

AUDIT REPORT
CONSOLIDATED CREEK COUNTY
RURAL WATER DISTRICT NO. 3
SAPULPA, OKLAHOMA
FOR THE YEARS ENDED DECEMBER 31, 2016 & 2015



JENKINS & KEMPER
CERTIFIED PUBLIC ACCOUNTANTS, P.C.

CONSOLIDATED CREEK COUNTY RURAL WATER DISTRICT NO. 3
SAPULPA, OKLAHOMA
DECEMBER 31, 2016

TABLE OF CONTENTS

	<u>PAGE</u>
Table of Contents	1
Board of Directors	2
Independent Auditor's Report	3-4
Independent Auditor's Report on Compliance and Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	5-6
Schedule of Audit Results	7
 COMBINED FINANCIAL STATEMENTS:	
Statement of Net Assets	8
Statement of Revenues, Expenses and Changes in Net Assets	9
Statement of Cash Flows	10
Notes to Financial Statements	11-14

CONSOLIDATED CREEK COUNTY RURAL WATER DISTRICT NO. 3
BOARD OF DIRECTORS
DECEMBER 31, 2016

BOARD OF DIRECTORS

Chairman	Lance Hoskins
Vice-Chairman	Larry Dudley
Secretary/Treasurer	Paul Nichols
Director	Cary Tyree
Director	Ray Harrison

OFFICE MANAGER

Pam Ruth

BOOKKEEPER

Elin Golden



JENKINS & KEMPER
CERTIFIED PUBLIC ACCOUNTANTS, P.C.

JACK JENKINS, CPA
MICHAEL KEMPER, CPA

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Consolidated Creek County Rural Water District No. 3 (the District), which comprise the statement of net assets as of December 31, 2016 and 2015 and the related statements of changes in net assets and cash flows for the year then ended, 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 the accrual basis of accounting as described in Note 1. 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 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 *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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Consolidated Creek County Rural Water District No. 3 as of December 31, 2016 and 2015 and the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Rural Water District No. 3, Creek County, 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 May 12, 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

May 12, 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
Consolidated Creek County Rural Water District No. 3
Sapulpa, Oklahoma 74067

We have audited the financial statements of the business-type activities of Consolidated Creek County Rural Water District No. 3 as of and for the year ended December 31, 2016, and have issued our report thereon, dated May 12, 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.

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. 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.

Our 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 that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of my 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.

May 12, 2017

**CONSOLIDATED CREEK COUNTY RURAL WATER DISTRICT NO. 3
SCHEDULE OF AUDIT RESULTS
DECEMBER 31, 2016**

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, 2016 & 2015

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
Current assets		
Cash and cash equivalents	\$ 527,594	495,108
Investments	205,333	204,702
Accounts receivable	138,959	92,510
Prepaid insurance	5,730	5,849
Total current assets	<u>877,616</u>	<u>798,169</u>
Noncurrent assets		
Restricted cash and cash equivalents	3,672	3,672
Water System and Equipment	2,852,442	2,852,442
Less accumulated depreciation	<u>(1,830,997)</u>	<u>(1,778,413)</u>
Total noncurrent assets	<u>1,025,117</u>	<u>1,077,701</u>
Other assets		
Utility deposits	<u>20</u>	<u>20</u>
Total Assets	<u><u>1,902,753</u></u>	<u><u>1,875,890</u></u>
<u>LIABILITIES</u>		
Current liabilities		
Accounts payable	37,836	27,765
Payroll taxes payable	3,753	3,830
Current maturities of long-term debt	1,925	1,793
Total current liabilities	<u>43,514</u>	<u>33,388</u>
Noncurrent liabilities		
Long-Term Debt, less current maturities	<u>23,462</u>	<u>25,387</u>
Total Liabilities	<u><u>66,976</u></u>	<u><u>58,775</u></u>
<u>NET ASSETS</u>		
Contribution in aid of construction	729,017	729,017
Members' equity	812,299	812,299
Restricted for debt service	3,672	3,672
Unrestricted	290,789	272,127
Total net assets	<u><u>\$ 1,835,777</u></u>	<u><u>1,817,115</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, 2016 & 2015

