

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

**Financial Statements and Auditor's Reports**

**Year Ended November 30, 2011**

Audited by

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

**BROKEN ARROW, OK**

**Creek County Rural Water District No. 2**  
**Sapulpa, Oklahoma**  
Board of Directors  
November 30, 2011

**BOARD OF DIRECTORS**

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Charles Volturo

**Vice-President**

Pat Scott

**Secretary**

Bergen Young

**Treasurer**

Tommy Mathieu

**Members**

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**MANAGER**

Dorothy Greek

**BOOKKEEPER**

Marylu Steenbergen

**Creek County Rural Water District No. 2**  
**Sapulpa, Oklahoma**  
November 30, 2011

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

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**Independent Auditor's Report**

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

We have audited the accompanying financial statements of the business-type activities of the Creek County Rural Water District No. 2 (the District), Sapulpa, Oklahoma, as of and for the year ended November 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of November 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated January 24, 2012 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance.

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



Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP

January 24, 2012

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

NOVEMBER 30, 2011

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, 2011. Please read it in conjunction with the District's financial statements that begin on page 11.

**FINANCIAL HIGHLIGHTS:**

- The District's total operating revenues exceeded total operating expenses by \$128,312.
- The District approved a rate increase in 2011 to keep up with economic inflation and increased regulatory requirements.
- The District's net assets increased by \$61,170 in the current fiscal year.
- Investment amounts decreased by \$201,114 due to some CD's being liquidated.
- The District expended \$347,140 on radio read meters in 2011.

**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, 2011, the District had \$7,407,035 invested in fixed assets, net of depreciation, including land, the water system, vehicles and equipment. Additional amounts were included in 2010-11 in the area of the radio read meters that were installed, and the purchase of a truck for District use.

### **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 1.70%.

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. 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, 2012, 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, Sapulpa, OK 74066 or call (918)299-4448.



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

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

We have audited the financial statements of the Creek County Rural Water District No. 2 (the District), Sapulpa, Oklahoma, as of and for the year ended November 30, 2011, and have issued our report thereon dated January 24, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under auditing standards generally accepted in the United States.

**Internal Control Over Financial Reporting**

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

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

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



Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP

January 24, 2012

**CREEK COUNTY RURAL DISTRICT NO. 2**  
**Disposition of Prior Year's Reportable Conditions**  
**November 30, 2011**

There were no prior year reportable conditions.

**CREEK COUNTY RURAL WATER DISTRICT NO. 2**  
**Schedule of Audit Results**  
**November 30, 2011**

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

**COMBINED FINANCIAL STATEMENTS**

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

Statement of Net Assets

November 30, 2011

**ASSETS:**

Current Assets:

Cash and cash equivalents	\$ 381,236
Investments	502,216
Current portion of receivables	206,924
Inventory on hand	125,951
Prepaid assets	30,907
Total current assets	<u>1,247,234</u>

Noncurrent Assets:

Reserve account	209,599
ORWB project trust funds	118,909
Capital Assets-	
Land	39,645
Buildings, net	41,726
Plant and water systems, net	6,919,470
Other capital assets, net	406,194
Total noncurrent assets	<u>7,735,543</u>

Other Assets:

Loan costs, net	<u>4,221</u>
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Total Assets	<u>8,986,998</u>
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**LIABILITIES:**

Current Liabilities:

Accounts payable	85,346
Accrued liabilities	14,546
Customer construction in progress	13,182
Current portion of long-term debt	89,934
Total current liabilities	<u>203,008</u>

Noncurrent Liabilities:

Long-term debt, less current maturities	<u>3,416,877</u>
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Total Liabilities	<u>3,619,885</u>
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**NET ASSETS:**

Invested in capital assets, net of related debt	3,900,224
Restricted for debt service	118,909
Unrestricted assets	1,347,980
Total Net Assets	<u>\$ 5,367,113</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, 2011

