

FINANCIAL STATEMENTS

OF

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

October 31, 2019 and 2018



Clothier & Company CPA's P.C.

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying modified cash basis financial statements of the business-type activities of Adamson Rural Water district No. 8 (the "District"), Pittsburg County, Oklahoma, as of and for the years ended October 31, 2019 and 2018, 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.

Auditor's 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 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 from 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 auditor's 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 on 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 that 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 the business-type activities of Adamson Rural Water District No. 8,, as of October 31, 2019 and 2018, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the years 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 as a whole that collectively comprise the District's basic financial statements. The management's discussion and analysis on page I, 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 the 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 June 8, 2020, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the District's 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.

June 8, 2020

Management Discussion and Analysis
For year ended October 31, 2019 and 2018

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 (2018) year.

Business Activities:

In this fiscal year, the District's total revenue decreased by \$22,365 from 2018 and expenses increased \$142,663 from 2018.

The District changed 115 customer meters and installed 10 new meters, which were new customers during the year. The District also added a chlorination station, which is an addition of \$96,004 in capital improvement. The District completed a major maintenance project to clean and repaint the water tower. That project cost \$54,499.98.

For the year ended October 31, 2019 total assets exceeded liabilities by \$1,435,663. The balance sheet has a net decrease of \$77,907 from 2018 due to the addition of the chlorination station and major maintenance to the water tower.

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, 2019 and 2018

ASSETS		
	2019	2018
Current Assets		
Cash and Cash Equivalents	\$ 458,194	\$ 526,329
Total Current Assets	458,194	526,329
 Fixed Assets		
Field Equipment	93,113	93,113
Office Equipment	12,224	12,224
Trucks and Equipment	184,072	184,072
Building Improvements	22,350	22,350
Water Distribution System	3,032,185	2,936,181
Less: Accumulated Depreciation	(2,363,513)	(2,260,067)
Total Fixed Assets	980,431	987,873
Total Assets	\$ 1,438,625	\$ 1,514,202

LIABILITIES AND NET ASSETS

Current Liabilities		
Accrued Expenses	\$ 2,962	\$ 632
Total Current Liabilities	2,962	632
 Net Assets		
Invested in Capital Assets	980,431	987,873
Unrestricted Net Assets	533,139	(37,639)
Current Income (Loss)	(77,907)	563,336
Total Net Assets	1,435,663	1,513,570
Total Liabilities and Net Assets	\$ 1,438,625	\$ 1,514,202

See accompanying footnotes and independent auditor's report.

ADAMSON RURAL WATER DISTRICT NO. 8
Revenues, Expenses and Changes in Net Assets-Modified Cash Basis
October 31, 2019 and 2018

	2019	2018
Revenue		
Water Sales	\$ 991,444	\$ 1,010,739
Benefit Unit Sales	7,894	10,964
Total Revenue	999,338	1,021,703
Cost of Sales		
Water Purchases	363,929	324,815
Vehicle Expenses	3,348	3,730
Equipment Maintenance/Rental	75,843	2,703
Water Testing	6,589	8,130
Field Supplies	50,985	44,122
Fuel	12,902	15,685
System Repairs	199	100
Contract Labor	1,875	0
Total Cost of Sales	515,670	399,285
Gross Profit	483,668	622,418
Operating Expenses		
Salaries	299,349	285,836
Payroll Taxes	27,285	23,327
Insurance	71,285	67,308
Workman's Compensation Insurance	10,586	11,663
Accounting/Legal	4,433	6,947
License/Permits	184	184
DEQ Fees	734	2,163
Miscellaneous	6,415	4,680
Maintenance Supplies	263	646
Bank Charges	25	0
Advertising	586	66
Office Supplies/Postage	15,548	15,306
Telephone	8,007	7,257
Utilities	18,556	18,976
Depreciation	103,446	96,065
Total Operating Expense	566,702	540,424
Operating Income	(83,034)	81,994
Interest Income	2,627	1,642
Miscellaneous Income	2,500	700
ODOT Project Income	0	479,000
Total Other Income (Expense)	5,127	481,342
Change in Net Assets	\$ (77,907)	\$ 563,336

See accompanying footnotes and independent auditor's report.

ADAMSON RURAL WATER DISTRICT NO. 8
Statement of Cash Flows-Modified Cash Basis
October 31, 2019 and 2018

	2019	2018
Cash Flows From Operating Activities:		
Cash received from customers	\$ 999,338	\$ 1,021,703
Cash received from other sources	2,500	700
Cash paid to employees	(297,019)	(286,005)
Cash paid to suppliers	(515,670)	(399,285)
Other operating payments	(163,907)	(158,523)
Net Cash Flows from Operating Activities	25,242	178,590
Cash Flows From Capital and Related		
Financing Activities:		
ODOT relocation funds	0	479,000
Acquisition and construction of capital assets	(96,004)	(513,167)
Net Cash (Used) By Capital and Related	(96,004)	(34,167)
Financing Activities		
Cash Flows From Investing Activities:		
Receipt of interest and dividends	2,627	1,642
Net Cash Provided (Used) By Investing Activities	2,627	1,642
Net Increase (Decrease) In Cash	(68,135)	146,065
Cash Beginning of Year	526,329	380,264
Cash End of Year	\$ 458,194	\$ 526,329

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

Operating income (loss)	(83,034)	\$ 81,994
Add depreciation expense	103,446	96,065
Add other operating receipts	2,500	700
Increase/(Decrease) in Current Liabilities:		
Accrued expenses	2,330	(169)
Net Cash Flows from Operating Activities	\$ 25,242	\$ 178,590

See accompanying footnotes and independent auditor's report.

