

# AUDIT REPORT

CREEK COUNTY RURAL WATER DISTRICT #7

NOVEMBER 30, 2015



## KERSHAW CPA & ASSOCIATES, PC

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CREEK COUNTY RURAL WATER DISTRICT #7  
MOUNDS, OKLAHOMA  
NOVEMBER 30, 2015

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CREEK COUNTY RURAL WATER DISTRICT #7  
MOUNDS, OKLAHOMA  
NOVEMBER 30, 2015

BOARD OF DIRECTORS

| <u>NAME</u>   | <u>POSITION</u>         | <u>TERM EXPIRATION</u> |
|---|-------------------------|------------------------|
| Kenneth Joe Carner<br>7451 W. 191 <sup>st</sup> St. S<br>Mounds, OK 74047 | Chairman                | February 2019          |
| Cecil Kimberling<br>330 E. 8 <sup>th</sup> St.<br>Mounds, OK 74047        | Vice-Chairman           | February 2018          |
| Richard Marshall<br>P.O. Box 802<br>Mounds, OK 74047                      | Treasurer               | February 2017          |
| Jack Carner<br>P.O. Box 292<br>Mounds, OK 74047                           | Secretary               | February 2019          |
| Beau Jones<br>7451 W. 191 <sup>st</sup> St. S<br>Mounds, OK 74047         | Assistant-<br>Secretary | February 2020          |

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## INDEPENDENT AUDITOR'S REPORT

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

### *Report on the Financial Statements*

We have audited the accompanying financial statements of Creek County Rural Water District #7, as of and for the fiscal year ended November 30, 2015, as listed in the table of contents and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

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 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

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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 opinion.

## *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Creek County Rural Water District #7, as of November 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## *Other Matters*

### *Required Supplementary Information*

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

### *Supplementary and Other Information*

The introductory and other supplementary sections listed in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the District. Such additional information has not been subjected to the auditing procedures applied in our audit of the basic

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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 February 17, 2016, on our consideration of the Creek County Rural Water District #7's internal control over financial reporting and 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 accordance with *Government Auditing Standards* in considering Creek County Rural Water District #7's internal control over financial reporting and compliance.

*Kershaw CPA & Associates, P.C.*  
Kershaw, CPA & Associates, PC

February 17, 2016

CREEK COUNTY RURAL WATER DISTRICT #7  
MOUNDS, OKLAHOMA  
STATEMENT OF NET POSITION  
NOVEMBER 30, 2015

|                                | 2015                | Memorandum Only<br>2014 |
|--------------------------------|---------------------|-------------------------|
| <b>ASSETS</b>                  |                     |                         |
| <b><u>CURRENT ASSETS:</u></b>  |                     |                         |
| Cash in Bank                   | \$ 492,568          | \$ 534,654              |
| Accounts Receivable            | 62,950              | 59,374                  |
| Restricted Cash in Trust       | 19,986              | 19,986                  |
| Prepaid Expense                | 15,815              | 15,481                  |
| Deposit-ORWA-CD                | 1,000               | 1,000                   |
| <b>Total Current Assets</b>    | <b>592,320</b>      | <b>630,496</b>          |
| <b><u>CAPITAL ASSETS:</u></b>  |                     |                         |
| Land, lake, damsites, and dams | 154,695             | 154,695                 |
| Water lines                    | 295,925             | 288,651                 |
| Water treating plant           | 69,704              | 69,704                  |
| Water plant expansion          | 4,552,750           | 4,540,294               |
| Water storage facilities       | 114,200             | 114,200                 |
| Pump stations                  | 24,280              | 23,817                  |
| Right-of-ways                  | 2,076               | 2,076                   |
| Office furniture and fixtures  | 31,731              | 27,673                  |
| Building                       | 64,153              | 64,153                  |
| Equipment & tools              | 300,922             | 270,757                 |
| Vehicles                       | 76,933              | 90,622                  |
| Leasehold Improvements         | 62,264              | 62,264                  |
| Construction in Progress       | -                   | -                       |
|                                | 5,749,634           | 5,708,907               |
| Less: Accumulated Depreciation | (1,895,824)         | (1,756,920)             |
| <b>Net Capital Assets</b>      | <b>3,853,810</b>    | <b>3,951,987</b>        |
| <b><u>OTHER ASSETS:</u></b>    |                     |                         |
| Loan Fees                      | 63,675              | 63,675                  |
| Less: Accumulated Amortization | (19,837)            | (16,490)                |
| <b>Total Other Assets</b>      | <b>43,838</b>       | <b>47,185</b>           |
| <b>TOTAL ASSETS</b>            | <b>\$ 4,489,969</b> | <b>\$ 4,629,668</b>     |

