JOHN R. KROGER
Attorney General

MARY H. WILLIAMS
Deputy Attorney General

DEPARTMENT OF JUSTICE
GENERAL COUNSEL DIVISION

February 16, 2010

Attention: Filing Center
Public Utility Commission of Oregon
550 Capitol Street NE, #215
PO Box 2148
Salem, OR 97308-2148
puc.filingcenter@state.or.us

Re: *In the Matter CROOKED RIVER RANCH WATER COMPANY An Investigation Pursuant to ORS 756.515 to Determine Jurisdiction*
PUC Docket No.: WJ 8

Enclosed are an original and five copies of Direct Testimony of Wayne A. Trucke in the above-captioned matter for filing with the PUC for today. Also enclosed are an original, five hard copies, and two CDs for filing with the PUC today in the above captioned matter are the Testimony of Trucke Exhibit 1 and Testimony of Trucke Exhibit 2 which will not be served via electronic mail due to size of the Exhibits.

Sincerely,

Jason W. Jones
Assistant Attorney General
Regulated Utility & Business Section

Enclosure
JWJ:mme/#1903006
c: WJ 8 Service List

1162 Court Street NE, Salem, OR 97301-4096
Telephone: (503) 947-4789 Fax: (503) 378-5300 TTY: (800) 735-2900

Case WJ 8
Wayne A. Trucke

RECEIVED
FEB 17 2010
Public Utility Commission of Oregon
Administrative Hearings Division

BEFORE THE PUBLIC UTILITY COMMISSION

OF THE STATE OF OREGON

Oregon Department of Justice

Direct Testimony of Wayne A. Trucke

February 16, 2010

Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.

A. My name is Wayne A. Trucke. I am a Special Agent specializing in financial Investigations, employed by the Oregon Department of Justice. My business address is 610 Hawthorne Avenue SE Suite 210, Salem, Oregon 97301-2551.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A. My Witness Qualification Statement is attached as Exhibit 1 to this testimony.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony discusses certain financial practices and other situations related to the Crooked River Ranch Water Company.

Q. DID YOU PREPARE AN EXHIBIT FOR THIS DOCKET?

A. Yes. I prepared Exhibit Staff/401, consisting of 2 pages and Exhibit/402, consisting of 714 pages.

Q. HOW IS YOUR TESTIMONY ORGANIZED?

A. My testimony is organized as follows:

ISSUE 1, WHY CRRWC IS NOT A COOPERATIVE

Q. WHAT RECORDS HAVE YOU REVIEWED OF THE CRRWC AND JAMES AND JACQUELYN ROOKS.

A. I have reviewed the records set forth in my Investigation Report dated August 6, 2008,[1] filed as Exhibit 2 to my testimony, pg 4. I have also reviewed:

- QuickBooks records for the Crooked River Ranch Water Company (CRRWC) covering the period June 23, 2000 to August 26, 2009.
- A copy of the subpoena to Wes Price of Harrigan, Price, Fronk & Co., accountants, commanding the production of all of their files on the Crooked River Ranch Water Company and James and Jacquelyn Rooks.
- A copy of the files produced by Wes Price of the accounting firm, Harrigan, Price, Fronk & Co. in response to the subpoena.
- Bank account records of the bank accounts of the company at Washington Mutual/JP Morgan Chase Bank, Community First Bank, and Columbia River Bank.
- A copy of the file of the United States Bankruptcy Court for the District of Oregon, Case number 302-31509-rld7, a bankruptcy petition, and proceedings thereon, filed by James Harvard Rooks and Jacquelyn Regina Rooks, on February 15, 2002.
- A transcript of the deposition taken February 8, 2010, at Crooked River Ranch wherein James H. Rooks and Jacquelyn R. Rooks gave sworn

[1] Also included in Exhibit Staff 302, pages 295-324.

testimony, including the exhibits referred to in the deposition. AAG Albert Depenbrock provided these records.

Q. WHAT PERSONS HAVE YOU INTERVIEWED REGARDING THE CRRWC AND JAMES AND JACQUELYN ROOKS.

A. I have interviewed the persons set forth in my Investigation Report dated August 6, 2008, pages 3-4.

Q. DOES YOUR INVESTIGATION REPORT DATED AUGUST 6, 2008 ACCURATELY REFLECT YOUR FINDINGS REGARDING THE FINANCES OF CRRWC, AS FAR AS THE RECORDS REVIEWED WENT, AND DO YOU ADOPT IT AS YOUR TESTIMONY?

A. Yes. My Investigation Report dated August 6, 2008, accurately reflects my findings regarding CRRWC as far as the records reviewed then went and I adopt it as my testimony.

Q. WHAT DO YOU FIND REGARDING THE COMPANY FINANCIAL RECORDS?

A. Company financial records are confusing. It is very difficult to determine what is going on in the records, i.e. the correct income and expenses. I detailed this in my Investigation Report dated August 6, 2008. QuickBooks records were changed by tens of thousands of dollars when different versions were produced. See pages 16 and 17 of my Investigation Report. From my review, it appears that the same practices and procedures that occurred during my investigation, and listed in my report dated August 6, 2008, continue to occur in

the records of the Crooked River Ranch Water Company (CRRWC). Some of these practices are:

- Listing income in expense accounts.
  - Example – payments from T-Mobile are recorded in expense account "6040 – G&A – Communications – other." This would give an incorrect amount for the cost of communications.
- Listing expenses in income accounts.
- Recording deposits in accounts to show more income than actually received.
  - Example – Deposit on 09/25/08 of $2,588.64 to Account 4005.2 – Reimbursement.
- Expenses for "Supplies" deducted from James Rooks paycheck, are without any explanation or corresponding Accounts Receivable or Note Receivable entries. There is no record of purchases by Rooks using CRRWC funds or the amount of funds used by Rooks. From the records it cannot be determined the total of funds used by Rooks. There are no records showing if Rooks is repaying the CRRWC for the funds he borrows. The same practices listed in my report for 2003 to 2007 continue.
  - Up to December 26, 2007, the deductions from James Rooks checks are listed in account 4005.2 – Reimbursement as income.
  - There was one entry after December 26, 2007, on May 28, 2008, in account 4005.2

- On April 30, 2008, the deductions from James Rooks checks for "Supplies-Bolts" are listed in account 2005 – Payroll Liabilities.
- Account "1100 - N/R – JR Rooks" appears in 2006 but no entries for payments are recorded. Entries recorded in this account are from CPA recommendations. No records of payments on the N/R are recorded other than those provided by the CPA. There are no entries in account 1100 after December 31, 2007.
- There were a number of CPA entries, dated December 31, 2006, in Account 1100, which gives a balance due of $14,678.62 when using an Accrual Basis and a balance due of $18,271.32 using a Cash Basis. The CPA entries transfer money from Account 4005.2 as payments. Money owing is from payments made by CRRWC on the excavator.
- The CPA sent a Promissory Note, dated January 1, 2007, for $14,678.62 for James Rooks to sign. The note states payments are to go to "F. R. Custom Builders, Inc., at Bend, Oregon." No interest is being charged. There is no explanation as to why the note is made payable to F. R. Custom Builders.
- On December 31, 2007, additional CPA entries in Account 1100 give a balance due of $2328.62 using a Cash Basis and a balance due of -$1264.08. The CPA sent a Promissory Note, dated 01/01/08, for $2328.62 for James Rooks to sign. The note states

payments are to go to "Crooked River Ranch Water Cooperative, at Crooked River Ranch, Oregon." No interest is being charged.

- All CPA entries in account 1100 seem to go through a Customer Account – "Water Tower." This is the only customer listed in the QuickBooks records.
- Payments on the track hoe, from personal checks provided by Rooks, are not recorded in company records.

- Company QuickBooks records are confusing as they appear to use both the Accrual Basis and the Cash Basis of Accounting in the records. It is very difficult to determine what is going on in the records, i.e. the correct income and expenses.
- Credit card records:
  - November 28, 2005 to December 20, 2006, have restaurant charges of $2806.52 (an average of $233 per month). The total charges for this time were $21,222.93. The restaurant charges are 13.22 percent of the total.
  - The credit card records list charges at COCC and the COCC Bookstore totaling $1496.57.
  - Credit Card balance has a credit balance, overpaid amount due.
- No CRRWC member accounts (customers) are listed in QuickBooks records. The only customer account listed is "Water Tower." There is no explanation as to the purpose of the "Water Tower" account.

- Rooks' pay – changes in accounts charged.
  - Up to November 28, 2007, Rooks' wages are divided between Office full-time and Operations full-time.
  - On November 28, 2007 Rooks' wages are allocated to Office full-time and Operations overtime. No wages of Rooks are listed in Operations full-time.
- Records never audited by CPA.
- CPA entry in 2008 that changes records in 2002.
  - Expense Account 5000 Repair & Maintenance – Other went from $2300.00 to $3877.29.
  - The entry was made in 2008 but has an entry date of December 31, 2002.
- Financial reports to members are nonexistent or inadequate.
  - The financial report at the June 6, 2008, Board meeting consisted of Rooks stating "...the company is about $62,000 in the hole now." No written report was attached to the minutes.
  - At the June 3, 2009, Board meeting the minute's state, "There will be no financial statement available at the meeting due to the resignation of the accounting firm."
  - At the June 6, 2009, Annual meeting Brian Dillavou questioned the lack of a financial statement. He was told it would arrive in October.

- It needs to be noted that QuickBooks can generate numerous financial statements, such as, Profit and Loss, Balance Sheets, list of checks paid, check registers, etc. There seems to be no explanation as to why the company personal (Jacquie) do not generate reports.

Q. YOUR INVESTIGATION REPORT DATED AUGUST 6, 2008, FOUND THAT THERE HAD BEEN ITEMS PURCHASED BY MR. ROOKS WITH COMPANY FUNDS138 TIMES, TOTALING $77,058.62. DO THE COMPANY'S FINANCIAL STATEMENTS OR TAX RETURNS SHOW THAT MR. ROOKS SPENT COMPANY MONEY ON HIMSELF?

