

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

Financial Statements and Auditor's Reports

Year Ended November 30, 2014

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, 2014

**BOARD OF DIRECTORS**

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Patricia Scott

**Vice-President**

Roy Kirby

**Secretary**

Larry Bayouth

**Treasurer**

Charles Volturo

**Members**

Bergen Young

Bill Martin

Harvey Morris

**MANAGER**

Dorothy Greek

**BOOKKEEPER**

Ashley Wynn

Creek County Rural Water District No. 2  
Jenks, Oklahoma  
November 30, 2014

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# SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

## 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, 2014, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

Management is responsible for the preparation and fair presentation of these financial statements. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District'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 opinions.

### **Opinions**

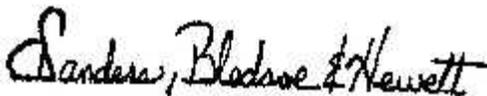
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of November 30, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### **Other Matters**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 and 6 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2015 on our consideration of the District'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 or on compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP

RURAL WATER DISTRICT NO.2, CREEK COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
NOVEMBER 30, 2014

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, 2014. Please read it in conjunction with the District's financial statements that begin on page 11.

**FINANCIAL HIGHLIGHTS:**

- The District's total operating expenses exceeded total operating revenues by \$206,666, mostly because of litigation expenses incurred in 2014.
- The District's net assets decreased by \$247,800 in the current fiscal year.
- The District completed its purchase of radio read meters in 2014.
- The District continued their litigation with the City of Glenpool in 2014 regarding encroachment issues. A settlement agreement was signed by both parties (see page 20), and it appears that professional fees will decrease in future years.

**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, 2014, the District had \$7,542,381 invested in fixed assets, net of depreciation, including land, the water system, vehicles and equipment. Additional amounts were included in 2013-14 in the area of a generator and some vehicles being purchased.

### **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 1.565%, and the monthly amount paid on this note is \$4,060.72.

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 2013, \$189,747 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, 2015, 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 121<sup>st</sup> St. South, Jenks, OK 74037 or call (918)299-4448.



# SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

**INDEPENDENT AUDITOR'S 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**

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

We have audited, 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, the accompanying financial statements of the Creek County Rural Water District No. 2 (the District), Stonewall, Oklahoma, as of and for the year ended November 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 27, 2015.

**Internal Control Over Financial Reporting**

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting in order to determine our auditing procedures that are appropriate 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph 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. We identified no deficiencies in the internal controls that we considered to be material weaknesses.

*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 District'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.

#### 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 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 that are required to be reported under *Government Auditing Standards*.

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP

January 27, 2015

**CREEK COUNTY RURAL DISTRICT NO. 2**  
**Disposition of Prior Year's Reportable Conditions**  
**November 30, 2014**

There were no prior year reportable conditions.

**CREEK COUNTY RURAL WATER DISTRICT NO. 2**  
**Schedule of Audit Results**  
**November 30, 2014**

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, 2014

**ASSETS:**

Current Assets:

Cash and cash equivalents	\$ 464,844
Investments	709,343
Current portion of receivables	279,144
Inventory on hand	108,153
Prepaid assets	34,276
Total current assets	<u>1,595,760</u>

Non-current Assets:

Reserve account	727,134
ORWB project trust funds	118,909
Capital Assets-	
Land	39,645
Buildings, net	49,338
Plant and water systems, net	6,578,639
Other capital assets, net	874,759
Total non-current assets	<u>8,388,424</u>

Other Assets:

Loan costs, net	<u>2,007</u>
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Total Assets	<u>9,986,191</u>
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**LIABILITIES:**

Current Liabilities:

Accounts payable	116,422
Accrued liabilities	20,645
Customer construction in progress	10,282
Current portion of long-term debt	77,776
Total current liabilities	<u>225,125</u>

Non-current Liabilities:

Long-term debt, less current maturities	<u>3,763,475</u>
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Total Liabilities	<u>3,988,600</u>
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**NET ASSETS:**

Invested in capital assets, net of related debt	3,701,130
Restricted for debt service	846,043
Unrestricted assets	<u>1,450,418</u>
Total Net Assets	<u>\$ 5,997,591</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, 2014

