
Miscellaneous Income	13,953
<b>Total Other Income (Expense)</b>	36,572
<b>Change in Net Assets</b>	\$22,527

See accompanying footnotes and independent auditors' report.

**Adamson Rural Water District No. 8**  
**Statement of Cash Flows-Modified Cash Basis**  
**October 31, 2016**

**Cash Flows From Operating Activities:**

Cash received from customers	\$	858,895
Cash received from other sources		13,953
Cash paid to employees		(243,608)
Cash paid to suppliers		(308,263)
Other operating payments		(124,879)
<b>Net Cash Flows from Operating Activities</b>		<u>196,098</u>

**Cash Flows From Capital and Related**

**Financing Activities:**

Disposition of Assets		0
Payment of debt		0
Acquisition and construction of capital assets		(76,748)
Payment of Interest		0
<b>Net Cash (Used) By Capital and Related Financing Activities</b>		<u>(76,748)</u>

**Cash Flows From Investing Activities:**

Decrease (Increase) in restricted cash		0
Receipt of interest and dividends		619
<b>Net Cash Provided (Used) By Investing Activities</b>		<u>619</u>

**Cash Flows From Other Activities:**

Gain on sale of assets		22,000
Conversion to cash basis reporting		(92,515)
<b>Net Cash Provided (Used) By Other Activities</b>		<u>(70,515)</u>

<b>Net Increase (Decrease) In Cash</b>		49,454
<b>Cash Beginning of Year</b>		327,832
<b>Cash End of Year</b>	\$	<u><u>377,286</u></u>

**Reconciliation of Operating Income to Net Cash Flows from Operating Activities:**

Operating income (loss)	\$	(14,045)
Add depreciation expense		102,567
Add other operating receipts		13,953
(Increase)/Decrease in Current Assets:		
Accounts receivables, net		21,964
Prepaid expenses		11,608
Inventory		59,399
Increase/(Decrease) in Current Liabilities:		
Accounts payable		(119)
Accrued expenses		771
<b>Net Cash Flows from Operating Activities</b>	\$	<u><u>196,098</u></u>

See accompanying footnotes and independent auditors' report.

**NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Adamson Rural Water District No. 8 is a nonprofit corporation organized pursuant to the provisions of Title 68 Revenue and Taxation O.S. Section 1234.1 on February 27, 1981. The purpose of the company is to provide for the use and benefit of its members a waterworks and distribution system.

Basis of Accounting

The financial statements of the District are prepared using the modified cash basis of accounting where revenues are recognized when received and expenses are recognized when paid. Other modifications to the cash basis of accounting include recording depreciation on property and equipment and accruing for payroll taxes. This is a comprehensive basis of accounting other than generally accepted accounting principles.

The District's financial statements are prepared using a method other than generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the District had the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, it has chosen not to do so.

Cash and Cash Equivalents

For the purposes of preparing the statement of cash flows, cash on hand, cash in savings and checking, and certificates of deposit with an original maturity of three months or less, are considered cash equivalents.

Funds on Deposits

The district maintains opened a new money market account this year at First Bank NA.

Operating & Maintenance Account FNB – The gross revenues of the District are deposited to this account and the bills are generally paid.

Property and Equipment

Property and equipment are recorded at cost, with depreciation provided on a straight-line method over the estimated useful lives of the assets.

Income Tax

As a nonprofit corporation in the State of Oklahoma, the District is exempt from income taxes.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Vacation, Sick Leave, and Other Compensated Absences

The District has written policies for full-time employees to be entitled to annual leave which may not be carried over from one year to the next. Employees of the District shall be granted 24 hours sick leave during the first six months of employment. The first working day after six months employment, the employee shall earn a total of (7) seven hours sick leave per month until a maximum of 84 hours has been obtained. Sick leave may be carried over from year to year but 84 hours is the total accruable amount. When terminating employment with the District, an employee may not collect payment of the accrued sick leave.

**NOTE 2 – LONG TERM DEBT**

The District has no debt as of October 31, 2016.

**NOTE 4 - CONCENTRATION OF CREDIT RISK**

The District maintains deposits at First National Bank & Trust located in McAlester, Oklahoma. The Federal Deposit Insurance Corporation insures deposits up to \$250,000 at each institution for all demand deposit accounts and up to \$250,000 at each institution for all time and savings accounts. As of October 31, 2016 cash balances totaled \$327,286 (\$300 cash on hand included). All deposits were covered by FDIC or secured pledges at October 31, 2016.

**NOTE 5 - PROPERTY AND EQUIPMENT**

	Balance 10/31/2015	Acquisitions/ Deletions	Accumulated Depreciation	Balance 10/31/2016
Water Plant	2,410,118	0	(1,890,500)	519,618
Building Improvement	22,350	0	(3,973)	18,377
Field Equipment	16,366	76,747	(28,428)	64,685
Office Equipment	10,961	0	(8,474)	2,487
Trucks/Equipment	155,422	0	(139,510)	15,912
	<u>2,615,217</u>	<u>76,747</u>	<u>(2,070,885)</u>	<u>621,079</u>

**NOTE 7 – MISCELLANEOUS INCOME**

Miscellaneous income consists of the following amounts for the year end October 31, 2016:

PCWA reimbursements	\$3,070
Latimer County reimbursements	10,496
Miscellaneous reimbursements/credits	340
Other miscellaneous sales	<u>47</u>
Miscellaneous income	<u><u>\$13,953</u></u>

**NOTE 8 – CHANGE IN ACCOUNTING METHOD**

Adamson Rural Water District No. 8 has elected to change from the accrual method of accounting to the modified cash basis of accounting to reduce audit expenses incurred with the observation of inventory. The effect on the financial statements is summarized below.

	<u>Cash</u>	<u>Accrual</u>	<u>Difference</u>
Assets	<u>\$1,014,482</u>	<u>\$1,107,453</u>	<u>(\$92,971)</u>
Liabilities	\$5,087	\$6,550	(\$1,463)
Fund Balance	<u>1,009,395</u>	<u>1,100,903</u>	<u>(91,508)</u>
Liabilities & Fund Balance	<u>\$1,014,482</u>	<u>\$1,107,453</u>	<u>(\$92,971)</u>
Revenues	\$836,931	\$836,931	\$0
Expenses	850,976	851,983	(1,007)
Other Income	<u>36,572</u>	<u>36,572</u>	<u>0</u>
Net Income	<u>\$22,527</u>	<u>\$21,520</u>	<u>\$1,007</u>

**NOTE 9 – SUBSEQUENT EVENTS**

Subsequent Events have been evaluated through the date which the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.



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P.O. Box 1495  
Muskogee, Oklahoma 74402  
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**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***

To the Board of Directors  
Adamson Rural Water District No. 8  
Pittsburg County, Oklahoma

We have audited, in accordance with auditing standards generally accepted in the United States of American and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Adamson Rural Water District No. 8 (District), as of and for the years ended October 31, 2016, and the related notes to the financial statements, which collective comprise District's basic financial statements, and have issued our report thereon dated March 23, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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.

*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 entity'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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Adamson Rural Water District No. 8's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Clothier & Company, CPA's, P.C.  
March 23, 2017