

*FINANCIAL STATEMENTS*

*OF*

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

October 31, 2018 and 2017



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

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**ADAMSON RURAL WATER DISTRICT NO. 8**  
**Table of Contents**  
**October 31, 2018 and 2017**

Independent Auditors' Report	2-3
Management Discussion and Analysis	I
Assets, Liabilities and Net Assets-Modified Cash Basis	4
Revenues, Expenses and Changes in Net Assets-Modified Cash Basis	5
Statement of Cash Flows-Modified Cash Basis	6
Notes to the Financial Statements	7-9
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	10-11



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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 modified cash basis financial statements of the business-type activities of Adamson Rural Water District No. 8 (District), Pittsburg County, Oklahoma, as of and for the years ended October 31, 2018 and 2017, 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.

### **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 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, 2018 and 2017, and the respective changes in modified cash basis financial position and 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 information on pages 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 April 5, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provision 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.

Muskogee, Oklahoma

April 5, 2019

Management Discussion and Analysis  
For year ended October 31, 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 (2017) year.

**Business Activities:**

In this fiscal year, the District's total revenue increased by \$662,176 (this amount includes \$479,000 of ODOT project funds) from 2017 and their expenses increased \$55,798 from 2017.

The District changed 36 customer meters and installed 15 new meters, which were new customers during the year. The District also added more to the automating of booster stations and water towers. These are capital improvements.

For the year ended October 31, 2018 total assets exceeded liabilities by \$1,513,570. The balance sheet has a net increase of \$563,167 from 2017 due to the relocation of the main water line during the Highway 31 relocation project.

**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, 2018 and 2017**

	2018	2017
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 526,329	\$ 380,264
<b>Total Current Assets</b>	526,329	380,264
 <b>Fixed Assets</b>		
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 Plant	2,936,181	2,423,014
Less: Accumulated Depreciation	(2,260,067)	(2,164,002)
<b>Total Fixed Assets</b>	987,873	570,771
<b>Total Assets</b>	\$ 1,514,202	\$ 951,035
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Accrued Expenses	\$ 632	\$ 801
<b>Total Current Liabilities</b>	632	801
 <b>Net Assets</b>		
Invested in Capital Assets	987,873	570,771
Unrestricted Net Assets	(37,639)	422,505
Current Income (Loss)	563,336	(43,042)
<b>Total Net Assets</b>	1,513,570	950,234
<b>Total Liabilities and Net Assets</b>	\$ 1,514,202	\$ 951,035

See accompany footnotes and independent auditors' reoport.

**ADAMSON RURAL WATER DISTRICT NO. 8**  
**Revenues, Expenses and Changes in Net Assets-Modified Cash Basis**  
**October 31, 2018 and 2017**

	2018	2017
<b>Revenue</b>		
Water Sales	\$ 1,010,739	\$ 827,587
Benefit Unit Sales	10,964	7,963
<b>Total Revenue</b>	1,021,703	835,550
<b>Cost of Sales</b>		
Water Purchases	324,815	281,936
Vehicle Expenses	3,730	3,974
Equipment Maintenance/Rental	2,703	3,926
9000-10000	8,130	6,208
Field Supplies	44,122	50,108
Fuel	15,685	13,849
Plant Repairs	100	218
<b>Total Cost of Sales</b>	399,285	360,219
<b>Gross Profit</b>	622,418	475,331
<b>Operating Expenses</b>		
Salaries	285,836	274,443
Payroll Taxes	23,327	21,935
Insurance	67,308	61,000
Workman's Compensation Insurance	11,663	16,306
Accounting/Legal	6,947	9,999
License/Permits	184	246
DEQ Fees	2,163	495
Miscellaneous	4,680	4,217
Maintenance Supplies	646	1,466
Bank Charges	0	2
Advertising	66	634
Office Supplies/Postage	15,306	15,222
Telephone	7,257	6,431
Utilities	18,976	18,179
Depreciation	96,065	93,117
<b>Total Operating Expense</b>	540,424	523,692
<b>Operating Income</b>	81,994	(48,361)
Interest Income	1,642	1,177
Miscellaneous Income	700	4,142
ODOT Project Income	479,000	0
<b>Total Other Income (Expense)</b>	481,342	5,319
<b>Change in Net Assets</b>	\$ 563,336	\$ (43,042)

See accompanying footnotes and independent auditors' report.