	<u>2016</u>	<u>2015</u>
Operating Revenues:		
Water revenue	\$ 967,291	840,393
Fire run revenue	205,983	204,936
Penalty income	26,508	25,272
Stormwater management fees	32,099	30,683
Miscellaneous income	7,492	3,431
Transfer fees	2,490	3,060
Total operating revenues	<u>1,241,863</u>	<u>1,107,775</u>
Operating Expenses:		
Water purchased	352,602	329,904
Fire run fees	171,858	172,052
Stormwater mgt fees	28,794	25,275
Supplies	65,799	95,213
Office expense	21,861	13,450
Dues & memberships	1,895	-
Insurance	13,423	13,151
Professional fees	44,349	21,406
Computer expense	1,199	1,757
Depreciation expense	52,584	40,339
Telephone	8,211	12,624
Fees & permits	1,329	2,779
Utilities	19,737	20,746
Salaries & wages	127,696	116,260
Security	360	360
Contract labor	287,270	159,769
Director fees	12,000	10,600
Repairs & maintenance	9,790	63,657
Miscellaneous expense	2,913	3,634
Total operating expenses	<u>1,223,670</u>	<u>1,102,976</u>
Operating Income (Loss)	18,193	4,799
Non-Operating Revenues (Expenses):		
Local contract	-	63,651
Interest income	2,348	2,234
Interest expense	(1,879)	(2,002)
Total non-operating revenues (expenses)	<u>469</u>	<u>63,883</u>
Change in Net Assets	18,662	68,682
Total Net Assets, beginning of period	<u>1,817,115</u>	<u>1,748,433</u>
Total Net Assets, end of period	<u><u>\$ 1,835,777</u></u>	<u><u>1,817,115</u></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, 2016 & 2015

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities:		
Receipts from customers	\$ 1,195,414	1,126,742
Payments to employees	(127,773)	(114,852)
Payments to vendors	(1,033,200)	(965,310)
Net cash flows from operating activities	<u>34,441</u>	<u>46,580</u>
Cash Flows from Investing Activities:		
Interest earned	2,348	2,234
Capital assets purchased, net	-	(77,977)
Net cash flows from investing activities	<u>2,348</u>	<u>(75,743)</u>
Cash Flows from Financing Activities:		
Interest expense on debt	(1,879)	(2,002)
Principal payments on long-term debt	(1,793)	(1,671)
Local funds for line extension	-	63,651
Net cash flows from financing activities	<u>(3,672)</u>	<u>59,978</u>
Net increase (decrease) in cash and cash equivalents	33,117	30,815
Cash and cash equivalents, beginning of period	<u>703,482</u>	<u>672,667</u>
Cash and cash equivalents, end of period	<u><u>\$ 736,599</u></u>	<u><u>703,482</u></u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 18,193	4,799
Add depreciation expense	52,584	40,339
(Increase)/Decrease in Current Assets		
Accounts receivable, net	(46,449)	18,967
Prepaid Insurance	119	(342)
Increase/(Decrease) in Current Liabilities		
Accounts payable	10,071	(18,591)
Payroll taxes payable	(77)	1,408
Net cash flows from operating activities	<u><u>\$ 34,441</u></u>	<u><u>46,580</u></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, 2016 & 2015

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, 2016 & 2015

Note 2 – Summary of significant accounting policies

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, improvements and parking lots 20-year life, water equipment 7-10 years and office equipment 3-5 years. 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 \$105,333 certificate of deposit with Spirit Bank and a \$100,000 certificate of deposit with American Heritage Bank.

Custodial Credit Risk

At December 31, 2016 and 2015, the District held deposits of approximately \$735,492 and \$702,375 respectively at financial institutions. The District's cash deposits were in excess of the FDIC Insurance by \$187,731 and \$150,156 as of December 31, 2016 and 2015, respectively.

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, 2016 and 2015. 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, 2016 & 2015

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 2015 and 2014, the District received \$205,983 and \$204,936 and paid the City \$171,858 and \$172,052 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, 2016:

	Notes Payable
Balance, 1/1/16	\$ 27,180
Additions	
Retirements	1,793
Balance, 12/31/16	<u>\$ 25,387</u>

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

Year-ending December 31,	Principal	Interest	Total
2017	\$ 1,925	1,747	3,672
2018	2,067	1,605	3,672
2019	2,219	1,453	3,672
2020	2,383	1,289	3,672
2021	2,558	1,114	3,672
2022-2026	14,235	2,475	16,710
Total	<u>\$ 25,387</u>	<u>9,683</u>	<u>35,070</u>

CONSOLIDATED CREEK COUNTY RURAL WATER DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 & 2015

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, 2015	<u>Additions</u>	<u>Deletions</u>	Balance December 31, 2016
\$ 2,852,442			2,852,442
1,778,413	52,584		1,830,997
<u>\$ 1,074,029</u>	<u>52,584</u>	<u>-</u>	<u>1,021,445</u>

Note 8 – Contributions in Aid of Construction

At December 31, 2016, 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>

Note 9 – 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.