

***FINANCIAL STATEMENTS***

**OF**

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

**October 31, 2013**



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

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**ADAMSON RURAL WATER DISTRICT NO. 8**  
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**October 31, 2013**

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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 financial statements of Adamson Rural Water District No. 8, Pittsburg County Oklahoma, as of and for the year ended October 31, 2013, 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 accounting principles generally accepted in the United States of America; this includes 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 financial position of Adamson Rural Water District No. 8, as of October 31, 2013, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other-Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion information on pages I-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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 4, 2014, 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

April 4, 2014

Management Discussion and Analysis  
For year ended October 31, 2013

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 (2012) year.

**Business Activities:**

In this fiscal year, total revenue decreased by \$77,560 from 2012. The decrease is due to a \$79,281 decrease in water revenue received by customers. The District's expenses increased \$24,300 over 2012. Even though some expenses decreased (Fuel Expense -\$3,686; Payroll Expense -\$6,823; Interest Expense -\$3,751; Office Supplies -\$1,167; Water Costs -13,954; and Medical Insurance -\$2,246), other expenses increased (Utilities \$1,338; Insurance & Bonds \$794; Depreciation Expense \$113; Field Supplies \$12,051 and Water Samples \$218).

The District changed 82 customer meters and installed 31 new meters, which were new customers during the year. The District also added more to the automating of booster stations and water towers. The District installed automatic read meters on a few of the main lines to monitor flow. Both of these are capital improvements.

We have \$129,759 in BancFirst in Oklahoma City for debt service, to be used in case of non-payment; \$401,854 in a certificate of deposit (CD) at First National Bank in McAlester; \$76,657 in another CD at First National Bank in McAlester; and \$127,650 at First National in Hartshorne for general day-to-day business. This is a total of \$736,109 in monies for Adamson Rural Water District No. 8.

For the year ended October 31, 2013 total assets exceeded liabilities by \$1,054,667. The balance sheet has a net decrease of \$137,004 from 2012. The District has a note payable to Oklahoma Water Resources Board (OWRB) in the amount of \$475,000. The requirement of our loan from OWRB is to have revenues available for debt service equal to at least 125% of the maximum annual amount required for debt service on all obligations. When Pittsburg County Water Authority increased water rates we increased water rates to include PCWA's cost to meet the 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 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**

**Balance Sheet  
October 31, 2013**

**ASSETS**

**Current Assets**

Cash and Cash Equivalents	\$127,839	
Accounts Receivable	20,764	
Inventory	57,266	
Prepaid Expenses	9,987	
<b>Total Current Assets</b>		<u>215,856</u>

**Fixed Assets**

Field Equipment	14,617	
Office Equipment	5,485	
Trucks and Equipment	155,422	
Water Plant	2,402,068	
Less: Accumulated Depreciation	(1,827,956)	
<b>Total Fixed Assets</b>		<u>749,636</u>

**Other Assets**

Bond Costs	169,852	
Less: Accumulated Amortization	(119,766)	
Certificates of Deposits	478,511	
Restricted Cash	129,759	
<b>Total Other Assets</b>		<u>658,356</u>

**Total Assets**

\$1,623,848

**LIABILITIES AND NET ASSETS**

**Current Liabilities**

Accounts Payable	\$7,105	
Accrued Expenses	7,076	
Current Maturities of Long Term Debt	80,000	
<b>Total Current Liabilities</b>		<u>94,181</u>

**Long Term Liabilities**

Notes Payable	475,000	
<b>Total Long Term Liabilities</b>		<u>475,000</u>

**Net Assets**

Invested in Capital Assets	194,636	
Restricted for Debt Service	129,759	
Unrestricted Net Assets	783,247	
Current Income (Loss)	(52,975)	
<b>Total Net Assets</b>		<u>1,054,667</u>

**Total Liabilities and Net Assets**

\$1,623,848

See accompanying notes and independent auditors' report.



**ADAMSON RURAL WATER DISTRICT NO. 8**

**Balance Sheet  
October 31, 2013**

**Revenue**

Water Sales	\$787,877
Benefit Unit Sales	7,211
<b>Total Revenue</b>	<u>795,088</u>

**Cost of Sales**

Water Purchases	307,976
Vehicle Expenses	5,318
Equipment Maintenance	6,422
Water Testing	1,934
Field Supplies	56,110
Fuel	13,015
Plant Repairs	5,723
Contract Labor	500
<b>Total Cost of Sales</b>	<u>396,998</u>

**Gross Profit** 398,090

**Operating Expenses**

Salaries	216,160
Bonuses	9,588
Payroll Taxes	15,173
Insurance	35,995
Workman's Compensation Insurance	15,884
Accounting/Legal	5,650
Maintenance Agreements	19,424
License/Permits	300
DEQ Fees	329
Trust Fees	1,000
U.S. Corp Lease	1
Miscellaneous	9,842
Maintenance Supplies	144
Bank Charges	27
Advertising	9,659
Office Supplies	4,513
Board Meeting	5,400
Telephone	5,495
Reimbursements	832
Utilities	17,120
Depreciation	89,663
Credit Card Fees	3,185
<b>Total Operating Expense</b>	<u>465,384</u>

**Operating Income** (67,294)

Interest Income	5,739
Interest Expense	(28,700)
Miscellaneous Income	37,280
<b>Total Other Income (Expense)</b>	<u>14,319</u>

**Net Income (Loss)** (\$52,975)

See accompanying notes and independent auditors' report.

