

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

Financial Statements and Auditor's Reports

Year Ended November 30, 2015

Audited by

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

BROKEN ARROW, OK

Creek County Rural Water District No. 2
Jenks, Oklahoma
Board of Directors
November 30, 2015

BOARD OF DIRECTORS

President

Harvey Morris

Vice-President

Bill Martin

Secretary

Larry Bayouth

Treasurer

Charles Volturo

Members

Roy Kirby

Pat Scott

Bergen Young

MANAGER

Dorothy Greek

BOOKKEEPER

Ashley Wynn

Creek County Rural Water District No. 2
Jenks, Oklahoma
November 30, 2015

TABLE OF CONTENTS

	<u>Page</u>
Board of Directors	1
Table of Contents	2
Independent Auditor's Report	3
Management's Discussion and Analysis	5
Report on Internal Control and on Compliance Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	7
Disposition of Prior Year's Reportable Conditions	9
Schedule of Audit Results	10
<u>COMBINED FINANCIAL STATEMENTS:</u>	
Statement of Net Position	11
Statement of Revenues, Expenses and Changes in Net Position	12
Statement of Cash Flows	13
Notes to Financial Statements	14
<u>OTHER SUPPLEMENTARY INFORMATION:</u>	
Balance Sheet (comparative)	23
Statement of Revenue, Expenses and Changes in Retained Earnings (comparative)	24



SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the business-type activities of the Creek County Rural Water District No. 2 (the District), Jenks, Oklahoma, as of and for the year ended November 30, 2015, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as

evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Opinion

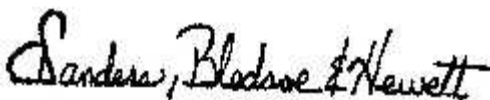
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of November 30, 2015, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 and 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2015 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

December 28, 2015

RURAL WATER DISTRICT NO.2, CREEK COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
NOVEMBER 30, 2015

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, 2015. 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 \$423,241.
- The District's net assets increased by \$750,010 in the current fiscal year.
- The District added \$235,008 in fixed assets in 2015.
- The District concluded their litigation with the City of Glenpool in 2015 regarding encroachment issues. A settlement agreement was signed by both parties, and the District received an initial settlement amount of \$500,000 in 2015 (see page 21 for new agreement details).

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 assets 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 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, 2015, the District had \$7,473,185 invested in fixed assets, net of depreciation, including land, the water system, vehicles and equipment. Additional amounts were included in 2014-15 were the start of a new GPS/SCADA system, and the replacement of fully depreciated infrastructure in the Kellyville area.

In 2014, the District revised its policy on fixed assets to include only items with a value in excess of \$2,500 and a useful life of three years or more.

Long-Term Debt

The promissory note with the Oklahoma Water Resources Board was approved in 2001-02. The note was for \$1,345,000, and will be paid back in bi-annual payments over 30 years, at a variable interest rate. The current interest rate is 1.565%, and the monthly amount paid on this note is \$4,060.72. The loan balance at November 30, 2015 was \$1,031,300.

A loan with the Office of Rural Development was approved in 2006. The note was for \$3,125,000, and will be paid back in monthly payments over 40 years. In 2013, \$189,747 of additional loan proceeds were received from this note to assist with water system improvements. The monthly payments of principal and interest are \$13,813.00, and the interest rate is 4.375%. The loan balance at November 30, 2015 was \$2,731,462.

Economic Factors and Next Year's Budget and Rates

For the upcoming fiscal year ending November 30, 2016, 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.



SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the accompanying financial statements of the Creek County Rural Water District No. 2 (the District), Jenks, Oklahoma, as of and for the year ended November 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 28, 2015.

Internal Control Over Financial Reporting

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified no deficiencies in the internal controls that we considered to be material weaknesses.

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

there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance

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

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

December 28, 2015

CREEK COUNTY RURAL DISTRICT NO. 2
Disposition of Prior Year's Reportable Conditions
November 30, 2015

There were no prior year reportable conditions.