A. During the years for which I reviewed financial records, 2000 through August 2009 none of the financial statements or tax returns showed that James Rooks had spent Company money on himself or that his pay stubs showed that he was reimbursing money to the water company. The QuickBooks records only showed that he was having money deducted from his paychecks to reimburse the Company. They did not show when he spent Company money for himself, how much he spent, or what it was for. They still do not show that. Current QuickBooks records show money deducted from Mr. Rooks' paychecks. They do not show when or how much Mr. Rooks spends of Company funds for himself. Mrs. Rooks testified in deposition that she keeps those records in her book at home.

Q. YOUR INVESTIGATION REPORT DATED AUGUST 6, 2008, FOUND THAT THERE HAD BEEN $112,363.34 OF COMPANY MONEY PAID TO PERSONS OR THE COMPANIES OF PERSONS SERVING AS DIRECTORS - DETAILED AT EXHIBIT 43 OF YOUR REPORT. DO THE COMPANY "BOOKS" SHOW THAT COMPANY MONEY HAS BEEN PAID TO THESE PERSONS OR THEIR COMPANIES?

A. During the years for which I reviewed financial records, 2000 through August 2009, none of the financial statements or tax returns showed that money had been paid to members of the company board of directors or their companies. The QuickBooks records showed them as vendors.

Q. DID THE COMPANY KEEP "MEMBER ACCOUNTS?" THAT IS, ANY ACCOUNTING FOR THE MEMBER'S INTEREST OR EQUITY IN THE COMPANY?

A. No. During the years for which I reviewed financial records, 2000 through August 2009 there were no member accounts kept. That is, there was no accounting for any member's interest or equity in the Company. No patronage dividends or the like were ever calculated, declared, booked or distributed.

Q. DID THE COMPANY TRANSFER ANY ASSETS AFTER THE PURPORTED DISSOLUTION ON OR ABOUT JUNE 29, 2006?

A. No assets were transferred in connection with the purported dissolution of the Crooked River Ranch Water Company that occurred on or about

June 29, 2006. All of the assets of the Company just continued to be carried on the books - the same books carried by the Crooked River Ranch Water Company, but now, apparently, the books of the Crooked River Ranch Water Cooperative.

Q. DID THE COMPANY "CLOSE THE BOOKS" AFTER THE PURPORTED DISSOLUTION ON OR ABOUT JUNE 29, 2006?

A. There was no "closing of the books" of the Crooked River Ranch Water Company and no opening of "books" for the Crooked River Ranch Water Cooperative. Instead, the "books" of the business continued, showing the same assets with the same basis and showing the same business was continuing.

Q. DID THE FINANCIAL STATEMENTS PREPARED FOR 2006, 2007, AND 2008 SHOW THAT THE BUSINESS ENDED OR WRAPPED UP FOLLOWING THE PURPORTED DISSOLUTION ON OR ABOUT JUNE 29, 2006?

A. The financial statements prepared for 2006, 2007, and 2008 showed the same business continuing.

Q. WERE THE COMPANY BANK ACCOUNTS CLOSED FOLLOWING THE PURPORTED DISSOLUTION ON OR ABOUT JUNE 29, 2006?

A. The bank accounts of the Crooked River Ranch Water Company were not closed. No funds were transferred to new accounts.

Q. DID THE COMPANY'S TAX RETURNS REFLECT THAT THERE HAD BEEN A DISSOLUTION OF THE COMPANY OR A WRAPPING UP OF THE COMPANY BUSINESS OR A STARTING OF A NEW BUSINESS?

A. No. The Company's federal tax returns, IRS form 990's, were filed on a calendar year basis since 2001. The same federal taxpayer identification number, 93-0766082, the taxpayer identification number of the Crooked River Ranch Water Company, was used for each year, 2001 through 2008.

There were no federal tax returns, IRS form 990, closing out the Crooked River Ranch Water Company business at the end of June, 2006, the time of the purported dissolution. Nor were there any federal tax return, IRS form 990, starting up a new business, the Cooperative, with a new federal taxpayer identification number.

There was but a single tax return for 2006. That tax return reflected the entire year's business, just like the financial statements did. That tax return said the taxpayer was the Crooked River Ranch Water Company and the taxpayer identification number used was as 93-0766082 (the number identifying the Crooked River Ranch Water Company).

The 2007 federal tax return, IRS form 990 was filed changing the name of the taxpayer to the Crooked River Ranch Water Cooperative but using the federal taxpayer identification number, 93-0766082, that identified the Crooked River Ranch Water Company. The 2008 federal tax returns, IRS form 990 was done the same way as the 2007 return. The 2006, 2007, and 2008 federal tax

returns were each for a whole year and based on continuing the financial records of the Crooked River Ranch Water Company as described above.

Q. HOW MUCH MONEY HAS BEEN PAID TO OR FOR THE BENEFIT OF MR. ROOKS AND HIS FAMILY BETWEEN JAN 1, 2001 AND AUGUST 26, 2009?

A. As detailed in my Investigation Report dated August 6, 2008, at page 20, the Company paid $837,594.47 to or for the benefit of Mr. Rooks and family members. Since then, from January 1, 2006 to August 26, 2009, the Company paid $639,018.35.

Total to Rooks and family members for wages and benefits for 01/01/2006 to 08/26/09

Wages		
James Rooks	333,014.20	(Average $7568.50 per month for 44 months) (Average $90,739.56 per year for 3.67 years)
Jacquie Rooks	162,786.15	(Average $3699.69 per month for 44 months) (Average $44,355.90 per year for 3.67 years)
Michelle Comstock	43,704.73	(Average $993.29 per month for 44 months) (Average $11,908.65 per year for 3.67 years)
Ray Comstock	-	
Benefits		
Employer SST	32,904.87	
Employer Medicare	7,822.81	
Fed Unemployment	586.03	
OR Unemployment	6,199.56	
CRRWC Payments to Rooks Enterprise		
Rooks Enterprise	50,000.00	
Ray &/or Michelle Comstock	2,000.00	
TOTAL	**639,018.35**	
Total 01/01/01 to 12/2005	837,594.47	
Total 2001 to 2009	**1,476,612.82**	

As can be seen from the above table, the total the Company paid to or for the benefit of Mr. Rooks and family members, from January 1, 2001 to August 26, 2009, is $1,476,612.82.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

RESUME

WAYNE A. TRUCKE
Special Agent
Specializing in Financial Investigations
Oregon Department of Justice
Salem, Oregon

June 1967	BS Degree in Mathematics From University of Oregon
November 1967 To November 1970	US Army: Officer in Infantry and pilot training, one year. Helicopter Pilot and Aircraft Commander in Vietnam, one year. Company Commander for Advanced Training Company at Fort Lewis, six months. Assistant Trial Counsel for JAG at Fort Lewis, six months.
June 1973	MS Degree in Mathematics From University of Oregon
September 1973 To June 1984	Middle and High School Teacher Taught Mathematics, Accounting, Bookkeeping, Photography and other courses. Coached Soccer. Advisor for Yearbook.
1979 to 1984	Bookkeeper/Accountant for Private School. Worked on budgets for school. Was teaching mathematics and accounting part-time
October 15, 1984	Hired by the Oregon Department of Justice as a Criminal/Financial Investigator (Now changed to Special Agent.)
November 1984	Basic Drug Investigator's Class Two week course
January 7, 1985	Basic Law Enforcement Class Seven week course
May 1986	Advanced Drug Investigations Class One week course
May 1986	Asset Forfeiture Conference Three day conference
May 1986	Advanced Gambling Enforcement One week class in Washington State
December 1986	Introduction to White Collar Crime Four day class by FBI
February 1987	Fraud and Financial Investigations Two week course at the Federal Law Enforcement Training Center Glynco, Georgia
April 7, 1987 To	IRS Special Agent Investigative Techniques Course

May 19, 1987	Seven week course at the Federal Law Enforcement Training Center Glynco, Georgia
December 1988	Received Intermediate and Advanced Certificates in the Police Field
February 1993	DOS Seizer/DOS Processing Certification Two week course presented by International Association of Computer Investigative Specialists (IACIS)
July 1995	Received DOS Processing Certification from IACIS.
August 1995	Computer Forensics Class by IACIS 85 hours.
August 1997	Tracing Illegal Proceeds Three day class
September 1997	Evidence and Property Management Two day class
February 1998	Advanced Investigator's School Three day class
October 2000	Background Investigations Class. Two day class.
October 25-29, 2004	ILook Computer Training. One week class.

In addition to the above training courses, I have attended numerous one and two day conferences and/or classes dealing with financial crimes and crime in general and how to investigate those crimes. I have received training in firearms and continue to qualify with department firearms. I have attended numerous OC Conferences on a variety of topics.

Since my employment at DOJ I have conducted and aided in the investigation of numerous financial cases and cases where finances played a major role in the case. I have also assisted with numerous search warrants and in seizing evidence from these warrants.

DEPARTMENT OF JUSTICE
CRIMINAL JUSTICE DIVISION

INVESTIGATION REPORT

MATTER/FILE NO.: COC0010-05

DATE OF REPORT: August 6, 2008

SPECIAL AGENT: Wayne A. Trucke

ATTORNEY: Peter L. Deuel
Jefferson County District Attorney

I. BASIS FOR INVESTIGATION

On February 16, 2005, Jefferson County District Attorney, Peter L. DEUEL, requested a financial investigation of potentially fraudulent practices by the Crooked River Ranch Water Company (CRRWC) and the General Manager, James H. ROOKS. Specifically, District Attorney DEUEL requested that the investigation focus on allegations that the water company's tax and business filings underreported actual collections for 2003 and 2004 and that the unreported funds were being diverted by ROOKS for personal use. It was alleged that these water company practices might also involve family members of ROOKS who were also employed by the water company.

