

**Creek County Rural Water District No. 2
Jenks, Oklahoma**

Financial Statements and Auditor's Reports

Year Ended November 30, 2012

Audited by

**SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP**

BROKEN ARROW, OK

Creek County Rural Water District No. 2
Jenks, Oklahoma
Board of Directors
November 30, 2012

BOARD OF DIRECTORS

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Vice-President

Pat Scott

Secretary/Treasurer

Bergen Young

Members

Bill Martin

Larry Bayouth

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Roy Kirby

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BOOKKEEPER

Marylu Steenbergen

Creek County Rural Water District No. 2
Jenks, Oklahoma
November 30, 2012

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Independent Auditor's Report

Board of Directors
Creek County Rural Water District No. 2
Jenks, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Creek County Rural Water District No. 2 (the District), Jenks, Oklahoma, as of and for the year ended November 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 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 the 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 respective financial position of the business-type activities of the District as of November 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States.

The Management Discussion and Analysis on pages 5-6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 25, 2013 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole on the basis of accounting generally accepted in the United States.

A handwritten signature in black ink that reads "Sanders, Bledsoe & Hewett". The script is cursive and fluid, with the ampersand being particularly stylized.

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

January 25, 2013

RURAL WATER DISTRICT NO.2, CREEK COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
NOVEMBER 30, 2012

Our discussion and analysis of the Rural Water District No. 2, Creek County's financial performance provides an overview of the District's financial activities for the fiscal year ended November 30, 2012. Please read it in conjunction with the District's financial statements that begin on page 11.

FINANCIAL HIGHLIGHTS:

- The District's total operating revenues exceeded total operating expenses by \$630,968.
- The District's net assets increased by \$511,620 in the current fiscal year.
- Investment amounts decreased by \$50,000 due to some CD's being liquidated.
- The District received \$368,500 in additional Rural Development loan proceeds in 2012.
- The District expended \$372,219 on radio read meters in 2012.

Using This Report

This report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the District's basis of accounting.

Basis of Accounting

The District has elected to present its financial statements in the accrual basis of accounting. According to the accrual basis, revenues are recorded when earned and expenses are recognized when incurred. This policy is in accordance with generally accepted accounting principles.

The Financial Statements

One of the most important questions asked about the District's finances is, "Is the District as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets, the Statement of Activities and the Statement of Cash Flows report information about the District and about its activities in a way that helps answer this question.

These three statements report the District's net assets and the changes in them. You can think of the District's net assets – the difference between assets and liabilities – as one way to measure the District's financial health or financial position. Over time, increases or decreases

in the District's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in water rates paid or charged and the condition of the District's water system, to assess the overall health of the District.

The District has only one type of fund or activity, which is defined as *Business-type activities*. This is considered a proprietary fund. This means the District charges a fee to customers to help it cover all or most of the cost of certain services it provides.

Fixed Assets

At November 30, 2012, the District had \$7,770,935 invested in fixed assets, net of depreciation, including land, the water system, vehicles and equipment. Additional amounts were included in 2011-12 in the area of the radio read meters that were installed, and improvements to the water system.

Long-Term Debt

The promissory note with the Oklahoma Water Resources Board was approved in 2001-02. The note was for \$1,345,000, and will be paid back in bi-annual payments over 30 years, at a variable interest rate. The current interest rate is 1.505%.

A loan with the Office of Rural Development was approved in 2006. The note was for \$3,125,000, and will be paid back in monthly payments over 40 years. In 2012, \$368,500 of additional loan proceeds were received from this note to assist with water system improvements. The monthly payments of principal and interest are \$13,813.00, and the interest rate is 4.375%.

Economic Factors and Next Year's Budget and Rates

For the upcoming fiscal year ending November 30, 2013, the District's budget is fairly consistent with the prior fiscal year. The normal cost of operation continues to increase for all areas of the economy, and rural water is not exempt from these increases.

Contacting the District's Management

This report is designed to provide our customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the District Office at 2425 W 121st St. South, Jenks, OK 74037 or call (918)299-4448.

**Report On Compliance And On Internal Control Over
Financial Reporting Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards**

Board of Directors
Creek County Rural Water District No. 2
Jenks, Oklahoma

We have audited the financial statements of the Creek County Rural Water District No. 2 (the District), Jenks, Oklahoma, as of and for the year ended November 30, 2012, and have issued our report thereon dated January 25, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial 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 that are required to be reported under auditing standards generally accepted in the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. A material

weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we considered to be material weaknesses.

