

FINANCIAL STATEMENTS

OF

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

October 31, 2012



Clothier & Company CPA's P.C.

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



Clothier & Company CPA's P.C.
cccpa@yahoo.com

P.O. Box 1495
Muskogee, Oklahoma 74402
918-687-0189 FAX 918-687-3594

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the business type activities of Adamson Rural Water District No. 8, Pittsburg County, Oklahoma, as of October 31, 2012, which comprise the District's basic financial statements. These financial statements are the responsibility of Adamson Rural Water District No. 8's management. Our responsibility is to express an opinion 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 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 previously present fairly, in all material respects, the respective financial position of the business-type activities of Adamson Rural Water District No. 8, as of October 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2013 on our consideration of Rural Water District No. 8's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management discussion and analysis on pages I and II be presented to supplement the basic

financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Clothier & Company CPA's

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

March 29, 2013

Management Discussion and Analysis
For Year Ended October 31, 2012

For Adamson Rural Water District #8, this is our presentation of 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 revenue, liability, asset, and expenditure balances compared to the previous (2011) year.

Business Activities:

In this review, total revenue account decreased by \$116,882 over 2011. The decrease is due to a \$26,433 decrease in water revenue received by customers. We have \$112,554.93 in CD's at BancFirst in OKC for debt service to be used for nonpay; \$397,265.22 a CD at First National Bank in McAlester; \$75,705.97 in another CD at First National Bank in McAlester; and \$148,907.46 at First National in Hartshorne for general day-to-day business. This is a total of \$734,433.58 in monies for ARWD#8.

The District's expenses increased \$25,025 over 2011. Even though some expenses decreased (Fuel Expense -\$1,304; Water Samples -\$218; Interest Expense -\$1,678), other expenses increased (Payroll Expense +\$7,450; Utilities +\$2,164; Insurance & Bonds +\$287; Office Supplies +\$131; Depreciation Expense +\$7,633; Water Cost +\$1,680; Field Supplies +\$16,174; Medical Insurance +\$1,492). The District changed 240 customer meters and installed 25 new water meters, which are new customers, during the year. The District also added more to the automating of booster stations and water towers. The District also installed automatic read meters on a few of the main lines to monitor flow. Both of these would be a capital improvement.

For the year ended October 31, 2012, total assets exceeded liabilities by \$454,432. The District has a note payable to Oklahoma Water Resources Board in the amount of \$635,000. The balance sheet has a net decrease of \$77,485. The requirement for our loan from Water Resources Board is to have 1.25% of expenses. Pittsburg County Water Authority increased water rates. We increased water rates to include PCWA's cost to meet the 1.25% requirement.

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 also being kept up-to-date with what's going on with their water. The Consumer Confidence Report (CCR) is viewable on our website. Adamson Rural Water District #8 By-Laws and Rules and Regulations are also viewable on our website.

The District also continues to upgrade water lines, towers, valves, and other appurtanences whenever necessary along with doing routine maintenance day to day.

Overall Outlook:

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 effects our efforts, and the cost of materials, fuel, etc. continues to increase. This is all out of our control; however, it has not stopped our continuation of service to our customers.


Manager

ADAMSON RURAL WATER DISTRICT NO. 8
Balance Sheet
October 31, 2012

ASSETS

Current Assets

Cash & Equivalents	\$	149,987
Accounts Receivable		74,035
Inventory		67,922
Prepaid Expenses		<u>9,987</u>

Total Current Assets \$ 301,931

Fixed Assets

Water Systems		2,393,647
Purchased Field Equipment		14,617
Office Equipment		5,485
Trucks and Equipment		172,576
Less: Accumulated Depr. & Amort.		<u>(1,791,785)</u>

Total Fixed Assets 794,540

Other Assets

Bond Costs		169,852
Less: Accumulated Amortization		(108,443)
Certificate of Deposit 72895		397,265
Certificate of Deposit 72781		75,706
Restricted Cash		<u>130,001</u>

Total Other Assets 664,381

Total Assets \$ 1,760,852

See accompanying footnotes and auditors' report.

ADAMSON RURAL WATER DISTRICT NO. 8
Balance Sheet
October 31, 2012

LIABILITIES AND EQUITY

Current Liabilities			
Accounts Payable	\$	9,738	
Accrued Expenses		8,472	
Current Maturities of Long-Term Debt		80,000	
Total Current Liabilities			\$ 98,210
 Long Term Liabilities			
Notes Payable		555,000	
Total Long Term Liabilities			555,000
 Equity			
Invested in Capital Assets		159,540	
Restricted for Debt Service		130,001	
Unrestricted Net Assets		807,123	
Current Income (Loss)		10,978	
Total Equity			\$ <u>1,107,642</u>
Total Liabilities & Equity			\$ <u><u>1,760,852</u></u>

See accompanying footnotes and auditors' report.