II. BACKGROUND OF SUBJECT

Name: ROOKS, James H.
Address: 14360 S.W. Commercial Loop
Crooked River Ranch, OR 97760
DOB: [redacted]
ODL: [redacted]
Work Phone: (541) 923-1041
FAX: (541) 923-5936
Cell Phone: (541) 350-1683

Spouse: ROOKS, Jacquelyn (Jacquie) R.
Address: 14360 S.W. Commercial Loop
Crooked River Ranch, OR 97760
DOB: [redacted]
ODL: [redacted]
Work phone: (541) 923-1041

Daughter:	COMSTOCK, Michelle R.
Address:	14045 S.W. Commercial Loop Crooked River Ranch, OR 97760
DOB:	
ODL:	[redacted]
Phone:	(541) 923-1974

Son-in-law:	COMSTOCK, Richard R.
Address:	14045 S.W. Commercial Loop Crooked River Ranch, OR 97760
DOB:	
ODL:	[redacted]
Phone:	(541) 923-1974

III. SCOPE OF INVESTIGATION AND ALLEGATIONS

Beginning in February 2005, I conducted an investigation to determine if sufficient evidence existed to support criminal allegations against ROOKS. The initial and primary focus of this investigation dealt with alleged irregularities in the billing and collection practices of the water company for 2003 and 2004 as it was suggested by William HOBBS, a CRRWC member, that actual income was greater than indicated in the records of the water company. It was suspected that the unreported income was being diverted by ROOKS for personal use. Additional allegations became known during the course of the investigation.

The allegations addressed in the investigation and this report are:

Allegation I: It is alleged by William HOBBS, a CRRWC member, that irregularities exist in the billing and collection practices of the CRRWC, suggesting income from metered water sales during 2003 and 2004 were unreported on the Form 990 company tax returns.

Allegation II: It is alleged by HOBBS and Rod WHITTEN, CRRWC members, that unreported money was being diverted by ROOKS for personal use and/or for his companies, JMR Repair Service and Rooks Enterprise, LLC, and Michelle COMSTOCK's (ROOKS' daughter) company, We Can Do Services.

Allegation III: It is alleged by HOBBS, WHITTEN, and Craig SOULE, CRRWC members, that money from a water company assessment fee of $8.00 per month per water meter, which started on July 1, 2004, may be underreported in water company financial statements. It is also alleged that this money was used by ROOKS and the Board for unauthorized purchases.

Allegation IV: It is alleged by HOBBS, WHITTEN, and SOULE that water company equipment is being used on private property for personal use and gain by Board members and

water company employees. It is also alleged that the water company was not reimbursed for the use of the equipment.

Allegation V: It is alleged by HOBBS, WHITTEN, and SOULE that ROOKS purchased equipment for personal use with "loans" from water company funds, without a loan contract or interest charges paid to the CRRWC. It is also suspected that ROOKS then leased the equipment back to the water company, allowing him to personally profit from the equipment purchase.

During the course of the investigation, the following people were contacted by email, telephone, or in person:

1. ADKINS, Jim, Captain, Jefferson County Undersheriff, Jefferson County Sheriff's Office
2. BAILEY, Richard C., CPA, Harrigan Price Fronk & Co., LLP
3. BOYLE, Philip, Manager, Consumer Services, Public Utility Commission (PUC)
4. BURNETT, Gary, Oregon Water Resources Department, Pendleton, OR
5. COMBS, John M., CRRWC Board member
6. COMSTOCK, Michelle R., Meter Reader/Secretary for the CRRWC
7. DOUGHERTY, Michael, Program Manager, PUC
8. ELLIOTT, Brian A., CRRWC Board member
9. GASSNER, Timothy R., Attorney for the CRRWC, the Board, and ROOKS
10. GLENN, David, Attorney for the CRRWC, the Board, and ROOKS
11. GRUNDEMAN, Tim, Regional Investigator, Construction Contractors Board
12. HARVEY, M. Kirk, Chief Investigator, Charitable Activities Section, Oregon DOJ
13. HOBBS, William (Bill), CRRWC member
14. JOHNSON, Dora, Sage Insurance Company
15. JONES, Jack, Sheriff, Jefferson County Sheriff's Office
16. JONES, Jason, Assistant Attorney General, Oregon Department of Justice
17. KEEN, Richard A., CRRWC Board member
18. KENDELLEN, Jamie M., CPA, Harrigan Price Fronk & Co., LLP
19. MATHISON, Eric, Legal Department CNH Capital America
20. MATTIMORE, Kathryn J., Program Coordinator, DHS Drinking Water Program
21. McHANEY, Michael, Public Works Director, Jefferson County
22. MILLER, Kathy, Senior Utility Analyst, Water Program, PUC
23. MILLER, Richard J., CRRWC Board member
24. MILLS, Steve, Cascade Machinery Company
25. MOE, Gene, Board member CRR Homeowners Association
26. NICHOLS, Charles, CRR Water Watchdogs
27. OAKLEY, Barbara, Administrative Assistant for the CRRWC
28. ORTIZ, Heather, Law Department, CNH America LLC
29. PETERSON, Charles (Chuck) W., CRRWC past Board member
30. PRICE, Wes, CPA, Harrigan Price Fronk & Co., LLP
31. ROOKS, James H., General Manager for the CRRWC

32. ROOKS, Jacquelyn R., Office Manager for the CRRWC
33. SCOTT, Randolph (Randy) M., CRRWC Board member
34. SOULE, Craig, CRRWC member
35. SUTTON, Wayne F., CRRWC Board member
36. WHITTEN, Rodney (Rod), CRRWC member

During the investigation the following documents and records were obtained and examined. These records were used by me to complete spreadsheets, which are referred to in this report and are attached. In addition, some of the documents received are referred to in this report and are attached at the end of this report.

1. Articles of Incorporation for the Crooked River Ranch Water Company (CRRWC). Obtained from the Corporations Division and James ROOKS.
2. Bylaws for the CRRWC from James ROOKS.
3. Resolutions approved by the CRRWC Board from James and Jacquie ROOKS.
4. PUC Order No. 01-832-Formal Investigation Opened September 27, 2001 to determine whether CRRWC is subject to PUC jurisdiction. And PUC Order No. 03-116 No Jurisdiction Asserted; Docket Closed February 13, 2003 from WHITTEN and the PUC.
5. CRRWC's Form 990s for 1999 to 2005. Copies received from Jacquie ROOKS, HOBBS, and the accounting firm Harrigan Price Fronk & Co., LLP.
6. CRRWC Financial Statements and Supplementary Information prepared by and obtained from the accounting firm Harrigan Price Fronk & Co., LLP and from HOBBS.
7. Copy of records, received from District Attorney DEUEL, which includes a four-page worksheet prepared by HOBBS.
8. QuickBooks backup of CRRWC records up to October 14, 2005 from Jacquie ROOKS.
9. QuickBooks backup of CRRWC records up to January 25, 2006 from Jacquie ROOKS.
10. QuickBooks backup of CRRWC records up to October 17, 2007 from Jacquie ROOKS.
11. CRRWC 20 Year Project Report and Explanation of Expenditures and Assessment Funds from James ROOKS and SOULE.
12. CRRWC Policies Handbook from James ROOKS.
13. CRRWC bank records from the CRRWC and the following banks: Washington Mutual Bank, Community First Bank, and Columbia River Bank.
14. James and Jacquelyn ROOKS' bank records and Rooks Enterprise/JMR Repair bank records from US Bank and Washington Mutual Bank.
15. Records on track hoe purchase and payments obtained from Cascade Machinery Company, CNH Capital America, and Jacquie ROOKS.
16. CRRWC Safeco insurance records in reference to the track hoe from Sage Insurance Company.

IV. SYNOPSIS OF INVESTIGATION

In February 2005, at the request of the Jefferson County District Attorney Peter L. DEUEL, I began the investigation to determine if sufficient evidence existed to support criminal charges against ROOKS. During this investigation I received numerous records, which I reviewed and summarized. I made numerous contacts. To understand the records and the operations of the CRRWC I gathered the following background information in reference to the operation of the CRRWC, its Board, and the General Manager ROOKS. This background information is included to provide a context for the workings of the CRRWC and this investigation into the allegations outlined above.

CRRWC: Employees and Professional Service Providers

James ROOKS was hired on November 2, 1998 as Operations Manager by Constance ALBRECHT, General Manager, and the CRRWC Board. ROOKS took over as General Manager in February 1999. During the time period relevant to this investigation, in addition to employing ROOKS, CRRWC employed or contracted with the following:

- Adam VALDEZ-CHAVEZ, hired on September 24, 2004, as a laborer to assist the General Manager with installing meters, construction and installation of water lines, and maintenance of water lines and equipment;
- Barbara OAKLEY, a former CRRWC Board member, hired on July 15, 2002, as an office assistant;
- Jacquelyn R. ROOKS, James ROOKS' spouse, hired on July 23,1999, as the Office Manager and Bookkeeper;
- Keith BEDELL, hired on September 11, 1998, as the Drinking Water Program Certified Operator, Distribution Level 3;
- Michelle R. COMSTOCK, ROOKS' daughter, hired on November 3, 2004, as office assistant and meter reader;
- Ray COMSTOCK, ROOKS' son-in-law, hired on August 30, 2001, as a laborer;
- Susan COMBS, daughter of Board member John COMBS, hired in 2006, as a part-time employee, working for Michelle when Michelle is off.
- A Bend CPA Firm, Harrigan Price Fronk & Co., has prepared the CRRWC's year end financial statements, prepared the CRRWC's quarterly payroll tax forms, and the CRRWC's yearly tax forms (Form 990) since at least 2000.
- Attorneys at Law, Glenn, Sites & Reeder, have been the CRRWC corporation attorneys since at least 1991.

