

AUDIT REPORT
CREEK COUNTY RWD NO. 5
MANNFORD, OKLAHOMA
FOR THE YEAR ENDED NOVEMBER 30, 2016



JENKINS & KEMPER
CERTIFIED PUBLIC ACCOUNTANTS, P.C.

**CREEK COUNTY RURAL WATER DISTRICT NO. 5
MANNFORD, OKLAHOMA
NOVEMBER 30, 2016**

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CREEK COUNTY RURAL WATER DISTRICT NO. 5
BOARD OF DIRECTORS
NOVEMBER 30, 2016

BOARD OF DIRECTORS

Chairman	Dan Linden
Vice-Chairman	C.E. Ledbetter
Secretary/Treasurer	Brandi Jenkins
Member	Bryan Burggraf
Member	Don Turner

BOOKKEEPER

Shawn Rusco



JENKINS & KEMPER
CERTIFIED PUBLIC ACCOUNTANTS, P.C.

JACK JENKINS, CPA
MICHAEL KEMPER, CPA

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Creek Co. RWD No. 5
Mannford, Oklahoma 74044-0698

We have audited the accompanying financial statements of the business-type activities of Creek Co. RWD No. 5, Mannford, Oklahoma, as of and for the year ended November 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 *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 from material misstatement.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities of the District as of November 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Creek Co. RWD No. 5, Mannford, Oklahoma has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on these financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued a report dated April 25, 2017, 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 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 and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Jenkins & Kemper, CPAs P.C.

Jenkins & Kemper
Certified Public Accountants, P.C.

April 25, 2017



JENKINS & KEMPER
CERTIFIED PUBLIC ACCOUNTANTS, P.C.

JACK JENKINS, CPA
MICHAEL KEMPER, CPA

**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 Co. RWD No. 5
Mannford, Oklahoma 74044-0698

We have audited the financial statements of the business-type activities of Creek Co. RWD No. 5 as of and for the year ended November 30, 2016, and have issued our report thereon, dated April 25, 2017. We conducted our audit in accordance with generally accepted auditing standards accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Creek County Rural Water District No. 5, Mannford, Oklahoma has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board requires to supplement, although, not be a part of the basic financial statements.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion

on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed two (2) instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the accompanying Schedule of Findings.

Purpose of this Report

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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jenkins & Kemper, CPAs P.C.

Jenkins & Kemper
Certified Public Accountants, P.C.

April 25, 2017

CREEK COUNTY RURAL WATER DISTRICT NO. 5
SCHEDULE OF AUDIT RESULTS
NOVEMBER 30, 2016

Findings – Financial Statement Audit

16-01 – Reconciliations to General Ledger

Condition: We observed that the outstanding payments and reported cash balance appeared to be inaccurate and reconciliation from the bank statement to the general ledger did not appear to be done in a timely manner and on a monthly basis. The general ledger misreported the ending *operating account* position by \$9,299.26 less than on the reconciled bank balance. The beginning *operating account* balance reported less by \$2,555.71 with no explanation provided. The general ledger misreported the beginning and ending *reserve fund* position by \$3,500.00 less than the reconciled bank balance. The general ledger misreported the ending *construction account* cash position by \$37,757.59 more than reported on the bank statement. The beginning *construction account* cash balance reported less by \$2,500.00 than the actual reconciled bank balance with no explanation provided.

Criteria: Monthly reconciliations to bank statements should be performed and any items that have not cleared or are in error, should be identified and documented.

Effect: Not reconciling to a monthly bank statement may cause cash ledgers to become out of balance and not represent the reported account's actual position accurately.

Recommendation: We recommend reconciliations be performed and any differences between the cash ledger and bank statement be documented until any outstanding items can be resolved.

16-02 – Payroll

Condition: During our final audit work, we observed some payroll tax deposits that were not paid timely.

Criteria: Payroll should be processed with all applicable withholdings, matchings and reporting made complete and intact.

Effect: Not processing payroll with all required payroll withholdings and not reporting timely will result in penalties and fees for the District.