ADAMSON RURAL WATER DISTRICT NO. 8
Income Statement
For the Period Ended October 31, 2012

Revenue		
Water Sales	\$	867,158
Benefit Unit Sales		<u>5,490</u>
Total Revenue		872,648
Cost of Sales		
Water Purchases		321,930
Heavy Equipment Agreement		4,590
Equipment Maintenance		5,870
Water Testing		1,716
Field Supplies		44,059
Fuel		16,701
Contract Labor		<u>2,778</u>
Total Cost of Sales		<u>397,644</u>
Gross Profit		475,004
Operating Expenses		
Salaries		215,500
Bonus		6,000
Payroll Taxes		21,996
Insurance		35,201
Workman's Compensation Ins.		17,910
Accounting		4,000
Legal		1,926
Bank One Trust Fees		1,000
Bank Charges		27
Office Supplies		5,680
Postage		8,477
Board Meeting		5,300
Telephone		6,691
Utilities		15,782
Depreciation		89,205
Credit Card Fees		<u>2,635</u>
Total Operating Expenses		<u>437,330</u>
Operating Income		37,674
Interest Revenue		5,758
Interest Expense		<u>32,454</u>
Total Other Income		<u>(26,696)</u>
Net Income (Loss)	\$	<u><u>10,978</u></u>

See accompanying footnotes and auditors' report.

Adamson Rural Water District No. 8
STATEMENT OF CASH FLOWS
As of October 31, 2012

Cash Flows From Operating Activities:

Cash received from customers	\$	879,164
Cash received from other sources		0
Cash paid to employees		(215,500)
Cash paid to suppliers		(1,151)
Other operating payments		(542,585)
Net Cash Flows from Operating Activities		119,928

Cash Flows From Capital and Related

Financing Activities:

Disposition of Assets		0
Payment of debt		(75,000)
Acquisition and construction of capital assets		(42,182)
Payment of Interest		(32,454)
Net Cash (Used) By Capital and Related Financing Activities		(149,636)

Cash Flows From Investing Activities:

Decrease (Increase) in restricted cash		(1,305)
Receipt of interest and dividends		5,758
Net Cash Provided (Used) By Investing Activities		4,453

Net Increase (Decrease) In Cash		(25,255)
Cash Beginning of Year		648,213
Cash End of Year	\$	622,958

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

Operating income (loss)	\$	37,674
Add depreciation expense		89,205
(Increase)/Decrease in Current Assets:		
Accounts receivables, net		7,457
Prepaid expenses		(941)
Inventory		0
Increase/(Decrease) in Current Liabilities:		
Accounts payable		(1,151)
Accrued expenses		(12,316)
Customer deposits		0
Net Cash Flows from Operating Activities	\$	119,928

See accompanying footnotes and 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.

Method of Accounting

The accrual method of accounting is utilized in reporting financial information in accordance with generally accepted accounting principles. The accrual basis of accounting records revenue in the period in which earned rather than when received and records expenses in the period incurred rather than when paid.

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 one bank account. The District conducts all its banking and investment transactions with depository banks.

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

Certificate of Deposit FNB – The District has two, two year certificates of deposit with First National Bank. The certificates will mature on January 13, 2014 and March 18, 2014 respectively.

Restricted/Debt Service Account BF – The District transfers money into this account with BancFirst monthly to satisfy loan requirements. The Trust company then makes semi-annual payments to the bondholders.

OWRB Account – Investment account with BancFirst. Dividends received are transferred to the Debt Service Account and used when needed to pay trust fees or loan requirements.

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.

Inventory

Inventory is recorded at original cost using the first-in, first-out method.

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. Employee 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

Note payable to Oklahoma Water Resources Board has a balance of \$635,000 of which \$80,000 is currently due and \$555,000 is long term. Monthly payments are made to the Bancfirst Debt Service account. Semi-annual interest payments and annual principal payments are made to OWRB from the Debt Service account. The current interest rate is 4.645%. The note is scheduled to retire in 2019

The following are the current maturity and debt service requirements of Long-Term Debt at current interest rates:

	Maturities	Debt-Service
2013	80,000	109,721
2014	80,000	106,605
2015	85,000	107,489
2016	90,000	108,116
2017	95,000	108,935
Through 2019.....	205,000	219,400
	635,000	\$760,266
	635,000	\$760,266

NOTE 3 - ACCOUNTS RECEIVABLE

All receivables are reported at their gross value and, where appropriate, are reduced by the amount directly written off as uncollectible. The accounts receivable consists of October 2012 water billings that were collected in November 2012. Therefore an allowance for doubtful accounts is considered unnecessary.