<b>Operating Revenues:</b>	
Water sales	\$ 3,310,855
Fees and fines	71,494
Leases and reimbursements	31,687
Total revenue from operations	<u>3,414,036</u>
<b>Operating Expenses:</b>	
Water purchases	1,329,208
Salaries and benefits	564,817
Payroll taxes	33,732
Repairs and maintenance	206,589
Vehicle expense	55,841
Insurance	52,690
Supplies and materials	130,696
Office expense and postage	47,411
Depreciation	359,543
Amortization	738
Professional fees	779,469
Utilities	55,558
Board expenses	4,410
Total expenses from operations	<u>3,620,702</u>
Operating Income (Loss)	(206,666)
<b>Non-Operating Revenues (Expenses):</b>	
Interest income	19,009
Capital contributions-	
Memberships	12,600
Paid in surplus	78,100
Interest paid on long-term debt	<u>(150,843)</u>
Total Non-Operating Revenues (Expenses)	<u>(41,134)</u>
Change in Net Assets	(247,800)
Total Net Assets, beginning of period	<u>6,245,391</u>
Total Net Assets, end of period	<u><u>\$ 5,997,591</u></u>

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, 2014

**Cash Flows from Operating Activities:**

Receipts from customers	\$ 3,578,632
Payments to employees	(409,137)
Payments to vendors	<u>(3,045,560)</u>
Net Cash Provided by Operating Activities	<u>123,935</u>

**Cash Flows from Financing Activities:**

Sale (purchase) of fixed assets	(213,060)
Principal paid on long-term debt	(66,508)
Interest paid on long-term debt	<u>(150,609)</u>
Net Cash Provided by (used in) Financing Activities	<u>(430,177)</u>

**Cash Flows from Investing Activities:**

Capital contributions - Memberships	12,600
Capital contributions - Paid in surplus	78,100
Interest earned on investments	<u>19,009</u>
Net Cash Provided by (used in) Investing Activities	<u>109,709</u>

Net Increase (Decrease) in Cash	(196,533)
Cash and cash equivalents, beginning of period	<u>2,216,763</u>
Cash and cash equivalents, end of period	<u><u>\$ 2,020,230</u></u>

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

Operating Income	\$ (206,666)
Adjustments to reconcile net income to net cash provided (used) by operating activities:	
Depreciation Expense	359,543
Amortization Expense	738
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	(38,522)
(Increase) decrease in prepaid insurance	(1,393)
(Increase) decrease in inventory	6,255
Increase (decrease) in accounts payable	22,561
Increase (decrease) in accruals	(8,081)
Increase (decrease) in customer construction in progress	<u>(10,500)</u>
Net cash provided by operating activities	<u><u>\$ 123,935</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, 2014

**Note A – Significant Accounting Policies**

Nature of Organization

The Creek County Rural Water District No. 2 (the District) was created under the provisions of Title 82 of Oklahoma Statutes, Section 1324.1 – 1324.35 and the Laws of the State of Oklahoma. The purpose of this District is to provide water services to users.

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.

The District follows GASB issued Statement No. 34 “Basic Financial Statements and Management’s Discussion and Analysis for State and Local Government.” This statement establishes financial reporting requirements for state and local governments throughout the United States.

Cash and equivalents

The District’s cash accounts at November 30<sup>th</sup> are detailed as follows:

	November 30,	
	2014	2013
Change fund (on hand)	\$ 200	200
American Heritage Bank, Sapulpa, Ok-		
Revenue account	84,139	469,479
Investment account	376,140	381,553
Payroll account	-	-
Petty cash account	1,337	832
Less: (Outstanding checks)/DIT	3,028	(8,844)
Total Operating Cash	<u>\$ 464,844</u>	<u>843,220</u>
American Heritage Bank, Sapulpa, Ok-		
Rural Development Reserve account	\$ 89,098	72,326
Rural Dev. Short Lived Assets account	313,768	231,136
Construction Loan account	142	142
Tower Maint. account	324,126	248,489
BancFirst, Oklahoma City, OK-		
ORWB Project Trust account	118,909	118,909
Total Reserve Cash	<u>\$ 846,043</u>	<u>671,002</u>

**CREEK COUNTY RURAL WATER DISTRICT NO. 2**

**Jenks, Oklahoma**

Notes to the Financial Statements

November 30, 2014

**Note A – Significant Accounting Policies – cont'd**

Investments

The District's investments at November 30, 2014 are detailed as follows:

American Bank and Trust, Tulsa, Ok- Certificate of Deposit	\$ 105,420
NBC Oklahoma, Tulsa, Ok- Certificate of Deposit	250,000
Patriot Bank, Broken Arrow, Ok- Money Market account	253,197
Oklahoma National Bank, Tulsa, Ok- Money Market account	<u>100,726</u>
Total Investments	<u><u>\$ 709,343</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