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

CREEK COUNTY RURAL WATER DISTRICT #7  
MOUNDS, OKLAHOMA  
STATEMENT OF NET POSITION (CONTINUED)  
NOVEMBER 30, 2015

|  | 2015                | 2014                |
|--|---------------------|---------------------|
| <b><u>LIABILITIES &amp; NET POSITION</u></b> |                     |                     |
| <b><u>CURRENT LIABILITIES:</u></b>           |                     |                     |
| Accounts payable                             | \$ 633              | \$ 755              |
| Current Portion of Long-Term Debt            | 167,768             | 162,348             |
| Accrued interest                             | 8,394               | 8,912               |
| Accrued payroll                              | 4,773               | 5,036               |
| Accred payroll taxes                         | 2,972               | 2,702               |
| Total Current Liabilities                    | 184,540             | 179,753             |
| <b><u>LONG-TERM LIABILITIES:</u></b>         |                     |                     |
| Note payable - OWRB                          | 199,876             | 237,940             |
| Note payable - FUB                           | 2,436,600           | 2,560,884           |
| Less: Current Portion of Long-Term Debt      | (167,768)           | (162,348)           |
| Meter deposits                               | 23,141              | 22,466              |
| Total Long-Term Liabilities                  | 2,491,849           | 2,658,942           |
| <b>TOTAL LIABILITIES</b>                     | <b>2,676,389</b>    | <b>2,838,695</b>    |
| <b><u>NET POSITION:</u></b>                  |                     |                     |
| Net investment in capital assets             | 1,217,334           | 1,153,163           |
| Restricted for debt service                  | 19,986              | 19,986              |
| Restricted for lease from Town of Mounds     | 60,185              | 60,185              |
| Unrestricted                                 | 516,075             | 557,639             |
| <b>TOTAL NET POSITION</b>                    | <b>1,813,580</b>    | <b>1,790,973</b>    |
| <b>TOTAL LIABILITIES AND NET POSITION</b>    | <b>\$ 4,489,969</b> | <b>\$ 4,629,668</b> |

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

**CREEK COUNTY RURAL WATER DISTRICT #7  
MOUNDS, OKLAHOMA  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE TWELVE MONTHS ENDED NOVEMBER 30, 2015**