Recommendation: We recommend that the District investigate the amount of unpaid taxes and resolve these issues to minimize the amount of penalties and interest from unpaid payroll taxes.

CREEK COUNTY RURAL WATER DISTRICT NO. 5
STATEMENT OF NET POSITION
FOR THE YEAR ENDED NOVEMBER 30, 2016

ASSETS

Current assets:

Cash in bank	\$ 351,431
Accounts receivable	46,115
Prepaid insurance	9,954
Total current assets	<u>407,500</u>

Noncurrent assets:

Reserve for debt service	86,172
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Capital Assets:

Land	68,195
Building & contents	114,445
Water system	3,058,883
Vehicles & machinery	199,197
Less: accumulated depreciation	<u>(1,205,090)</u>
Total noncurrent assets	<u>2,321,802</u>

Total Assets	<u>2,729,302</u>
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LIABILITIES

Current Liabilities:

Current maturities of long-term debt - Note 2	38,237
Accounts payable	1,637
Payroll taxes payable	5,156
Total current liabilities	<u>45,030</u>

Long-Term Debt, less current maturities - Note 2

John and Angela Nance Promissory Note	4,000
Rural Utilities Service Promissory Note	<u>1,395,928</u>
Total long-term debt, less current maturities	<u>1,399,928</u>

Total Liabilities	<u>1,444,958</u>
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NET POSITION

Restricted for debt service	81,500
Unrestricted	<u>1,202,844</u>
Total net position	<u>\$ 1,284,344</u>

The accompanying notes are an integral part of the financial statements

CREEK COUNTY RURAL WATER DISTRICT NO. 5
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED NOVEMBER 30, 2016

Operating Revenues:

Water revenue	\$ 591,669
Benefit units	23,987
Miscellaneous	6,245
Total operating revenues	<u>621,901</u>

Operating Expenses:

Water purchased	20,736
Salaries & payroll taxes	186,701
Utilities & telephone	30,570
Directors fees	10,050
Vehicle expense	6,728
Office supplies	23,807
Supplies & maintenance	54,379
Insurance	20,252
Water tests	3,757
Professional fees	1,997
Miscellaneous	7,996
Depreciation	70,180
Total operating expenses	<u>437,153</u>

Operating Income (Loss)	184,748
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Non-Operating Revenues (Expenses):

Interest expense	<u>(61,018)</u>
Total non-operating revenues (expenses)	<u>(61,018)</u>

Changes in Net Position	123,730
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Total Net Position, beginning of period	<u>1,160,614</u>
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Total Net Position, end of period	<u><u>\$ 1,284,344</u></u>
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The accompanying notes are an integral part of the financial statement

CREEK COUNTY RURAL WATER DISTRICT NO. 5
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED NOVEMBER 30, 2016

Cash Flows from Operating Activities:

Cash received from customers	\$ 619,618
Cash paid to suppliers	(184,271)
Cash paid to employees	(208,877)
Net cash flows from operating activities	<u>226,470</u>

Cash Flows from Investing Activities:

Purchase of equipment	(28,381)
Net cash flows from investing activities	<u>(28,381)</u>

Cash Flows from Financing Activities:

Deposits to reserve for debt service	(4,672)
Interest paid on promissory note	(61,018)
Principal paid on promissory note	(69,153)
Net cash flows from financing activities	<u>(134,843)</u>

Net increase (decrease) in cash and cash equivalents 63,246

Cash and cash equivalents, beginning of period 288,185

Cash and cash equivalents, end of period \$ 351,431

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

Operating income (loss)	\$ 184,748
Add depreciation expense	70,180
(Increase)/Decrease in Current Assets	
Prepaid Insurance	(3,078)
Accounts receivable, net	(2,283)
Increase/(Decrease) in Current Liabilities	
Payroll taxes payable	(22,176)
Accounts payable	(921)
Net cash flows from operating activities	<u><u>\$ 226,470</u></u>

The accompanying notes are an integral part of the financial statements

CREEK COUNTY RURAL WATER DISTRICT NO. 5
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED NOVEMBER 30, 2016

Note 1 – Summary of significant accounting policies

Reporting Entity

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

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

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

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

Accounts Receivable

All accounts greater than thirty days are considered past due. Receivables greater than ninety days were deemed uncollectible in the current year and netted from water revenue.