	Category			Bank	Carrying
	(A)	(B)	(C)	Balance	Amount
Cash	\$ 250,000	1,063,915		1,313,915	1,310,887
Investments	<u>709,343</u>			<u>709,343</u>	<u>709,343</u>
Total	<u><u>\$ 959,343</u></u>	<u><u>447,019</u></u>	<u><u>0</u></u>	<u><u>2,023,258</u></u>	<u><u>2,020,230</u></u>

Accounts Receivable

Billings for accounts receivable at November 30, 2014 were \$281,144. 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, 2014

**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, 2014

**Note A – Significant Accounting Policies – cont'd**

The fixed asset information for the District is shown below:

	11/30/2013 Amount	Additions	Deletions	11/30/2014 Amount
Land	\$ 39,645	-	-	39,645
Water dist. system	11,044,475	84,895	-	11,129,370
Kiefer addition	482,783	-	-	482,783
Vehicles and equip.	433,647	105,281	-	538,928
Radio read meters	771,578	4,845	-	776,423
Buildings and furn.	393,378	18,038	-	411,416
Total Fixed Assets	13,165,506	213,059	-	13,378,565
Less: Accumulated Depreciation	(5,476,641)	(359,543)	-	(5,836,184)
Total	<u>\$ 7,688,865</u>	<u>(146,484)</u>	-	<u>7,542,381</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 1.565%. 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 \$3,103,825 of these proceeds through 2012-13. 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 \$402,865.

**CREEK COUNTY RURAL WATER DISTRICT NO. 2**

**Jenks, Oklahoma**

Notes to the Financial Statements

November 30, 2014

**Note B – Notes Payable – cont'd**

	November 30,	
	2014	2013
Oklahoma Water Resources Board note payable, issued for \$1,345,000, at 1.70% interest, due in semi-annual installments, until paid;	\$ 1,064,600	1,087,850
Rural Development note payable, issued for \$2,914,078, at 4.375% interest, payable in monthly payments of \$13,813, until paid;	2,776,651	2,819,909
Long-Term Debt Outstanding	3,841,251	3,907,759
Less: Current maturities of long-term debt	(77,776)	(73,745)
Total Long-Term Debt, Net	\$ 3,763,475	3,834,014

The scheduled maturities for the next four years, and in total thereafter, are detailed as follows:

Year	Total	ORWB	Rural Dev.
2015	\$ 77,776	32,600	45,176
2016	81,942	34,750	47,192
2017	86,499	37,200	49,299
2018	90,999	39,500	51,499
2019-23	562,001	267,900	294,101
2024-28	762,369	396,600	365,769
2029-33	711,201	256,050	455,151
2034-38	566,219	-	566,219
2039+	902,245	-	902,245
Total	\$ 3,841,251	1,064,600	2,776,651

**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 2013-14 fiscal year, the District contributed \$22,190.

**CREEK COUNTY RURAL WATER DISTRICT NO. 2**

**Jenks, Oklahoma**

Notes to the Financial Statements

November 30, 2014

**Note D – 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. The lease at this site does not terminate until April 30, 2017. For a \$10,000.00 incentive paid to the District, Nextel removed all of its antenna equipment from this tower. They will continue to pay out the rent through the term end.

## **CREEK COUNTY RURAL WATER DISTRICT NO. 2**

### **Jenks, Oklahoma**

Notes to the Financial Statements

November 30, 2014

#### **Note D – 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. The lease on this facility reached its five year termination period, and Nextel chose not to renew the lease. The District received a one-time payment of \$10,000.00 from Nextel to allow them to leave the empty building on the site.

#### **Note E – Pending Litigation**

The District filed suit against the City of Glenpool. The City of Glenpool and the Glenpool Utility Services Authority ("Glenpool") to enforce the District's federal law rights under 7 U.S.C. Section 1926(b). The suit also makes a claim against Glenpool for breach of a 1992 contract. Glenpool and the District have each signed a settlement contract which has been approved by the District's lenders (United States Department of Agriculture and the Oklahoma Water Resources Board). The contract remains contingent on the District Court entering a judgment on the settlement in the form of a "Consent Decree" and the posting of a bond by Glenpool to insure payment of the various obligations contained in the settlement. The principal terms of the settlement agreement provide for payment by Glenpool to the District of \$500,000, plus 4 additional annual payments of \$125,000 each, for an aggregate total of \$1,000,000. The settlement agreement also requires Glenpool to pay the District monthly royalty fees and "one time" connections fees, based on the number of customers added or served within a designated area, for 37 years.