CREEK COUNTY RURAL WATER DISTRICT NO. 2
Schedule of Audit Results
November 30, 2015

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 Generally Accepted Government Auditing Standards:

None

CREEK COUNTY RURAL WATER DISTRICT NO. 2
Statement of Net Position
November 30, 2015

ASSETS:

Current Assets:

Cash and cash equivalents	\$ 1,083,964
Investments	753,197
Current portion of receivables	303,647
Inventory on hand	103,317
Prepaid assets	2,572
Total current assets	<u>2,246,697</u>

Non-current Assets:

Reserve account	808,912
ORWB project trust funds	118,905
Capital Assets-	
Land	39,645
Buildings, net	40,383
Plant and water systems, net	6,665,750
Other capital assets, net	727,407
Total non-current assets	<u>8,401,002</u>

Other Assets:

Loan costs, net	<u>1,268</u>
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Total Assets	<u>10,648,967</u>
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LIABILITIES:

Current Liabilities:

Accounts payable	121,384
Accrued liabilities	15,498
Customer construction in progress	1,722
Current portion of long-term debt	83,093
Total current liabilities	<u>221,697</u>

Non-current Liabilities:

Long-term debt, less current maturities	<u>3,679,669</u>
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Total Liabilities	<u>3,901,366</u>
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NET POSITION:

Invested in capital assets, net of related debt	3,710,423
Restricted for debt service	518,316
Unrestricted assets	<u>2,518,862</u>
Total Net Position	<u>\$ 6,747,601</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, 2015

Operating Revenues:

Water sales	\$ 3,391,932
Fees and fines	59,271
Leases and reimbursements	28,585
Total revenue from operations	<u>3,479,788</u>

Operating Expenses:

Water purchases	1,347,035
Salaries and benefits	604,570
Payroll taxes	35,641
Repairs and maintenance	196,783
Vehicle expense	43,953
Insurance	52,235
Supplies and materials	81,562
Office expense and postage	45,477
Depreciation	304,204
Amortization	738
Engineering fees	264,526
Professional fees	23,390
Utilities	51,663
Board expenses	4,770
Total expenses from operations	<u>3,056,547</u>

Operating Income (Loss)	423,241
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Non-Operating Revenues (Expenses):

Interest income	13,991
Capital contributions-	
Memberships	11,250
Tap fees	71,550
Glenpool settlement proceeds	500,000
Glenpool lawsuit costs	(128,108)
Interest paid on long-term debt	(141,914)
Total Non-Operating Revenues (Expenses)	<u>326,769</u>

Change in Net Position	750,010
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Total Net Position, beginning of period	<u>5,997,591</u>
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Total Net Position, end of period	<u><u>\$ 6,747,601</u></u>
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The accompanying notes to the financial statements are an integral part of this statement

CREEK COUNTY RURAL WATER DISTRICT NO. 2
Statement of Cash Flows
For the Year Ended November 30, 2015

Cash Flows from Operating Activities:

Receipts from customers	\$ 3,471,655
Payments to employees	(608,798)
Payments to vendors	(2,131,291)
Net Cash Provided by Operating Activities	<u>731,566</u>

Cash Flows from Financing Activities:

Sale (purchase) of fixed assets	(235,008)
Principal paid on long-term debt	(78,489)
Interest paid on long-term debt	(142,004)
Net Cash Provided by (used in) Financing Activities	<u>(455,501)</u>

Cash Flows from Investing Activities:

Capital contributions - Memberships	11,250
Capital contributions - Tap fees	71,550
Glenpool settlement proceeds	500,000
Glenpool lawsuit expenses	(128,108)
(Purchase) liquidation of investments	(397,773)
Interest earned on investments	13,991
Net Cash Provided by (used in) Investing Activities	<u>70,910</u>

Net Increase (Decrease) in Cash 346,975

Cash and cash equivalents, beginning of period 1,545,901

Cash and cash equivalents, end of period \$ 1,892,876

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

Operating Income	\$ 423,241
Adjustments to reconcile net income to net cash provided (used) by operating activities:	
Depreciation Expense	304,204
Amortization Expense	738
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	(24,503)
(Increase) decrease in prepaid insurance	31,704
(Increase) decrease in inventory	4,836
Increase (decrease) in accounts payable	4,962
Increase (decrease) in accruals	(5,056)
Increase (decrease) in customer construction in progress	(8,560)
Net cash provided by operating activities	<u><u>\$ 731,566</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, 2015

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 4,700 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, 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, 2015

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, 2015, the District held deposits of approximately \$2,764,980 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, 2015

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, 2015 are as follows:

	Wtd. Avg Maturity	Credit Rating	Market	Cost
Money market/checking	N/A	AAAm	\$ 1,892,876	1,892,876
Trust accounts	N/A	AAAm	118,905	118,905
Certificates of deposit	4.0 Yrs	N/A	753,197	753,197
Total Deposits			<u>\$ 2,764,978</u>	<u>2,764,978</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: 27% in Certificates of Deposit (\$753,197), 4% in Trust Accounts (\$118,905) and 68% in Money Market funds (\$1,892,876).

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.

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, 2015 were \$304,647. An allowance for doubtful accounts was computed at \$1,000.

