

FINANCIAL STATEMENTS

OF

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

October 31, 2015



Clothier & Company CPA's P.C.

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ADAMSON RURAL WATER DISTRICT NO. 8

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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, 2015, 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 respective financial position of Adamson Rural Water District No. 8 as of October 31, 2015, and the respective 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 8, 2016, 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 8, 2016

Management Discussion and Analysis
For year ended October 31, 2015

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 (2014) year.

Business Activities:

In this fiscal year, total revenue decreased by \$14,027 from 2014. The decrease is due to a very wet spring and summer. The District's expenses decreased \$4,412 from 2014. Even though some expenses increased (Payroll Expense -\$32,511; Field Supplies -\$19,017; and Insurance -\$14,106), other expenses decreased (Water Costs - \$9,255; Fuel \$7,601; Other Expenses \$23,739; Utilities - \$1,966; and Water Samples \$1,947).

The District changed 51 customer meters and installed 12 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 had debt during the fiscal year ending October 31, 2015.

For the year ended October 31, 2015 total assets exceeded liabilities by \$1,079,383. The balance sheet has a net increase of \$2,800 from 2014. The increase is the difference in the increase in cash and fixed assets and the decrease in accounts receivable, inventory and the increase in accumulated depreciation.

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, 2015

ASSETS

Current Assets

Cash and Cash Equivalents	\$327,832	
Accounts Receivable	21,964	
Inventory	59,399	
Prepaid Expenses	11,608	
Total Current Assets		420,803

Fixed Assets

Field Equipment	16,366	
Office Equipment	10,961	
Trucks and Equipment	155,421	
Building Improvements	22,350	
Water Plant	2,410,118	
Less: Accumulated Depreciation	(1,979,641)	
Total Fixed Assets		635,575

Other Assets

Bond Costs	169,852	
Less: Accumulated Amortization	(142,412)	
Total Other Assets		27,440

Total Assets

\$1,083,818

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts Payable	\$119	
Accrued Expenses	4,316	
Total Current Liabilities		4,435

Long Term Liabilities

Notes Payable	0	
Total Long Term Liabilities		0

Net Assets

Invested in Capital Assets	635,575	
Restricted for Debt Service	0	
Unrestricted Net Assets	440,410	
Current Income (Loss)	3,398	
Total Net Assets		1,079,383

Total Liabilities and Net Assets

\$1,083,818

See accompany footnotes and independent auditors' reoport.

ADAMSON RURAL WATER DISTRICT NO. 8
Balance Sheet
October 31, 2015

Revenue	
Water Sales	\$821,281
Benefit Unit Sales	11,546
Total Revenue	832,827
 Cost of Sales	
Water Purchases	298,628
Vehicle Expenses	6,303
Equipment Maintenance/Rental	5,739
Water Testing	6,003
Field Supplies	52,743
Fuel	14,232
Plant Repairs	1,128
Contract Labor	1,247
Total Cost of Sales	386,023
Gross Profit	446,804
 Operating Expenses	
Salaries	229,144
Payroll Taxes	19,091
Insurance	45,716
Workman's Compensation Insurance	13,349
Accounting/Legal	6,446
Maintenance Agreements	1,034
License/Permits	246
DEQ Fees	426
Miscellaneous	9,345
Maintenance Supplies	503
Bank Charges	39
Advertising	12,948
Office Supplies	5,572
Telephone	5,963
Utilities	15,724
Depreciation	84,713
Credit Card Fees	2,582
Total Operating Expense	452,841
Operating Income	(6,037)
Interest Income	403
Miscellaneous Income	9,032
Total Other Income (Expense)	9,435
Net Income (Loss)	\$3,398

See accompanying footnotes and independent auditors' report.

Adamson Rural Water District No. 8
Statement of Cash Flows
October 31, 2015

Cash Flows From Operating Activities:

Cash received from customers	\$	835,129
Cash received from other sources		9,032
Cash paid to employees		(229,144)
Cash paid to suppliers		(378,321)
Other operating payments		(138,181)
Net Cash Flows from Operating Activities		98,515

Cash Flows From Capital and Related

Financing Activities:

Disposition of Assets		0
Payment of debt		0
Acquisition and construction of capital assets		(8,015)
Payment of Interest		0
Net Cash (Used) By Capital and Related Financing Activities		(8,015)

Cash Flows From Investing Activities:

Decrease (Increase) in restricted cash		0
Receipt of interest and dividends		403
Net Cash Provided (Used) By Investing Activities		403

Net Increase (Decrease) In Cash		90,903
Cash Beginning of Year		236,929
Cash End of Year	\$	327,832

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

Operating income (loss)	\$	(6,037)
Add depreciation expense		84,713
Add other operating receipts		9,032
(Increase)/Decrease in Current Assets:		
Accounts receivables, net		2,302
Prepaid expenses		0
Inventory		9,103
Increase/(Decrease) in Current Liabilities:		
Accounts payable		(1,401)
Accrued expenses		803
Net Cash Flows from Operating Activities	\$	98,515

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.

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

The District has no debt as of October 31, 2015.

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 2015 water billings that were collected in November 2015. 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 \$250,000 insures deposits at each institution for all interest-bearing accounts. As of October 31, 2015 cash balances totaled \$327,832 (\$300 cash on hand included). All deposits were covered by FDIC or secured pledges at October 31, 2015.

NOTE 5 - PROPERTY AND EQUIPMENT

	Balance 10/31/2014	Acquisitions/ Deletions	Accumulated Depreciation	Balance 10/31/2015
Water Plant	2,402,068	8,050	(1,827,615)	582,503
Building Improv.	22,350	0	(2,483)	19,867
Field Equipment	16,366	0	(15,143)	1,223
Office Equipment	10,961	0	(7,379)	3,582
Trucks/Equipment	155,421	0	(127,021)	28,400
	<u>2,607,166</u>	<u>8,050</u>	<u>(1,979,641)</u>	<u>635,575</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. A physical inventory was observed at the end of the year.

NOTE 7 – MISCELLANEOUS INCOME

Miscellaneous income consists of the following amounts for the year end October 31, 2015:

PCWA reimbursements	\$3,388
Insurance reimbursements/rebates	2,070
Miscellaneous reimbursements/credits	2,779
Other miscellaneous sales	<u>795</u>
Miscellaneous income	<u>\$9,032</u>

NOTE 8 – SUBSEQUENT EVENTS

Subsequent Events have been evaluated through April 8, 2016, 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 (District), as of and for the years ended October 31, 2015, and the related notes to the financial statements, which collectively comprise District's basic financial statements, and have issued our report thereon dated April 8, 2016.

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.

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

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

April 8, 2016