

AUDIT REPORT

CREEK COUNTY RURAL WATER DISTRICT #7

NOVEMBER 30, 2012



KERSHAW CPA & ASSOCIATES, PC

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CREEK COUNTY RURAL WATER DISTRICT #7
MOUNDS, OKLAHOMA
NOVEMBER 30, 2012

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CREEK COUNTY RURAL WATER DISTRICT #7
MOUNDS, OKLAHOMA
NOVEMBER 30, 2012

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>	<u>TERM EXPIRATION</u>
Jon Rupert P.O. Box 738 Mounds, OK 74047	Chairman	February 2015
Cecil Kimberling 330 E. 8 th St. Mounds, OK 74047	Vice-Chairman	February 2015
Richard Marshall P.O. Box 802 Mounds, OK 74047	Secretary	February 2014
Kenneth Joe Carner 7451 W. 191 st St. S Mounds, OK 74047	Treasurer	February 2013
Jack Carner P.O. Box 292 Mounds, OK 74047	Assistant- Secretary	February 2013

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Creek County Rural Water District #7
Mounds, Oklahoma

We have audited the accompanying financial statements of the Creek County Rural Water District #7, as of and for the fiscal year ended November 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Creek County Rural Water District #7's 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, and in accordance with Oklahoma Statutes. 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 the Creek County Rural Water District #7, Mounds, Oklahoma, as of November 30, 2012, and the changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated February 5, 2013, on our consideration of the Creek County Rural Water District #7'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 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 compliance with Government Auditing Standards and should be considered in assessing the results of our audit.

Creek County Rural Water District #7 has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34. However the District has not presented the Management's Discussion and Analysis required by the Governmental Accounting Standards Board (GASB) that the GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying financial information listed as supplemental data in the table of contents is presented for purposes of additional analysis and is not a required part

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of the financial statements of Creek County Rural Water District #7. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Kershaw CPA & Associates, P.C.

Kershaw, CPA & Associates, PC

February 5, 2013

EXHIBIT A

CREEK COUNTY RURAL WATER DISTRICT #7
MOUNDS, OKLAHOMA
STATEMENT OF NET ASSETS
NOVEMBER 30, 2012

	2012	Memorandum Only 2011
ASSETS		
<u>CURRENT ASSETS:</u>		
Cash in Bank	\$ 438,478	\$ 552,950
Accounts Receivable	65,454	56,133
Restricted Cash in Trust	38,164	-
Prepaid Expense	21,604	15,691
Deposit-ORWA-CD	1,000	1,000
Total Current Assets	564,699	625,774
<u>PROPERTY, PLANT & EQUIPMENT (AT COST):</u>		
Land, lake, damsites, and dams	154,695	154,695
Water lines	279,330	278,430
Water treating plant	69,704	69,298
Water plant expansion	4,520,616	1,292,358
Water storage facilities	114,200	114,200
Pump stations	23,817	23,817
Right-of-ways	2,076	2,076
Office furniture and fixtures	25,550	25,550
Building	64,153	64,153
Equipment & tools	266,184	97,996
Vehicles	48,311	48,311
Leasehold Improvements	62,264	62,264
Construction in Progress	-	3,216,721
	5,630,899	5,449,868
Less: Accumulated Depreciation	(1,453,860)	(1,299,505)
Net Property, Plant & Equipment	4,177,039	4,150,363
<u>OTHER ASSETS:</u>		
Loan Fees	26,955	26,955
Less: Accumulated Amortization	(11,225)	(10,325)
Total Other Assets	15,730	16,630
TOTAL ASSETS	\$ 4,757,468	\$ 4,792,767