<b>Operating Revenues:</b>	
Water sales	\$ 2,603,634
Fees and fines	53,776
Glenpool/Jenks Utility	184,084
Rentals and reimbursements	31,444
Total revenue from operations	<u>2,872,938</u>
<b>Operating Expenses:</b>	
Water purchases	1,375,149
Salaries and benefits	504,603
Payroll taxes	31,665
Repairs and maintenance	167,853
Vehicle expense	50,966
Insurance	46,310
Supplies and materials	22,149
Office expense and postage	42,044
Depreciation	327,558
Amortization	738
Professional fees	117,907
Utilities	53,644
Board expenses	4,040
Total expenses from operations	<u>2,744,626</u>
Operating Income (Loss)	128,312
<b>Non-Operating Revenues (Expenses):</b>	
Interest income	12,320
Capital contributions-	
Memberships	5,550
Paid in surplus	42,397
Interest paid on long-term debt	<u>(127,409)</u>
Total Non-Operating Revenues (Expenses)	<u>(67,142)</u>
Change in Net Assets	61,170
Total Net Assets, beginning of period	<u>5,305,943</u>
Total Net Assets, end of period	<u><u>\$ 5,367,113</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, 2011**

**Cash Flows from Operating Activities:**

Receipts from customers	\$ 2,865,245
Payments to employees	(378,592)
Payments to vendors	<u>(2,077,215)</u>
Net Cash Provided by Operating Activities	<u>409,438</u>

**Cash Flows from Financing Activities:**

Sale (purchase) of fixed assets	(371,795)
Principal paid on long-term debt	(85,730)
Interest paid on long-term debt	<u>(129,792)</u>
Net Cash Provided by (used in) Financing Activities	<u>(587,317)</u>

**Cash Flows from Investing Activities:**

Capital contributions - Memberships	5,550
Capital contributions - Paid in surplus	42,397
Interest earned on investments	<u>13,646</u>
Net Cash Provided by (used in) Investing Activities	<u>61,593</u>

Net Increase (Decrease) in Cash (116,286)

Cash and cash equivalents, beginning of period 1,328,246

Cash and cash equivalents, end of period \$ 1,211,960

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

Operating Income	\$ 128,312
Adjustments to reconcile net income to net cash provided (used) by operating activities:	
Depreciation Expense	327,558
Amortization Expense	738
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	(50,919)
(Increase) decrease in prepaid insurance	(6,312)
(Increase) decrease in inventory	4,992
Increase (decrease) in accounts payable	5,583
Increase (decrease) in accruals	2,911
Increase (decrease) in customer construction in progress	<u>(3,425)</u>
Net cash provided by operating activities	<u><u>\$ 409,438</u></u>

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

## CREEK COUNTY RURAL WATER DISTRICT NO. 2

### Sapulpa, Oklahoma

#### Notes to the Financial Statements

November 30, 2011

#### Note A – Significant Accounting Policies

##### Basis of Accounting

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

##### Reporting Standard

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

##### Cash and equivalents

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

	<u>November 30,</u>	
	<u>2011</u>	<u>2010</u>
Change fund (on hand)	\$ 200	200
American Heritage Bank, Sapulpa, Ok-		
Revenue account	327,452	195,992
Investment account	158,411	203,562
Payroll account	-	10,160
Petty cash account	1,557	1,315
Less: (Outstanding checks)/DIT	<u>(106,384)</u>	<u>10,948</u>
Total Operating Cash	<u>\$ 381,236</u>	<u>422,177</u>
American Heritage Bank, Sapulpa, Ok-		
Rural Development Reserve account	\$ 38,895	22,242
Rural Dev. Short Lived Assets account	121,146	31,519
Construction Loan account	140	140
Tower Maint. account	49,418	29,928
BancFirst, Oklahoma City, OK-		
ORWB Project Trust account	<u>118,909</u>	<u>118,910</u>
Total Reserve Cash	<u>\$ 328,508</u>	<u>202,739</u>

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

**Sapulpa, Oklahoma**

Notes to the Financial Statements

November 30, 2011

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

Investments

The District's investments at November 30, 2011 are detailed as follows:

American Heritage Bank, Sapulpa, Ok- Certificate of deposit no. 39831	\$ 102,216
Oklahoma National Bank, Sapulpa, Ok- Certificate of deposit no. 15860	100,000
NBC Oklahoma, Tulsa, Ok- Certificate of deposit no. 04678	100,000
First United Bank, Sapulpa, Ok- Certificate of deposit no. 453412	100,000
Spirit Bank, Sapulpa, Ok- Certificate of deposit no. 85618	<u>100,000</u>
<b>Total Investments</b>	<b><u><u>\$ 502,216</u></u></b>

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 Balance	Carrying Amount
	(A)	(B)	(C)		
Cash	\$ 368,909	447,019		815,928	709,744
Investments	<u>502,216</u>			<u>502,216</u>	<u>502,216</u>
<b>Total</b>	<b><u><u>\$ 871,125</u></u></b>	<b><u><u>447,019</u></u></b>	<b><u><u>0</u></u></b>	<b><u><u>1,318,144</u></u></b>	<b><u><u>1,211,960</u></u></b>

Accounts Receivable

Billings for accounts receivable at November 30, 2011 were \$207,361. An allowance for doubtful accounts was computed at \$1,000.

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

**Sapulpa, Oklahoma**

Notes to the Financial Statements

November 30, 2011

**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**

**Sapulpa, Oklahoma**

Notes to the Financial Statements

November 30, 2011

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

The fixed asset information for the District is shown below:

	11/30/2010 Amount	Additions	Deletions	11/30/2011 Amount
Land	\$ 39,645	-	-	39,645
Water dist. system	10,548,209	590	-	10,548,799
Kiefer addition	482,783	-	-	482,783
Vehicles and equip.	373,343	23,042	-	396,385
Radio read meters	-	347,140	-	347,140
Buildings and furn.	380,783	1,024	-	381,807
Total Fixed Assets	11,824,763	371,796	-	12,196,559
Less: Accumulated Depreciation	(4,461,967)	(327,557)	-	(4,789,524)
Total	<u>\$ 7,362,796</u>	<u>44,239</u>	<u>141,799</u>	<u>7,407,035</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 1.70%. The water system and future water revenues are used as security for this note.

In 2006, the District was approved for a \$3,125,000 loan with the Office of Rural Development for continued improvements on their water system. The District has received \$2,545,578 of these proceeds through 2010-11. 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 \$209,600.

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

**Sapulpa, Oklahoma**

Notes to the Financial Statements

November 30, 2011

**Note B – Notes Payable – cont'd**

	November 30,	
	2011	2010
Oklahoma Water Resources Board note payable, issued for \$1,345,000, at 1.70% interest, due in semi-annual installments, until paid;	\$ 1,143,650	1,168,450
Rural Development note payable, issued for \$2,545,578, at 4.375% interest, payable in monthly payments of \$13,813, until paid;	2,363,161	2,424,091
Long-Term Debt Outstanding	3,506,811	3,592,541
Less: Current maturities of long-term debt	(89,934)	(107,400)
Total Long-Term Debt, Net	\$ 3,416,877	3,485,141

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

Year	Total	ORWB	Rural Dev.
2012	\$ 89,934	26,300	63,634
2013	94,874	28,400	66,474
2014	99,941	30,500	69,441
2015	105,141	32,600	72,541
2016	110,529	34,750	75,779
2017	116,362	37,200	79,162
2018	122,195	39,500	82,695
2019-23	740,155	267,900	472,255
2024-28	984,097	396,600	587,497
2029+	1,043,583	249,900	793,683
Total	\$ 3,506,811	1,143,650	2,363,161

