

**AUDIT REPORT**  
**CREEK COUNTY RWD NO. 5**  
**MANNFORD, OKLAHOMA**  
**FOR YEARS ENDED NOVEMBER 30, 2011 AND 2010**

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

**CREEK COUNTY RURAL WATER DISTRICT NO. 5  
MANNFORD, OKLAHOMA  
NOVEMBER 30, 2011**

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**CREEK COUNTY RURAL WATER DISTRICT NO. 5  
BOARD OF DIRECTORS  
NOVEMBER 30, 2011**

BOARD OF DIRECTORS

Chairman	Roy Jennings
Vice-Chairman	Dan Linden
Secretary/Treasurer	Karl Headrick
Member	C.E. Ledbetter
Member	Bill Ragle

BOOKKEEPER

Sharon Monjaras



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

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Creek County Rural Water District No. 5  
Mannford, Oklahoma 74044

I have audited the accompanying financial statements of the business-type activities of the Creek County Rural Water District No. 5, Mannford, Oklahoma, as of and for the years ended November 30, 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 audits.

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 audits 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 audits 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 Creek County Rural Water District No. 5, Mannford, Oklahoma, as of November 30, 2011 and 2010, and the respective changes in financial position and cash flows for the years 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. 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 January 16, 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.

January 16, 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  
Creek County Rural Water District No. 5  
Mannford, Oklahoma 74044

I have audited the financial statements of the Creek County Rural Water District No. 5, Mannford, Oklahoma, as of and for the year ended November 30, 2011, and have issued my report thereon dated January 16, 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.

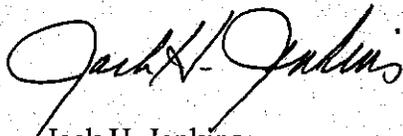
*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements and correct misstatements on a timely basis. *A material weakness* is a deficiency,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

January 16, 2012

**CREEK COUNTY RURAL WATER DISTRICT NO. 5  
SCHEDULE OF AUDIT RESULTS  
NOVEMBER 30, 2011**

**Findings – Financial Statement Audit**

There were no material findings.

**CREEK COUNTY RURAL WATER DISTRICT NO. 5**  
**STATEMENT OF NET ASSETS**  
**FOR YEARS ENDED NOVEMBER 30, 2011 AND 2010**

	November 30,	
	2011	2010
<b><u>ASSETS</u></b>		
Current assets:		
Cash in bank	\$ 83,173	33,431
Restricted cash - construction projects		154,500
Accounts receivable	78,035	47,210
Prepaid insurance	10,019	9,113
Total current assets	171,227	244,254
Noncurrent assets:		
Reserve for debt service	34,000	22,000
Capital Assets:		
Land	8,195	8,195
Building & contents	114,445	97,145
Water system	3,045,833	2,929,333
Vehicles & machinery	122,063	122,063
Less: accumulated depreciation	(854,755)	(786,384)
Total noncurrent assets	2,469,781	2,392,352
Total Assets	2,641,008	2,636,606
<b><u>LIABILITIES</u></b>		
Current Liabilities:		
Current maturities of long-term debt - Note 2	36,113	32,033
Accounts payable	20,630	27,223
Payroll taxes payable	2,312	2,248
Total current liabilities	59,055	61,504
Long-Term Debt, less current maturities - Note 2		
Community Resource Group	86,852	142,806
Rural Utilities Service Promissory Note	1,516,688	1,537,929
Total long-term debt, less current maturities	1,603,540	1,680,735
Total Liabilities	1,662,595	1,742,239
<b><u>NET ASSETS</u></b>		
Restricted for debt service	75,790	67,173
Restricted for construction projects	-	154,500
Unrestricted	902,623	672,694
Total net assets	\$ 978,413	894,367

The accompanying notes are an integral part of the financial statements

**CREEK COUNTY RURAL WATER DISTRICT NO. 5**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS**  
**FOR YEARS ENDED NOVEMBER 30, 2011 AND 2010**

	November 30,	
	2011	2010
<b>Operating Revenues:</b>		
Water revenue	\$ 531,165	443,959
Benefit units	19,187	13,365
Miscellaneous	32,402	6,055
Total operating revenues	582,754	463,379
<b>Operating Expenses:</b>		
Water purchased	21,210	22,526
Salaries & payroll taxes	124,248	115,199
Utilities & telephone	66,375	47,668
Directors fees	10,800	10,800
Vehicle expense	17,481	9,577
Office supplies	17,893	11,319
Supplies & maintenance	69,294	48,432
Insurance	30,064	29,528
Water tests	2,686	3,792
Goodwill	503	902
Professional fees	3,881	2,643
Miscellaneous	1,530	576
Depreciation	68,371	65,638
Total operating expenses	434,336	368,600
Operating Income (Loss)	148,418	94,779
<b>Non-Operating Revenues (Expenses):</b>		
Interest expense	(64,372)	(66,678)
Total non-operating revenues (expenses)	(64,372)	(66,678)
Changes in Net Assets	84,046	28,101
Total Net Assets, beginning of period	894,367	866,266
Total Net Assets, end of period	\$ 978,413	894,367