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

A handwritten signature in cursive script that reads "Sanders, Bledsoe & Hewett".

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

January 25, 2013

CREEK COUNTY RURAL DISTRICT NO. 2
Disposition of Prior Year's Reportable Conditions
November 30, 2012

There were no prior year reportable conditions.

CREEK COUNTY RURAL WATER DISTRICT NO. 2
Schedule of Audit Results
November 30, 2012

Section 1 – Summary of Auditor’s Results:

1. An unqualified opinion report was issued on the financial statements.
2. The audit disclosed no instances of noncompliance which were material to the financial statements.
3. The audit disclosed no reportable conditions in the internal controls over financial reporting which were considered to be material weaknesses.

Section 2 – Findings relating to the financial statements required to be reported in accordance with GAGAS:

None

CREEK COUNTY RURAL WATER DISTRICT NO. 2
Statement of Net Assets
November 30, 2012

ASSETS:

Current Assets:

Cash and cash equivalents	\$ 830,836
Investments	452,216
Current portion of receivables	215,465
Inventory on hand	121,908
Prepaid assets	<u>32,868</u>
Total current assets	<u>1,653,293</u>

Noncurrent Assets:

Reserve account	251,317
ORWB project trust funds	118,909
Capital Assets-	
Land	39,645
Buildings, net	29,776
Plant and water systems, net	6,980,585
Other capital assets, net	<u>720,928</u>
Total noncurrent assets	<u>8,141,160</u>

Other Assets:

Loan costs, net	<u>3,483</u>
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Total Assets	<u>9,797,936</u>
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LIABILITIES:

Current Liabilities:

Accounts payable	92,093
Accrued liabilities	14,470
Customer construction in progress	14,582
Current portion of long-term debt	<u>78,147</u>
Total current liabilities	<u>199,292</u>

Noncurrent Liabilities:

Long-term debt, less current maturities	<u>3,719,911</u>
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Total Liabilities	<u>3,919,203</u>
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NET ASSETS:

Invested in capital assets, net of related debt	3,972,876
Restricted for debt service	118,909
Unrestricted assets	<u>1,786,948</u>
Total Net Assets	<u>\$ 5,878,733</u>

The accompanying notes to the financial statements are an integral part of this statement

CREEK COUNTY RURAL WATER DISTRICT NO. 2
Statement of Activities
For The Year Ended November 30, 2012

Operating Revenues:

Water sales	\$ 3,215,555
Fees and fines	68,716
Glenpool/Jenks Utility	158,654
Leases and reimbursements	<u>45,351</u>
Total revenue from operations	<u>3,488,276</u>

Operating Expenses:

Water purchases	1,395,290
Salaries and benefits	516,999
Payroll taxes	36,939
Repairs and maintenance	143,812
Vehicle expense	46,205
Insurance	50,127
Supplies and materials	60,910
Office expense and postage	48,835
Depreciation	345,690
Amortization	738
Professional fees	150,785
Utilities	57,423
Board expenses	<u>3,555</u>
Total expenses from operations	<u>2,857,308</u>

Operating Income (Loss)	630,968
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Non-Operating Revenues (Expenses):

Interest income	8,246
Capital contributions-	
Memberships	7,800
Paid in surplus	1,732
Interest paid on long-term debt	<u>(137,126)</u>
Total Non-Operating Revenues (Expenses)	<u>(119,348)</u>

Change in Net Assets	511,620
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Total Net Assets, beginning of period	<u>5,367,113</u>
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Total Net Assets, end of period	<u><u>\$ 5,878,733</u></u>
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The accompanying notes to the financial statements are an integral part of this statement

CREEK COUNTY RURAL WATER DISTRICT NO. 2
Statement of Cash Flows
For the Year Ended November 30, 2012

Cash Flows from Operating Activities:

Receipts from customers	\$ 3,466,378
Payments to employees	(391,646)
Payments to vendors	<u>(2,095,489)</u>
Net Cash Provided by Operating Activities	<u>979,243</u>

Cash Flows from Financing Activities:

