

**AUDIT REPORT**  
**CREEK COUNTY RWD NO. 5**  
**MANNFORD, OKLAHOMA**  
**FOR YEARS ENDED NOVEMBER 30, 2014 AND 2013**

**Audited by**

**JACK H. JENKINS**  
**CERTIFIED PUBLIC ACCOUNTANT**  
**A PROFESSIONAL CORPORATION**  
**TULSA, OK**

**CREEK COUNTY RURAL WATER DISTRICT NO. 5  
MANNFORD, OKLAHOMA  
NOVEMBER 30, 2014**

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**CREEK COUNTY RURAL WATER DISTRICT NO. 5  
BOARD OF DIRECTORS  
NOVEMBER 30, 2014**

BOARD OF DIRECTORS

Chairman	Dan Linden
Vice-Chairman	C.E. Ledbetter
Secretary/Treasurer	Karl Headrick
Member	Mike Bradshaw
Member	Don Turner

BOOKKEEPER

Eryn Miller



**Jack H. Jenkins, CPA** *A Professional Corporation*

## **INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Creek County Rural Water District No. 5  
Mannford, Oklahoma 74044

I have audited the accompanying financial statements of the business-type activities of Creek County Rural Water District No. 5 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 as listed in the table of contents.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

### **Opinions**

In my 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, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

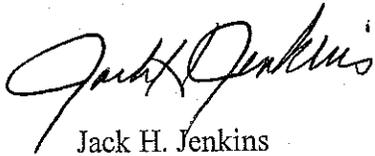
### **Other Matters**

#### Required Supplementary Information

Rural Water District No. 5, Creek County, Oklahoma has not presented 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. My opinion on these financial statements is not affected by this missing information.

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

In accordance with Government Auditing Standards, I have also issued a report dated February 9, 2015, on my consideration of the District's internal control over financial reporting and my 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 my 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 the District's internal control over financial reporting and compliance.



Jack H. Jenkins  
Certified Public Accountant, P.C.

February 9, 2015



**Jack H. Jenkins, CPA** *A Professional Corporation*

**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. 5  
Mannford, Oklahoma 74044

I have audited the financial statements of the business-type activities of Creek County Rural Water District No. 5 as of and for the year ended November 30, 2014, and have issued my report thereon, dated February 9, 2015. I conducted my audit in accordance with generally accepted auditing standards 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.

**Internal Control Over Financial Reporting**

In planning and performing my audit, I considered the District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the District's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or a 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.

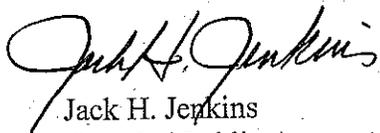
My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. There can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed two instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of my 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.



Jack H. Jenkins  
Certified Public Accountant, P.C.

February 9, 2015

**CREEK COUNTY RURAL WATER DISTRICT NO. 5**  
**SCHEDULE OF AUDIT RESULTS**  
**NOVEMBER 30, 2014**

**Findings – Financial Statement Audit**

14-01 – Questionable Activities

Condition: Evidence of irregular and unauthorized activities including cash withdrawals from the District’s cash collection drawer was observed.

Criteria: Cash drawers for bill collections and petty cash uses are for the specified uses as set by board policy.

Effect: Checks create deposit risk when exchanged for till cash and “check cashing” is not part of the District’s specified mission of providing potable water.

Recommendation: Discontinue any practice that varies from the specified policies regarding handling of funds in the cash drawers.

14-02 – Employer’s Tax Returns

Condition: The second, third and fourth quarter forms 941 for 2014 were not available to be observed during the audit. These and other employer reports may not have been prepared.

Criteria: All payroll records should be prepared, copied and kept on file for the amount of time dictated by board policy.

Effect: Failure to report employer return information may result in penalties and fees from the receiving agencies.

Recommendation: I recommend submitting payroll reports in a timely manner and keeping copies of all forms for the District’s records.

**CREEK COUNTY RURAL WATER DISTRICT NO. 5**  
**STATEMENT OF NET ASSETS**  
**FOR YEARS ENDED NOVEMBER 30, 2014 AND 2013**

	November 30,	
	2014	2013
<b><u>ASSETS</u></b>		
Current assets:		
Cash in bank	\$ 181,449	124,137
Accounts receivable	98,412	75,629
Prepaid insurance	11,616	11,573
Total current assets	291,477	211,339
Noncurrent assets:		
Reserve for debt service	69,500	58,500
Capital Assets:		
Land	8,195	8,195
Building & contents	114,445	114,445
Water system	3,058,883	3,058,883
Vehicles & machinery	170,816	146,563
Less: accumulated depreciation	(1,063,588)	(993,407)
Total noncurrent assets	2,358,251	2,393,179
Total Assets	2,649,728	2,604,518
<b><u>LIABILITIES</u></b>		
Current Liabilities:		
Current maturities of long-term debt - Note 2	41,871	39,852
Accounts payable	11,366	11,794
Payroll taxes payable	1,753	3,536
Total current liabilities	54,990	55,182
Long-Term Debt, less current maturities - Note 2		
Community Resource Group	36,531	54,305
Rural Utilities Service Promissory Note	1,447,325	1,471,447
Total long-term debt, less current maturities	1,483,856	1,525,752
Total Liabilities	1,538,846	1,580,934
<b><u>NET ASSETS</u></b>		
Restricted for debt service	69,500	58,500
Unrestricted	1,041,382	965,084
Total net assets	\$ 1,110,882	1,023,584