|  | <u>2015</u>         | <u>Memorandum<br/>Only<br/>2014</u> |
|--|---------------------|-------------------------------------|
| <b><u>OPERATING REVENUES:</u></b>                |                     |                                     |
| Water Revenues                                   | \$ 584,364          | \$ 617,301                          |
| Other Revenue                                    | 47,879              | 51,280                              |
|  | <u>632,243</u>      | <u>668,581</u>                      |
| <b><u>OPERATING EXPENSES:</u></b>                |                     |                                     |
| Salaries and wages                               | 121,802             | 116,414                             |
| Water treating supplies                          | 48,343              | 35,181                              |
| Water purchases                                  | 615                 | 555                                 |
| Power and utilities                              | 31,703              | 31,636                              |
| Repairs & Maintenance                            | 66,440              | 37,794                              |
| Payroll taxes                                    | 9,891               | 9,483                               |
| Professional fees                                | 4,950               | 9,640                               |
| Auto and truck expense                           | 5,155               | 6,814                               |
| Administrative expense                           | 54,807              | 45,360                              |
| Depreciation                                     | 152,593             | 151,377                             |
| Amortization                                     | 3,346               | 3,346                               |
| Insurance expense                                | 25,369              | 25,076                              |
| Contract labor                                   | -                   | -                                   |
| Bad Debts  | 1,939               | 602                                 |
|  | <u>526,953</u>      | <u>473,278</u>                      |
| <b>OPERATING INCOME (LOSS)</b>                   | <b>105,290</b>      | <b>195,303</b>                      |
| <b><u>NON-OPERATING REVENUES (EXPENSES):</u></b> |                     |                                     |
| Interest Income                                  | 1,533               | 1,934                               |
| Interest Expense                                 | (97,216)            | (102,279)                           |
| Gain on Disposal of Capital Assets               | -                   | -                                   |
| Taps   | 13,000              | 16,000                              |
|  | <u>(82,683)</u>     | <u>(84,345)</u>                     |
| <b>TOTAL NON-OPERATING REVENUE (EXPENSES)</b>    | <b>(82,683)</b>     | <b>(84,345)</b>                     |
| <b>CHANGE IN NET POSITION</b>                    | <b>22,607</b>       | <b>110,958</b>                      |
| <b>TOTAL NET POSITION, Beginning of Year</b>     | <b>1,790,973</b>    | <b>1,680,014</b>                    |
| <b>TOTAL NET POSITION, Prior Year Adjustment</b> | <b>-</b>            | <b>1</b>                            |
| <b>TOTAL NET POSITION, End of Year</b>           | <b>\$ 1,813,580</b> | <b>\$ 1,790,973</b>                 |

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

**CREEK COUNTY RURAL WATER DISTRICT #7  
MOUNDS, OKLAHOMA  
STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2015**

|   | <u>2015</u>       | <u>Memorandum<br/>Only<br/>2014</u> |
|---|-------------------|-------------------------------------|
| <b><u>Cash Flows from Operating Activities:</u></b>   |                   |                                     |
| Cash Receipts from Customers  | \$ 628,667        | \$ 665,342                          |
| Payments to Suppliers for Goods & Services  | (249,661)         | (203,045)                           |
| Payments to Employees & Laborers  | (121,802)         | (116,414)                           |
| Receipts of Customer Utility Deposits, Net of Refunds   | 675               | (65)                                |
| Net Cash Provided (Used) by Operating Activities  | <u>257,879</u>    | <u>345,818</u>                      |
| <b><u>Cash Flows from Capital &amp; Related Financing Activities:</u></b>                               |                   |                                     |
| Additions to Capital Assets   | (54,417)          | (30,602)                            |
| Loan Fees   | -                 | -                                   |
| Loan Proceeds   | -                 | -                                   |
| Principal paid on Debt  | (162,348)         | (157,107)                           |
| Interest paid on Debt   | (97,734)          | (102,784)                           |
| Net Cash Provided (Used) by Capital & Related Financing Activities                                      | <u>(314,498)</u>  | <u>(290,493)</u>                    |
| <b><u>Cash Flows from Investing Activities:</u></b>   |                   |                                     |
| Capital Contributions - Taps  | 13,000            | 16,000                              |
| Interest Income   | 1,533             | 1,934                               |
| Net Cash Provided (Used) by Investing Activities  | <u>14,533</u>     | <u>17,934</u>                       |
| Net Increase (Decrease) in Cash and Cash Equivalents  | (42,086)          | 73,259                              |
| Cash & Cash Equivalents, Beginning of Year  | 534,654           | 461,395                             |
| Cash & Cash Equivalents, Prior Year Adjustment  | -                 | -                                   |
| Cash & Cash Equivalents, End of Year  | <u>\$ 492,568</u> | <u>\$ 534,654</u>                   |
| <b><u>Reconciliation of operating income (loss) to net cash provided<br/>operating activities:</u></b>  |                   |                                     |
| Operating Income (Loss)   | \$ 105,290        | \$ 195,303                          |
| Adjustments to reconcile operating income (loss) to net cash<br>provided (used) by operating activities |                   |                                     |
| Depreciation  | 152,593           | 151,377                             |
| Amortization  | 3,346             | 3,346                               |
| (Increase)Decrease in Receivables   | (3,576)           | (3,239)                             |
| (Increase)Decrease in Prepaid Expenses  | (334)             | (628)                               |
| Increase(Decrease) in Accounts Payable  | (122)             | (233)                               |
| Increase(Decrease) in Accrued Expenses  | 7                 | (43)                                |
| Increase(Decrease) in Meter Deposits  | 675               | (65)                                |
| Net Cash Provided (Used) by Operating Activities  | <u>\$ 257,879</u> | <u>\$ 345,818</u>                   |