**ADAMSON RURAL WATER DISTRICT NO. 8**  
**Statement of Cash Flows-Modified Cash Basis**  
**October 31, 2018 and 2017**

	2018	2017
<b>Cash Flows From Operating Activities:</b>		
Cash received from customers	\$ 1,021,703	\$ 835,550
Cash received from other sources	700	4,140
Cash paid to employees	(286,005)	(274,443)
Cash paid to suppliers	(399,285)	(360,219)
Other operating payments	(158,523)	(160,418)
<b>Net Cash Flows from Operating Activities</b>	<b>178,590</b>	<b>44,610</b>
<b>Cash Flows From Capital and Related Financing Activities:</b>		
ODOT relocation funds	479,000	0
Acquisition and construction of capital assets	(513,167)	(42,809)
<b>Net Cash (Used) By Capital and Related Financing Activities</b>	<b>(34,167)</b>	<b>(42,809)</b>
<b>Cash Flows From Investing Activities:</b>		
Receipt of interest and dividends	1,642	1,177
<b>Net Cash Provided (Used) By Investing Activities</b>	<b>1,642</b>	<b>1,177</b>
<b>Net Increase (Decrease) In Cash</b>	146,065	2,978
<b>Cash Beginning of Year</b>	380,264	377,286
<b>Cash End of Year</b>	<b>\$ 526,329</b>	<b>\$ 380,264</b>

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

Operating income (loss)	81,994	\$ (48,361)
Add depreciation expense	96,065	93,117
Add other operating receipts	700	4,140
Increase/(Decrease) in Current Liabilities:		
Accrued expenses	(169)	(4,286)
<b>Net Cash Flows from Operating Activities</b>	<b>\$ 178,590</b>	<b>\$ 44,610</b>

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 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 First Bank NA- a depository account for excess funds from the Operating & Maintenance Account.

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.

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.

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, 2018 or 2017.

**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 \$517,607 as of October 31, 2018 and \$380,264 in 2017. 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 \$89,981. In 2017, the cash in bank was covered by FDIC amounts.

**NOTE 4 - PROPERTY AND EQUIPMENT**

	Cost	Additions/ Deletions	Accumulated Depreciation	Book Value 10/31/2018	Book Value 10/31/2017
Water Plant Building	\$ 2,423,014	\$ 513,167	\$ (2,020,266)	\$ 915,915	\$ 468,534
Improvement	22,350	0	(6,953)	15,397	16,887
Field Equipment	93,113	0	(59,826)	33,287	48,986
Office Equipment	12,224	0	(11,001)	1,223	2,571
Trucks/Equipment	184,072	0	(162,021)	22,051	33,793
	<u>\$ 2,734,773</u>	<u>\$ 513,167</u>	<u>\$ (2,260,067)</u>	<u>\$ 987,873</u>	<u>\$ 570,771</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. No work was done during the 2017 year. 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. 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.

Adamson Rural Water District No. 8  
**NOTE 6 – SUBSEQUENT EVENTS**

In November of 2018 the board approved to move \$70,000 from the Operating account to the existing money market account and open a new money market account with \$100,000 from the Operating account. The District will be underway with some major maintenance to the Adamson Tower in 2019 estimating \$34,250 in cost. In February of 2019, the District accepted a bid from R&D Construction of \$109,800 for the construction of a Chlorination Station at Haileyville. No further events have been found.

**NOTE 7 – WATER RATES**

Effective November 1, 2018

	Residential Customers	Commercial Customers
0 Gallons	\$18.00	\$45.00
Next 1,000 Gallons	\$8.00	\$9.00
Next 1,000 Gallons	\$8.25	\$9.25
Next 1,000 Gallons	\$8.50	\$9.50
Next 1,000 Gallons	\$8.75	\$9.75
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 4,000 Gallons	\$13.75	\$14.75
Next 5,000 Gallons	\$14.75	\$15.75
Next 5,000 Gallons	\$15.75	\$16.75
Next 5,000 Gallons	\$16.75	\$17.75
Next 10,000 Gallons	\$17.75	\$18.75
All over 50,000 Gallons	\$18.75	\$19.75



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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 modified cash basis financial statements of the business-type activities of Adamson Rural Water District No. 8 (District), Pittsburg County, Oklahoma, as of and for the year ended October 31, 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 April 5, 2019.

**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 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. 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 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*.

## **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 CPAs".

Clothier & Company, CPA's, P.C.  
April 5, 2019