

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

Financial Statements and Auditor's Reports

Year Ended November 30, 2021

Audited by

**BLEDSON, HEWETT & GULLEKSON
CERTIFIED PUBLIC ACCOUNTANTS, PLLLP**

BROKEN ARROW, OK

Creek County Rural Water District No. 2
Jenks, Oklahoma
Board of Directors
November 30, 2021

BOARD OF DIRECTORS

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Vice-President

Bill Martin

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www.ccrwd2.com

Creek County Rural Water District No. 2
Jenks, Oklahoma
November 30, 2021

TABLE OF CONTENTS

	<u>Page</u>
Board of Directors	1
Table of Contents	2
Independent Auditor's Report	3
Management's Discussion and Analysis (unaudited)	5
Independent Auditor's Report on Internal Control and on Compliance Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	9
Disposition of Prior Year's Reportable Conditions	11
Schedule of Audit Results	12
<u>COMBINED FINANCIAL STATEMENTS:</u>	
Statement of Net Position	13
Statement of Revenues, Expenses and Changes in Net Position	14
Statement of Cash Flows	15
Notes to Financial Statements	16
<u>OTHER SUPPLEMENTARY INFORMATION:</u>	
Water Rates and Client Information (unaudited)	25



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INDEPENDENT AUDITOR'S REPORT

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

Report on Financial Statements

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, 2021 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. 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 opinion.

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, 2021 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 5-8 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.

The prior year "memorandum only" comparative information and the supplementary information on page 25 are presented for the purposes of additional analysis and are not a required part of the basic financial statements of the District. Such information has not been subjected to the auditing procedures applied in our audit of the basic 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 January 28, 2022 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 District's internal control over financial reporting and compliance.

Bledsoe, Hewett & Gullekson

Bledsoe, Hewett & Gullekson
Certified Public Accountants, PLLLP

January 28, 2022

RURAL WATER DISTRICT NO.2, CREEK COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
NOVEMBER 30, 2021

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, 2021. Please read it in conjunction with the District's financial statements that begin on page 13.

FINANCIAL HIGHLIGHTS:

- The District's total operating revenues exceeded total operating expenses by \$759,568.
- The District's net position increased by \$767,522 in the current fiscal year.
- The District added \$581,800 in capital assets in 2021 as it continued waterline improvements and expansion.
- A rate increase was approved and effective in November 2021.
- The District started a Water Loss Protection program for users in 2021.
- Membership numbers continued to be strong in 2020-21 with 5,258 total active users at fiscal year-end. Growth of the District is projected to continue.

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 Position, the Statement of Revenues, Expenses and Changes in Net Position, 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 position and the changes in them. You can think of the District's net position – 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 position 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.

Net Position, and Changes in Net Position

The District's Net Position was higher in 2020-21, increasing from \$10,499,196 to \$11,266,718. Our analysis below focuses on the Net Position (Table 1) and Changes in Net Position (Table 2) of the District's business-type activities.

Table 1 – Net Position:

	<u>2020-21</u>	<u>2019-20</u>	<u>Variances</u>
Current and other assets	\$ 6,668,373	6,240,309	428,064
Capital assets, net	13,633,623	13,585,410	48,213
Total Assets	<u>\$ 20,301,996</u>	<u>19,825,719</u>	<u>476,277</u>
Current liabilities	\$ 499,620	491,375	(8,245)
Long-term liabilities	8,535,658	8,835,148	299,490
Total Liabilities	<u>\$ 9,035,278</u>	<u>9,326,523</u>	<u>291,245</u>
Net Invest. In Cap. Assets	\$ 4,798,474	4,459,785	338,689
Restricted	548,729	547,353	1,376
Unrestricted	5,919,515	5,492,058	427,457
Total Net Position	<u>\$ 11,266,718</u>	<u>10,499,196</u>	<u>767,522</u>

Net Position of the District increased by 7.3 percent (\$11,266,718 compared to \$10,499,196). Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – increased from \$5,492,058 to \$5,919,515.