The accompanying notes are an integral part of the financial statements

**CREEK COUNTY RURAL WATER DISTRICT NO. 5**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS**  
**FOR YEARS ENDED NOVEMBER 30, 2014 AND 2013**

	November 30,	
	2014	2013
<b>Operating Revenues:</b>		
Water revenue	\$ 549,145	503,548
Benefit units	22,511	13,271
Miscellaneous	10,326	28,467
Total operating revenues	581,982	545,286
 <b>Operating Expenses:</b>		
Water purchased	16,211	20,101
Salaries & payroll taxes	183,422	130,678
Utilities & telephone	30,268	34,131
Directors fees	10,800	10,800
Vehicle expense	9,782	13,106
Office supplies	15,997	15,871
Supplies & maintenance	46,775	80,087
Insurance	19,116	37,479
Water tests	6,834	8,348
Goodwill	427	1,023
Professional fees	10,403	2,190
Miscellaneous	7,677	14,245
Depreciation	70,181	69,259
Total operating expenses	427,893	437,318
 Operating Income (Loss)	154,089	107,968
 <b>Non-Operating Revenues (Expenses):</b>		
Interest expense	(66,791)	(68,799)
Total non-operating revenues (expenses)	(66,791)	(68,799)
 Changes in Net Assets	87,298	39,169
 Total Net Assets, beginning of period	1,023,584	984,415
 Total Net Assets, end of period	\$ 1,110,882	1,023,584

The accompanying notes are an integral part of the financial statement

**CREEK COUNTY RURAL WATER DISTRICT NO. 5**  
**STATEMENT OF CASH FLOWS**  
**FOR YEARS ENDED NOVEMBER 30, 2014 AND 2013**

	November 30,	
	2014	2013
<b>Cash Flows from Operating Activities:</b>		
Cash received from customers	\$ 559,199	538,964
Cash paid to suppliers	(174,761)	(233,137)
Cash paid to employees	(185,205)	(130,404)
Net cash flows from operating activities	199,233	175,423
<b>Cash Flows from Investing Activities:</b>		
Purchase of equipment	(24,253)	-
Water system improvements	-	(13,050)
Net cash flows from investing activities	(24,253)	(13,050)
<b>Cash Flows from Financing Activities:</b>		
Deposits to reserve for debt service	(11,000)	(12,500)
Interest paid on promissory note	(66,791)	(68,799)
Principal paid on promissory note	(39,877)	(37,936)
Net cash flows from financing activities	(117,668)	(119,235)
Net increase (decrease) in cash and cash equivalents	57,312	43,138
Cash and cash equivalents, beginning of period	124,137	80,999
Cash and cash equivalents, end of period	\$ 181,449	124,137
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>		
Operating income (loss)	\$ 154,089	107,968
Add depreciation expense	70,181	69,259
(Increase)/Decrease in Current Assets		
Prepaid Insurance	(43)	(1,443)
Accounts receivable, net	(22,783)	(6,322)
Increase/(Decrease) in Current Liabilities		
Payroll taxes payable	(1,783)	274
Accounts payable	(428)	5,687
Net cash flows from operating activities	\$ 199,233	175,423

The accompanying notes are an integral part of the financial statements

**CREEK COUNTY RURAL WATER DISTRICT NO. 5  
 NOTES TO FINANCIAL STATEMENTS  
 FOR YEARS ENDED NOVEMBER 30, 2014 AND 2013**

**Note 1 – Summary of significant accounting policies**

**Reporting Entity**

Creek County Rural Water District No. 5 is an independent, self-contained reporting entity with no associated component units. It is operated in a manner similar to a private business enterprise where the cost of providing water services is financed through user charges.

**Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting**

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with Generally Accepted Accounting Principles promulgated in the United States of America. The accounting and financial reporting treatment is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation are included on the balance sheet. The operating statements present increases and decreases in net total assets. Depreciation expense is provided for capital assets based upon estimated useful lives.

Financial activity is accounted for on the flow of economic resources measurement focus using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

**Accounts Receivable**

All accounts greater than thirty days are considered past due. Receivables greater than ninety days are carried at the original billed amount.