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

CREEK COUNTY RURAL WATER DISTRICT #7
MOUNDS, OKLAHOMA
STATEMENT OF NET ASSETS (CONTINUED)
NOVEMBER 30, 2012

	2012	Memorandum Only 2011
<u>LIABILITIES & NET ASSETS</u>		
<u>CURRENT LIABILITIES:</u>		
Accounts payable	\$ 632	\$ 655
Current Portion of Long-Term Debt - OWRB Notes Payable	146,935	32,311
Accrued interest	26,727	27,950
Accrued payroll	4,886	4,951
Accred payroll taxes	2,582	2,662
Total Current Liabilities	181,761	68,528
<u>LONG-TERM LIABILITIES:</u>		
Note payable - OWRB	310,579	342,890
Note payable - OWRB #2	2,752,049	2,875,058
Less: Current Portion of Long-Term Debt	(146,935)	(32,311)
Meter deposits	21,676	20,815
Total Long-Term Liabilities	2,937,369	3,206,452
TOTAL LIABILITIES	3,119,130	3,274,980
<u>NET ASSETS:</u>		
Invested in capital assets, net of related debt	1,114,412	932,416
Restricted for debt service	38,164	-
Restricted for lease from Town of Mounds	60,185	60,185
Unrestricted	425,578	525,187
TOTAL NET ASSETS	1,638,338	1,517,787
TOTAL LIABILITIES AND NET ASSETS	\$ 4,757,468	\$ 4,792,767

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

EXHIBIT B

CREEK COUNTY RURAL WATER DISTRICT #7
MOUNDS, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE TWELVE MONTHS ENDED NOVEMBER 30, 2012

	2012	Memorandum Only 2011
<u>OPERATING REVENUES:</u>		
Water Revenues	\$ 643,835	\$ 620,696
Other Revenue	41,094	48,859
TOTAL OPERATING REVENUES	684,929	669,554
<u>OPERATING EXPENSES:</u>		
Salaries and wages	112,998	117,046
Water treating supplies	44,489	36,884
Water purchases	740	73
Power and utilities	27,337	31,288
Repairs & Maintenance	37,891	14,515
Payroll taxes	9,252	9,706
Professional fees	4,445	6,032
Auto and truck expense	7,488	6,062
Administrative expense	56,321	53,880
Depreciation	154,355	57,647
Amortization	901	898
Insurance expense	17,671	30,687
Contract labor	-	120
Bad Debts	761	919
TOTAL OPERATING EXPENSES	474,650	365,756
OPERATING INCOME (LOSS)	210,280	303,798
<u>NON-OPERATING REVENUES (EXPENSES):</u>		
Interest Income	1,438	2,130
Interest Expense	(117,767)	(122,698)
Gain on Disposal of Capital Assets	-	-
Taps	26,600	7,000
TOTAL NON-OPERATING REVENUE (EXPENSES)	(89,729)	(113,568)
NET INCOME (LOSS)	120,551	190,230
TOTAL NET ASSETS, Beginning of Year	1,517,787	1,327,557
TOTAL NET ASSETS, Prior Year Adjustment	-	-
TOTAL NET ASSETS, End of Year	\$ 1,638,338	\$ 1,517,787

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

EXHIBIT C

CREEK COUNTY RURAL WATER DISTRICT #7
MOUNDS, OKLAHOMA
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2012

	2012	Memorandum Only 2011
<u>Net Cash Flows from Operating Activities:</u>		
Cash Receipts from Customers	\$ 675,608	\$ 661,915
Payments to Suppliers for Goods & Services	(212,476)	(201,195)
Payments to Employees & Laborers	(112,998)	(117,046)
Receipts of Customer Utility Deposits, Net of Refunds	861	(505)
Net Cash Provided (Used) by Operating Activities	350,995	343,170
<u>Net Cash Flows from Capital & Related Financing Activities:</u>		
Additions to Capital Assets	(181,031)	(22,329)
Proceeds from sale of Capital Assets	-	-
Loan Proceeds	12,130	19,230
Principal paid on Debt	(167,450)	(192,590)
Interest paid on Debt	(118,991)	(124,183)
Net Cash Provided (Used) by Capital & Related Financing Activities	(455,342)	(319,872)
<u>Net Cash Flows from Investing Activities:</u>		
Capital Contributions - Taps	26,600	7,000
Interest Income	(36,725)	2,130
Net Cash Provided (Used) by Investing Activities	(10,125)	9,130
Net Increase (Decrease) in Cash and Cash Equivalents	(114,472)	32,428
Cash & Cash Equivalents, Beginning of Year	552,950	520,522
Cash & Cash Equivalents, Prior Year Adjustment	-	-
Cash & Cash Equivalents, End of Year	\$ 438,478	\$ 552,950
<u>Reconciliation of operating income (loss) to net cash provided operating activities:</u>		
Operating Income (Loss)	\$ 210,280	\$ 303,798
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	154,355	57,647
Amortization	901	898
(Increase)Decrease in Receivables	(9,321)	(7,639)
(Increase)Decrease in Prepaid Expenses	(5,913)	(7,274)
Increase(Decrease) in Accounts Payable	(23)	(3,069)
Increase(Decrease) in Accrued Expenses	(145)	(686)
Increase(Decrease) in Meter Deposits	861	(505)
Net Cash Provided (Used) by Operating Activities	\$ 350,995	\$ 343,170