**CREEK COUNTY RURAL WATER DISTRICT NO. 2**  
**Jenks, Oklahoma**  
Notes to the Financial Statements  
November 30, 2014

**Note F – Subsequent Events**

Management has evaluated subsequent events through January 27, 2015, which is the date the financial statements were available to be issued and have determined that no additional information needs to be added to the financial statements.

CREEK COUNTY RURAL WATER DISTRICT NO. 2

Balance Sheet  
November 30, 2014

<u>ASSETS</u>	NOVEMBER 30,	
	2014	(memo only) 2013
Current Assets:		
Cash and cash equivalents	\$ 464,844	843,220
Investments	709,343	702,541
Accounts receivable	279,144	240,622
Prepaid insurance	34,276	32,883
Inventory	108,153	114,408
Total current assets	<u>1,595,760</u>	<u>1,933,674</u>
Restricted Assets:		
Reserve account	727,134	552,093
ORWB Project trust funds	118,909	118,909
Total restricted assets	<u>846,043</u>	<u>671,002</u>
Fixed Assets:		
Land	39,645	39,645
Water distribution system	11,129,370	11,044,475
Kiefer system addition	482,783	482,783
Vehicles and equipment	1,315,351	1,205,225
Buildings and furnishings	411,416	393,378
Total fixed assets	<u>13,378,565</u>	<u>13,165,506</u>
Less: accumulated depreciation	<u>(5,836,184)</u>	<u>(5,476,641)</u>
Total fixed assets (net)	<u>7,542,381</u>	<u>7,688,865</u>
Other Assets:		
Loan costs	11,079	11,079
Less: Accumulated amortization	<u>(9,072)</u>	<u>(8,334)</u>
Total other assets	<u>2,007</u>	<u>2,745</u>
Total Assets	<u>\$ 9,986,191</u>	<u>10,296,286</u>
 <u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 116,422	93,861
Payroll and taxes payable	3,597	3,218
Accrued vacation payable	12,059	20,519
Customer construction in progress	10,282	20,782
Accrued interest on long-term debt	4,989	4,756
Current maturities of long-term debt	77,776	73,745
Total current liabilities	<u>225,125</u>	<u>216,881</u>
Long-Term Debt, less current maturities:		
Notes payable	<u>3,763,475</u>	<u>3,834,014</u>
Total Liabilities	<u>3,988,600</u>	<u>4,050,895</u>
Fund Equity:		
Contributed/ member capital	4,614,550	4,523,850
Retained earnings	<u>1,383,041</u>	<u>1,721,541</u>
Total fund equity	<u>5,997,591</u>	<u>6,245,391</u>
Total Liabilities and Fund Equity	<u>\$ 9,986,191</u>	<u>10,296,286</u>

CREEK COUNTY RURAL WATER DISTRICT NO. 2  
Statement of Revenue, Expenses and Changes in Retained Earnings  
For The Year Ended November 30, 2014

	2013-14	(memo only) 2012-13
	<u>2013-14</u>	<u>2012-13</u>
Revenue from Operations:		
Water sales	\$ 3,310,855	2,928,845
Service charges and penalties	71,494	65,412
Jenks Utility revenue	0	105,231
Lease income	27,187	31,002
Other income	4,500	4,800
Total revenue from operations	<u>3,414,036</u>	<u>3,135,290</u>
Expenses from Operations:		
Water purchases	1,329,208	1,299,169
Salaries and benefits	564,817	582,799
Payroll taxes	33,732	33,319
Repairs and maintenance	206,589	154,555
Vehicle expense	55,841	50,821
Insurance	52,690	51,791
Supplies and materials	130,696	51,430
Office expense and postage	47,411	47,608
Depreciation	359,543	337,217
Amortization	738	738
Professional fees	779,469	152,898
Utilities	55,558	47,043
Board expenses	4,410	3,763
Total expenses from operations	<u>3,620,702</u>	<u>2,813,151</u>
Net Income (Loss) from Operations	(206,666)	322,139
Non-operating revenues:		
Interest earnings	<u>19,009</u>	<u>11,268</u>
Non-operating expenses:		
Interest on long-term debt	<u>(150,843)</u>	<u>(138,853)</u>
Net Income (Loss)	(338,500)	194,554
Retained earnings, beginning of period	<u>1,721,541</u>	<u>1,526,987</u>
Retained earnings, end of period	<u>\$ 1,383,041</u>	<u>1,721,541</u>