Table 2 – Changes in Net Position:

	<u>2020-21</u>	<u>2019-20</u>	<u>Variances</u>
Revenues:			
Charges for services	\$ 4,838,611	4,432,084	406,527
Other sources	241,680	298,697	(57,017)
Interest	21,241	42,927	(21,686)
Total Revenues	<u>\$ 5,101,532</u>	<u>4,773,708</u>	<u>327,824</u>
Expenses:			
Salaries, taxes and benefits	\$ 889,676	778,934	(110,742)
Water purchases	1,771,416	1,789,927	18,511
Maintenance and repairs	544,491	621,566	77,075
Insurance	68,834	67,905	(929)
Other expenses	261,560	260,906	(654)
Depreciation/amortization	543,066	491,434	(51,632)
Interest on debt	254,967	274,963	19,996
Total Expenses	<u>\$ 4,334,010</u>	<u>4,285,635</u>	<u>(48,375)</u>
Changes in Net Position	767,522	488,073	279,449
Net Position, Beginning	<u>10,499,196</u>	<u>10,011,123</u>	<u>488,073</u>
Net Position, Ending	<u>\$ 11,266,718</u>	<u>10,499,196</u>	<u>767,522</u>

The District's total revenues increased by 6.9 percent (\$327,824). The total cost of all services increased by 1.1 percent (\$48,375).

Capital Assets

At November 30, 2021, the District had \$13,633,623 invested in capital assets, net of depreciation, including land, the water system, vehicles and equipment. In 2021, the District continued to add water line additions, improvements to the Sapulpa water tower, two new work trucks and a dump truck.

Long-Term Debt

The 2002 OWRB note and Rural Development loan 91-02 were paid off in 2019-20 with a Utility System Revenue Note, Series 2019, in the amount of \$3,380,000. The original issue date is December 2, 2019 and the maturity date is December 1, 2034, with a fixed interest rate of 2.75%. The outstanding principal balance at November 30, 2021 is \$3,101,000.

Loan 91-03 with the Office of Rural Development was approved in 2016. The note is for \$6,409,000, and will be paid back in monthly payments over 40 years. In 2015-16, \$3,335,248 of these loan proceeds were received from this note to assist with water system improvements, \$2,570,681 were received in 2016-17, and \$503,070 were received in 2017-18. The monthly payments of principal and interest are \$22,496.00, and the interest rate is 2.875%. The loan balance at November 30, 2021 was \$5,734,149.

Economic Factors and Next Year's Budget and Rates

For the upcoming fiscal year ending November 30, 2021 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.



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**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), Jenks, Oklahoma, as of and for the year ended November 30, 2021 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 28, 2022.

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.

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.

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. 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 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.

Bledsoe, Hewett & Gullekson

Bledsoe, Hewett & Gullekson
Certified Public Accountants, PLLLP

January 28, 2022

CREEK COUNTY RURAL DISTRICT NO. 2
Disposition of Prior Year's Significant Deficiencies
November 30, 2021

2020-1 Journal Entries

During the 2019-20 fiscal year, we noted that the District's accounting software and general ledgers were out of balance by material amounts. There were several large accounting transactions in the 2019-20 fiscal year, and some were not properly recorded within the general ledger, resulting in the accounts being out of balance at November 30, 2020. These discrepancies were subsequently corrected, and it appears that the general ledger accounts were properly maintained for the 2020-21 fiscal year.

CREEK COUNTY RURAL WATER DISTRICT NO. 2
Schedule of Audit Results
November 30, 2021

Section 1 – Summary of Auditor’s Results:

1. An unmodified opinion report was issued on the financial statements.
2. The audit reported no significant deficiencies or material weaknesses in the internal controls over financial reporting.
3. The audit disclosed no instances of noncompliance which are material to the financial statements.

Section 2 – Findings relating to the financial statements required to be reported in accordance with Generally Accepted Government Auditing Standards:

NONE

CREEK COUNTY RURAL WATER DISTRICT NO. 2
Statement of Net Position
November 30, 2021