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

CREEK COUNTY RURAL WATER DISTRICT #7
MOUNDS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2012

NOTE 1 - REPORTING ENTITY

Creek County Rural Water District #7 is organized and operated under applicable laws of the State of Oklahoma for providing water to rural residents.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The accounts of the District are organized on the basis of proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net assets, revenues and expenses. Enterprise Funds account for activities (1) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (2) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (3) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

B. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The District uses the accrual basis of accounting, which is in accordance with U.S. generally accepted accounting principles. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

C. Budgetary Data

In accordance with the By-laws of the District, an annual budget is prepared for internal bookkeeping purposes.

D. Assets, Liabilities, & Equity

Cash & Cash Equivalents

For the purpose of financial reporting, "cash & cash equivalents" includes all demand and savings accounts and certificates of deposit.

E. Capital Assets

Expenditures for additions and betterments to property and equipment are capitalized. Purchases of capital items in excess of \$40.00 that increase

CREEK COUNTY RURAL WATER DISTRICT #7
MOUNDS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2012

the capacity or operation efficiency or extend the useful life of any asset are capitalized. Expenditures for repairs and maintenance are charged against income during the period expended.

Depreciation of property and equipment was calculated over the life of the Town of Mounds lease, or a shorter period where appropriate, using the straight-line method.

- F. There is no provision for bad debts; all accounts are considered to be collectible.
- G. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

H. Long-Term Debt

Long-term debt is reported at face value, net of applicable discounts and deferred loss on refunding. Costs related to the issuance of debt are deferred and amortized over the lives of various debt issues.

I. Equity Classification

Equity is classified as net assets and displayed in three components:

- 1. Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- 2. Restricted net assets—Consists of net assets with constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
- 3. Unrestricted net assets—All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

J. Revenues, expenditures & expenses

Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

CREEK COUNTY RURAL WATER DISTRICT #7
MOUNDS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2012

K. Governmental Accounting Standards Board Statement No. 34

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Certain of the significant changes in the Statement include the following:

1. For the first time the financial statement should include:
 - a. A Management Discussion and Analysis (MD&A) section providing analysis of the District's overall financial position and results of operations. However, the District has chosen not to present the required MD&A for the current year.
 - b. Financial statements prepared using full accrual accounting for all of the District's activities, except for including the General capital assets or infrastructure (lines, pump stations, etc.).
2. A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The District has elected to implement the general provisions of the Statement and report infrastructure acquired after November 30, 2003 as provided by GASB standards.

L. Memorandum Totals

The "memorandum only" captions above the total columns mean that totals are presented for overview information purposes only.

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

As a local government unit, the District is subject to various federal, state, and local laws and contractual regulations. In accordance with Government Auditing Standards, the auditor has issued a report on his consideration of the District's internal control over financial reporting and tested its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be read in conjunction with this report in considering the results of the audit.

Finance-related Legal & Contractual Provisions

The District's notes payable (loans) are not the type that have reserve account requirements.

CREEK COUNTY RURAL WATER DISTRICT #7
MOUNDS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2012

Deficit Fund Balance or Retained Earnings

As indicated in the financial statements, there are no fund balance or retained earnings deficits for the District for this fiscal year.

NOTE 4 - CASH AND INVESTMENTS

Custodial Credit Risk

At November 30, 2012, the District held deposits of approximately \$438,178 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name.

Investment Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The District has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

CREEK COUNTY RURAL WATER DISTRICT #7
MOUNDS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2012

NOTE 5 - RESTRICTED ASSETS

The loan agreement with the Oklahoma Water Resources Board for the District's basic financing requires that certain monies be put in a trust type account. These funds are restricted to servicing the loan with the OWRB. Monthly payments are made to a debt service account and then invested upon receipt by the loan trustee, Bank of Oklahoma NA. Semi-annual payments are then made by the trustee from this account to OWRB. When funds are received by the Trustee they are immediately invested in securities guaranteed by the United States Government.