ROOKS also owned and operated JMR Repair Service (An ABN active from January 6, 1999 to January 18, 2007) and Rooks Enterprise, LLC (A Domestic Limited Liability Company active from March 1, 2005 to present). ROOKS is, and was, the only employee of his companies. ROOKS stated in an email on December 14, 2007, that he does not work for anyone besides the CRRWC with any of his personal or company equipment. He has no other income other than from the CRRWC. He also stated, "All tools and equipment etc. are used exclusively to maintain water

company equipment and facilities." (Attachment 39) His daughter, Michelle COMSTOCK, and son-in-law, Ray COMSTOCK, owned and operated We Can Do Services (An ABN active from February 4, 2002 to April 8, 2005). It is unknown if We Can Do Services employed anyone besides Michelle and Ray COMSTOCK.

According to ROOKS, HOBBS, WHITTEN, SOULE, and CRRWC records, these companies were doing work for the water company and were paid by the water company. During interviews on October 11, 2005 and December 14, 2006 ROOKS said no written contracts exist between the water company and these companies. ROOKS stated that the contracts between the CRRWC, JMR Repair Service, Rooks Enterprise, and We Can Do Services are verbal agreements with the CRRWC Board. According to ROOKS, his companies maintained the water company's equipment and received $500 per week for this service. ROOKS added that his company, Rooks Enterprise, only works for the water company. We Can Do Services provided office assistance, read water meters, and installed water meters. In addition, We Can Do Services worked directly for customers, performing services such as installing double-check valves.

CRRWC: Formation and Organization

According to corporation records received from the Corporations Division (Attachment 1) the CRRWC is a mutual benefit nonprofit corporation incorporated on April 27, 1977 for the purpose of providing water to properties on the Crooked River Ranch and for obtaining a tax exemption. The CRRWC maintains the company's water lines, the water meters at each residence on the system, the wells and cistern owned by the company, and the company equipment. It also bills customers and receives payments. The water company adds new main lines for customers on streets not on the system if the customers agree to cover the cost of the line. According to ROOKS and CRRWC members, the water company is not responsible for the customer's line from the water meter to the residence.

The company was originally run by a Board of three directors (Attachment 1), but is currently run by a Board of five directors, who serve for five years in staggered terms (bylaws, Attachment 2 & 3). The Board members are to be elected by a vote of the corporation members. A list of known Board members and the years of their service is attached (Attachment 37). As the General Manager, according to the 2004 bylaws (Attachment 2), ROOKS could not be a Board member (Bylaw 6.10). However, according to HOBBS, WHITTEN, and SOULE, he appeared to function as one. In 2006 the bylaws were changed to allow ROOKS to become a member of the Board and retain his position as the General Manager. The officers of the Corporation Board are a President, a Vice-President, and a Secretary/Treasurer.

Bylaws for the time the corporation was formed were not obtained, so it is not known what the requirements were at that time to become a member of the CRRWC. The earliest bylaws obtained are the 1991 bylaws (Attachment 3) and state any users of the CRRWC water system in good standing is a member of the corporation. This changed on September 24, 2004 with the adoption of the 2004 Bylaws (Attachment 2). Pursuant to the 2004 Bylaws, any property owner within Crooked River Ranch served by the CRRWC is eligible for membership, but they must

submit an application to the General Manager and the Board. If the General Manager and the Board approve the application, the applicant becomes a member of the corporation. None of the Board members recalled seeing an application to become a member of the water company. They also did not know of anyone being refused membership in the corporation. In an interview on October 11, 2005, ROOKS said he could not recall any situations where an application would or has gone before the Board.

CRRWC: Operation as Nonprofit Mutual Benefit Corporation

Nonprofit mutual benefit corporations are required to make their records, books, and annual financial reports available for members' inspection and copying during normal business hours. The members support the nonprofit corporation financially and therefore have a statutory right under their membership agreement to access the corporation records. In most cases members were not allowed to view the books or to make copies. When records were requested by HOBBS, WHITTEN, and SOULE, they were told by ROOKS that they did not have a right to the records. He told them he could answer any questions about the records. According to HOBBS, prior to ROOKS becoming General Manager, monthly financial reports were given to the Board and were available for members. Since ROOKS took over as General Manager, members only receive the year-end report prepared by the CPA with records provided to the CPA by ROOKS' wife, Jacquie.

According to the CRRWC bylaws, the water company Board is required to hold an annual meeting for all members. They were also required to hold monthly Board meetings. This was changed, on June 1, 2000, to quarterly meetings. In reference to the Board meetings and the annual meeting, SOULE, HOBBS and WHITTEN stated they did not always receive notice of the meetings. When they were able to find out about the annual meetings, they sometimes were not allowed to attend as the meetings were held at the water company in a room with a maximum capacity of 25 people. HOBBS stated the room was always full, prior to the meeting time, by supporters of the General Manager and the Board and they could not get in the room. HOBBS added that some of the people at these meetings were not members of the water company. On some occasions the door would be locked or the members were told the meeting was not open to the public. According to HOBBS, a reporter was denied access to one of these meetings.

CRRWC: Board Membership

According to the CRRWC bylaws, the current board members, and ROOKS, to apply for a Board position, a person must be a member of the CRRWC, must fill out an application and then submit it to the General Manager. If the General Manager determines the application is filled out correctly and the person is qualified, he approves the application and presents it to the Board. If the Board agrees that the applicant is qualified, the person would then be interviewed by the Board. After the interview, if the person were still qualified, his name would be placed on the ballot, which would be voted on by a mail-in ballot before the annual meeting. ROOKS stated only those listed on the ballot were considered as candidates, no write in candidates were allowed. On October 11, 2005, ROOKS said that he believed the ballots were counted by OAKLEY as she took the Board minutes. The results are reported at the annual meeting. Board member, John COMBS, stated that he has

never seen an application for the Board and did not fill one out. He was appointed to the Board and was never elected.

It should be noted that the above procedure was in the bylaws and approved by the Board on May 2, 2001 (Attachment 3). The Board approved a resolution on December 19, 2003, which restated this same application procedure (Attachment 4). This resolution made the application procedure known to HOBBS, WHITTEN, and SOULE, who did not know of it previously. They became aware of it when they asked what was required to be a Board member. These members were concerned that the Board and General Manager were trying to maintain control of the Board and would only allow those people who agreed with them on the Board. They further believed all Board members were hand picked by ROOKS so he could maintain control over the Board. This procedure caused these members of the CRRWC to begin asking more questions and observing more closely the workings of the CRRWC Board and its employees.

From 1999 to 2006 (eight years) there have only been twelve Board members, from 2000 to 2006 there have been nine, and from 2002 to 2006 there have been seven (Attachment 37). Chuck PETERSON left the Board in December 1999, Barbara OAKLEY left the Board in 2001 and was hired by ROOKS in 2002, Wayne SUTTON was on the Board from 1999 to December 2005 when he was removed, Paul DINSMOOR was on the Board from 1999 until September 7, 2005 (when he lost his life in an accident), Bill PEMBERTON left the Board in 2000, Rick KEEN has been on the Board from 2000 to the present, John COMBS from 2000 to 2007, Randolph SCOTT from 2001 to the present, Brian ELLIOTT from September 2005 to the present, and Richard MILLER from June 29, 2006 to the present.

On December 8, 2005, Board members removed SUTTON from the Board, shortly after SUTTON questioned ROOKS regarding some of his practices. According to SUTTON, in September 2005, he told ROOKS that he was not comfortable with ROOKS' family working for the company. He also questioned ROOKS about the purchase of a four-wheeler by ROOKS for his daughter's use in reading water meters.

Two of the Board members are away from the ranch for a least half the year. ELLIOTT said he is in California for six months or longer and SCOTT said he travels to Alaska for work every two or three weeks, being gone for two or three weeks at a time, if not longer. Two of the Board members, KEEN and SCOTT, sold their property on the ranch (Attachment 44). Board members COMBS, ELLIOTT, SCOTT, KEEN and SUTTON stated that proposals and/or resolutions were discussed over the phone, or in person at an individual meeting with ROOKS.

CRRWC: Board Activities

The 2004 CRRWC Bylaws, Section 4.7 (a), state that "The Board shall have general supervision and control over and shall manage and conduct the affairs and business of the Corporation, and shall make all necessary rules and regulations, not inconsistent with law or with the Bylaws or Articles of Incorporation, for the management of the Corporation and the guidance of the officers, employees and agents of the Corporation". (Similar statements can be found in prior

bylaws.) Also, the Board needs to keep a record of "... all of its acts and proceedings. The Board shall present a report at each annual meeting of the members of the Corporation showing in reasonable detail the condition of the Corporation's affairs" (Bylaw 4.7 (c)). A financial statement was presented and available to members at the annual Board meeting and could be obtained at the water company office. All Board members interviewed and ROOKS stated that Board meetings did not occur very often, as it was difficult to get Board members together because of work schedules and some Board members being out of town. According to ROOKS and Board members, records of Board meetings were very sparse as most decisions were made through individual contact, either in person or on the phone, between ROOKS and Board members.

"The Board may in its discretion employ a General Manager, under contract, who shall hold office subject to such terms and conditions as may be fixed by the Board" (Bylaw 4.7 (b)). The Board hired a General Manager, who is currently ROOKS, to run the everyday operations of the water company. ROOKS has a contract with the Board, dated May 1, 2004, and signed by Paul DINSMOOR, President of the Board of Directors on that date. (Note: DINSMOOR lost his life in an accident on September 7, 2005.) No other Board members signed the contract. Board members COMBS, ELLIOTT, SCOTT, KEEN and SUTTON believed there was a contract but could not remember seeing it nor could they produce one. The contract is for a period of ten (10) years and may be renewed at the end of each year with an annual review. None of the Board members mentioned anything about conducting an annual review of ROOKS contract, but all stated they were satisfied with his work and that they believed he was doing a great job for the water company.