Sale (purchase) of fixed assets	(709,589)
Loan proceeds (Rural Development)	368,500
Principal paid on long-term debt	(77,254)
Interest paid on long-term debt	<u>(137,360)</u>
Net Cash Provided by (used in) Financing Activities	<u>(555,703)</u>

Cash Flows from Investing Activities:

Capital contributions - Memberships	7,800
Capital contributions - Paid in surplus	1,732
Interest earned on investments	<u>8,246</u>
Net Cash Provided by (used in) Investing Activities	<u>17,778</u>

Net Increase (Decrease) in Cash 441,318

Cash and cash equivalents, beginning of period 1,211,960

Cash and cash equivalents, end of period \$ 1,653,278

Reconciliation of operating income (loss) to net cash provided by operating activities:

Operating Income	\$ 630,968
Adjustments to reconcile net income to net cash provided (used) by operating activities:	
Depreciation Expense	345,690
Amortization Expense	738
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	(8,703)
(Increase) decrease in prepaid insurance	(1,961)
(Increase) decrease in inventory	4,043
Increase (decrease) in accounts payable	6,747
Increase (decrease) in accruals	321
Increase (decrease) in customer construction in progress	<u>1,400</u>
Net cash provided by operating activities	<u><u>\$ 979,243</u></u>

The accompanying notes to the financial statements are an integral part of this statement

CREEK COUNTY RURAL WATER DISTRICT NO. 2

Jenks, Oklahoma

Notes to the Financial Statements

November 30, 2012

Note A – Significant Accounting Policies

Basis of Accounting

The accrual basis of accounting is followed for all accounts. Revenues are recorded when earned and liabilities are recognized when incurred. This policy is in accordance with generally accepted accounting principles.

Reporting Standard

In June 1999, the GASB issued Statement No. 34 “Basic Financial Statements and Management’s Discussion and Analysis for State and Local Government.” This statement establishes new financial reporting requirements for state and local governments throughout the United States. It creates new information and restructures much of the information that governments have presented in the past. Comparability with reports issued in all prior years is affected.

Cash and equivalents

The District’s cash accounts at November 30th are detailed as follows:

	<u>November 30,</u>	
	<u>2012</u>	<u>2011</u>
Change fund (on hand)	\$ 200	200
American Heritage Bank, Sapulpa, Ok-		
Revenue account	635,435	327,452
Investment account	194,766	158,411
Payroll account	-	-
Petty cash account	619	1,557
Less: (Outstanding checks)/DIT	<u>(185)</u>	<u>(106,384)</u>
Total Operating Cash	<u>\$ 830,835</u>	<u>381,236</u>
American Heritage Bank, Sapulpa, Ok-		
Rural Development Reserve account	\$ 55,590	38,895
Rural Dev. Short Lived Assets account	141,252	121,146
Construction Loan account	135	140
Tower Maint. account	54,341	49,418
BancFirst, Oklahoma City, OK-		
ORWB Project Trust account	<u>118,909</u>	<u>118,909</u>
Total Reserve Cash	<u>\$ 370,227</u>	<u>328,508</u>

CREEK COUNTY RURAL WATER DISTRICT NO. 2

Jenks, Oklahoma

Notes to the Financial Statements

November 30, 2012

Note A – Significant Accounting Policies – cont'd

Investments

The District's investments at November 30, 2012 are detailed as follows:

American Bank and Trust, Tulsa, Ok- Certificate of deposit no. 39831	\$ 102,216
NBC Oklahoma, Tulsa, Ok- Certificate of deposit no. 04678	250,000
Oklahoma National Bank, Tulsa, Ok- Certificate of deposit no. 5860	<u>100,000</u>
Total Investments	<u><u>\$ 452,216</u></u>

Collateral Pledged

Deposit Categories of Credit Risk

(A) Insured by Federal Deposit Insurance

(B) Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name

(C) Uncollateralized

	<u>Category</u>			<u>Bank</u>	<u>Carrying</u>
	<u>(A)</u>	<u>(B)</u>	<u>(C)</u>	<u>Balance</u>	<u>Amount</u>
Cash	\$ 250,000	824,685		1,074,685	1,201,062
Investments	<u>452,216</u>			<u>452,216</u>	<u>452,216</u>
Total	<u><u>\$ 702,216</u></u>	<u><u>447,019</u></u>	<u><u>0</u></u>	<u><u>1,526,901</u></u>	<u><u>1,653,278</u></u>

Accounts Receivable

Billings for accounts receivable at November 30, 2012 were \$216,064. An allowance for doubtful accounts was computed at \$1,000.

