

**Creek County Rural Water District No. 1
Kellyville, Oklahoma**

Financial Statements and Auditor's Reports

Year Ended December 31, 2011

Audited by

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

BROKEN ARROW, OK

Creek County Rural Water District No. 1
Kellyville, Oklahoma
Board of Directors
December 31, 2011

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Randall Cornelius

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Roy Ashton

DISTRICT MANAGER

Gary McGuire

PLANT MANAGER

Randall Taylor

OFFICE MANAGER

Martha Bussett

Creek County Rural Water District No. 1
Kellyville, Oklahoma
December 31, 2011

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SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Creek County Rural Water District No. 1
Kellyville, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Creek County Rural Water District No. 1 (the District), Kellyville, Oklahoma, as of and for the year ended December 31, 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 an opinion 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 December 31, 2011, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting generally accepted in the United States of America.

The Management Discussion and Analysis 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 March 1, 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 of America.

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Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

March 1, 2012

RURAL WATER DISTRICT NO. 1, CREEK COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011

Our discussion and analysis of the Rural Water District No. 1, Creek County's financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2011. Please read it in conjunction with the District's financial statements that begin on page one.

FINANCIAL HIGHLIGHTS:

- The District's total operating revenues exceeded total operating expenses by \$45,223. Overall, the District's total net assets decreased by \$79,103 in the current fiscal year.
- The District earned over \$16,000 in interest earnings during 2011. This was down compared to prior years due to declining interest rates.
- The Water Plant supplied a total of 507,000,000 gallons of water in 2011.
- The District sold 17 new taps in 2011, making a total of 2,474 total benefit units in the District.

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 December 31, 2011 the District had \$3,758,120 invested in fixed assets, net of depreciation, including land, the water system, vehicles, equipment and lines. Additional fixed assets of \$44,660 were added during the 2011 fiscal year, including the construction of a safe room at the office building.

Long-Term Debt

The District had no outstanding long-term debt in 2011.

Economic Factors and Next Year's Budget and Rates

For the upcoming fiscal year ending December 31, 2012 the District's projected budget is fairly consistent with the 2011 fiscal year.

For the fiscal year 2012, the District may have to again increase rates to users to meet demands if the cost of water purchased and everyday expenses are substantially increased. If demand is increased on existing lines and equipment, or additional memberships are substantially increased, it may be necessary for the District to incur some long-term debt to meet these demands. As of the date of this report, none of these situations are probable for the 2012 year.

Contacting the District

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 P.O. Box 406, Kellyville, OK 74039, or call (918) 247-6465.



SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

**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. 1
Kellyville, Oklahoma

We have audited the financial statements of the Creek County Rural Water District No. 1 (the District), Kellyville, Oklahoma, as of and for the year ended December 31, 2011, which omitted the management discussion and analysis, and have issued our report thereon dated March 1, 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. We noted no certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the district's ability to record, process summarize and report financial data consistent with the assertions of management in the financial statements.

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 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. 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.

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.

A handwritten signature in black ink that reads "Sanders, Bledsoe & Hewett". The signature is written in a cursive, flowing style.

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

March 1, 2012

CREEK COUNTY RURAL DISTRICT NO. 1
Disposition of Prior Year's Reportable Conditions
December 31, 2011

There were no prior year instances of noncompliance.

CREEK COUNTY RURAL WATER DISTRICT NO. 1
Schedule of Audit Results
December 31, 2011

Section 1 – Summary of Auditor’s Results

1. An unqualified opinion report was issued on the financial statements.
2. The audit disclosed no reportable conditions in the internal controls.
3. The audit disclosed no instances of noncompliance.