NOTE 6 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended November 30, 2012, was as follows:

	Balance at Nov. 30, 2011	Additions	Deductions	Balance at Nov. 30, 2012
Land, lakes, damsites & dams	\$ 154,695	\$ -	\$ -	\$ 154,695
Water Lines	278,430	900	-	279,330
Water Treating Plant	69,298	406	-	69,704
Water Plant Expansion	1,292,358	3,228,258	-	4,520,616
Water Storage Facilities	114,200	-	-	114,200
Pump Station	23,817	-	-	23,817
Right-of-Ways	2,076	-	-	2,076
Office Furniture & Fixtures	25,550	-	-	25,550
Building	64,153	-	-	64,153
Equipment & Tools	97,996	168,188	-	266,184
Vehicles	48,311	-	-	48,311
Leasehold Improvements	62,264	-	-	62,264
Construction in Progress	3,216,721	-	(3,216,721)	-
Subtotal	5,449,868	3,397,752	(3,216,721)	5,630,899
Less: Accum. Depr.	(1,299,505)	(154,355)	-	(1,453,860)
Total Capital Assets (Net of Depreciation)	<u>\$ 4,150,363</u>	<u>\$ 3,243,397</u>	<u>\$ (3,216,721)</u>	<u>\$ 4,177,039</u>

The additions for the year included electronic meters, miscellaneous equipment, and miscellaneous system improvements including the final expenses for the plant expansion project.

NOTE 7 - NOTES PAYABLE

OWRB

The District was awarded a loan, under the Oklahoma Drinking Water State Revolving Fund (DWSRF) program, by the State of Oklahoma Water Resources Board (OWRB) on May 26, 2000, for improvements to the water system not to exceed \$615,000 at an interest rate not to exceed 4.5% per annum, secured by the revenues of the District.

CREEK COUNTY RURAL WATER DISTRICT #7
MOUNDS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2012

OWRB #2

In December 2008, the District entered into a Loan Agreement for Drinking Water SRF Loan dated December 1, 2008, by and between the District and the OWRB (the "Drinking Water SRF Loan Agreement"). The security for the Note includes a pledge and assignment of revenues derived by the District from its operation of the water system of the District pursuant to the terms of the Loan Agreement. The Note is further secured by a Mortgage with Power of Sale and Security Agreement dated December 16, 2008 by the District to the OWRB and the provisions of the Trust Agreement dated December 1, 2008. The loan is for a principal sum of Three Million Two Hundred Thirty Thousand and 00/100 Dollars (\$3,230,000.00) or so much thereof as is advanced together with interest at a rate of 3.69% per annum and an administrative fee at rate of 0.5% per annum thereon from the date of each respective advance. The interest and administrative fee payments shall be made on a semi-annual basis, commencing on March 15, 2009, and continuing each March 15 and September 15 thereafter for the term of the Loan. The Borrower shall commence repayment of principal on the earlier of (i) the March 15 or September 15 next following the date the Project is completed, as certified to the OWRB by the District, or (ii) March 15, 2010, and shall continue to repay principal semiannually for the term of the Loan according to the Amortization Table to be provided by the OWRB.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended November 30, 2012:

	Balance at November 30, 2011	Additions	Deductions	Balance at November 30, 2012
OWRB Note Payable	\$ 342,890	\$ -	\$ (32,311)	\$ 310,579
OWRB Note Payable #2	2,875,058	12,130	(135,139)	2,752,049
Total	<u>\$ 3,217,947</u>	<u>\$ 12,130</u>	<u>\$ (167,450)</u>	<u>\$ 3,062,628</u>

Debt Services Requirements to Maturity

The annual debt service requirements to maturity, including principal and interest, for long-term debt, as of November 30, 2012, are as follows:

CREEK COUNTY RURAL WATER DISTRICT #7
MOUNDS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2012

OWRB

Year Ending November 30,	Principal	Interest	Admin. Fees	Total
2013	\$ 33,656	\$ 10,569	\$ 1,532	\$ 45,757
2014	35,017	9,380	1,359	45,757
2015	36,434	8,143	1,180	45,757
2016	37,885	6,876	997	45,757
2017	39,440	5,517	800	45,757
2018-2020	128,147	7,968	1,155	137,271
Total	<u>\$ 310,579</u>	<u>\$ 48,454</u>	<u>\$ 7,022</u>	<u>\$ 366,055</u>