SUTTON said he was concerned about how much ROOKS and his wife were being paid so he asked to see a copy of ROOKS' contract. ROOKS first told SUTTON he did not have a contract but later told him he could not find it. ROOKS told SUTTON it was an ongoing contract. SUTTON never saw a copy of ROOKS contract. COMBS believed ROOKS was being paid a salary of about $50,000 per year plus overtime pay. KEEN and SCOTT have never seen a copy of ROOKS' contract, nor did they know what he was paid.

All Board members readily admit that they do very little oversight into the operations of the company, the finances of the company, or the overall operation of the water company, leaving this to ROOKS, his wife, Jacquie, and to the CPA firm. All the Board members interviewed indicated that they did not monitor the finances other than to receive a copy of the yearly financial report prepared by the accounting firm. The accounting firm relied on records provided by Jacquie ROOKS to do the year-end financial statements and the company's tax return. Board members did not do a thorough review of the year-end statements or the Form 990s sent to the IRS. They did not know how much money was coming in or going out. They knew that the bills were being paid and that they had money in the bank. SUTTON, as the Secretary/Treasurer, said he reviewed the bills prior to signing the checks but did not monitor the income or the funds in the bank accounts. SUTTON also signed the Form 990, but said he did not do a detailed review of it.

In reference to resolutions or policies passed by the Board, ROOKS and all Board members interviewed stated resolutions and policy changes were presented to the Board by ROOKS, at a regularly scheduled Board meeting, or, if a meeting could not be scheduled, in a person-to-person

situation, or over the phone. A list of some of the policies (nine) presented to the Board, with dates on the policies ranging from August 23, 2004 to May 5, 2005 are attached (Attachment 17). These policies were signed by three Board members. DINSMOOR signed eight of them on June 24, 2005, SUTTON signed eight of them on May 20, 2005, and COMBS signed eight of them on May 19, 2005. The ninth one was not signed. Board minutes approving these policies were not with the policies when they were received on October 11, 2005 from James ROOKS. (This investigation began in February 2005. The scheduling of the interviews of Board members and ROOKS, through the corporation attorney David GLENN, was in the process of being set up beginning in May 2005.)

CRRWC: Benefits to Board Members[1]

ROOKS, as General Manager, received monthly financial benefits in that his company, Rooks Enterprise, provided contract maintenance services to the water company. (It is not known if this was put out for bids.) ROOKS states this contract with the water company is a verbal agreement between him and the Board.

One of the benefits Board members and employees received was the use of company equipment. Use of company equipment by employees and Board members was approved on August 11, 1999 (Attachment 31). Board members also benefited from the ability to personally purchase equipment and supplies through the water company. HOBBS and WHITTEN believed this was a violation of nonprofit laws and was a conflict of interest in that the Board members and the General Manager were receiving benefits not available to the general membership of the company.

When interviewed on September 22, 2006 COMBS said he purchased pipe, in April 2005, from the United Pipe Supply Company through the water company when he had a septic system installed on property his daughter owned. He said he paid the water company for the purchase of the pipe and use of company equipment. It is unknown if any Board members besides COMBS purchased supplies through the water company.

COMBS said ROOKS took vacation time to work on his daughter's property, as did one employee of the water company. ROOKS, when interviewed on March 29, 2006, said he used vacation time, as did the other water company employee (Dan), to work on COMBS' property and COMBS paid for the use of the water company equipment and purchase of the pipe. According to SOULE, on April 7, 2005, ROOKS and an unidentified individual were using the following water company equipment on COMBS' property: a dump truck, two backhoes, one with the rock hammer attached and one with a bucket attached, and two pickups.

SOULE, HOBBS, and WHITTEN, stated that during 2003 to 2005 they observed ROOKS use a water company backhoe on COMBS property, on DINSMOOR's property, and on OAKLEY's property. SCOTT, when interviewed on September 21, 2006, said he used a water company backhoe on his property, he believes in 2003. He said he paid for the gas he used. SUTTON, when

[1] A director or officer should not personally benefit from their position as an officer or director (Bylaws 7-3 Conflicts of Interest, Attachment 2).

interviewed on March 29, 2006, said ROOKS used a backhoe on his property and gave him a load of gravel for his driveway from water company supplies. He said he did not pay for the gravel or the use of the backhoe. He could not recall when this took place.

ROOKS, COMSTOCK, KEEN, SCOTT, and SUTTON benefited in that they owned companies and were contracted with to provide services to the CRRWC. It is not known if these services were put out for bid prior to contracts being awarded or if there are written contracts. For 2000 to 2005 ROOKS (Rooks Enterprise) received $59,600; We Can Do Services (Michelle COMSTOCK's company) received $25,323.76; SUTTON (Wayne's Body Shop) received $21,871.60; SUTTON's son Greg received $2,600; KEEN (Star Excavation & Trucking) received $74,577.64; and SCOTT (Scott Enterprises) received $13,314.81 (Attachment 43).

SOULE, HOBBS, and WHITTEN's reports of water company equipment being used on private property (DINSMOOR, COMBS, OAKLEY and ROOKS properties) led to an allegation of misuse of company equipment.

The 2004 bylaws (Attachment 2) state "Any person serving or acting as a Board member shall not retain, or apply for any regular full-time paid position through this corporation while a Director or for a period of sixty months after that person's term has expired." These guidelines were also approved by the water Board on January 1, 2000 when Barbara OAKLEY was a Board member (Attachment 7). OAKLEY was a Board member up to June 2001 and was hired by the CRRWC on July 15, 2002, well short of the sixty months.

CRRWC Member Concerns

Because of the lack of involvement and oversight by the Board in the overall operations of the company, especially the financial aspects of the operations, SOULE, HOBBS, and WHITTEN perceived the company as operating in secret. According to SOULE, HOBBS, and WHITTEN they were able to obtain a copy of the yearly financial reports and the corporation tax filings, but little else. They believed the Board allowed ROOKS as the General Manager to run the company as he saw fit. All the Board members stated that ROOKS did run the company, but were not concerned that he would do anything to hurt the company. When contacted on March 29, 2006, SUTTON called the Board a "puppet Board" and stated they "rubber stamped" anything ROOKS presented to them.

Other concerns by SOULE, HOBBS, and WHITTEN, in reference to company records and finances, were that ROOKS' spouse, Jacquie, was the bookkeeper and handled all records involving income and expenses and ROOKS' daughter, Michelle, was an office employee and had access to the company records. They were concerned that income could be falsely reported and that it would be easy for James and Jacquie ROOKS to hide or take money from the water company.

One major action by the Board that caused concern by SOULE, HOBBS, and WHITTEN was allowing Board members KEEN and SCOTT to remain on the Board after they sold their property on the ranch. According to Bylaw 2.3 (a) "Membership in the Corporation shall terminate

automatically upon ... sale of the premises served to another person or entity." The Board adopted a resolution dated December 29, 2005 to allow Board members to remain on the Board even though they were no longer a member of the water company (Attachment 16). HOBBS, WHITTEN, and SOULE believed this action was an effort to cover up on going thefts and actions by the Board and General Manager. This resolution was passed approximately two months after the General Manager and Board members were interviewed (October 11, 2005) in reference to this investigation and were asked about requirements for being a Board member. This resolution was passed approximately three years after SCOTT sold his property and approximately six months after KEEN sold his property. Both of these Board members signed this resolution although SCOTT stated that he did not believe it was right and they should have been removed from the Board when their property sold. COMBS signed this resolution on December 29, 2005. There is no date by KEEN's or SCOTT's signature so it is not known when they signed it. On November 2, 2005, James and Jacquie ROOKS signed over an interest in one of their properties on the Crooked River Ranch, at no cost, to KEEN and SCOTT. It is not known if this property is hooked up to the CRRWC water system.

HOBBS said that because of his limited access to company records, he had to speculate about the water company income. In reviewing the corporation's tax Form 990 for 1999 through 2004 HOBBS noticed that the listed number of water company members remained at 1203 for the six years (Attachment 8 to 15). This was the main item that led HOBBS to attempt to calculate actual income for 2003 and 2004 and led to an allegation of missing funds. In addition, HOBBS noticed that inventories listed on the CRRWC's yearly financial statements were listed at $41,201 for five years. The total savings (bank accounts) listed on the CRRWC's yearly financial statements decreased over the years even though the income appeared to increase. Total salaries listed on the CRRWC's yearly financial statements went from $146,471 in 1999 to $174,512 in 2003 and $147,492 in 2004. These salaries did not include contract employees or laborers.

Public Utilities Commission Action

The Public Utilities Commission (PUC) opened an investigation on September 11, 2001, by Order No. 01-832 (Attachment 5), to determine if the CRRWC was subject to their jurisdiction based on allegations of the CRRWC selling water to non-members. On August 3, 2002, the PUC held a public comment hearing at the Crooked River Ranch to obtain public input. On February 13, 2003, Order Number 03-116 (Attachment 6) was entered by the PUC that they had no jurisdiction and the case was closed. In their written findings, they state, "We acknowledge the numerous complaints that raise important questions about the conduct of CRRWC's General Manager. We cannot, however, assert jurisdiction simply to provide these complaining parties with a forum. .... there is no evidence of a widespread pattern of behavior to support a finding that CRRWC is not acting as a members-only water company." They concluded that CRRWC is a private, nonprofit corporation that provides water to its members on the Crooked River Ranch and not to the general public.