NOTE 4 - CONCENTRATION OF CREDIT RISK

The District maintains deposits at several financial institutions located in Oklahoma. The Federal Deposit Insurance Corporation insures deposits up to \$250,000 at each institution for all time and savings accounts and up to \$250,000 for all demand deposits. As a public entity The District also has \$325,000 Collateral Securities Pledged with First National Bank. As of October 31, 2012 cash balances totaled \$547,252 (\$300 cash on hand not included). The custodial risk of all deposits are categorized as insured by FDIC and covered by pledged securities.

Adamson Rural Water District No. 8

The District's deposits are detailed as follows at October 31, 2012:

Financial Institution	<u>Balance</u>	<u>FDIC Insured</u>	<u>Covered (At Risk)</u>
First National - Checking	\$149,687	\$250,000	\$100,313
First National - CD	<u>472,971</u>	<u>250,000</u>	<u>(222,971)</u>
Totals	<u>\$622,658</u>	<u>\$500,000</u>	(122,658)
First National Pledged Securities			<u>325,000</u>
			<u>\$202,342</u>

NOTE 5 - PROPERTY AND EQUIPMENT

	<u>Balance 10/31/2011</u>	<u>Acquisitions/ Deletions</u>	<u>Accumulated Depreciation</u>	<u>Balance 12/31/2012</u>
Water System	2,383,914	9,733	(1,640,893)	752,754
Equipment	14,617	0	(14,617)	0
Office Equipment	5,485	0	(5,331)	154
Automotive	<u>140,127</u>	<u>32,449</u>	<u>(130,944)</u>	<u>41,632</u>
	<u>2,544,143</u>	<u>42,182</u>	<u>(1,791,785)</u>	<u>794,540</u>

NOTE 6 – INVENTORY

Items in inventory consist of finished goods to be used for the repair and maintenance of the Water District's infrastructure. The items are not for sale. Inventories are stated at original cost of the prior year. A physical inventory was not taken at the end of the year, and the value of the inventory at the end of the current year has not been determined.

NOTE 7 – SUBSEQUENT EVENTS

Subsequent Events have been evaluated through March 29, 2013, which is the date 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.



Clothier & Company CPA's P.C.
cccpa@yahoo.com

P.O. Box 1495
Muskogee, Oklahoma 74402
FAX 918-687-3594 918-687-0189

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 of
Adamson Rural Water District No. 8
Hartshorne, Oklahoma

We have audited the financial statements of Adamson Rural Water District No. 8 as of and for the year ended October 31, 2012, and have issued our report thereon dated March 29, 2013. 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.

Internal Control Over Financial Reporting

Management of Adamson Rural Water District No. 8 is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of 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 over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain a deficiency in internal control over financial reporting we consider 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We do not consider the deficiency described in the accompanying schedule of findings and responses as 2012-1 to be a material weakness.

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 2012-1 to be a significant deficiency.

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*.

Adamson Rural Water District No. 8's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Adamson Rural Water District No. 8's response and, accordingly we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors, other within the entity and the State Auditor and Inspector and is not intended to be and should not be used by anyone other than these specified parties.



Clothier & Company CPA's
March 29, 2013

ADAMSON RURAL WATER DISTRICT NO. 8
PITTSBURG COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
For the Period Ended October 31, 2012

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued. – Qualified

Internal control over financial reporting:

- Material weaknesses identified? X Yes No
- Control deficiencies identified that are not considered to be material weaknesses? X Yes No

Noncompliance material to financial statements noted? Yes X No

Section II – Financial Statement Findings

2012-1 – Bank reconciliation

Condition – The client does not have a policy in place to monitor bank reconciliation from the bank statement to the general ledger on a monthly basis.

Effect – The District is exposed to the risk of a misstatement of cash due to error or fraud.

Cause – Reconciliation of the bank statement to the general ledger is not completed on a monthly basis in a manner consistent with generally accepted accounting principals.

Recommendation – Implement a policy where the Treasurer of the District reviews adherence to District policies concerning handling of financial records including the bank reconciliation.

Entity’s Response – The bank reconciliation is done monthly and presented to the board monthly. There was an error in posting to the general ledger where the credit was posted as a debit and the debit as a credit. The error has been corrected.