CREEK COUNTY RURAL WATER DISTRICT NO. 2

Jenks, Oklahoma

Notes to the Financial Statements

November 30, 2012

Note A – Significant Accounting Policies – cont'd

Prior Year Information

Prior year financial statement information is included in the other supplementary information section for comparative purposes only. No opinions are issued on these amounts, and are included as memorandum.

Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance, including workers compensation, for risk of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Fixed Assets

Fixed assets are valued at cost, depreciation is computed by use of the straight-line method. The estimated useful lives of these assets are as follows:

Land	N/A
Office furniture & fixtures	5-10 years
Equipment & tools	5-10 years
Transportation equipment	5 years
Water system	40 years
Buildings	30 years
Radio read meters	20 years
Computer equipment	5 years

CREEK COUNTY RURAL WATER DISTRICT NO. 2

Jenks, Oklahoma

Notes to the Financial Statements

November 30, 2012

Note A – Significant Accounting Policies – cont'd

The fixed asset information for the District is shown below:

	11/30/2011			11/30/2012
	Amount	Additions	Deletions	Amount
Land	\$ 39,645	-	-	39,645
Water dist. system	10,548,799	336,899	-	10,885,698
Kiefer addition	482,783	-	-	482,783
Vehicles and equip.	396,385	-	-	396,385
Radio read meters	347,140	372,219		719,359
Buildings and furn.	381,807	472	-	382,279
Total Fixed Assets	12,196,559	709,590	-	12,906,149
Less: Accumulated Depreciation	(4,789,524)	(345,690)	-	(5,135,214)
Total	<u>\$ 7,407,035</u>	<u>363,900</u>	<u>141,799</u>	<u>7,770,935</u>

Note B – Long-Term Debt

Long-Term Debt consists of two notes:

The District has a promissory note in the amount of \$1,345,000 with the Oklahoma Water Resources Board (OWRB) for a period of 30 years. The District makes monthly deposits into a trust account at BancFirst. The trust account then makes the variable semi-annual payments of principal and interest to the OWRB. The current interest rate on this note is 1.505%. The water system and future water revenues are used as security for this note.

In 2006, the District was approved for a \$3,125,000 loan with the Office of Rural Development for continued improvements on their water system. The District has received \$2,914,078 of these proceeds through 2011-12. The interest rate is 4.375%, and the District is required to make monthly payments of principal and interest of \$13,813. The water system and future water revenues are used as security for this note.

The District has an OWRB debt service reserve and debt service of \$118,904 and \$5, respectively, on deposit with BancFirst in a trustee account for use in retiring the note. The reserve is not available for any other purposes. The District has Rural Development reserve accounts with the American Heritage Bank in the amount of \$251,317.

CREEK COUNTY RURAL WATER DISTRICT NO. 2**Jenks, Oklahoma**

Notes to the Financial Statements

November 30, 2012

Note B – Notes Payable – cont'd

	November 30,	
	2012	2011
Oklahoma Water Resources Board note payable, issued for \$1,345,000, at 1.70% interest, due in semi-annual installments, until paid;	\$ 1,123,800	1,143,650
Rural Development note payable, issued for \$2,914,078, at 4.375% interest, payable in monthly payments of \$13,813, until paid;	<u>2,674,258</u>	<u>2,363,161</u>
Long-Term Debt Outstanding	3,798,058	3,506,811
Less: Current maturities of long-term debt	<u>(78,147)</u>	<u>(89,934)</u>
Total Long-Term Debt, Net	<u><u>\$ 3,719,911</u></u>	<u><u>3,416,877</u></u>

The scheduled maturities for the next five (5) years, and in total thereafter, are detailed as follows:

Year	Total	ORWB	Rural Dev.
2013	\$ 78,147	28,400	49,747
2014	82,467	30,500	51,967
2015	86,887	32,600	54,287
2016	91,460	34,750	56,710
2017	96,442	37,200	59,242
2018	101,386	39,500	61,886
2019-23	621,318	267,900	353,418
2024-28	836,263	396,600	439,663
2029-33	803,301	256,350	546,951
2034+	<u>1,000,387</u>	<u>-</u>	<u>1,000,387</u>
Total	<u><u>\$ 3,798,058</u></u>	<u><u>1,123,800</u></u>	<u><u>2,674,258</u></u>

Note C – Employee Retirement Plan

The District has adopted a simplified employee pension (SEP) plan. The District contributes 3% of the employee gross pay of each qualifying employee, and employees are free to contribute more than 3%. For the 2011-12 fiscal year, the District contributed \$8,820.