OWRB

Year Ending November 30,	Principal	Interest	Admin. Fees	Total
2013	\$ 113,279	\$ 101,895	\$ 13,807	\$ 228,981
2014	118,143	97,612	13,227	228,981
2015	123,215	93,145	12,621	228,981
2016	128,220	88,737	12,024	228,981
2017	134,010	83,638	11,333	228,981
2018-2022	761,213	338,906	45,787	1,145,906
2023-2027	939,343	181,033	24,630	1,145,006
2028-2029	434,627	20,550	2,785	457,962
Total	<u>\$ 2,752,049</u>	<u>\$ 1,005,518</u>	<u>\$ 136,214</u>	<u>\$ 3,893,780</u>

NOTE 8 - FUND EQUITY

As described in Note 2 above, equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt
2. Restricted net assets
3. Unrestricted net assets

See Note 5 above for a description of Restricted Net Assets.

NOTE 9 - CONTINGENCIES

Litigation

According to management there were no known contingent liabilities at November 30, 2012, which would have a material effect on the financial statements.

Federally Assisted Programs

In the normal course of operations, the District participates in various federal or state/loan programs from year to year. The grant/loan programs are often subject to

CREEK COUNTY RURAL WATER DISTRICT #7
MOUNDS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2012

additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

NOTE 10 - INCOME TAXES

Creek County Rural Water District No. 7, Mounds, Oklahoma is exempt from State and Federal income taxes.

NOTE 11 - RETIREMENT PLAN

The District sponsors a Simple IRA plan for employees. The District contributes up to 3% of the employees' gross wages to the plan, and the employee is free to contribute any amount that he/she decides upon to the plan.

NOTE 12 - LEASE FROM TOWN OF MOUNDS

The members' equity was originally set up based on a fifty-year lease to the District of existing water facilities. The lease began June 1, 1967, and at the end of the period, the water District facilities are to revert to the Town of Mounds. Several amendments have been made to this lease with the latest amendment dated December 1, 2008. This latest amendment extended the lease to March 15, 2030.

NOTE 13 - ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS

Accumulated unpaid vacation and sick leave benefits have not been shown as a liability in the financial statements. The District's position is that any accrued benefits are not significant and would not materially affect the financial statements.

NOTE 14 - SUBSEQUENT EVENTS

The District did not have any subsequent events through February 5, 2013, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending November 30, 2012.

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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
Creek County Rural Water District #7
Mounds, Oklahoma

We have audited the financial statements of the Creek County Rural Water District #7, as of November 30, 2012, and have issued our report thereon dated February 5, 2013. The Creek County Rural Water District #7 has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, except that the District did not present the required MD&A. We conducted our audit in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and in accordance with Oklahoma Statutes.

Internal Control Over Financial Reporting

Management of the Creek County Rural Water District #7 is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Creek Co. RWD #7's internal control over financial reporting as a basis for designing our auditing procedures 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 Creek Co. RWD #7's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Creek Co. RWD #7'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 internal control over financial reporting 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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weakness, as defined above.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Creek County Rural Water District #7's financial statements are free of material misstatement, we performed tests of 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 and management of the Creek County Rural Water District #7, others within the organization and federal and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Kershaw CPA & Associates, P.C.

Kershaw, CPA & Associates, PC

February 5, 2013

CREEK COUNTY RURAL WATER DISTRICT #7
MOUNDS, OKLAHOMA
SCHEDULE OF WATER RATES AND CUSTOMERS
NOVEMBER 30, 2012

Water Rates

Effective May 2011:

0 gallons	=	\$25.45
1 - 1,000 gallons	=	\$ 6.50 per 1,000 gallons
1,001 - 2,000 gallons	=	\$ 6.50 per 1,000 gallons
2,001 - 3,000 gallons	=	\$ 7.50 per 1,000 gallons
3,001 - 4,000 gallons	=	\$ 7.50 per 1,000 gallons
4,001 - 5,000 gallons	=	\$ 7.65 per 1,000 gallons
5,001 - 6,000 gallons	=	\$ 7.65 per 1,000 gallons
Over 6,000 gallons	=	\$ 7.75 per 1,000 gallons

Total Gallons Sold	
FYE 11/30/12	49,182,871

Customers

The Creek County Rural Water District #7 had 1,018 customers at the close of this fiscal year.

Current membership/tap fee \$1,600.00* per meter sign-up.

*Additional costs of road boring or road crossing will be at current construction rates. Cost will be quoted on an individual basis. Maximum distance for installation of benefit unit from water line will be 15'.