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

CREEK COUNTY RURAL WATER DISTRICT NO. 2

Jenks, Oklahoma

Notes to the Financial Statements

November 30, 2015

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.

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

The fixed asset information for the District is shown below:

	11/30/2014			11/30/2015
	Amount	Additions	Deletions	Amount
Land	\$ 39,645	-	-	39,645
Water dist. system	11,129,370	202,709	-	11,332,079
Kiefer addition	482,783	-	-	482,783
Vehicles and equip.	538,928	15,309	-	554,237
Radio read meters	776,423	15,000	-	791,423
Buildings and furn.	411,416	1,990	-	413,406
Total Fixed Assets	13,378,565	235,008	-	13,613,573
Less: Accumulated Depreciation	(5,836,184)	(304,204)	-	(6,140,388)
Total	<u>\$ 7,542,381</u>	<u>(69,196)</u>	<u>-</u>	<u>7,473,185</u>

CREEK COUNTY RURAL WATER DISTRICT NO. 2

Jenks, Oklahoma

Notes to the Financial Statements

November 30, 2015

Note B – Long-Term Debt

Long-Term Debt consists of two notes:

The District has a promissory note in the amount of \$1,345,000 with the Oklahoma Water Resources Board (OWRB) for a period of 30 years. The District makes monthly deposits into a trust account at BancFirst. The trust account then makes the variable semi-annual payments of principal and interest to the OWRB. The current interest rate on this note is 1.565%. The water system and future water revenues are used as security for this note.

In 2006, the District was approved for a \$3,125,000 loan with the USDA - Office of Rural Development for continued improvements on their water system. 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.

	November 30,	
	2015	2014
Oklahoma Water Resources Board note payable, issued for \$1,345,000, at 1.70% interest, due in semi-annual installments, until paid;	\$ 1,031,300	1,064,600
USDA/RD note payable, issued for \$2,914,078, at 4.375% interest, payable in monthly payments of \$13,813, until paid;	2,731,462	2,776,651
Long-Term Debt Outstanding	3,762,762	3,841,251
Less: Current maturities of long-term debt	(83,093)	(77,776)
Total Long-Term Debt, Net	<u>\$ 3,679,669</u>	<u>3,763,475</u>

The District has an OWRB debt service reserve of \$118,905 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 USDA/Rural Development reserve accounts with the American Heritage Bank in the amount of \$399,269.

CREEK COUNTY RURAL WATER DISTRICT NO. 2

Jenks, Oklahoma

Notes to the Financial Statements

November 30, 2015

Note B – Long-Term Debt – cont'd

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

<u>Year</u>	<u>Total</u>	<u>ORWB</u>	<u>Rural Dev.</u>
2016	\$ 83,093	35,900	47,193
2017	88,200	38,900	49,300
2018	93,601	42,100	51,501
2019	99,300	45,500	53,800
2020	105,401	49,200	56,201
2020-25	634,452	313,500	320,952
2026-30	863,272	464,000	399,272
2031-35	538,904	42,200	496,704
2036-40	617,913	-	617,913
2041+	638,626	-	638,626
Total	<u>\$ 3,762,762</u>	<u>1,031,300</u>	<u>2,731,462</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 2014-15 fiscal year, the District contributed \$24,740.

Note D – Lease Income

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

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

CREEK COUNTY RURAL WATER DISTRICT NO. 2

Jenks, Oklahoma

Notes to the Financial Statements

November 30, 2015

Note D – Lease Income – cont'd

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, with the provision that on June 2, 2008 and upon commencement of each Extension Term thereafter, rent shall be increased using the CPI calculation provided in section three of the lease of the then current Rent. The term was changed to twenty-four months commencing June 1, 2006 and automatically renewing for up to five additional sixty month terms.

The District has a lease agreement (no. 3075) with Nextel Communications. The lease was entered into on May 6, 1997 and was for a term of five years with the right to extend the Term for four successive renewal terms of five years each. The annual rental payment was adjusted from \$6,000 to \$6,705 in 2002 when the first five-year term ended. This adjustment is based on the lease agreement, which allows for an increase at the end of each five-year term based on the CPI-U. The lease at this site does not terminate until April 30, 2017. For a \$10,000 incentive paid to the District, Nextel removed all of its antenna equipment from this tower. They will continue to pay out the rent through the term end.

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 for the first term and shall be adjusted on the basis of changes in the index number set forth in the CPI-U. The lease on

CREEK COUNTY RURAL WATER DISTRICT NO. 2

Jenks, Oklahoma

Notes to the Financial Statements

November 30, 2015

Note D – Lease Income – cont'd

this facility reached its five year termination period, and Nextel chose not to renew the lease. The District received a one-time payment of \$10,000 from Nextel to allow them to leave the empty building on the site.