CREEK COUNTY RURAL WATER DISTRICT NO. 2

Jenks, Oklahoma

Notes to the Financial Statements

November 30, 2012

Note D – Settlement Income

Previous lawsuits brought by the District against the Public Works Authorities of Glenpool, Oklahoma and Jenks, Oklahoma were settled in the District's favor. The settlement agreement with Glenpool, dated March 2, 1992, is for a 20 year term. The settlement agreement with Jenks, dated April 12, 1993, is also for a 20 year term.

Note E – Lease Income

The District receives lease income from the five lease agreements listed below.

The District has a lease agreement (no. 1088) with AT&T (formerly Cingular Wireless or Southwestern Bell Mobile Systems, Inc.). The lease was entered into on October 17, 1996 and was for a term of twenty years. However, during 2006, an amendment was made to the original lease. The annual rental payment decreased from \$3,000 to \$2,400. The term was changed from twenty years to a term of sixty months commencing February 1, 2006 and automatically renewing for up to five additional sixty month terms.

The District has a lease agreement (no. 8555) with AT&T (formerly Cingular Wireless or Southwestern Bell Mobile Systems, Inc.). The lease was entered into on March 5, 1998 and was for a term of five years with the right to extend the Term for four successive renewal terms of five years each. The annual rental payment was adjusted from \$6,000 to \$6,955 in 2008 when the second five-year term ended. This adjustment is based on the lease agreement, which allows for an increase at the end of each five-year term based on the CPI-U. However, during 2008 an amendment was made to the original lease. The annual payment was decreased to \$6,000.00, with the provision that on June 2, 2008 and upon commencement of each Extension Term thereafter, rent shall be increased using the CPI calculation provided in section three of the lease of the then current Rent. The term was changed to twenty-four months commencing June 1, 2006 and automatically renewing for up to five additional sixty month terms.

The District has a lease agreement (no. 3075) with Nextel Communications. The lease was entered into on May 6, 1997 and was for a term of five years with the right to extend the Term for four successive renewal terms of five years each. The annual rental payment was adjusted from \$6,000 to \$6,705 in 2002 when the first five-year term ended. This adjustment is based on the lease agreement, which allows for an increase at the end of each five-year term based on the CPI-U.

CREEK COUNTY RURAL WATER DISTRICT NO. 2

Jenks, Oklahoma

Notes to the Financial Statements

November 30, 2012

Note E – Lease Income – cont'd

The District has a lease agreement (no. TU1036) with T-Mobile (formerly Western Wireless or Voice Stream). The lease was entered into on April 9, 1997 and was for a term of five years with the right to extend the Term for four successive renewal terms. The annual rental payment was adjusted from \$6,000 to \$7,701 in 2007 when the first five-year term ended. This adjustment is based on the lease agreement, which allows for an increase at the end of each five-year term based on the CPI-U. Effective November 19, 2002, T-Mobile will pay an additional \$1,200 a year for additional ground space for a generator and propane tank at the District's Beeline Tower.

The District has a lease agreement (no. 3301B) with Nextel Communications. The lease was entered into on October 19, 2004 and was to commence upon the start of construction of the Tenant Facilities or eighteen months following the Effective Date, whichever first occurs and shall terminate on the fifth anniversary of the Term Commencement Date unless otherwise terminated as provided in the agreement. The Tenant has the right to extend the term for five successive periods on the same terms and conditions. The monthly rental payment is \$500.00 for the first term and shall be adjusted on the basis of changes in the index number set forth in the CPI-U. As of the date of this report, no funds have been received by the District.

Note F – Pending Litigation

The District is currently involved in a breach of contract dispute with the City of Glenpool. The City of Glenpool contacted the District in 2011 stating they had overpaid the District for several years and requested the overpaid amounts be returned. Upon investigation, the District discovered that the City of Glenpool had used erroneous data to determine the amounts owed to the District, and in the opinion of the District the City of Glenpool had actually underpaid the District an amount which exceeds \$200,000. This amount owed was disputed by the City of Glenpool. Because of this issue, the District elected to exercise certain remedies which it was entitled to under the 1992 contract, and declared the contract in breach. Upon advice of legal counsel, the District declined to continue to receive and deposit the monthly payments tendered by the City of Glenpool as of March 2011. The outcome of this issue is not determinable as of the date of this report.