The accounts receivable amount was computed as follows:

		<u>2014</u>		<u>2013</u>
0-59 days	\$	40,373		32,742
60-89 days		7,380		6,142
90+ days		50,659		36,745
		\$ 98,412		75,629

**Inventory**

Inventory is expensed when used and the amount on hand is deemed to be an immaterial amount.

**CREEK COUNTY RURAL WATER DISTRICT NO. 5  
NOTES TO FINANCIAL STATEMENTS  
FOR YEARS ENDED NOVEMBER 30, 2014 AND 2013**

**Property and Equipment**

Property and equipment is recorded at cost when purchased. Depreciation expense is recorded using the straight-line method over the estimated useful life of the asset. Water line extensions and improvements are depreciated using a 50-year life. Water system improvements constructed by the District include capitalizing the direct cost of materials and labor. If an asset is permanently impaired in value, the asset cost is written down to market value. The District capitalizes assets with a useful life in excess of one year with a cost of \$250 or more. Line extension costs reimbursed by the customer are not capitalized and accordingly not depreciated.

**Cash and Cash Equivalents**

Cash and cash equivalents, shown in the financial statements, are amounts that are not subject to fluctuations in principal value due to changing market conditions and have a maturity of less than three months. A following is a breakdown of cash:

\$132,450
48,999
69,500
<u>\$250,949</u>

**Custodial Credit Risk**

At November 30, 2014, the District held deposits of approximately \$250,949 at financial institutions. The District's cash deposits are not entirely covered by Federal Depository Insurance.

**Federal Income Tax**

The District is exempt from federal and state income taxes.

**Accumulated Unpaid Vacation and Sick Pay**

At November 30, 2014, no determination of the aggregate dollar value of vacation and sick pay had been made.

**CREEK COUNTY RURAL WATER DISTRICT NO. 5  
 NOTES TO FINANCIAL STATEMENTS  
 FOR YEARS ENDED NOVEMBER 30, 2014 AND 2013**

**Debt Reserve Fund**

Under the loan agreement signed with Community Resource Group, Inc. and Rural Development, the District is required to maintain debt reserve funds. The balances restricted for this purpose at November 30, 2014 are as follows:

	Amount Required	Amount Available	Over/under funded
CRG Reserve Account	\$ 20,496	20,496	-
RDA Reserve Account	86,172	49,004	(37,168)
Totals	\$ 106,668	69,500	(37,168)

**Note 2 – Long-Term Debt**

The following is a summary of the long-term debt transactions of the District for the year ended November 30, 2014:

Balance 12/1/13	\$ 1,565,604
Additions	
Retirements	39,877
Balance, 11/30/14	\$ 1,525,727

Long-term debt at November 30, 2014, is detailed as follows:

Promissory Note, dated June 20, 2005 for \$1,639,350 payable to Rural Development, 4.25% interest, monthly payments of \$7,181 beginning July 20, 2006 maturing June 20, 2045.	\$ 1,471,427
Note Payable, dated November 1, 2010 for \$116,500 payable to Community Resource Group, 5.9% interest, monthly payments of \$1,708 beginning December 1, 2010 maturing November 1, 2020.	54,300
	\$ 1,525,727

**CREEK COUNTY RURAL WATER DISTRICT NO. 5  
NOTES TO FINANCIAL STATEMENTS  
FOR YEARS ENDED NOVEMBER 30, 2014 AND 2013**

**Note 2 – Long-Term Debt – cont'd**

The annual debt service requirements for the retirement of principal and interest payments are as follows:

Year- ending June	Principal	Interest	Total
2015	\$ 41,870	64,798	106,668
2016	43,992	62,676	106,668
2017	43,922	60,447	104,369
2018	27,374	58,798	86,172
2019	28,560	57,612	86,172
Thereafter	1,340,009	856,566	2,196,575
Total	<u>\$ 1,525,727</u>	<u>1,160,897</u>	<u>2,686,624</u>

**Note 3 – Risk Management**

Creek County Rural Water District No. 5 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 continues to carry commercial insurance for these risks, including general and auto liability, property damage, and public officials liability. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

**Note 4 – Capital Assets**

The following is a summary of changes in property, plant and equipment:

	<u>Balance</u> <u>November</u> <u>30, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>November</u> <u>30, 2014</u>
Water System & Equipment	\$ 3,328,086	24,253		3,352,339
Less accumulated depreciation	993,407	70,181		1,063,588
Net	<u>\$ 2,334,679</u>	<u>94,434</u>	<u>-</u>	<u>2,288,751</u>

**CREEK COUNTY RURAL WATER DISTRICT NO. 5  
NOTES TO FINANCIAL STATEMENTS  
FOR YEARS ENDED NOVEMBER 30, 2014 AND 2013**

**Note 5 - Subsequent Events**

Management has evaluated subsequent events through the date of the audit report, 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.