Section 2 – Findings relating to the financial statements required to be reported in accordance with GAGAS:

NONE

CREEK COUNTY RURAL WATER DISTRICT NO. 1
Statement of Net Assets
December 31, 2011

ASSETS

Current assets:

Cash	\$	269,042
Investments		1,272,413
Accounts receivable		104,589
Accrued interest receivable		3,574
Inventory		130,499
Prepaid expenses		33,669
Total current assets		1,813,786

Noncurrent assets:

Fixed assets-

Land		8,249
Plant and distribution system, net of depreciation		3,653,121
Trucks and equipment, net of depreciation		23,221
Office building, net of depreciation		25,591
Office furniture and equipment, net of depreciation		1,787
Other equipment, net of depreciation		46,151
Total noncurrent assets		3,758,120

Total Assets		5,571,906
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LIABILITIES

Current liabilities:

Accounts payable		52,721
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Noncurrent liabilities:

Refundable deposits		11,282
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Total Liabilities		64,003
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NET ASSETS

Invested in capital assets, net of related debt		3,758,120
Unrestricted assets		1,749,783
Total Net Assets	\$	5,507,903

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

CREEK COUNTY RURAL WATER DISTRICT NO. 1
Statement of Activities
For The Year Ended December 31, 2011

Operating Revenues:	
Water sales	\$ 1,209,123
Water sales - District No. 2	368,887
Water sales - District No. 3	282,789
Sale of materials	492
Late charges	28,907
Installations and connections	500
Other income and fees	6,367
Total revenues from operations	<u>1,897,065</u>
 Operating Expenses:	
Water purchases	347,462
Backhoe and hauling	1,500
Chemicals	450,582
Professional fees	23,156
Fittings, meters and connections	38,444
Franchise and storage	29,277
Insurance, general	35,092
Insurance, group	85,662
Office	25,539
Maintenance and repairs	101,245
Retirement	52,557
Salaries	336,697
Taxes	25,986
Automobile	26,634
Utilities	127,869
Depreciation	144,140
Total expenses from operations	<u>1,851,842</u>
 Operating Income (Loss)	 45,223
 Non-Operating Revenues (Expenses):	
Interest income	16,880
Benefit units	17,000
Total non-operating revenues (expenses)	<u>33,880</u>
 Change in Net Assets	 79,103
 Total Net Assets, beginning of period	 <u>5,428,800</u>
 Total Net Assets, end of period	 <u>\$ 5,507,903</u>

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

CREEK COUNTY RURAL WATER DISTRICT NO. 1
Statement of Cash Flows
For Year Ended December 31, 2011

Cash Flows from Operating Activities:

Receipts from customers	\$ 1,862,161
Payments to employees	(404,036)
Payments to vendors	(1,235,736)
Net Cash Provided by Operating Activities	222,389

Cash Flows from Non-Capital Financing Activities:

Refundable deposits	(1,642)
Additions to fixed assets	(44,660)
Net cash provided by (used in) non-capital financing activities	(46,302)

Cash Flows from Investing Activities:

Benefit units	17,000
Interest revenue	14,480
Net cash provided by (used in) investing activities	31,480

Net Increase (Decrease) in Cash and Equivalents 207,567

Cash and cash equivalents, beginning of period 1,333,888

Cash and cash equivalents, end of period \$ 1,541,455

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

Operating Income (loss)	\$ 45,223
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	144,140
(Increase) decrease in accounts receivable	392
(Increase) decrease in inventory	4,230
(Increase) decrease in prepaid expenses	1,111
Increase (decrease) in accounts payable	27,293
	27,293

Net Cash Provided by Operating Activities \$ 222,389

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

CREEK COUNTY RURAL WATER DISTRICT NO. 1
Notes to Financial Statements
December 31, 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 accrued 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. The District complied with this requirement.

Cash

The District’s accounts are with the American Heritage Bank, Sapulpa, Oklahoma, and are detailed as follows:

	December 31,	
	2011	2010
Cash on hand	\$ 300	300
Petty cash	300	300
Operation and Maint. Account	269,166	75,752
Add: Deposits in transit	-	-
Less: Outstanding checks	(724)	(200)
Total	\$ 269,042	76,152

Cash and Cash Equivalents

For the purposes of preparing the statement of cash flows, cash on hand, reconciled cash in savings and checking, and certificates of deposit that can be converted into cash (if necessary) are considered cash equivalents.