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, 2015

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.

CREEK COUNTY RURAL WATER DISTRICT #7  
MOUNDS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2015

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 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 position and displayed in three components:

CREEK COUNTY RURAL WATER DISTRICT #7  
MOUNDS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2015

1. Net investment in capital assets – 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 and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.
2. Restricted – Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction 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 amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

It is the District's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

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.

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

CREEK COUNTY RURAL WATER DISTRICT #7  
MOUNDS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2015

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.

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.

CREEK COUNTY RURAL WATER DISTRICT #7  
MOUNDS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2015

NOTE 4 - CASH AND INVESTMENTS

Custodial Credit Risk

At November 30, 2015, the District held deposits of approximately \$512,555 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, 2015

NOTE 5 - RESTRICTED ASSETS

The loan agreement with the First United Bank 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 First United Bank. Monthly payments are made to a debt service account and then invested upon receipt by the loan trustee, Bank of Oklahoma NA. Monthly payments are then made by the trustee from this account to First United Bank. 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, 2015, was as follows:

|   | Balance at<br>Nov. 30, 2014 | Additions          | Deductions      | Balance at<br>Nov. 30, 2015 |
|---|-----------------------------|--------------------|-----------------|-----------------------------|
| Land, lakes, damsites & dams                  | \$ 154,695                  | \$ -               | \$ -            | \$ 154,695                  |
| Water Lines                                   | 288,651                     | 7,274              | -               | 295,925                     |
| Water Treating Plant                          | 69,704                      | -                  | -               | 69,704                      |
| Water Plant Expansion                         | 4,540,294                   | 12,457             | -               | 4,552,750                   |
| Water Storage Facilities                      | 114,200                     | -                  | -               | 114,200                     |
| Pump Station                                  | 23,817                      | 463                | -               | 24,280                      |
| Right-of-Ways                                 | 2,076                       | -                  | -               | 2,076                       |
| Office Furniture & Fixtures                   | 27,673                      | 4,058              | -               | 31,731                      |
| Building                                      | 64,153                      | -                  | -               | 64,153                      |
| Equipment & Tools                             | 270,757                     | 30,165             | -               | 300,922                     |
| Vehicles                                      | 90,622                      | -                  | (13,689)        | 76,933                      |
| Leasehold Improvements                        | 62,264                      | -                  | -               | 62,264                      |
| Construction in Progress                      | -                           | -                  | -               | -                           |
| Subtotal                                      | <u>5,708,907</u>            | <u>54,417</u>      | <u>(13,689)</u> | <u>5,749,634</u>            |
| Less: Accum. Depr.                            | <u>(1,756,920)</u>          | <u>(152,593)</u>   | <u>13,689</u>   | <u>(1,895,824)</u>          |
| Total Capital Assets<br>(Net of Depreciation) | <u>\$ 3,951,987</u>         | <u>\$ (98,177)</u> | <u>\$ -</u>     | <u>\$ 3,853,810</u>         |

The additions for the year included office computer, miscellaneous equipment, and miscellaneous system improvements. The deduction was the disposal of a 2003 Nissan.