On February 23, 2006, the PUC received petitions from members of the CRRWC requesting the PUC regulate the CRRWC. PUC investigated the petitions and found that over 20% of the members signed the petitions. Based on this 20%, under ORS 757.063, the PUC can regulate the

company, and on April 18, 2006, the PUC asserted jurisdiction over the CRRWC. During the second investigation by the PUC, the Crooked River Ranch Water Company Board of Directors and ROOKS filed Articles of Dissolution for the water company (July 5, 2006). On the same day, they also filed Articles of Incorporation for the Crooked River Ranch Water Cooperative. HOBBS and SOULE believed this was an effort by the Board and ROOKS to circumvent the PUC's authority as the PUC has no authority to regulate a cooperative. Board members Randolph SCOTT, Richard MILLER, Richard KEEN, Brian ELLIOTT, and John COMBS said that changing to a cooperative was because of a recommendation by their attorney and the CPA (Attachment 1).

Information Regarding Records and Interviews of Board Members

District Attorney DEUEL received records from HOBBS. These records were provided to me on March 4, 2005 and included the following (Attachment 38):

- The PUC Order Number 03-116, dated February 13, 2003.
- Four worksheets prepared by HOBBS involving the number of meters reported on the CRRWC's Tax Form 990 and the revenue from these meters (alleging that between $96,348 and $105,672 was unreported income for 2003 and also alleging unreported income of $113,400 for 2004)
- A copy of the CRRWC Financial Statement for 2003.
- A copy of the CRRWC Tax Form 990 for 2003.

At the beginning of the investigation, the attorney for the CRRWC, David GLENN, was contacted by District Attorney DEUEL. GLENN agreed to allow interviews of the CRRWC Board Members, the company CPA, and ROOKS. GLENN also agreed to give access to the CRRWC financial records.

I interviewed the following CRRWC Board members and employees:

- John Milton COMBS (Board member 2000 to 2007) on October 11, 2005 and September 22, 2006.
- Brian A. ELLIOTT (Board member September 2005 to present) on October 11, 2005 and September 21, 2006.
- Richard A. KEEN (Board member 2000 to present) on October 11, 2005 and September 19, 2006.
- Richard J. MILLER (Board member 06/29/06 to present) on September 21, 2006.
- Charles (Chuck) W. PETERSON (A former Board member, President in 1999) on October 11, 2005.
- Randolph (Randy) M. SCOTT (Board member 2001 to present) on October 11, 2005 and September 21, 2006.
- Wayne F. SUTTON (Board member from 1999 until removed from the Board in December 2005). On November 1, 2005, March 29, 2006, and August 28, 2007.
- Richard C. BAILEY (The water company's CPA) on October 11, 2005
- James ROOKS (General Manager of the CRRWC) on October 11, 2005, March 29, 2006, and December 14, 2006.

In addition, during the course of the investigation, I contacted and interviewed other people as listed on page three of this report.

Financial records, covering the period from June 23, 2000 to October 10, 2005, were provided (by agreement with the CRRWC's Attorney GLENN) by Jacquie ROOKS on November 1, 2005 in the form of a CD containing a backup of their QuickBooks records (Attachment 20). The QuickBooks records include financial records in reference to income, expenses, liabilities, accounts receivable, accounts payable, assets, and payroll. The QuickBooks records do not include individual customer accounts. Other records, which included the CRRWC cancelled checks for 2003 and the $8 assessment fee records, were also received and are listed on the receipt given to the water company (Attachment 21). An update to the QuickBooks records was received on January 25, 2006 covering the period from June 23, 2000 to January 24, 2006 (Attachment 22). All provided records, except the CDs, were returned to ROOKS after being reviewed. Copies were not made of these records as they agreed with the QuickBooks records.

Allegation I:

It is alleged by William HOBBS, a CRRWC member, that irregularities exist in the billing and collection practices of the CRRWC, suggesting income from metered water sales during 2003 and 2004 were unreported on the Form 990 company tax returns.

The allegation of missing funds is based on a four-page worksheet prepared by HOBBS (Attachment 19) and provided to District Attorney DEUEL. The basis of this worksheet is a comparison of the number of water meters reported on CRRWC's Form 990, Return of Organization Exempt from Income Tax (Attachments 9-15), water sales reported in the CRRWC year-end financial statement dated December 31, 2003 (Attachment 18) and other water meter numbers publicly reported by the CRRWC and used by HOBBS.

Critical to HOBBS allegation is the figure of 1203 water meters, which is included in each of the company's Tax Form 990 for 2003 to 2005. When asked about this figure, CPA BAILEY stated that this figure was just carried forward each year as it was not required to be reported on the Tax Form 990 and was just overlooked. This number of 1203 water meters on the Form 990 does not correlate to the reported income on the Form 990. The figure of 1203 leads to faulty conclusions by HOBBS about the number of unreported meters and therefore leads to an incorrect accounting of water sales income.

2003 Records

To determine the number of actual water meters (paid customers), I reviewed and summarized the CRRWC records in a spreadsheet (Attachment 24). The average number of customers billed in 2003 is 1376 per month. The average number paid per month is 1238. It is reported by ROOKS that the difference of 138 may be explained by inactive accounts. During 2003 the water company allowed customers to become "snow birds," that is, they allowed customers to have their water shut off for the periods they did not reside on the ranch. Other inactive accounts

would include properties for sale and those unhooked for late payments. Therefore, for 2003, there appears to be 35 (1238 – 1203) unreported meters, not the 259 reported by HOBBS.

Using HOBBS figure of average payments by customers of $31.00 per meter per month and the number of unreported meters of 35, the low estimate of alleged missing funds would be $13,020.00 (35 meters x $31.00 x 12 months = $13,020.00). Payments by customers of $34.07 per meter per month the high estimate of alleged missing funds would be $14,309.40 (35 meters x $34.07 x 12 months = $14,309.40). These numbers are significantly less than the $96,348 or $105,672 reported by HOBBS. Neither HOBBS figures, nor the figures based on 35 water meters, take into account the total metered water sales of the water company.

To determine the total income and metered water sales income for the water company, using records obtained during the investigation, I prepared profit and loss worksheets for the years 2003, 2004, and 2005 (Attachment 23) as well as a summary of the three years. These profit and loss worksheets include all deposits as income and all expenditures as expenses. While reviewing the company records I noticed that some expenses were recorded in income accounts and some income was recorded in expense accounts. These were corrected on the profit and loss worksheets I prepared by recording income and expenses in their correct accounts.

The total metered water sales for 2003 I calculated using the provided QuickBooks records is $515,042 (Attachment 23) and total income is $711,249. Because income and expenses were not always properly recorded, this investigation cannot determine with certainty if metered water sales funds were missing or if those funds were improperly recorded as a result of bookkeeping errors. For example, the alleged missing funds I calculated ($13,020 to $14,309) could have been recorded as income, as opposed to metered water sales.

HOBBS did not have access to the CRRWC records and relied on records he could obtain. HOBBS did not have the information to determine the number of paid customers and relied on an incorrect figure of 1462 for 2003. In addition, it appears that HOBBS did not allow for "snow birds" in his selection of 1462 as the number of paid customers.

2004 Records

For 2004, HOBBS arrives at estimated unreported income of $113,400 using a figure of 300 unreported meters (1500 minus 1200 = 300) and an average monthly cost of $31.50 per meter ((27.50 + $35.50)/2 = $31.50; $31.50 x 300 x 12 = $113,400). Using company records for 2004, the number of paid customers per month averaged 1399, which would possibly result in 196 unreported meters (1399 meters minus 1203 = 196) and gives a low estimate figure of $74,088 (196 x $31.50 x 12) as unreported income for 2004. As mention above, the figure of 1203 is not required on the CRRWC Tax Form 990, was not changed from year to year, and leads to faulty conclusions by HOBBS.

Investigation figures suggest that the water sales income is consistent from year to year and may be accounted for during 2003, 2004, and 2005. To determine an exact accounting for the water

sales a complete audit of all records dealing with the billing and collection of income would have to be done.

Record Inconsistencies

When profit and loss statements from QuickBooks records, received in January 2006 from Jacquie ROOKS, are compared to profit and loss statements from QuickBooks records, received in 2007 from Jacquie ROOKS, some changes in the records are noticed (Attachment 40). These changes alter some figures reported in QuickBooks for 2004 and 2005. The figures for 2003 were unchanged from the January 2006 QuickBooks records to the 2007 QuickBooks records.

For 2004, the Repair & Maintenance expense account (Company account 5000) went from $9,322.00 using the QuickBooks records received in 2006 to $13,322.00 in the QuickBooks records received in 2007, an increase in expenses of $4,000.00. The Equipment Rental expense account (Company account 6170) went from $24.57 using the 2006 records to -$3,975.43 using the 2007 records, a decrease in expenses of $4,000.00. The company's Net Income remained the same.

In 2005, there were numerous changes to company accounts. Below are listed some of the larger changes.

Company		January 2006 Records	2007 Records
Acct. No.:	Name of Acct:	Amount:	Amount:
4005.1	Metered Water	$535,897.65	$567,008.14
4000	Meter Water Sales	$31180.49	$0.00
	Other		
4015	Special Assessment	$8,889.12	$68,969.12
No Acct. No.	Total Income	$740,185.43	$800,115.84
5000	Repair & Maint.	$0.00	$3,000.00
	Total Expense	$599,197.43	$601,471.48
6065	G&A Postage	$10,353.69	$8,558.69
No Acct. No.	Net Income	$30,079.99	$90,079.99

With the above changes, and those not listed, the Net Income for 2005 increased by $60,000 between the January 2006 records and the 2007 records. This increase is reflected in a December 31, 2006 General Journal entry "To adjust for back dated income." (It should be noted that these changes were made after the PUC asserted jurisdiction on April 28, 2006 and requested company records.) The check number 4246 for $60,000 was written on August 9, 2006 and signed by Rick KEEN and James ROOKS, but was not deposited to the Water Company's Account until February 9, 2007 as part of a $69,000 deposit (Attachment 45). The check was deposited in the Assessment Account at the Community First Bank and, according to the memo line, replaced the following four checks, which were payments to the water company from the assessment funds:

- Ck #3344, dated 08/01/05, for $12,000
- Ck #3446, dated 09/15/05, for $24,000
- Ck #3583, dated 11/16/05, for $12,000
- Ck #3806, dated 02/09/06 for $12,000.

