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**AUDIT REPORT**

**CONSOLIDATED CREEK COUNTY  
RURAL WATER DISTRICT NO. 3**

**SAPULPA, OKLAHOMA**

**FOR THE YEARS ENDED DECEMBER 31, 2011 & 2010**

**Audited by**

**JACK H. JENKINS  
CERTIFIED PUBLIC ACCOUNTANT  
A PROFESSIONAL CORPORATION  
TULSA, OK**

**CONSOLIDATED CREEK COUNTY RURAL WATER DISTRICT NO. 3  
SAPULPA, OKLAHOMA  
DECEMBER 31, 2011**

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**CONSOLIDATED CREEK COUNTY RURAL WATER DISTRICT NO. 3  
BOARD OF DIRECTORS  
DECEMBER 31, 2011**

BOARD OF DIRECTORS

Chairman	Shaun Rankin
Vice-Chairman	Doyle Jackson
Secretary/Treasurer	Lind Wilson
Director	Gene Meyers
Director	Lance Hoskins

OFFICE MANAGER

Pam Ruth

BOOKKEEPER

Elin Golden



**Jack H. Jenkins, CPA** *A Professional Corporation*

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Consolidated Creek County Rural Water District No. 3  
Sapulpa, Oklahoma 74067

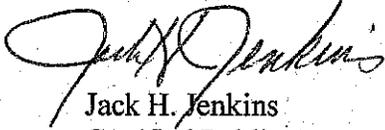
I have audited the accompanying financial statements of the business-type activities of the Consolidated Creek County Rural Water District No. 3, Sapulpa, Oklahoma, as of and for the years ended December 31, 2011 and 2010 which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audits 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 I 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 management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Consolidated Creek County Rural Water District No. 3, Sapulpa, Oklahoma, as of December 31, 2011 and 2010, and the respective changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Management has elected to omit the Management Discussion and Analysis, which is considered required supplementary information that is normally subjected to auditing procedures. Due to this omission, the usefulness and accessibility of the financial statements are limited to the District's management. The omission of this information does not affect the opinion expressed on the financial statements as a whole.

In accordance with *Government Auditing Standards*, I have also issued a report dated June 4, 2012 on my consideration of the District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of my 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* and should be considered in assessing the results of my audit.



Jack H. Jenkins  
Certified Public Accountant, P.C.

June 4, 2012



**Jack H. Jenkins, CPA** *A Professional Corporation*

**REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors  
Consolidated Creek County Rural Water District No. 3  
Sapulpa, Oklahoma 74067

I have audited the financial statements of the Consolidated Creek County Rural Water District No. 3, Sapulpa, Oklahoma, as of and for the years ended December 31, 2011 and 2010, and have issued my report thereon dated June 4, 2012. I conducted my 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.

**Internal Control over Financial Reporting**

In planning and performing my audit, I considered the District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the combined financial statements - regulatory basis, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the District's internal control over financial reporting.

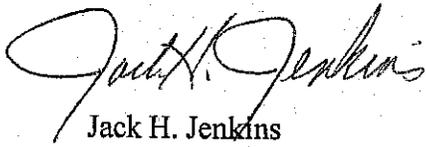
*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements and correct misstatements on a timely basis. *A material weakness* is a deficiency,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

My consideration of internal control 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 and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. I did not identify any deficiencies in internal control over financial reporting that I 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, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the board of directors and management, and is not intended and should not be used by anyone other than these specified parties.



Jack H. Jenkins  
Certified Public Accountant, P.C.

June 4, 2012

**CONSOLIDATED CREEK COUNTY RURAL WATER DISTRICT NO. 3  
SCHEDULE OF AUDIT RESULTS  
DECEMBER 31, 2011**

**Findings – Financial Statement Audit**

There were no material findings.

**CREEK COUNTY RURAL WATER DISTRICT NO. 3**  
**STATEMENT OF NET ASSETS**  
**FOR THE YEARS ENDED DECEMBER 31, 2011 & 2010**