CREEK COUNTY RURAL WATER DISTRICT NO. 1
Notes to Financial Statements
December 31, 2011

Note A – Significant Accounting Policies – cont’d

Investments

The District had the following outstanding investments at December 31, 2011:

Spirit Bank-	
Certificate of Deposit no. 300110162	\$ 28,266
Certificate of Deposit no. 300110175	28,383
Certificate of Deposit no. 1011112931	134,456
Certificate of Deposit no. 300099099	56,318
Certificate of Deposit no. 300111332	27,950
Certificate of Deposit no. 300111345	28,064
Certificate of Deposit no. 300022204	81,160
Community Bank-	
Certificate of Deposit no. 23341	191,271
Certificate of Deposit no. 23351	61,496
BancFirst-	
Certificate of Deposit no. 331000112	222,500
American Heritage Bank-	
Savings Account no. 100212117	25,093
Certificate of Deposit no. 100002979, dated 2/16/11, matures 10/16/12	112,273
Certificate of Deposit no. 100002976, dated 2/16/11, matures 10/16/12	118,460
Certificate of Deposit no. 100003141, dated 3/10/11, matures 11/10/12	156,723
	<u>156,723</u>
Total Investments	<u><u>\$ 1,272,413</u></u>

Accounts Receivable

Billings for accounts receivable at December 31, 2011 were \$104,589. Allowance for doubtful accounts was not computed on this balance because uncollectibles do not have a material effect on the balance sheet.

Collateral Pledged

All District funds were adequately insured by \$250,000 FDIC or other secured collateral as of December 31, 2011.

CREEK COUNTY RURAL WATER DISTRICT NO. 1
Notes to Financial Statements
December 31, 2011

Note A – Significant Accounting Policies – cont’d

Fixed Assets

The fixed asset information for the District is shown below:

	12/31/2010 Amount	Additions	Deletions	12/31/2011 Amount
Land	\$ 8,249	-	-	8,249
Plant and dist. system	5,994,390	9,249	-	6,003,639
Trucks and equipment	150,408	-	-	150,408
Office building	83,572	12,217	-	95,789
Office furn. & equip.	28,939	-	-	28,939
Other equipment	72,549	23,194	-	95,743
Total Fixed Assets	6,338,107	44,660	-	6,382,767
Less: Accumulated Depreciation	(2,480,507)	(144,140)	-	(2,624,647)
Total	<u>\$ 3,857,600</u>	<u>(99,480)</u>	<u>-</u>	<u>3,758,120</u>

Federal Income Tax

The District is exempt from Federal and State income taxes.

Accumulated Unpaid Vacation and Sick Pay

At December 31, 2011 no determination of the aggregate dollar value of vacation or sick pay had been made.

Prior Year Information

Prior year information is shown on the financial statements for comparative purposes only. No assurance is given on prior year amounts.

CREEK COUNTY RURAL WATER DISTRICT NO. 1
Notes to Financial Statements
December 31, 2011

Note B – Long-Term Debt

The District had no outstanding long-term debt in 2011.

Note C – Insurance and Surety Bond Coverage

The District appears to have had adequate insurance to cover all major perils at December 31, 2011.

Note D – Retirement Plan

The District has a noncontributory defined benefit pension plan covering all employees 20.5 years old after six months of employment. Plan benefits are 2% of compensation times years of service. Minimum retirement age is 65, minimum years of participation is five years. The plan pays a pre-retirement death benefit that is the greater of the insurance or the present value of the accrued benefit. Vesting is; 2 years – 20%, 3 years – 40%, 4 years – 60%, 5 years – 80%, 6 years – 100%. Funding of the pension plan is through individual insurance and annuity contracts. The actuarial assumptions used to compute contributions are the same as used to compute pension obligations. For the plan year ended February 28, 2011 the total payroll was \$317,649, the total payroll for participants was \$317,649. Contributions to the plan were \$52,557, or 16.54% of payroll.