The other part of the deposit was Ck #4458, dated 11/08/06, for $9,000, payable to CRR Water Company and signed by Richard MILLER and James ROOKS. This deposit of $69,000 replaced monies that were from the assessment funds and were paid to the water company operating account, but were never negotiated. QuickBooks records received in 2007 have checks number 3344, 3446, 3583, and 3806 voided while the records from January 2006 show these four checks as payments to the CRRWC from assessment funds. A check of the CRRWC Washington Mutual checking account for the time period of these checks shows that none of the four checks cleared the bank. (Note: Assessment fund income and expenses are addressed in Allegation III.)

I also summarized the Balance Sheets using the records received in January 2006 and compared them to Balance Sheets using records received in 2007 (Attachment 40). There were only minor changes in 2003, which did not change the overall financial picture for 2003.

In 2004, the totals did not change but there were some changes to the following:

Company Account	2006 Records	2007 Records	
2000 – Accounts Payable	$1315.93	-$8444.16	Decrease of $9760.09
3000 – Gen. Fund Bal.	$1,487,982.66	$1,497,932.20	Increase of $9949.54
3010 – Cont. Fund Bal.	$48,073.00	$49,460.84	Increase of $1387.84

Between the records I received in 2006 and those I received in 2007, the total yearly increase was $11,337.38 and the total yearly decrease was $9,760.09. The difference of $1,577.29 was recorded in the 2007 records in Retained Earnings (The company account 3900). The total assets and total liabilities and equity did not change.

For 2005 there were numerous changes as mentioned above in reference to the profit and loss statements. In the balance sheets, the major change is the General Checking Account at Washington Mutual (Company account number 1005) went from $9,245.98 in the 2006 records to $69,419.72 for an increase of $60,173.94. The NSF and Redeposit Account (Company account number 1090) went from $3,013.95 to 3,094.64, an increase of $80.69. The total income increased by $60,254.43.

Board Members Oversight of Finances

The following Board members were interviewed regarding their duties in reference to the finances of the water company: John COMBS, Brian ELLIOTT, Richard KEEN, Richard MILLER, Charles PETERSON, Randolph SCOTT, and Wayne SUTTON. All stated an accountant (CPAs Wes PRICE or Richard BAILEY, from Harrigan Price Fronk & Co., LLP) oversaw the records and produced the financial statements.

None of the Board members knew much about the financial condition of the company other than receiving the yearly report from the accountant. All believed that the company was operating on sound financial principles and was financially better after ROOKS became the General Manager. They knew that Jacquie (ROOKS' wife) was the bookkeeper and handled all income and expenses and oversaw the office operations. They believed that if there were any irregularities the accountant would catch them. None seemed to know that the records used by the accountant were provided by Jacquie and that the accountant did not do an audit of the records. The accountant relied on the records provided to him by Jacquie.

Other than SUTTON, who was secretary/treasurer, they did not look at the bills paid. None looked at the income other than the CPA's Year End Financial report. Most of the Board members did not review the yearly financial statement in detail. SUTTON, as treasurer, did not review the financial statement in detail, nor did he do a thorough review of the company's Form 990 or discuss it with the CPA prior to signing it. COMBS specifically stated that he did not need to review the financial records as he trusted ROOKS.

All Board members stated that they believed ROOKS to be an honest hard working person who would not steal from the company. SUTTON did express some concern about the legitimacy of ROOKS' family members working for the company and the amount of their pay and ROOKS' pay. He asked for a copy of ROOKS' employment contract. He also asked ROOKS about the purchase of a four-wheeler, telling ROOKS he could not purchase such an item without Board approval. Shortly after he expressed these concerns he was removed from the Board by ROOKS and Board members COMBS, KEEN, SCOTT and ELLIOTT.

Conclusion - Allegation I:

The investigation was unable to clearly establish, from the limited records available, that income was not reported or was underreported on the Crooked River Ranch Water Company Form 990 for 2003, 2004, or 2005.

The investigation did show that irregularities exist in the recording of income and expenses in the QuickBooks files used by the CRRWC and that these irregularities give an incorrect picture of the company's overall financial status and of expenses and income earned. QuickBooks records can and have been changed over the years to reflect changes in expenses and income. For 2005, comparing the 2006 QuickBooks records received from Jacquie ROOKS to the 2007 QuickBooks records received from her, there were numerous changes in the accounting. There is an increase in total income of $60,254.43 from the 2006 records to the 2007 records. It is not known why this income was not recorded earlier. It is not known if these changes were at the request of the accountant or an attempt to reflect an incorrect picture of the company's finances. In addition, "loans" to ROOKS were not recorded in company records prior to 2006. (Note: This is addressed further in Allegation V.)

Allegation II:

It is alleged by William HOBBS and Rod WHITTEN, CRRWC members, that unreported money from the CRRWC was being diverted by ROOKS for personal use and/or for his companies, JMR Repair Service and Rooks Enterprise, LLC, and Michelle COMSTOCK's (ROOKS' daughter) company, We Can Do Services.

Company records show money from the water company paid to Rooks Enterprise for 2003 was $1,500; for 2004 it was $31,100; and for 2005 it was $25,250 (Attachment 36). According to ROOKS, these monies were paid to Rooks Enterprise for the maintenance of water company equipment. ROOKS said there was no written contract for this maintenance; it was a verbal agreement between the Board and ROOKS'. All the Board members interviewed stated they knew ROOKS' company maintained the water company equipment but were unclear if an agreement existed between the CRRWC and ROOKS. They did not know the amount ROOKS' company was paid for maintaining the water company equipment. The Board and ROOKS stated that prior to 2003 ROOKS did the maintenance on the company equipment without being paid. ROOKS said he was paid $500 per week, although he did not charge the water company unless he worked on their equipment. At $500 per week, the total for two years would be $52,000. The actual amount for 2003 and 2004 was $32,600, an average of $313.46 per week. Neither ROOKS nor the Board members could tell me the number of hours ROOKS worked on maintaining the water company equipment. The hours ROOKS worked on maintaining the water company equipment would be in addition to his hours as General Manager and would be paid to his company Rooks Enterprise.

Company records show that no money went to We Can Do Services in 2003 and $15,884.67 (an average of $1323.72 per month) was paid to We Can Do Services in 2004. No payments were made to We Can Do Services after December 2004. The payments to We Can Do Services were for meter reading ($1.00 for each meter read), office work (at $10.00 per hour), and installing meters (at $10.00 per hour). When it was discovered that We Can Do Services did not have a contractor's license to install meters, the company was dissolved. No written contract existed between We Can Do Services and the water company. ROOKS stated that this was a verbal contract.

When reviewing company records received from Jacquie ROOKS I noticed a change from the first backup of QuickBooks received on October 14, 2005 to the second backup on January 25, 2006, the changing of JMR Repairs to Rooks Enterprise as a vendor. (Note: QuickBooks allows the operator to change any data/records entered in the company's program.) This changed the amount of funds going to these two companies by $1,000.00 for the period from June 2000 to October 10, 2005; Rooks Enterprise received $55,350, using the records received on January 25, 2006, and JMR Repairs received $54,350, using the records received on October 14, 2005. According to Jacquie ROOKS the change was made as James ROOKS discontinued the use of JMR Repairs and used Rooks Enterprise for billing the water company for repairs to the company equipment..

The investigation shows that for the period from January 1, 2001 to December 31, 2005 ROOKS, his family, his business, and his daughter's business have received wages and benefits

from the water company totaling $837,594.47. This total includes the water company payments for social security, Medicare, and unemployment.

Total to ROOKS and family members for wages and benefits during this time are:

Wages		
James ROOKS	$439,746.89	(Average $87,949.38 per year for five years)
Jacquie ROOKS	$180,866.63	(Average $35,773.33 per year for five years)
Ray COMSTOCK	$47,817.47	(Average $23,908.73 per year for two years)
M. R. COMSTOCK	$29,220.00	(Average $14,610.00 per year for two years)
Benefits for James and Jacquie ROOKS and Ray and Michelle COMSTOCK		
Employer SST	$41,630.95	
Employer Medicare	$10,115.93	
Fed Unemployment	$881.39	
OR Unemployment	$4,141.45	
CRRWC payments to Rooks Enterprise and We Can Do Services		
Rooks Enterprise	$57,850.00	
We Can Do Services	$25,323.76	
TOTAL	$837,594.47	

Conclusion - Allegation II

The investigation was unable to establish payments made to Rooks Enterprise and We Can Do Services were more than what was billed to the water company or that they received unauthorized payments. These billings were all done within the QuickBooks program by Jacquie ROOKS and checks were written by Jacquie ROOKS using the QuickBooks program. No written contracts existed so agreed upon payments cannot be verified. It cannot be verified if ROOKS performed the maintenance of the company equipment on his own time or on company time as no records on hours worked for Rooks Enterprise by ROOKS were provided.

The use of these companies, Rooks Enterprise and We Can Do Services, is questionable and presents a possible conflict of interest for a number of reasons;

- These services do not appear to have been put out for bids.
- ROOKS is the General Manager of the Water Company and owner of Rooks Enterprise.
- ROOKS' daughter is the owner of We Can Do Services.
- Written contracts do not exist between the companies and the CRRWC.
- There are no records as to the hours billed by these companies to the water company.
- ROOKS' wife maintains the water company records with no oversight by Board members or any outside persons.
- Changes were made to the CRRWC QuickBooks records.

Allegation III:

It is alleged by HOBBS, WHITTEN, and Craig SOULE, CRRWC members, that money from a water company assessment fee of $8.00 per month per water meter, which started on July 1, 2004, may be underreported in water company financial statements. It is also alleged that this money was used by ROOKS and the Board for unauthorized purchases.