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

Adamson Rural Water District No. 8 is a political subdivision of the State of Oklahoma organized on February 27, 1981 with its offices located in Pittsburg County, Oklahoma. The purpose of the District is to provide a waterworks and distribution system for the use and benefit of its members.

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

Money Market Account, The Bank, N.A. – A depository account for excess funds from the Operating & Maintenance Account.

Operating & Maintenance Account, First National Bank & Trust Company – The gross revenues of the District are deposited to this account and the bills are generally paid.

Treasury Fund Savings Account, BancFirst – A depository account for excess funds from the Operating & Maintenance Account.

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 political subdivision of 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.

Adamson Rural Water District No. 8

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 had no debt as of October 31, 2019 or 2018.

NOTE 3 - 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. Cash balances totaled \$458,194 as of October 31, 2019 and \$526,329 in 2018. The District did not maintain any coverage in addition to the amounts from FDIC; therefore the cash in the operating account was under-insured by \$6,362.22 in 2019 and \$89,981 in 2018.

NOTE 4 - PROPERTY AND EQUIPMENT

	Cost	Additions/ Deletions	Accumulated Depreciation	Book Value 10/31/2019	Book Value 10/31/2018
Water Plant	\$ 2,936,181	\$ 96,004	\$ (2,099,929)	\$ 932,256	\$ 915,915
Building Improvement	22,350	0	(8,443)	13,907	15,397
Field Equipment	93,113	0	(75,348)	17,765	33,287
Office Equipment	12,224	0	(11,529)	695	1,223
Trucks/Equipment	184,072	0	(168,264)	15,808	22,051
	<u>\$ 3,247,940</u>	<u>\$ 96,004</u>	<u>\$ (2,363,513)</u>	<u>\$ 980,431</u>	<u>\$ 987,873</u>

NOTE 5 – ODOT PROJECT INCOME

In 2018 ODOT underwent a relocation project for Highway 31 where one of the District’s main lines are located, and the District had to move the line. During this project, Cooke Consulting LLC and Infrastructure Solutions Group, LLC were hired to complete the project. ODOT paid the companies directly until the month of March 2018. At that point, they sent the payments to the District for deposit, and the District then paid the construction and engineering companies. The District received a total of \$479,000 from ODOT for this project. The project and income was completed and recorded in 2018. There was no work done in 2019.

NOTE 6 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date on which the financial statements were available for issue and identified no significant events or transactions to disclose.

Adamson Rural Water District No. 8

NOTE 7 – WATER RATES

Effective January 1, 2020

	Residential Customers	Commercial Customers
0 to 1,000 Gallons	\$20.00	\$50.50
Next 1,000 Gallons	\$9.00	\$10.00
Next 1,000 Gallons	\$9.25	\$10.25
Next 1,000 Gallons	\$9.50	\$10.50
Next 1,000 Gallons	\$9.75	\$10.75
Next 1,000 Gallons	\$10.00	\$11.00
Next 1,000 Gallons	\$10.25	\$11.25
Next 1,000 Gallons	\$10.50	\$11.50
Next 1,000 Gallons	\$10.75	\$11.75
Next 1,000 Gallons	\$11.00	\$12.00
Next 1,000 Gallons	\$11.25	\$12.25
Next 1,000 Gallons	\$11.50	\$12.50
Next 1,000 Gallons	\$11.75	\$12.75
Next 1,000 Gallons	\$12.00	\$13.00
Next 1,000 Gallons	\$12.25	\$13.25
Next 1,000 Gallons	\$12.50	\$13.50
Next 1,000 Gallons	\$12.75	\$13.75
Next 1,000 Gallons	\$13.00	\$14.00
Next 1,000 Gallons	\$13.25	\$14.25
Next 1,000 Gallons	\$13.50	\$14.50
Next 1,000 Gallons	\$13.75	\$14.75
Next 4,000 Gallons	\$14.75	\$15.75
Next 5,000 Gallons	\$15.75	\$16.75
Next 5,000 Gallons	\$16.75	\$17.75
Next 5,000 Gallons	\$17.75	\$18.75
Next 10,000 Gallons	\$18.75	\$19.75
All over 50,000 Gallons	\$19.75	\$20.75



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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 the 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 the business-type activities of Adamson Rural Water District No. 8 (the "District"), as of and for the years ended October 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 8, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 opinions 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 a 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 that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2019-1 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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*.

The District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

June 8, 2020

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued – Unqualified

Internal control over financial reporting:

- Material weaknesses identified? yes no
- Significant control deficiencies identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Section II – Financial Statement Findings

None

Section III – Prior Year Financial Statement Findings

2019-01: Cash and Cash Equivalents

Condition – Checks for a major maintenance project and a capital asset were not recorded in the general ledger, resulting in a large cash variance between the amounts reported in the accounting system and the actual amount at the bank.

Criteria – All checks should be recorded in the general ledger.

Cause/Effect – The District did not record any of the checks written out of the money market account with the Bank, NA. The unrecorded checks totaled \$148,378.98 and were towards a major maintenance project and the addition of a chlorination station. The effect was poor financial reporting, overstatement of cash and understatement of expenses and capital assets.

Recommendation – We recommend that the District record all checks written from the bank accounts into the general ledger.

Response – We will get with our software company to get help with setting up those accounts to record those correctly.