

FINANCIAL STATEMENTS

OF

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

October 31, 2011



Clothier & Company CPA's P.C.

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Management Discussion and Analysis For Year Ended October 31, 2011

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 (2010) year.

Business Activities:

In this review, total revenue account increased by \$126,667 over 2010. The increase is due to a \$66,187 increase in water revenue received from customers. We have \$128,696 in reserve at BancFirst in OKC restricted to debt service. There is \$392,522 in a CD at First National Bank of McAlester, and \$255,387 at First National Bank in Hartshorne for general day-to-day business. This is a total of \$775,605 in monies for ARWD#8.

The District's expenses decreased \$19,340 over 2010. Even though some expenses decreased (Depreciation Expense -\$3,545; Medical Insurance -\$5,923; Water Costs -\$13,649; Water Samples -\$2,532; Interest Expense -\$2,343; Field Supplies -\$14,615), other expenses increased (Payroll Expense +\$30,267; Fuel +\$4,251; Utilities +\$3,343; Insurance & Bonds +\$68; Office Supplies +\$309). The District changed 68 customer meters and installed 20 new water meters, which are new customers, during the year. The District also started with automating of booster stations and water towers. The District also installed approximately 2400 feet of 6" waterline at 69 and Hereford Lane exit. Both of these are capital improvements.

For the year ended October 31, 2011, total assets exceeded liabilities by \$354,991. The District has a note payable to Oklahoma Water Resources Board in the amount of \$710,000. The balance sheet has a net increase of \$91,741. The requirement for our loan from The Oklahoma Water Resources Board is to have 1.25% of expenses. We exceeded the 1.25%.

Future Activities of Adamson Rural Water District #8:

In view of the ever changing technological advances, the District has received 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 will also be 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 will also continue to upgrade water lines, towers, valves, and other appurtenances 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 affects 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



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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 financial statements of the business type activities of Adamson Rural Water District No. 8, Pittsburg County, Oklahoma, as of October 31, 2011. These financial statements are the responsibility of Adamson Rural Water District No. 8, Pittsburg County 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 above present fairly, in all material respects, the financial position of Adamson Rural Water District No. 8, as of October 31, 2011, and the results of operations and the cash flows, where applicable, 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 April 6, 2012 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.

The Management Discussion and Analysis on page I is not a required part of the basic financial statements but is supplementary information required by accounting principles

generally accepted in the United State of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Clothier & Company CPA's

Clothier & Company, CPA's, P.C.
April 6, 2012

ADAMSON RURAL WATER DISTRICT #8
STATEMENT OF REVENUES, EXPENSES, AND
As of October 31, 2011

CURRENT ASSETS

Petty Cash	\$ 300
Operations & Maintenance	255,387
CD First National	392,522
Accounts Receivable	81,492
Inventory	<u>67,922</u>

Total Current Assets	<u>797,623</u>
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PROPERTY AND EQUIPMENT

Vehicles	140,127
Equipment	14,617
Office Equipment	5,485
Water System	2,383,914
Accumulated Depreciation	<u>(1,713,903)</u>

Net Property and Equipment	<u>830,240</u>
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OTHER ASSETS

Prepaid Insurance	9,046
Bond Costs	169,852
Accumulated Amortization	(97,120)
Restricted Cash - Bancfirst	16,142
Investments - Bancfirst	<u>112,554</u>

Total Other Assets	<u>210,474</u>
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TOTAL ASSETS	<u><u>\$ 1,838,337</u></u>
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ADAMSON RURAL WATER DISTRICT #8
STATEMENT OF REVENUES, EXPENSES, AND
As of October 31, 2011

CURRENT LIABILITIES

Accounts Payable	\$ 19,357
Employee-paid	1,957
Payroll Liabilities	956
State Withholding	351
Accrued Interest	9,052
Current Portion LT Debt	<u>75,000</u>

Total Current Liabilities	<u>106,673</u>
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LONG-TERM LIABILITIES

OWRB Loan Payable	<u>635,000</u>
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Total Long-Term Liabilities	<u>635,000</u>
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Total Liabilities	<u>741,673</u>
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NET ASSETS

Invested in Capital Assets, Net Debt	120,240
Restricted for Debt Service	128,696
Unrestricted Net Assets	<u>847,728</u>

Total Net Assets	<u>1,096,664</u>
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TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,838,337</u></u>
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ADAMSON RURAL WATER DISTRICT #8
CHANGES IN FUND BALANCE
STATEMENT OF ASSETS, LIABILITIES AND
October 31, 2011

REVENUES

Reconnect Fees	\$ 55,396
Damaged Line Fees	40,543
Water Revenue	<u>893,591</u>
Total Revenue	<u>989,530</u>