	2021	-Memorandum- -Only- 2020
<u>ASSETS:</u>		
Current Assets:		
Cash and cash equivalents	\$ 1,242,006	\$ 1,309,461
Investments	1,154,000	1,154,000
Current portion of receivables	311,502	403,164
Inventory on hand	138,401	74,930
Prepaid assets	8,422	8,507
Total current assets	<u>2,854,331</u>	<u>2,950,062</u>
Restricted Assets:		
Reserve accounts	3,638,025	3,106,825
Project trust funds	23,196	23,122
Total restricted assets	<u>3,661,221</u>	<u>3,129,947</u>
Capital Assets:		
Land	39,645	39,645
Buildings and grounds	467,076	458,626
Plant and water systems	20,942,066	20,509,180
Vehicles and equipment	888,202	747,738
Total capital assets	<u>22,336,989</u>	<u>21,755,189</u>
Less: accumulated depreciation	<u>(8,703,366)</u>	<u>(8,169,779)</u>
Total capital assets, net of depreciation	<u>13,633,623</u>	<u>13,585,410</u>
Other Assets:		
Loan costs, net of amortization	<u>152,821</u>	<u>160,300</u>
TOTAL ASSETS	<u>\$ 20,301,996</u>	<u>\$ 19,825,719</u>
<u>LIABILITIES:</u>		
Current Liabilities:		
Accounts payable	\$ 137,612	\$ 139,691
Accrued liabilities	62,517	61,207
Current portion of long-term debt	299,491	290,477
Total current liabilities	<u>499,620</u>	<u>491,375</u>
Non-current Liabilities:		
Long-term debt, less current maturities	<u>8,535,658</u>	<u>8,835,148</u>
Total Liabilities	<u>9,035,278</u>	<u>9,326,523</u>
<u>NET POSITION:</u>		
Net investment in capital assets	4,798,474	4,459,785
Restricted for debt service	548,729	547,353
Unrestricted assets	<u>5,919,515</u>	<u>5,492,058</u>
Total Net Position	<u>11,266,718</u>	<u>10,499,196</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 20,301,996</u>	<u>\$ 19,825,719</u>

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

CREEK COUNTY RURAL WATER DISTRICT NO. 2
Statement of Revenues, Expenses and Changes in Net Position
For The Year Ended November 30, 2021

	<u>2020-21</u>	<u>-Memorandum- -Only- 2019-20</u>
Operating Revenues:		
Water sales	\$ 4,734,673	\$ 4,294,856
Fees and fines	72,224	69,338
Leases and reimbursements	31,714	67,890
Total revenue from operations	<u>4,838,611</u>	<u>4,432,084</u>
Operating Expenses:		
Water purchases	1,771,416	1,789,927
Salaries and benefits	835,680	733,154
Payroll taxes	53,996	45,780
Repairs and maintenance	493,912	458,265
Vehicle expense	51,284	40,728
Insurance	68,834	67,905
Supplies and materials	50,579	163,301
Office expense and postage	68,742	62,952
Depreciation	533,587	481,167
Amortization	9,479	10,267
Engineering fees	42,858	74,222
Professional fees	35,002	28,786
Utilities	59,722	50,486
Other	3,952	3,732
Total expenses from operations	<u>4,079,043</u>	<u>4,010,672</u>
Operating Income (Loss)	759,568	421,412
Non-Operating Revenues (Expenses):		
Interest income	21,241	42,927
Capital contributions-		
Memberships	19,950	25,350
Tap fees	196,800	249,150
Sale/disposal of assets	24,930	24,197
Interest paid on long-term debt	(254,967)	(274,963)
Total Non-Operating Revenues (Expenses)	<u>7,954</u>	<u>66,661</u>
Change in Net Position	767,522	488,073
Total Net Position, beginning of period	<u>10,499,196</u>	<u>10,011,123</u>
Total Net Position, end of period	<u><u>\$ 11,266,718</u></u>	<u><u>\$ 10,499,196</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, 2021