Note E – Recently Settled Litigation

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.
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, 2015

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 December 28, 2015, which is the date the financial statements were available to be issued and have determined that no additional information needs to be added to the financial statements.

CREEK COUNTY RURAL WATER DISTRICT NO. 2

Balance Sheet
November 30, 2015

<u>ASSETS</u>	NOVEMBER 30,	
	2015	(memo only) 2014
Current Assets:		
Cash and cash equivalents	\$ 1,083,964	818,767
Investments	753,197	355,420
Accounts receivable	303,647	279,144
Prepaid insurance	2,572	34,276
Inventory	103,317	108,153
Total current assets	<u>2,246,697</u>	<u>1,595,760</u>
Temporarily Restricted Assets:		
Cash and cash equivalents	808,912	727,134
ORWB Project trust funds	118,905	118,909
Total restricted assets	<u>927,817</u>	<u>846,043</u>
Fixed Assets:		
Land	39,645	39,645
Water distribution system	11,332,079	11,129,370
Kiefer system addition	482,783	482,783
Vehicles and equipment	1,345,660	1,315,351
Buildings and furnishings	413,406	411,416
Total fixed assets	<u>13,613,573</u>	<u>13,378,565</u>
Less: accumulated depreciation	<u>(6,140,388)</u>	<u>(5,836,184)</u>
Total fixed assets (net)	<u>7,473,185</u>	<u>7,542,381</u>
Other Assets:		
Loan costs	11,079	11,079
Less: Accumulated amortization	<u>(9,811)</u>	<u>(9,072)</u>
Total other assets	<u>1,268</u>	<u>2,007</u>
Total Assets	<u><u>\$ 10,648,967</u></u>	<u><u>9,986,191</u></u>
 <u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 121,384	116,422
Payroll and taxes payable	2,768	3,597
Accrued vacation payable	7,832	12,059
Customer construction in progress	1,722	10,282
Accrued interest on long-term debt	4,898	4,989
Current maturities of long-term debt	83,093	77,776
Total current liabilities	<u>221,697</u>	<u>225,125</u>
Long-Term Debt, less current maturities:		
Notes payable	<u>3,679,669</u>	<u>3,763,475</u>
Total Liabilities	<u>3,901,366</u>	<u>3,988,600</u>
Fund Equity:		
Contributed/ member capital	4,697,350	4,614,550
Retained earnings	2,050,251	1,383,041
Total fund equity	<u>6,747,601</u>	<u>5,997,591</u>
Total Liabilities and Fund Equity	<u><u>\$ 10,648,967</u></u>	<u><u>9,986,191</u></u>

CREEK COUNTY RURAL WATER DISTRICT NO. 2
Statement of Revenue, Expenses and Changes in Retained Earnings
For The Year Ended November 30, 2015

	2014-15	(memo only) 2013-14
Revenue from Operations:		
Water sales	\$ 3,391,932	3,310,855
Service charges and penalties	59,271	71,494
Lease income	18,585	27,187
Other income	10,000	4,500
Total revenue from operations	<u>3,479,788</u>	<u>3,414,036</u>
Expenses from Operations:		
Water purchases	1,347,035	1,329,208
Salaries and benefits	604,570	564,817
Payroll taxes	35,641	33,732
Repairs and maintenance	196,783	206,589
Vehicle expense	43,953	55,841
Insurance	52,235	52,690
Supplies and materials	81,562	130,696
Office expense and postage	45,477	47,411
Depreciation	304,204	359,543
Amortization	738	738
Engineering fees	264,526	186,658
Professional fees	23,390	19,879
Utilities	51,663	55,558
Board expenses	4,770	4,410
Total expenses from operations	<u>3,056,547</u>	<u>3,047,770</u>
Net Income (Loss) from Operations	423,241	366,266
Non-operating revenues:		
Glenpool settlement proceeds	500,000	-
Interest earnings	13,991	19,009
Total non-operating revenues	<u>513,991</u>	<u>19,009</u>
Non-operating expenses:		
Glenpool lawsuit costs	(128,108)	(572,932)
Interest on long-term debt	(141,914)	(150,843)
Total non-operating revenues	<u>(270,022)</u>	<u>(723,775)</u>
Net Income (Loss)	667,210	(338,500)
Retained earnings, beginning of period	<u>1,383,041</u>	<u>1,721,541</u>
Retained earnings, end of period	<u>\$ 2,050,251</u>	<u>1,383,041</u>