	<u>2011</u>	<u>2010</u>
<b><u>ASSETS</u></b>		
Current assets		
Cash and cash equivalents	\$ 283,589	232,331
Investments	202,525	201,810
Accounts receivable	95,241	95,683
Prepaid insurance	4,342	4,042
Total current assets	<u>585,697</u>	<u>533,866</u>
Noncurrent assets		
Restricted cash and cash equivalents	3,672	3,672
Water System and Equipment	2,699,431	2,671,435
Less accumulated depreciation	<u>(1,540,740)</u>	<u>(1,474,542)</u>
Total noncurrent assets	<u>1,162,363</u>	<u>1,200,565</u>
Other assets		
Utility deposits	<u>20</u>	<u>20</u>
Total Assets	<u><u>1,748,080</u></u>	<u><u>1,734,451</u></u>
<b><u>LIABILITIES</u></b>		
Current liabilities		
Accounts payable	21,925	25,540
Payroll taxes payable	1,353	964
Accrued interest payable	123	128
Current maturities of long-term debt	1,350	1,257
Total current liabilities	<u>24,751</u>	<u>27,889</u>
Noncurrent liabilities		
Long-Term Debt, less current maturities	<u>31,856</u>	<u>33,206</u>
Total Liabilities	<u>56,607</u>	<u>61,095</u>
<b><u>NET ASSETS</u></b>		
Contribution in aid of construction	729,017	729,017
Members' equity	812,299	812,299
Restricted for debt service	3,672	3,672
Unrestricted	<u>146,485</u>	<u>128,368</u>
Total net assets	<u><u>\$ 1,691,473</u></u>	<u><u>1,673,356</u></u>

The accompanying notes are an integral part of the financial statements

**CREEK COUNTY RURAL WATER DISTRICT NO. 3**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES**  
**IN NET ASSETS**  
**FOR THE YEARS ENDED DECEMBER 31, 2011 & 2010**

	<u>2011</u>	<u>2010</u>
<b>Operating Revenues:</b>		
Water revenue	\$ 775,036	690,025
Fire run revenue	165,225	154,796
Penalty income	24,318	24,338
Stormwater management fees	18,000	-
Miscellaneous income	888	18,799
Transfer fees	1,740	2,100
Total operating revenues	<u>985,207</u>	<u>890,058</u>
<b>Operating Expenses:</b>		
Water purchased	293,418	283,486
Fire run fees	150,333	141,300
Stormwater mgt fees	14,857	-
Supplies	54,988	44,898
Office expense	8,847	14,986
Dues & memberships	1,331	1,034
Insurance	27,040	30,886
Professional fees	9,334	5,550
Computer expense	2,915	2,208
Truck expense	285	102
Depreciation expense	66,197	66,153
Telephone	6,130	6,667
Fees & permits	875	752
Utilities	22,602	20,400
Retirement contributions	9,912	8,946
Salaries & wages	69,330	59,817
Taxes	5,300	4,008
Security	360	360
Contract labor	200,530	173,510
Miscellaneous expense	11,150	21,505
Director fees	12,000	11,200
Total operating expenses	<u>967,734</u>	<u>897,768</u>
 Operating Income (Loss)	 17,473	 (7,710)
<b>Non-Operating Revenues (Expenses):</b>		
Interest income	3,054	3,953
Interest expense	(2,410)	(2,509)
Total non-operating revenues (expenses)	<u>644</u>	<u>1,444</u>
 Change in Net Assets	 18,117	 (6,266)
 Total Net Assets, beginning of period	 <u>1,673,356</u>	 <u>1,679,622</u>
 Total Net Assets, end of period	 <u>\$ 1,691,473</u>	 <u>1,673,356</u>

The accompanying notes are an integral part of the financial statements

**CREEK COUNTY RURAL WATER DISTRICT NO. 3**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2011 & 2010**

	2011	2010
<b>Cash Flows from Operating Activities:</b>		
Receipts from customers	\$ 985,649	876,080
Payments to employees	(74,241)	(72,914)
Payments to vendors	(830,822)	(757,108)
Net cash flows from operating activities	<u>80,586</u>	<u>46,058</u>
<b>Cash Flows from Investing Activities:</b>		
Interest earned	2,340	2,143
Capital assets purchased, net	(27,996)	
Net cash flows from investing activities	<u>(25,656)</u>	<u>2,143</u>
<b>Cash Flows from Financing Activities:</b>		
Interest expense on debt	(2,410)	(2,501)
Principal payments on long-term debt	(1,262)	(1,171)
Net cash flows from financing activities	<u>(3,672)</u>	<u>(3,672)</u>
Net increase (decrease) in cash and cash equivalents	51,258	44,529
Cash and cash equivalents, beginning of period	<u>232,331</u>	<u>187,802</u>
Cash and cash equivalents, end of period	<u>\$ 283,589</u>	<u>232,331</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>		
Operating income (loss)	\$ 17,473	(7,710)
Add depreciation expense	66,197	66,153
(Increase)/Decrease in Current Assets		
Accounts receivable, net	442	(13,978)
Prepaid Insurance	(300)	-
Increase/(Decrease) in Current Liabilities		
Accounts payable	(3,615)	1,736
Payroll taxes payable	389	(143)
Net cash flows from operating activities	<u>\$ 80,586</u>	<u>46,058</u>