Operating Expenses

Water Costs	320,250
Accounting Fees	4,000
Answering service	1,923
Attorney Fees	1,926
Bonus	5,325
Depreciation Expense	81,572
Credit/Debit Card Company	1,233
Board Meeting	1,150
Field Supplies	27,885
Fuel	18,005
Insurance & Bonds	13,825
Interest Expense	34,132
Medical Insurance	21,089
Office Supplies	5,549
Payroll Expenses	208,050
Payroll Taxes	18,975
Telephone/Cell Phone	5,372
Postage	7,361
System Maintenance & Repairs	3,150
Trustee Fees	1,007
Utilities	13,618
Vehicle Maintenance/Repairs	4,119
Water Samples	1,934
Workers Compensation Insurance	8,071
Contracted Services	372
Office Expenses	<u>56</u>
Total Operating Expenses	<u>809,949</u>

Operating Income (Loss)	<u>179,581</u>
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Nonoperating Revenue

Interest Income	<u>9,059</u>
Total Nonoperating Revenue	<u>9,059</u>

Changes in Net Assets

	188,640
Net Assets - Beginning	<u>908,024</u>
Net Assets - Ending	<u>\$ 1,096,664</u>

Adamson Rural Water District No. 8
STATEMENT OF CASH FLOWS
As of October 31, 2011

2011

Cash Flows From Operating Activities:

Cash received from customers	\$ 948,987
Cash received from other sources	39,617
Cash paid to employees	(208,050)
Cash paid to suppliers	(21,141)
Other operating payments	(486,195)
Net Cash Flows from Operating Activities	<u>273,218</u>

Cash Flows From Capital and Related

Financing Activities:

Disposition of Assets	0
Payment of debt	(75,000)
Acquisition and construction of capital assets	(62,526)
Payment of Interest	(34,132)
Net Cash (Used) By Capital and Related Financing Activities	<u>(171,658)</u>

Cash Flows From Investing Activities:

Decrease (Increase) in restricted cash	990
Receipt of interest and dividends	9,059
Net Cash Provided (Used) By Investing Activities	<u>10,049</u>

Net Increase (Decrease) In Cash	111,609
Cash Beginning of Year	536,600
Cash End of Year	<u>\$ 648,209</u>

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

Operating income (loss)	\$ 188,700
Add depreciation expense	81,572
Add interest expense	34,132
Less interest income	(9,059)
(Increase)/Decrease in Current Assets:	
Accounts receivables, net	(955)
Prepaid expenses	29
Inventory	758
Increase/(Decrease) in Current Liabilities:	
Accounts payable	(21,616)
Accrued expenses	(339)
Customer deposits	
Net Cash Flows from Operating Activities	<u>\$ 273,222</u>

See accompanying footnotes and accountant's 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 a one year certificate of deposit with First National Bank. The certificate will mature on March 18, 2012

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 requirement.

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 \$710,000 of which \$75,000 is currently due and \$635,000 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
2012	75,000	107,455
2013	80,000	109,721
2014	80,000	106,605
2015	85,000	107,489
2016	90,000	108,116
Through 2019.....	300,000	328,335
	<hr/> 710,000	<hr/> \$867,721

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 2011 water billings that were collected in November 2011. 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, 2011 cash balances totaled \$647,913 (\$300 cash on hand not included). The Custodial Risk of all Deposits are categorized as Insured by FDIC:

The District's deposits are detailed as follows at October 31, 2011:

Financial Institution	Balance	FDIC Insured	
First National – Checking	\$ 255,387	\$ 250,000	\$ (5,387)
First National – CD	392,522	250,000	(142,522)
	<hr/>		
Total Cash and Investments	647,909	500,000	(147,909)
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First National – Pledged Securities			325,000
Covered (At Risk)			<u>\$ 177,091</u>

NOTE 5 - PROPERTY AND EQUIPMENT

	Cost	Additions	Accumulated Depreciation	Net Book Value
Water System	2,321,388	62,526	(1,578,753)	805,161
Equipment	14,617	0	(13,892)	725
Office Equipment	5,485	0	(5,067)	418
Automotive	140,127	0	(116,191)	23,936
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Total	\$2,481,617	\$62,526	\$ (1,713,903)	\$830,240
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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 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, 2011, and have issued our report thereon dated April 6, 2012. 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 No. 8 is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Adamson Rural Water District No. 8's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Adamson Rural Water District No. 8's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Adamson Rural Water District No. 8's internal control over financial reporting.

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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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*.

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

A handwritten signature in cursive script that reads "Clothier & Company CPA's". The signature is written in dark ink and is positioned above the printed name of the firm.

Clothier & Company CPA's
April 6, 2012