The accompanying notes are an integral part of the financial statement

**CREEK COUNTY RURAL WATER DISTRICT NO. 5**  
**STATEMENT OF CASH FLOWS**  
**FOR YEARS ENDED NOVEMBER 30, 2011 AND 2010**

	November 30,	
	2011	2010
<b>Cash Flows from Operating Activities:</b>		
Cash received from customers	\$ 551,929	448,311
Cash paid to suppliers	(249,216)	(168,647)
Cash paid to employees	(124,184)	(115,015)
Net cash flows from operating activities	178,529	164,649
<b>Cash Flows from Investing Activities:</b>		
Purchase of equipment	(17,300)	-
Water system improvements	(116,500)	(129,200)
Net cash flows from investing activities	(133,800)	(129,200)
<b>Cash Flows from Financing Activities:</b>		
Deposits to reserve for debt service	(12,000)	(22,000)
Proceeds from note payable	116,500	-
Interest paid on promissory note	(64,372)	(66,678)
Principal paid on promissory note	(35,115)	(19,494)
Net cash flows from financing activities	5,013	(108,172)
Net increase (decrease) in cash and cash equivalents	49,742	(72,723)
Cash and cash equivalents, beginning of period	33,431	106,154
Cash and cash equivalents, end of period	\$ 83,173	33,431
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>		
Operating income (loss)	\$ 148,418	94,779
Add depreciation expense	68,371	65,638
(Increase)/Decrease in Current Assets		
Prepaid Insurance	(906)	(37)
Accounts receivable, net	(30,825)	(15,068)
Increase/(Decrease) in Current Liabilities		
Payroll taxes payable	64	184
Accounts payable	(6,593)	19,153
Net cash flows from operating activities	\$ 178,529	164,649

The accompanying notes are an integral part of the financial statements

**CREEK COUNTY RURAL WATER DISTRICT NO. 5  
NOTES TO FINANCIAL STATEMENTS  
FOR YEARS ENDED NOVEMBER 30, 2011 AND 2010**

**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 are carried at the original billed amount.

The accounts receivable amount was computed as follows:

0-59 days	\$ 29,690
60-89 days	14,764
90+ days	33,581
	<u>\$ 78,035</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 YEARS ENDED NOVEMBER 30, 2011 AND 2010**

**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	\$ 65,322
Construction account	17,851
Debt reserve account	<u>34,000</u>
Total cash	<u><u>\$117,173</u></u>

**Custodial Credit Risk**

At November 30, 2011, the District held deposits of approximately \$117,173 at financial institutions. The District's cash deposits are 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, 2011, 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 YEARS ENDED NOVEMBER 30, 2011 AND 2010**

**Debt Reserve Fund**

Under the loan agreement signed with Community Resource Group, Inc. and Rural Development, the District is required to maintain debt reserve funds. The balances restricted for this purpose at November 30, 2011 are as follows:

	Amount Required	Amount Available	Over/under funded
CRG Reserve Account	\$ 20,496	20,496	-
RDA Reserve Account	55,294	13,504	(41,790)
Totals	\$ 75,790	34,000	(41,790)

**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, 2011:

	Notes Payable
Balance, 12/1/10	\$ 1,712,768
Additions	
Retirements	73,115
Balance, 11/30/11	\$ 1,639,653

Long-term debt at November 30, 2011, 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.	\$1,537,909
Note Payable, dated November 1, 2010 for \$116,500 payable to Community Resource Group, 5.9% interest, monthly payments of \$1,708 beginning December 1, 2010 maturing November 1, 2020.	101,744 <u>\$1,639,653</u>

**CREEK COUNTY RURAL WATER DISTRICT NO. 5**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR YEARS ENDED NOVEMBER 30, 2011 AND 2010**

**Note 2 – Long-Term Debt – cont'd**

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

Year- ending June	Principal	Interest	Total
2012	\$ 36,113	70,556	106,669
2013	37,936	68,733	106,669
2014	39,853	66,816	106,669
2015	41,869	64,800	106,669
2016	43,991	62,678	106,669
Thereafter	1,439,891	713,573	2,153,464
Total	<u>\$ 1,639,653</u>	<u>1,047,156</u>	<u>2,686,809</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.

**Note 7 – Capital Assets**

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

	<u>Balance</u> <u>November</u> <u>30, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>November</u> <u>30, 2011</u>
Water System & Equipment	\$3,156,736	133,800		3,290,536
Less accumulated depreciation	786,384	68,371		854,755
Net	<u>\$2,370,352</u>	<u>202,171</u>	<u>-</u>	<u>2,435,781</u>