CREEK COUNTY RURAL WATER DISTRICT NO. 2
Statement of Revenue, Expenses and Changes in Retained Earnings
For The Year Ended November 30, 2012

	2011-12	(memo only) 2010-11
Revenue from Operations:		
Water sales	\$ 3,215,555	2,603,634
Service charges and penalties	68,716	53,776
Glenpool Utility revenue	0	38,628
Jenks Utility revenue	158,654	145,456
Lease income	45,351	31,419
Other income	0	25
Total revenue from operations	<u>3,488,276</u>	<u>2,872,938</u>
Expenses from Operations:		
Water purchases	1,395,290	1,375,149
Salaries and benefits	516,999	504,603
Payroll taxes	36,939	31,665
Repairs and maintenance	143,812	167,853
Vehicle expense	46,205	50,966
Insurance	50,127	46,310
Supplies and materials	60,910	22,149
Office expense and postage	48,835	42,044
Depreciation	345,690	327,558
Amortization	738	738
Professional fees	150,785	117,907
Utilities	57,423	53,644
Board expenses	3,555	4,040
Total expenses from operations	<u>2,857,308</u>	<u>2,744,626</u>
Net Income (Loss) from Operations	630,968	128,312
Non-operating revenues:		
Interest earnings	<u>8,246</u>	<u>12,320</u>
Non-operating expenses:		
Interest on long-term debt	<u>(137,126)</u>	<u>(127,409)</u>
Net Income (Loss)	502,088	13,223
Retained earnings, beginning of period	<u>1,024,899</u>	<u>1,011,676</u>
Retained earnings, end of period	<u><u>\$ 1,526,987</u></u>	<u><u>1,024,899</u></u>

CREEK COUNTY RURAL WATER DISTRICT NO. 2

Balance Sheet
November 30, 2012

ASSETS	NOVEMBER 30,	
	2012	(memo only) 2011
Current Assets:		
Cash and cash equivalents	\$ 830,836	381,236
Investments	452,216	502,216
Accounts receivable	215,064	206,361
Accrued interest receivable	401	563
Prepaid insurance	32,868	30,907
Inventory	121,908	125,951
Total current assets	<u>1,653,293</u>	<u>1,247,234</u>
Restricted Assets:		
Reserve account	251,317	209,599
ORWB Project trust funds	118,909	118,909
Total restricted assets	<u>370,226</u>	<u>328,508</u>
Fixed Assets:		
Land	39,645	39,645
Water distribution system	10,885,697	10,548,798
Kiefer system addition	482,783	482,783
Vehicles and equipment	1,115,744	743,525
Buildings and furnishings	382,278	381,807
Total fixed assets	12,906,147	12,196,558
Less: accumulated depreciation	<u>(5,135,213)</u>	<u>(4,789,523)</u>
Total fixed assets (net)	<u>7,770,934</u>	<u>7,407,035</u>
Other Assets:		
Loan costs	11,079	11,079
Less: Accumulated amortization	<u>(7,596)</u>	<u>(6,858)</u>
Total other assets	<u>3,483</u>	<u>4,221</u>
Total Assets	<u>\$ 9,797,936</u>	<u>8,986,998</u>
 <u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 92,093	85,346
Payroll and taxes payable	3,205	5,709
Accrued vacation payable	7,044	4,219
Customer construction in progress	14,582	13,182
Accrued interest on long-term debt	4,221	4,618
Current maturities of long-term debt	78,147	89,934
Total current liabilities	<u>199,292</u>	<u>203,008</u>
Long-Term Debt, less current maturities:		
Notes payable	<u>3,719,911</u>	<u>3,416,877</u>
Total Liabilities	<u>3,919,203</u>	<u>3,619,885</u>
Fund Equity:		
Contributed/ member capital	4,351,746	4,342,214
Retained earnings	1,526,987	1,024,899
Total fund equity	<u>5,878,733</u>	<u>5,367,113</u>
Total Liabilities and Fund Equity	<u>\$ 9,797,936</u>	<u>8,986,998</u>