	2020-21	-Memorandum- -Only- 2019-20
Cash Flows from Operating Activities:		
Receipts from customers	\$ 4,794,705	\$ 4,601,416
Payments to employees	(837,391)	(744,224)
Payments to vendors	(2,627,173)	(2,880,365)
Net Cash Provided by Operating Activities	<u>1,330,141</u>	<u>976,827</u>
Cash Flows from Capital and Related Financing Activities:		
Sale (purchase) of capital assets	(556,870)	(789,962)
Capital contributions - Memberships	19,950	25,350
Capital contributions - Tap fees	196,800	249,150
Loan proceeds (Ok Util Sys)	0	3,380,000
Loan principal payoffs	0	(3,398,514)
Principal paid on long-term debt	(290,477)	(192,561)
Interest paid on long-term debt	(256,948)	(274,963)
Net Cash Provided by (used in) Capital and Related Financing Activities	<u>(887,545)</u>	<u>(1,001,500)</u>
Cash Flows from Investing Activities:		
Investments and trust accounts liquidated (added)	(74)	95,075
Loan refinancing costs	0	(121,113)
Interest earnings	21,241	42,927
Net Cash Provided by (used in) Investing Activities	<u>21,167</u>	<u>16,889</u>
Net Increase (Decrease) in Cash	463,763	(7,784)
Cash and cash equivalents, beginning of period	<u>4,416,268</u>	<u>4,424,070</u>
Cash and cash equivalents, end of period	<u><u>\$ 4,880,031</u></u>	<u><u>\$ 4,416,286</u></u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating Income	\$ 759,568	\$ 421,412
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation Expense	533,587	481,167
Amortization Expense	9,479	10,267
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	91,662	(56,327)
(Increase) decrease in prepaid insurance	85	10,653
(Increase) decrease in inventory	(63,471)	60,449
Increase (decrease) in accounts payable	(2,079)	11,530
Increase (decrease) in accruals	1,310	37,676
Net cash provided by operating activities	<u><u>\$ 1,330,141</u></u>	<u><u>\$ 976,827</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, 2021

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, Sections 1324.1 – 1324.26 and the Laws of the State of Oklahoma. The purpose of this District is to provide water services to users. The District is considered a subdivision of the State of Oklahoma. The District is exempt from federal and state income taxes. The membership consists of approximately 5,000 members. The Board of Directors consists of seven members, listed on page 1. All Board members serve three year terms.

Reporting Entity

The District 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 (expenses, including depreciation) of providing water services is financed through user charges. The District purchases its water from the City of Tulsa, the City of Sapulpa and Creek County Rural Water District No. 1.

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 (GAAP) 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 statement of net position. The operating statements present increases (e.g., revenues) and decreases (e.g., expenses) 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.

CREEK COUNTY RURAL WATER DISTRICT NO. 2

Jenks, Oklahoma

Notes to the Financial Statements

November 30, 2021

Note A – Significant Accounting Policies – cont'd

Deposits and Investments

Oklahoma Statutes authorize the District to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the District can invest in direct debt securities of the United States unless such an investment is expressly prohibited by law.

Bank deposits are held at several financial institutions and are carried at cost. For purposes of statements of cash flows, the District considers cash and all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Custodial Credit Risk - At November 30, 2021, the District held deposits of approximately \$6,057,227 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit, are entirely 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 limitations 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.

CREEK COUNTY RURAL WATER DISTRICT NO. 2
Jenks, Oklahoma
Notes to the Financial Statements
November 30, 2021

Note A – Significant Accounting Policies – cont’d

- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a-d).

The investments held at November 30, 2021 are as follows:

	Wtd. Avg Maturity	Credit Rating	Market	Cost
Money market/checking	N/A	AAAm	\$ 4,666,453	4,666,453
Trust accounts	N/A	AAAm	23,196	23,196
Certificates of deposit	3.0 Yrs	N/A	1,367,578	1,367,578
Total Deposits			<u>\$ 6,057,227</u>	<u>6,057,227</u>

Concentration of Investment Credit Risk – The District places no limit on the amount it may invest in any one issuer. The District has the following of credit risk: 22.6% in Certificates of Deposit (\$1,367,578), .4% in Trust Accounts (\$23,196) and 77% in Money Market funds (\$4,666,453).

Fair Value of Financial Instruments – The District’s financial instruments include cash and cash equivalents, accounts receivable, accounts payable and notes payable. The District’s estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of net position. The carrying amount of these financial instruments approximates fair values because of the short maturity of these instruments.

Restricted Assets

The District has the following accounts that are reserved for the current loans, future capital improvements and other specific purposes. These amounts are earmarked for these purposes and placed in separate bank accounts by formal action of the Board. The loan reserve amounts are considered “restricted” and are regulated by creditors or grantors. The other items are considered “committed” by the District and cannot be used for any other purpose unless the District removes or changes the limitation by taking action similar to that which imposed the commitment.

