AUDIT REPORT

CONSOLIDATED CREEK COUNTY
RURAL WATER DISTRICT NO. 3

SAPULPA, OKLAHOMA

FOR THE YEARS ENDED DECEMBER 31, 2013 & 2012

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, 2013

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CONSOLIDATED CREEK COUNTY RURAL WATER DISTRICT NO. 3
BOARD OF DIRECTORS
DECEMBER 31, 2013

BOARD OF DIRECTORS

Chairman	Shaun Rankin
Vice-Chairman	Doyle Jackson
Secretary/Treasurer	Paul Nichols
Director	Linda Wilson
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, 2013 and 2012 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, 2013 and 2012, 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.

10026 - A South Mingo Rd. # 309 • Tulsa, OK 74133-5700
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In accordance with *Government Auditing Standards*, I have also issued a report dated May 14, 2014 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
Jack H. Jenkins
Certified Public Accountant, P.C.

May 14, 2014

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, 2013 and 2012, and have issued my report thereon dated May 14, 2014. 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.

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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.

May 14, 2014

CONSOLIDATED CREEK COUNTY RURAL WATER DISTRICT NO. 3
SCHEDULE OF AUDIT RESULTS
DECEMBER 31, 2013

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, 2013 & 2012

	2013	2012
ASSETS		
Current assets		
Cash and cash equivalents	$ 377,066	371,034
Investments	203,453	202,989
Accounts receivable	114,505	98,684
Prepaid insurance	5,847	4,842
Total current assets	700,871	677,549
Noncurrent assets		
Restricted cash and cash equivalents	3,672	3,672
Water System and Equipment	2,756,227	2,755,327
Less accumulated depreciation	(1,677,863)	(1,607,978)
Total noncurrent assets	1,082,036	1,151,021
Other assets		
Utility deposits	20	20
Total Assets	1,782,927	1,828,590
LIABILITIES		
Current liabilities		
Accounts payable	25,134	17,633
Payroll taxes payable	1,790	1,243
Accrued interest payable	113	110
Current maturities of long-term debt	1,556	1,449
Total current liabilities	28,593	20,435
Noncurrent liabilities		
Long-Term Debt, less current maturities	28,851	30,407
Total Liabilities	57,444	50,842
NET ASSETS		
Contribution in aid of construction	729,017	729,017
Members' equity	812,299	812,299
Restricted for debt service	3,672	3,672
Unrestricted	180,495	232,760
Total net assets	$ 1,725,483	1,777,748

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, 2013 & 2012

	2013	2012
Operating Revenues:		
Water revenue	$ 810,607	849,628
Fire run revenue	204,851	171,049
Penalty income	25,689	24,560
Stormwater management fees	24,036	19,109
Miscellaneous income	1,631	1,058
Transfer fees	3,240	2,130
Total operating revenues	1,070,054	1,067,534
Operating Expenses:		
Water purchased	309,036	301,093
Fire run fees	204,489	152,239
Stormwater mgt fees	23,119	18,324
Supplies	65,955	41,148
Office expense	17,460	17,955
Dues & memberships	1,359	1,046
Insurance	19,225	21,995
Professional fees	10,175	21,235
Computer expense	3,254	1,286
Truck expense	140	159
Depreciation expense	69,885	67,238
Telephone	7,863	6,489
Fees & permits	2,209	3,598
Utilities	19,531	22,862
Retirement contributions	9,000	8,327
Salaries & wages	70,872	68,350
Taxes	3,962	5,378
Security	360	360
Contract labor	226,517	195,239
Director fees	12,000	12,000
Repairs & maintenance	32,038	
Miscellaneous expense	13,781	14,956
Total operating expenses	1,122,230	981,277
Operating Income (Loss)	(52,176)	86,257
Non-Operating Revenues (Expenses):		
Interest income	2,137	2,327
Interest expense	(2,226)	(2,309)
Total non-operating revenues (expenses)	(89)	18
Change in Net Assets	(52,265)	86,275
Total Net Assets, beginning of period	1,777,748	1,691,473
Total Net Assets, end of period	$ 1,725,483	1,777,748

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, 2013 & 2012

	2013	2012
Cash Flows from Operating Activities:		
Receipts from customers	$ 1,054,233	1,064,091
Payments to employees	(70,872)	(68,350)
Payments to vendors	(974,430)	(850,591)
Net cash flows from operating activities	8,931	145,150
Cash Flows from Investing Activities:		
Interest earned	1,673	1,864
Capital assets purchased, net	(900)	(55,897)
Net cash flows from investing activities	773	(54,033)
Cash Flows from Financing Activities:		
Interest expense on debt	(2,226)	(2,322)
Principal payments on long-term debt	(1,446)	(1,350)
Net cash flows from financing activities	(3,672)	(3,672)
Net increase (decrease) in cash and cash equivalents	6,032	87,445
Cash and cash equivalents, beginning of period	371,034	283,589
Cash and cash equivalents, end of period	$ 377,066	371,034
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	$ (52,176)	86,257
Add depreciation expense	69,885	67,238
(Increase)/Decrease in Current Assets		
Accounts receivable, net	(15,821)	(3,443)
Prepaid Insurance	(1,005)	(500)
Increase/(Decrease) in Current Liabilities		
Accounts payable	7,501	(4,292)
Payroll taxes payable	547	(110)
Net cash flows from operating activities	$ 8,931	145,150

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, 2013 & 2012

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.

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. 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 $103,453 certificate of deposit with Spirit Bank and a $100,000 certificate of deposit with American Heritage Bank.

Custodial Credit Risk

At December 31, 2013 and 2012, the District held deposits of approximately $584,191 and $577,695 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, 2013 and 2012. 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, 2013 & 2012

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 2013 and 2012, the District received $204,851 and $171,049 and paid the City $204,489 and $152,239 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, 2013:

	Notes Payable
Balance, 1/1/13	$ 31,856
Additions	
Retirements	1,449
Balance, 12/31/13	$ 30,407

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

Year-ending December	Principal	Interest	Total
2014	$ 1,556	2,116	3,672
2015	1,670	2,002	3,672
2016	1,793	1,879	3,672
2017	1,925	1,747	3,672
2018	2,067	1,605	3,672
Thereafter	21,396	6,330	27,726
Total	$ 30,407	15,679	46,086

CONSOLIDATED CREEK COUNTY RURAL WATER DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 & 2012

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, 2012	Additions	Deletions	Balance December 31, 2013
$ 2,755,327	900		2,756,227
1,607,978	69,885		1,677,863
$ 1,147,349	70,785	-	1,078,364

Note 8 – Contributions in Aid of Construction

At December 31, 2013, Contributions in Aid of Construction consisted of:

Repossessed 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
	$ 729,017