The accompanying notes are an integral part of the financial statements

**CONSOLIDATED CREEK COUNTY RURAL WATER DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2011 & 2010**

**Note 1 – Organization**

Consolidated Creek County Rural Water District No. 3, Sapulpa, Oklahoma, is recognized as a public not for profit rural water district under Oklahoma Statutes, Title 82. The purpose of the organization is to provide water to residential and commercial customers who are members of the District.

**Note 2 – Summary of significant accounting policies**

**Reporting Entity**

Consolidated Creek County Rural Water District No. 3 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. The District purchases water primarily from Creek County RWD #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 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 are carried at the original billed amount.

The District has not established an allowance for doubtful accounts and, when uncollectible, writes off these accounts against income.

**CONSOLIDATED CREEK COUNTY RURAL WATER DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2011 & 2010**

**Inventory**

Inventory is expensed when purchased and materials associated with the installation and repair of water system lines are capitalized when the project is finished.

**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 40-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. 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.

**Investments**

The District's investments consist of a \$102,525 certificate of deposit with Spirit Bank and a \$100,000 certificate of deposit with American Heritage Bank.

**Custodial Credit Risk**

At December 31, 2011 and 2010, the District held deposits of approximately \$489,786 and \$437,813 respectively at financial institutions. The District's cash deposits are entirely covered by Federal Depository Insurance.

**Note 3 – Reserve Account**

The loan agreement with the United States Department of Agriculture Rural Development requires the District to maintain a debt service reserve account in the amount of \$3,672 as of December 31, 2011 and 2010. This account is fully funded. The District cannot withdraw funds from the reserve account without USDA approval.

**CONSOLIDATED CREEK COUNTY RURAL WATER DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2011 & 2010**

**Note 4 – Fire Suppression Services**

On March 2, 1981, the District entered into an agreement with the City of Sapulpa whereby the City will furnish Fire Suppression Services to residents served by the District. In 2011 and 2010, the District received \$165,225 and \$154,796 and paid the City \$150,333 and \$141,300 respectively.

**Note 5 – Long-Term Debt**

The assets of the District are mortgaged to the United States Department of Agriculture through Rural Development. The original amount of the note was \$48,000 at an interest rate of 7.125%, due in monthly payments of \$306, for 40 years beginning on February 12, 1990. The following is a summary of the long-term debt transactions of the District for the year ended December 31, 2011:

	Notes Payable
Balance, 1/1/10	\$ 34,463
Additions	
Retirements	1,257
Balance, 12/31/10	\$ 33,206

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

Year- ending December	Principal	Interest	Total
2012	\$ 1,350	2,322	3,672
2013	1,449	2,223	3,672
2014	1,556	2,116	3,672
2015	1,670	2,002	3,672
2016	1,793	1,879	3,672
Thereafter	25,388	9,683	35,071
Total	\$ 33,206	20,225	53,431

**CONSOLIDATED CREEK COUNTY RURAL WATER DISTRICT NO. 3**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2011 & 2010**

**Note 6 – Risk Management**

Consolidated Creek County Rural Water District No. 3 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.

**Note 7 – Capital Assets**

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

Balance December 31, <u>2010</u>	<u>Additions</u>	<u>Deletions</u>	Balance December 31, <u>2011</u>
\$ 2,671,435	27,996		2,699,431
<u>1,474,542</u>	<u>66,198</u>		<u>1,540,740</u>
<u>\$ 1,196,893</u>	<u>94,194</u>	<u>-</u>	<u>1,158,691</u>

**Note 8 – Contributions in Aid of Construction**

**At December 31, 2011, Contributions in Aid of Construction consisted of:**

Reposessed Member Units	\$ 681
Construction Funds	133
Developer Contributions 1984-87	182,177
Turnpike Authority Reimbursements 1990-91	236,448
Contractor Reimbursements 1990,97	9,530
Developer Contributions 1993-96	57,238
Consolidation - CCRWD #9	97,474
State of Oklahoma Reimbursement 1997-98	64,742
Developer Contributions 1998-2000	80,594
	<u>\$ 729,017</u>