The accounts receivable amount was computed as follows:

		<u>2016</u>
0-59 days	\$	39,323
60-89 days		6,792
90+ days		-
	\$	<u>46,115</u>

Inventory

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

CREEK COUNTY RURAL WATER DISTRICT NO. 5
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED NOVEMBER 30, 2016

Property and Equipment

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

Cash and Cash Equivalents

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

Operating account	\$271,262
Construction account	73,841
Debt reserve account	<u>92,500</u>
Total cash	<u>\$437,603</u>

Custodial Credit Risk

At November 30, 2016, the District held deposits of approximately \$437,603 at financial institutions. The District's cash deposits are not entirely covered by Federal Depository Insurance.

Federal Income Tax

The District is exempt from federal and state income taxes.

Accumulated Unpaid Vacation and Sick Pay

At November 30, 2016, no determination of the aggregate dollar value of vacation and sick pay had been made.

**CREEK COUNTY RURAL WATER DISTRICT NO. 5
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED NOVEMBER 30, 2016**

Debt Reserve Fund

Under the loan agreement signed with Rural Development, the District is required to maintain debt reserve funds. The balances restricted for this purpose at November 30, 2016 are as follows:

	<u>Amount Required</u>	<u>Amount Available</u>	<u>Over/under funded</u>
RDA Reserve Account	\$ 86,172	92,500	6,328

Note 2 – Long-Term Debt

The following is a summary of the long-term debt transactions of the District for the year ended November 30, 2016:

Balance 12/1/15	\$ 1,447,318
Additions	60,000
Retirements	<u>69,153</u>
Balance, 11/30/16	<u>\$ 1,438,165</u>

Long-term debt at November 30, 2016, is detailed as follows:

Promissory Note, dated June 20, 2005 for \$1,639,350 payable to Rural Development, 4.25% interest, monthly payments of \$7,181 beginning July 20, 2006 maturing June 20, 2045.	\$ 1,422,165
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CREEK COUNTY RURAL WATER DISTRICT NO. 5
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED NOVEMBER 30, 2016

Note 2 – Long-Term Debt – cont’d

Promissory Note, dated July 11, 2016 for \$60,000

payable to John Ryan and Angela Nance, 0% interest,

initial down payment of \$40,000.00 and twenty

monthly payments of \$1,000.00 beginning August 1, 2016

16,000

\$ 1,438,165

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

Year-ending November 30	Principal	Interest	Total
2017	\$ 38,237	59,935	98,172
2018	31,374	58,798	90,172
2019	28,561	57,611	86,172
2020	29,798	56,374	86,172
2021	31,090	55,082	86,172
2022-2026	176,865	253,995	430,860
2027-2031	218,659	212,201	430,860
2032-2036	270,328	160,532	430,860
2037-2041	334,208	96,652	430,860
2042-2045	279,045	21,701	300,746
Total	<u>\$ 1,438,165</u>	<u>1,032,881</u>	<u>2,471,046</u>

Note 3 – Risk Management

Creek County Rural Water District No. 5 is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District continues to carry commercial insurance for these risks, including general and auto liability, property damage, and public officials liability. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

CREEK COUNTY RURAL WATER DISTRICT NO. 5
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED NOVEMBER 30, 2016

Note 4 – Capital Assets

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

	<u>Balance</u> <u>November 30,</u> <u>2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>November 30,</u> <u>2016</u>
Water System & Equipment	\$ 3,352,339	88,381		3,440,720
Less accumulated depreciation	<u>1,134,910</u>	<u>70,180</u>		<u>1,205,090</u>
Net	<u>\$ 2,217,429</u>	<u>158,561</u>	<u>. -</u>	<u>2,235,630</u>

Note 5 - Subsequent Events

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