CREEK COUNTY RURAL WATER DISTRICT NO. 2
Jenks, Oklahoma
Notes to the Financial Statements
November 30, 2021

Note A – Significant Accounting Policies – cont'd

American Heritage Bank-	
Construction Loan account	\$ 106
Capital Investment	1,751,071
Short Lived Assets	865,081
Rural Development Reserve account	5,699
Rural Dev. Short Lived Assets account	20,473
Tower Maintenance account	472,035
Water Loss Protection account	59,982
Vast Bank-	
Certificate of Deposit	165,306
Certificate of Deposit (restricted)	48,272
Regent Bank-	
Certificate of Deposit (restricted)	250,000
BancFirst-	
2019 Note Trust account	<u>23,196</u>
Total Temporarily Restricted Assets	<u><u>\$ 3,661,221</u></u>

Inventories

Inventories consist primarily of materials and supplies for repairs and improvements of existing water lines, meters and all other capital assets. Inventory is valued at cost, principally on a first-in, first-out basis, but not in excess of market.

Accounts Receivable

Billings for accounts receivable at November 30, 2021 were \$328,438. An allowance for doubtful accounts was computed at \$17,082.

Prior Year 'Memorandum Only' Information

Prior year financial statement information is included for comparative purposes only.

CREEK COUNTY RURAL WATER DISTRICT NO. 2

Jenks, Oklahoma

Notes to the Financial Statements

November 30, 2021

Note A – Significant Accounting Policies – cont'd

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.

Capital Assets

Capital assets are valued at cost, depreciation is computed by use of the straight-line method, and includes any items in excess of \$5,000 and a useful life of two years or longer. 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

The capital asset information for the District is shown below:

	12/1/2020 Amount	Additions	Deletions	11/30/2021 Amount
Land	\$ 39,645	-	-	39,645
Water dist. system	20,026,397	432,886	-	20,459,283
Kiefer addition	482,783	-	-	482,783
Vehicles and equip.	747,738	140,464	-	888,202
Buildings and furn.	458,626	8,450	-	467,076
Total Fixed Assets	21,755,189	581,800	-	22,336,989
Less: Accumulated Depreciation	(8,169,779)	(533,587)	-	(8,703,366)
Total	<u>\$ 13,585,410</u>	<u>48,213</u>	<u>-</u>	<u>13,633,623</u>

CREEK COUNTY RURAL WATER DISTRICT NO. 2
Jenks, Oklahoma
Notes to the Financial Statements
November 30, 2021

Note B – Long-Term Debt

Long-Term Debt consists of two notes:

In 2016, the District was approved for a \$6,409,000 loan with the USDA - Office of Rural Development for continued improvements on their water system. The interest rate is 2.875%, and the District is required to make monthly payments of principal and interest of \$22,496. The water system and future water revenues are used as security for this note.

In 2019, the District was approved for a \$3,380,000 Utility System Revenue Note with Branch Banking and Trust Company, with BancFirst as trustee, to refinance two existing loans with higher interest rates. The interest rate is 2.75%, and the District is required to make monthly payments of principal and interest to a trustee account, and the trustee makes semi-annual payments on the note.

	November 30,	
	2021	2020
USDA/RD note payable 91-03, issued for \$6,409,000, at 2.875% interest, payable in monthly payments of \$22,496, until paid (2054)	\$ 5,734,149	5,837,625
Utility System Revenue Note, issued for \$3,380,000, at 2.75% interest, payable in monthly trustee payments of approximately \$23,000, and due in semi-annual installments, until paid (2034)	<u>3,101,000</u>	<u>3,288,000</u>
Long-Term Debt Outstanding	8,835,149	9,125,625
Less: Current maturities of long-term debt	<u>(299,491)</u>	<u>(290,477)</u>
Total Long-Term Debt, Net	<u><u>\$ 8,535,658</u></u>	<u><u>8,835,148</u></u>

CREEK COUNTY RURAL WATER DISTRICT NO. 2
Jenks, Oklahoma
Notes to the Financial Statements
November 30, 2021

Note B – Long-Term Debt – cont'd

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

<u>Year</u>	<u>Total</u>	<u>RD 91-03</u>	<u>Util Syst Rev</u>
2022	\$ 299,491	106,491	193,000
2023	307,593	109,593	198,000
2024	315,786	112,786	203,000
2025	325,072	116,072	209,000
2026	334,453	119,453	215,000
2027-31	1,818,536	651,536	1,167,000
2032-36	1,668,133	752,133	916,000
2037-41	778,259	778,259	-
2042-46	1,092,315	1,092,315	-
2047+	1,895,511	1,895,511	-
Total	<u>\$ 8,835,149</u>	<u>5,734,149</u>	<u>3,101,000</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 2020-21 fiscal year, the District made payments to Edward Jones of \$35,447.