Accumulated plan benefits and net assets available for plan benefits for the plan year ended February 28, 2011, the most recent benefit information date, was as follows:

Net assets available for plan benefits	\$ 617,301
Less: Vested accumulated benefits	<u>500,104</u>
Pension assets in excess of benefit obligations	<u>\$ 117,197</u>

Note E – Calculated Water Cost

The District and Plant's combined operating expenses totaled \$1,851,842 for the year ending December 31, 2011. During this period the total water production reported was 507,458,000 gallons. The calculated water cost per 1,000 gallons is shown below:

	<u>2011</u>	<u>2010</u>
Water production (gallons)	507,458,000	516,601,000
District	38% \$ 1.04	40% \$1.06
Plant	62% <u>1.70</u>	60% <u>1.73</u>
Total cost per 1,000 gallons	<u>\$2.74</u>	<u>\$2.79</u>

CREEK COUNTY RURAL WATER DISTRICT NO. 1
Balance Sheet
December 31, 2011

	DECEMBER 31,	
<u>ASSETS</u>	2011	(memo only) 2010
Current Assets:		
Cash	\$ 269,042	75,552
Investments	1,272,413	1,258,336
Accounts receivable	104,589	104,981
Accrued interest receivable	3,574	1,174
Inventory	130,499	134,729
Prepaid expenses	33,669	34,780
Total current assets	1,813,786	1,609,552
Fixed Assets:		
Land	8,249	8,249
Plant and distribution system	6,003,639	5,994,390
Trucks and equipment	150,408	150,408
Office building	95,789	83,572
Office furniture and equipment	28,939	28,939
Other equipment	95,743	72,549
Total fixed assets	6,382,767	6,338,107
Less: accumulated depreciation	(2,624,647)	(2,480,507)
Total fixed assets (net)	3,758,120	3,857,600
Total Assets	\$ 5,571,906	5,467,152
<u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 52,721	25,428
Refundable deposits	11,282	12,924
Total current liabilities	64,003	38,352
Fund Equity:		
Benefit units	1,086,255	1,069,255
Retained earnings	4,421,648	4,359,545
Total Fund Equity	5,507,903	5,428,800
Total Liabilities and Fund Equity	\$ 5,571,906	5,467,152

CREEK COUNTY RURAL WATER DISTRICT NO. 1
Statement of Revenue, Expenses and Changes in Retained Earnings
For Year Ended December 31, 2011

	2011			(memo only) 2010
	District	Plant	Total	
Revenue from Operations:				
Water sales	\$ 861,661	347,462	1,209,123	1,033,684
Water sales - District No. 2	-	368,887	368,887	359,872
Water sales - District No. 3	-	282,789	282,789	275,914
Sale of materials	492	-	492	4,375
Late charges	28,907	-	28,907	28,780
Installations and connections	500	-	500	6,029
Other income and fees	6,367	-	6,367	8,828
Total revenue from operations	<u>897,927</u>	<u>999,138</u>	<u>1,897,065</u>	<u>1,717,482</u>
Expenses from Operations:				
Water purchases	347,462	-	347,462	310,879
Backhoe and hauling	1,500	-	1,500	850
Chemicals	-	450,582	450,582	578,462
Professional fees	3,108	20,048	23,156	25,507
Fittings, meters and connections	33,855	4,589	38,444	23,540
Franchise and storage	6,744	22,533	29,277	5,960
Insurance, general	35,092	-	35,092	36,789
Insurance, group	25,699	59,963	85,662	84,239
Office	23,771	1,768	25,539	23,149
Maintenance and repairs	15,104	86,141	101,245	107,314
Retirement	15,767	36,790	52,557	51,621
Salaries	82,355	254,342	336,697	320,700
Taxes	7,334	18,652	25,986	24,410
Automobile	8,177	18,457	26,634	18,202
Utilities	16,598	111,271	127,869	101,118
Depreciation	144,140	-	144,140	142,734
Total expenses from operations	<u>766,706</u>	<u>1,085,136</u>	<u>1,851,842</u>	<u>1,855,474</u>
Net Income (Loss) from Operations	<u>\$ 131,221</u>	<u>(85,998)</u>	45,223	(137,992)
Other Income:				
Interest earnings			16,880	35,673
Net Income (Loss)			62,103	(102,319)
Retained earnings, beginning of period			4,359,545	4,461,864
Retained earnings, end of period			<u>\$ 4,421,648</u>	<u>4,359,545</u>