**Adamson Rural Water District No. 8**  
**Statement of Cash Flows**  
**October 31, 2013**

**Cash Flows From Operating Activities:**

Cash received from customers	\$	848,359
Cash received from other sources		42,260
Cash paid to employees		(217,556)
Cash paid to suppliers		(388,975)
Other operating payments		(159,561)
<b>Net Cash Flows from Operating Activities</b>		<b>124,527</b>

**Cash Flows From Capital and Related**

**Financing Activities:**

Disposition of Assets		0
Payment of debt		(80,000)
Acquisition and construction of capital assets		(38,416)
Payment of Interest		(28,700)
<b>Net Cash (Used) By Capital and Related Financing Activities</b>		<b>(147,116)</b>

**Cash Flows From Investing Activities:**

Decrease (Increase) in restricted cash		242
Decrease (Increase) in certificates of deposit		(5,540)
Receipt of interest and dividends		5,739
<b>Net Cash Provided (Used) By Investing Activities</b>		<b>441</b>

<b>Net Increase (Decrease) In Cash</b>		(22,148)
<b>Cash Beginning of Year</b>		149,987
<b>Cash End of Year</b>	\$	<b>127,839</b>

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

Operating income (loss)	\$	(67,294)
Add depreciation expense		89,663
Add other operating receipts		42,260
(Increase)/Decrease in Current Assets:		
Accounts receivables, net		53,271
Prepaid expenses		0
Inventory		10,656
Increase/(Decrease) in Current Liabilities:		
Accounts payable		(2,633)
Accrued expenses		(1,396)
<b>Net Cash Flows from Operating Activities</b>	\$	<b>124,527</b>

See accompanying notes 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.

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.

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.

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

Adamson Rural Water District No. 8

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 \$555,000 of which \$80,000 is currently due and \$475,000 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 3.895% and will increase to 5.145% in August 2014. 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:

	<u>Current</u> <u>Maturities</u>	<u>Interest</u>	<u>Debt</u> <u>Service</u>
2014	80,000	26,605	106,605
2015	85,000	22,489	107,489
2016	90,000	18,116	108,116
2017	95,000	13,935	108,935
2018	100,000	9,522	109,522
2019	105,000	4,877	109,877
Total	<u>555,000</u>	<u>95,544</u>	<u>650,544</u>

**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 2013 water billings that were collected in November 2013. Therefore an allowance for doubtful accounts is considered unnecessary.

**NOTE 4 - CONCENTRATION OF CREDIT RISK**

The District maintains deposits at First National Bank & Trust located in McAlester, Oklahoma. The Federal Deposit Insurance Corporation up to \$500,000 insures deposits at each institution for all interest-bearing accounts. The District has pledged securities for \$330,120 through First National Bank & Trust located in McAlester. As of October 31, 2013 cash balances totaled \$606,350 (\$300 cash on hand included). Deposits are categorized into three levels of custodial risk as follows:

1. Uncollateralized.
2. Collateralized with securities held by the pledging financial institution, or,
3. Collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor's name.

Adamson Rural Water District No. 8

The District's deposits are detailed as follows at October 31, 2013:

	<u>Balance</u>	<u>Insured</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>
First Bank Checking	\$127,539	250,000	0	0	0
First Bank CD #1	\$401,854	250,000	0	151,854	0
First Bank CD #2	\$76,657	0	0	76,657	0
	<u>\$606,050</u>	<u>\$500,000</u>	<u>\$0</u>	<u>\$228,510</u>	<u>\$0</u>

**NOTE 5 - PROPERTY AND EQUIPMENT**

	<u>Balance 10/31/2012</u>	<u>Acquisitions/ Deletions</u>	<u>Accumulated Depreciation</u>	<u>Balance 10/31/2013</u>
Water Plant	2,393,647	8,421	(1,703,418)	698,650
Field Equipment	14,617	0	(14,617)	0
Office Equipment	5,485	0	(5,462)	23
Trucks/Equipment	172,575	(17,154)	(104,458)	50,963
	<u>2,586,324</u>	<u>(8,733)</u>	<u>(1,827,955)</u>	<u>749,636</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 – MISCELLANEOUS INCOME**

Miscellaneous income consists of the following amounts for the year end October 31, 2013:

Insurance reimbursement/rebates	\$5,976
Miscellaneous reimbursements/credits	379
Sale of scrap materials/utility truck	1,329
Other miscellaneous sales	2,286
Philadelphia Insurance for totaled truck	<u>27,310</u>
Miscellaneous income	<u>\$37,280</u>

**NOTE 8 – SUBSEQUENT EVENTS**

Subsequent Events have been evaluated through April 4, 2014, 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.



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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 America 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 Pittsburg County, Oklahoma, as of and for the years ended October 31, 2013, and the related notes to the financial statements, which collective comprise Adamson Rural Water District No. 8's basic financial statements, and have issued our report thereon dated April 4, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Adamson Rural Water District No. 8'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.

A handwritten signature in cursive script that reads "Clothier & Company CPA's".

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

April 4, 2014