**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 2010-11 fiscal year, the District contributed \$6,545.

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

**Sapulpa, Oklahoma**

Notes to the Financial Statements

November 30, 2011

### **Note D – Settlement Income**

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

### **Note E – Lease Income**

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

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

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

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

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

**Sapulpa, Oklahoma**

Notes to the Financial Statements

November 30, 2011

**Note E – Lease Income – cont'd**

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

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

**Note F – Pending Litigation**

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

**OTHER SUPPLEMENTARY INFORMATION**

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

Balance Sheet  
November 30, 2011

<u>ASSETS</u>	NOVEMBER 30,	
	2011	(memo only) 2010
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 381,236	422,177
Investments	502,216	703,330
Accounts receivable	206,361	155,442
Accrued interest receivable	563	775
Prepaid insurance	30,907	24,595
Inventory	125,951	130,943
Total current assets	1,247,234	1,437,262
<b>Restricted Assets:</b>		
Reserve account	209,599	83,829
ORWB Project trust funds	118,909	118,910
Total restricted assets	328,508	202,739
<b>Fixed Assets:</b>		
Land	39,645	39,645
Water distribution system	10,548,798	10,548,209
Kiefer system addition	482,783	482,783
Vehicles and equipment	743,525	373,343
Buildings and furnishings	381,807	380,783
Total fixed assets	12,196,558	11,824,763
Less: accumulated depreciation	(4,789,523)	(4,461,967)
Total fixed assets (net)	7,407,035	7,362,796
<b>Other Assets:</b>		
Loan costs	11,079	11,079
Less: Accumulated amortization	(6,858)	(6,120)
Total other assets	4,221	4,959
<b>Total Assets</b>	<b>\$ 8,986,998</b>	<b>9,007,756</b>
<u>LIABILITIES AND FUND EQUITY</u>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 85,346	79,763
Payroll and taxes payable	5,709	2,689
Accrued vacation payable	4,219	4,328
Customer construction in progress	13,182	16,607
Accrued interest on long-term debt	4,618	5,885
Current maturities of long-term debt	89,934	107,400
Total current liabilities	203,008	216,672
<b>Long-Term Debt, less current maturities:</b>		
Notes payable	3,416,877	3,485,141
<b>Total Liabilities</b>	<b>3,619,885</b>	<b>3,701,813</b>
<b>Fund Equity:</b>		
Contributed/ member capital	4,342,214	4,294,267
Retained earnings	1,024,899	1,011,676
Total fund equity	5,367,113	5,305,943
<b>Total Liabilities and Fund Equity</b>	<b>\$ 8,986,998</b>	<b>9,007,756</b>

**CREEK COUNTY RURAL WATER DISTRICT NO. 2**  
**Statement of Revenue, Expenses and Changes in Retained Earnings**  
**For The Year Ended November 30, 2011**

	2010-11	(memo only) 2009-10
<b>Revenue from Operations:</b>		
Water sales	\$ 2,603,634	2,091,669
Service charges and penalties	53,776	50,866
Glenpool Utility revenue	38,628	162,553
Jenks Utility revenue	145,456	162,412
Rental income	31,419	53,859
Other income	25	-
<b>Total revenue from operations</b>	<u>2,872,938</u>	<u>2,521,359</u>
<b>Expenses from Operations:</b>		
Water purchases	1,375,149	1,211,254
Salaries and benefits	504,603	502,724
Payroll taxes	31,665	30,119
Repairs and maintenance	167,853	184,585
Vehicle expense	50,966	46,631
Insurance	46,310	48,471
Supplies and materials	22,149	34,453
Office expense and postage	42,044	30,209
Depreciation	327,558	301,028
Amortization	738	738
Professional fees	117,907	24,195
Utilities	53,644	48,205
Board expenses	4,040	3,403
<b>Total expenses from operations</b>	<u>2,744,626</u>	<u>2,466,015</u>
<b>Net Income (Loss) from Operations</b>	128,312	55,344
<b>Non-operating revenues:</b>		
Interest earnings	<u>12,320</u>	<u>23,125</u>
<b>Non-operating expenses:</b>		
Interest on long-term debt	<u>(127,409)</u>	<u>(111,644)</u>
<b>Net Income (Loss)</b>	13,223	(33,175)
<b>Retained earnings, beginning of period</b>	<u>1,011,676</u>	<u>1,044,851</u>
<b>Retained earnings, end of period</b>	<u>\$ 1,024,899</u>	<u>1,011,676</u>