Note D – Lease Income

The District has an ongoing lease agreement (no. 10008555) with AT&T. The annual rental payment is \$6,900.

CREEK COUNTY RURAL WATER DISTRICT NO. 2

Jenks, Oklahoma

Notes to the Financial Statements

November 30, 2021

Note E – Glenpool Settlement Agreement

Creek County Rural Water District No. 2 (Creek-2) entered into a settlement agreement with the City of Glenpool and the Glenpool Utility Services Authority (“Glenpool”) to resolve pending litigation between these parties in U.S. District Court for the Northern District of Oklahoma, Case No. 11 CV-441-JHP-FHM. Creek-2 filed suit against Glenpool claiming Glenpool had breached the parties’ 1992 settlement contract and that Glenpool had violated 7 U.S.C. § 1926(b) and 42 U.S.C. § 1983 (federal statutes which protect Creek-2). The principal terms of the settlement are:

1. Glenpool will pay Creek-2 the sum of \$500,000 (which has been paid) plus four (4) additional annual payments of \$125,000 each. The final annual payment of \$125,000 was received in May 2019.
2. Creek-2 granted permission for Glenpool to provide water service within a portion of the Creek-2 Territory (called the Permissive Area), in exchange for Glenpool paying fees and monthly royalties to Creek-2 during the 37 year term/life of the settlement, based on the number of water customers connected/served by Glenpool within the Permissive Area. Fees and royalties will be adjusted upward annually based on the U.S. Labor Department’s Consumer Price Index. Glenpool has provided a letter of credit to insure that its payments will be made during the term/life of the settlement. Creek-2 retains a non-exclusive right to also provide water service within the Permissive Area.
3. Creek-2 granted permission for Glenpool to provide water service within a different portion of the Creek-2 Territory (called the Released Area) royalty free. Creek-2 will retain all its existing and future customers it serves in the Released Area into perpetuity.
4. The parties exchanged mutual releases of all past claims and agreed that the federal suit would be dismissed.

The settlement agreement and its associated exhibits are very lengthy and complex. The foregoing mentions only the more important financial aspects of the settlement. A complete copy of the settlement agreement is available at the Creek-2 office for inspection.

CREEK COUNTY RURAL WATER DISTRICT NO. 2

Jenks, Oklahoma

Notes to the Financial Statements

November 30, 2021

Note F – Pending Litigation

District officials are not aware of any pending or threatened litigation, claims or assessments or un-asserted claims or assessments against the District.

Note G – Subsequent Events

Management has evaluated subsequent events through January 28, 2022, 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
Schedule of Water Rates and Customers
-Unaudited Information-
November 30, 2021

2020-21 Water Rates:

0 – 1,000 gallons	=	\$28.50
1,000 – 50,000 gallons	=	\$5.80 per thousand
Over 50,000 gallons	=	\$6.30 per thousand

Note - These fees were increased for the 2021-22 fiscal year by \$0.15 per thousand gallons.

Water Loss:

	<u>2021</u>	<u>2020</u>
Total gallons purchased	546,603,000	517,855,000
Total gallons sold to District customers	<u>(486,923,085)</u>	<u>(455,500,574)</u>
Net Water loss	59,679,915	62,354,426
Less: water used for maintenance	<u>(46,154,985)</u>	<u>(29,091,405)</u>
Total unaccounted water loss	<u>13,524,930</u>	<u>33,263,021</u>
Percentage of water loss	<u>2.47%</u>	<u>6.42%</u>

Source – Monthly Water and Field Report

Customers:

The District had 5,258 active accounts at the close of the fiscal year.

Water membership fee, with installation of 3/4” meter is \$1,500. This fee was increased to \$1,700 for the 2021-22 fiscal year.