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

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MOUNDS, OKLAHOMA  
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to exceed \$615,000 at an interest rate not to exceed 4.5% per annum, secured by the revenues of the District. Beginning with the September 15, 2013 payment, the interest rate has been adjusted to 1.610%.

First United Bank

On July 1, 2013, the District incurred an indebtedness by the issuance of its Utility System Revenue Note, Series 2013, in an aggregate principal amount of \$2,720,000 (the "Note") for the purpose of providing funds to (i) refinance the District's Series 2008 Drinking Water SRF Promissory Note to Oklahoma Water Resources Board dated December 16, 2008, in the original amount of \$3,230,000 (the "Refinancing"); and (ii) pay certain costs associated with the issuance of the Note. The Note shall bear interest at the rate of 3.80% per annum, and the maturity date shall be July 1, 2028, with principal installments as set forth in the amortization schedule.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended November 30, 2015:

|                   | Balance at<br>November 30,<br>2014 | Additions   | Deductions          | Balance at<br>November 30,<br>2015 |
|-------------------|------------------------------------|-------------|---------------------|------------------------------------|
| OWRB Note Payable | \$ 237,940                         | \$ -        | \$ (38,064)         | \$ 199,876                         |
| FUB Note Payable  | 2,560,884                          | -           | (124,283)           | 2,436,600                          |
| Total             | <u>\$ 2,798,824</u>                | <u>\$ -</u> | <u>\$ (162,348)</u> | <u>\$ 2,636,476</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, 2015, are as follows:

CREEK COUNTY RURAL WATER DISTRICT #7  
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OWRB

| Year Ending<br>November 30, | Principal         | Interest        | Admin. Fees     | Total             |
|-----------------------------|-------------------|-----------------|-----------------|-------------------|
| 2016                        | \$ 38,679         | \$ 2,146        | \$ 967          | \$ 41,792         |
| 2017                        | 39,322            | 1,703           | 767             | 41,792            |
| 2018                        | 39,967            | 1,259           | 567             | 41,792            |
| 2019                        | 40,622            | 807             | 364             | 41,792            |
| 2020                        | 41,286            | 349             | 157             | 41,792            |
| Total                       | <u>\$ 199,876</u> | <u>\$ 6,264</u> | <u>\$ 2,822</u> | <u>\$ 208,962</u> |

FUB

| Year Ending<br>November 30, | Principal           | Interest            | Total               |
|-----------------------------|---------------------|---------------------|---------------------|
| 2016                        | \$ 129,089          | \$ 90,358           | \$ 219,447          |
| 2017                        | 134,081             | 85,366              | 219,447             |
| 2018                        | 139,266             | 80,181              | 219,447             |
| 2019                        | 144,651             | 74,796              | 219,447             |
| 2020                        | 153,736             | 1,072,672           | 1,226,407           |
| 2021-2025                   | 1,074,013           | 152,394             | 1,226,407           |
| 2026-2028                   | 661,765             | 35,142              | 696,906             |
| Total                       | <u>\$ 2,436,600</u> | <u>\$ 1,590,909</u> | <u>\$ 4,027,510</u> |

NOTE 8 - FUND EQUITY

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

1. Net investment in capital assets
2. Restricted
3. Unrestricted

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

NOTE 9 - CONTINGENCIES

Litigation

According to management there were no known contingent liabilities at November 30, 2015, which would have a material effect on the financial statements.

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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 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 17, 2016, 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, 2015.

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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, 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, and in accordance with Oklahoma Statutes, the financial statements of the Creek County Rural Water District #7, as of and for the year ended November 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated February 17, 2016. Management has omitted the MD&A required by accounting principles generally accepted in the United States of America.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Creek County Rural Water District #7's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Creek County Rural Water District #7's internal control. Accordingly, we do not express an opinion on the effectiveness of Creek County Rural Water District #7'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.

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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 were not identified. 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 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*.

## 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.

*Kershaw CPA & Associates, P.C.*

Kershaw, CPA & Associates, PC

February 17, 2016

