

FINANCIAL STATEMENTS

OF

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

October 31, 2014



Clothier & Company CPA's P.C.

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ADAMSON RURAL WATER DISTRICT NO. 8
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October 31, 2014

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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, 2014, 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.

Basis for Qualified Opinion on the Inventory

The inventory of Adamson Rural Water District No. 8 has not been audited, and we were not engaged to audit the inventory.

Qualified Opinion

In our opinion, except for the possible effects of the matter discussed in the “Basis for Qualified Opinion on the Inventory” paragraph, 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, 2014, and the changes in financial position 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 13, 2015, 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 13, 2015

Management Discussion and Analysis
For year ended October 31, 2014

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 (2013) year.

Business Activities:

In this fiscal year, total revenue increased by \$14,253 from 2013. The increase is due to a \$46,364 increase in water revenue received from customers and a decrease in other income of -\$29,798. The District's expenses decreased \$55,627 over 2013. Even though some expenses decreased (Payroll Expense -\$19,527; Interest Expense - \$2,094; Field Supplies -\$22,384; Maintenance Agreements -\$18,910 and Insurance - \$4,385), other expenses increased (Fuel \$8,818; Other Expenses \$23,242; and Water Samples \$6,016).

The District changed 67 customer meters and installed 10 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.

The District used the \$129,759 in BancFirst in Oklahoma City for debt service, and \$404,148 in a certificate of deposit (CD) at First National Bank in McAlester; \$76,898 in another CD at First National Bank in McAlester and paid the OWRB loan in full in April 2014 .

For the year ended October 31, 2014 total assets exceeded liabilities by \$1,075,985. The balance sheet has a net decrease of \$542,830 from 2013. The decrease is due to paying off the OWRB loan.

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, 2014

ASSETS

Current Assets

Cash and Cash Equivalents	\$236,929	
Accounts Receivable	24,266	
Inventory	68,502	
Prepaid Expenses	11,608	

Total Current Assets 341,305

Fixed Assets

Field Equipment	16,400	
Office Equipment	10,961	
Trucks and Equipment	155,422	
Building Improvements	22,350	
Water Plant	2,402,068	
Less: Accumulated Depreciation	(1,906,251)	

Total Fixed Assets 700,950

Other Assets

Bond Costs	169,852	
Less: Accumulated Amortization	(131,089)	
Certificates of Deposits	0	
Restricted Cash	0	

Total Other Assets 38,763

Total Assets \$1,081,018

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts Payable	\$1,520	
Accrued Expenses	3,513	
Current Maturities of Long Term Debt	0	

Total Current Liabilities 5,033

Long Term Liabilities

Notes Payable	0	

Total Long Term Liabilities 0

Net Assets

Invested in Capital Assets	700,950	
Restricted for Debt Service	0	
Unrestricted Net Assets	353,717	
Current Income (Loss)	21,318	

Total Net Assets 1,075,985

Total Liabilities and Net Assets \$1,081,018

See accompany footnotes and independent auditors' reoport.

ADAMSON RURAL WATER DISTRICT NO. 8
Balance Sheet
October 31, 2014

Revenue	
Water Sales	\$834,241
Benefit Unit Sales	12,223
Total Revenue	846,464
 Cost of Sales	
Water Purchases	307,883
Vehicle Expenses	3,719
Equipment Maintenance/Rental	6,106
Water Testing	7,950
Field Supplies	33,726
Fuel	21,833
Plant Repairs	735
Contract Labor	684
Total Cost of Sales	382,636
Gross Profit	463,828
 Operating Expenses	
Salaries	196,633
Bonuses	1,325
Payroll Taxes	14,564
Insurance	31,610
Workman's Compensation Insurance	14,160
Accounting/Legal	6,477
Maintenance Agreements	514
License/Permits	154
DEQ Fees	606
Trust Fees	667
U.S. Corp Lease	0
Miscellaneous	33,084
Maintenance Supplies	762
Bank Charges	30
Advertising	9,479
Office Supplies	4,564
Board Meeting	1,600
Telephone	6,164
Reimbursements	179
Utilities	17,690
Depreciation	89,618
Credit Card Fees	3,409
Total Operating Expense	433,289
Operating Income	30,539
Interest Income	2,827
Interest Expense	(19,530)
Miscellaneous Income	7,482
Total Other Income (Expense)	(9,221)
Net Income (Loss)	\$21,318

See accompanying footnotes and independent auditors' report.

Adamson Rural Water District No. 8
Statement of Cash Flows
October 31, 2014

Cash Flows From Operating Activities:

Cash received from customers	\$	842,962
Cash received from other sources		7,482
Cash paid to employees		(200,196)
Cash paid to suppliers		(399,457)
Other operating payments		(148,659)
Net Cash Flows from Operating Activities		<u>102,132</u>

Cash Flows From Capital and Related

Financing Activities:

Disposition of Assets		0
Payment of debt		(555,000)
Acquisition and construction of capital assets		(29,609)
Payment of Interest		(19,530)
Net Cash (Used) By Capital and Related Financing Activities		<u>(604,139)</u>

Cash Flows From Investing Activities:

Decrease (Increase) in restricted cash		129,759
Decrease (Increase) in certificates of deposit		478,511
Receipt of interest and dividends		2,827
Net Cash Provided (Used) By Investing Activities		<u>611,097</u>

Net Increase (Decrease) In Cash		109,090
Cash Beginning of Year		<u>127,839</u>
Cash End of Year	\$	<u><u>236,929</u></u>

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

Operating income (loss)	\$	30,539
Add depreciation expense		89,618
Add other operating receipts		7,482
(Increase)/Decrease in Current Assets:		
Accounts receivables, net		(3,502)
Prepaid expenses		(1,621)
Inventory		(11,236)
Increase/(Decrease) in Current Liabilities:		
Accounts payable		(5,585)
Accrued expenses		(3,563)
Net Cash Flows from Operating Activities	\$	<u><u>102,132</u></u>

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.

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 affect 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 was paid in full April 2014. The note was scheduled to retire in 2019

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 2014 water billings that were collected in November 2014. 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. As of October 31, 2014 cash balances totaled \$236,929 (\$300 cash on hand included). All deposits were covered by FDIC at October 31, 2014.

NOTE 5 - PROPERTY AND EQUIPMENT

	Balance 10/31/2013	Acquisitions/ Deletions	Accumulated Depreciation	Balance 10/31/2014
Water Plant	2,402,067	0	(1,765,361)	636,706
Building Improv.	0	22,350	(993)	21,357
Field Equipment	14,618	1,782	(14,793)	1,607
Office Equipment	5,485	5,477	(6,284)	4,678
Trucks/Equipment	155,422	0	(118,820)	36,602
	<u>2,577,592</u>	<u>29,609</u>	<u>(1,906,251)</u>	<u>700,950</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 taken at the end of the year, but was not audited.

NOTE 7 – MISCELLANEOUS INCOME

Miscellaneous income consists of the following amounts for the year end October 31, 2014:

Insurance reimbursement/rebates	\$1,354
Miscellaneous reimbursements/credits	6,128
Other miscellaneous sales	<u>0</u>
Miscellaneous income	<u><u>\$7,482</u></u>

Adamson Rural Water District No. 8

NOTE 8 – SUBSEQUENT EVENTS

Subsequent Events have been evaluated through April 13, 2015, 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, 2014, 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 13, 2015.

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 13, 2015