From the company records, received in January 2006, I prepared a spreadsheet showing all income and expenses for the assessment fund (Attachment 25). The amount of funds collected from May 12, 2004 to December 31, 2005 is $203,546.98 and the expenses paid are $131,729.32, leaving a balance of $71,817.66 ($203,546.98 - $131,729.32 = $71,817.66). The QuickBooks records for the company show a balance of $72,320 in the fund on December 31, 2005. The total of $203,547 equates to an average number of customers of 1414 ($203,547/18 months = $11,308.17 per month. $11,308.17/$8 per month = 1414).

The special assessment of $8.00 per month was approved by the water Board on March 29, 2004 (Attachment 26). It became effective in June 2004, being payable starting in July 2004. It was approved for the following uses:

1. Drilling and Construction of Well #3 (Crater Loop and Tower Road) which is referred to as Well #5 by COMBS.
2. New Cistern and Pump house.
3. Pay off the CRRWC Office Building.
4. Re-plumb Well #1 (formerly #4) and add Chlorination Station. (Attachment 26 and Attachment 27)

The Assessment dollars were not to be used for operations or administrative costs (Attachment 27). According to information provided by ROOKS and COMBS the Assessment Funds were spent for different items which included the following: the land for the well, a dump truck, a crane, surveying the land, engineers, attorney fees, pipe for system improvement, a hammer, and payments on the office building (Attachment 28).

At five different times over the course of fourteen months, from December 2005 to February 2007, different items were listed as being paid from the assessment fund (Attachment 28). Craig SOULE, in an email, listed those items he believed were not approved for purchase from this fund (Attachment 28). Because the items listed as being purchased by this fund changed over time, it appears that the Board and General Manager were using this fund for purchases not approved in the proposal and to supplement operational expenses. This can be seen by comparing the QuickBooks records received in January 2006 with the QuickBooks records received in 2007 (Attachment 25).

As pointed out in Allegation I, in records received in 2007 an increase of $69,000 is reflected in a December 31, 2006 General Journal entry "To adjust for back dated income." The money was deposited in the Assessment Account at the Community First Bank and it appears that the deposit of

this $69,000 was to replace monies that were from the assessment funds and paid to the water company operating account for expenses not associated with the assessment funds.

A comparison of the records received in January 2006 and those received in 2007 show some other changes in the assessment funds (Attachment 25). The records of 2006 show total income of $203,546.98 and total expenses of $131,729.32 for a net income of $71,817.66 for the period from May 2004 to December 2005. The records from 2007 show total income of $268,870.05, an increase of $65,323.07, and total expenses of $87,913.54, a decrease of $43,815.78, for a net income of $180,956.51, an increase in income of $109,138.85, for the same time period.

The land listed as "purchased" with assessment funds in 2005 and 2006 (Attachment 28) was actually purchased in April 2001, using the CRRWC checking account at the Washington Mutual Bank (Check number 7253 dated March 29, 2001 for $15,000 and check number 7301 dated April 9, 2001 for $15,476.95 (Attachment 29)) years prior to the implementation of the assessment fee. The resolution to purchase the land was approved on April 9, 2001 (Attachment 30), over a week after the first check was paid to the title company and over three years prior to the assessment fund approval and implementation.

The hammer listed as an expense was actually purchased for $23,500 at the same time a track hoe was purchased for $25,000 with CRRWC funds (Attachments 33 & 35). The hammer can only be used with the track hoe. According to ROOKS the track hoe belongs to him and the hammer belongs to the water company. (Note: the purchase of these two items will be addressed further in Allegation V.)

Conclusion - Allegation III:

Based upon a review and summary of the assessment records obtained during this investigation it cannot be determined conclusively that funds are missing from the assessment income. The investigation did show that funds from the assessment fee of $8 per month were not spent in conformance with the approval of the special assessment. The listed expenses were for land, which was already owned by the company, for equipment and supplies, (the hammer, dump truck and pipe), for surveys, engineers, and for attorney's fees, all of which were not listed in the original proposal. The funds that were supposedly spent on the land and other items were transferred to the metered water sales and were used for everyday operational expenses. In 2006 and 2007 the income and expenses of the assessment funds seem to have been corrected to more closely reflect the actual balance.

Allegation IV:

It is alleged by HOBBS, WHITTEN, and SOULE that water company equipment is being used on private property for personal use and gain by Board members and water company

employees. It is also alleged that the water company was not reimbursed for the use of the equipment.

The CRRWC Board approved the use of water company equipment by employees and Board members on August 11, 1999 (Attachment 31). As a result, Board members and employees received benefits not available to the general membership and benefited from this resolution. Based on this investigation, at some time while a Board member or an employee of the water company, the following people made use of company equipment, either by using it themselves or having ROOKS operate it on their property: ROOKS, OAKLEY, SUTTON, DINSMOOR, SCOTT, and COMBS. In addition, ROOKS' contract, dated May 1, 2004, states "The General Manager/Operations Manger reserves the right to exchange mechanical repairs to The Company equipment, such as 'labor, storage, modifications, and alterations' for use of all company equipment, so long as no compensation is received from the use of this equipment." The Employee Policies Handbook, on page 45, also allows for personal use of company equipment (Attachment 31).

Board members and employees who made use of company equipment (ROOKS, SCOTT and COMBS) stated that they paid for the gas and any other supplies when they used the company equipment for personal reasons. SUTTON stated that he was never asked to reimburse the water company for the work ROOKS did on his property. ROOKS said, on March 29, 2006, that he would sometimes exchange work with a Board member, such as with DINSMOOR. ROOKS said he used company equipment to do some work on DINSMOOR's property and DINSMOOR, in return, did some electrical work on one of the company's pumps. ROOKS mentioned COMBS as another Board member who did work for the water company in exchange for use of company equipment.

Records show some payments from Board members, but it is unclear if these are for the use of the equipment or for the purchase of supplies. ROOKS said that if a person did not know how to operate a piece of equipment he would not let them use it. ROOKS did say that he occasionally would take time off work and operate the equipment for a Board member, charging only for gas and supplies. It is important to note that ROOKS, his wife, or another office worker recorded the hours ROOKS worked for the CRRWC in the QuickBooks payroll. The Board did not track ROOKS' hours separately or review the hours claimed so it cannot be verified if ROOKS took time off for this work.

Conclusion - Allegation IV:

The CRRWC Board approved a resolution on August 11, 1999 that allowed CRRWC employees and Board members to use company equipment for personal use. ROOKS and Board members SCOTT and COMBS claim to have paid the company for personal use of company equipment. SUTTON was never asked to pay for use of the equipment. Although the personal use of company equipment is allowed this practice raises questions about potential conflicts of interest by the Board members and water company employees.

Allegation V:

It is alleged by HOBBS, WHITTEN, and SOULE that ROOKS purchased equipment for personal use with "loans" from water company funds, without a loan contract or interest charges paid to the CRRWC. It is also suspected that ROOKS then leased the equipment back to the water company, allowing him to personally profit from the equipment purchase. As part of this allegation, I reviewed and summarized the number of hours, for regular and overtime hours, ROOKS was paid as General Manager working for the CRRWC to determine if this was a method used by him to repay the loans.

ROOKS, under his business Rooks Enterprise, also maintained all the water company equipment. The amount of hours he worked on maintaining the water company equipment, which is separate from his hours as General Manager, is not known as ROOKS stated he did not maintain records on hours he worked on water company equipment. He said he did the repairs when needed. Payment for this work would be in addition to the hours he was paid for being the General Manager and would be paid to Rooks Enterprise.

Payment and Withholding Records

According to QuickBooks records provided by Jacquie ROOKS on Jan 25, 2006, from January 1, 2003 to December 31, 2005, ROOKS had payments to the water company withheld from his paycheck totaling $10,199.85 for items he purchased with company funds for personal use. In addition, he received $2,200 (paid to him from the CRRWC checking account at Washington Mutual Bank, paycheck number 2084 dated January 29, 2004) as a "loan" to purchase hearing aids. This gives a total of $12,399.85 (Attachment 32) for 2003 to 2005. This indicates that during this time he had "loans" from the water company of at least $12,399.85 for the purchase of personal equipment and/or supplies.

CRRWC QuickBooks records, obtained through a subpoena and received from Jacquie ROOKS in December 2007, show that from January 20, 2000 to October 17, 2007 withholdings (reimbursements) from ROOKS' paychecks total $47,989.38 (Attachment 32). Other payments made by ROOKS from Rooks Enterprise checking account and his personal checking account to the water company during this same time period total $24,748.64. Total payments to the water company from ROOKS are $72,738.02 ($47,989.38 + $24,748.64) for 2000 to 2007. Jacquie ROOKS maintained personal records, other than QuickBooks, on each purchase and on each payment to the water company from James ROOKS, either through payroll withholdings or by personal check. These records show that from January 12, 2000 to November 29, 2006, total water company funds used by ROOKS to purchase items for personal use were $77,058.62 (Attachment 47).

During this time ROOKS used water company funds ($25,000) as a down payment to purchase a track hoe for personal use. The purchase price of the track hoe was $135,000 with a filing fee of $375 for a total of $135,375. The loan contract with CNH Capital was for $110,375 with finance charges of $18,352.68 for a balance due of $128,727.68. The total time sale price was $153,727.68. A hammer was purchased for $23,400, at the same time, for the water company

(Attachment 33, 34, & 35). Payments were made to Cascade Machinery Company for the down payment and the hammer from the CRRWC checking account at the Washington Mutual Bank and the equipment loan contract was carried by CNH Capital for the purchase of the track hoe. The hammer was paid in full when purchased. When asked about this, ROOKS said that the Board approved this purchase with the understanding that he would purchase the track hoe from CRRWC in thirty days (Resolution dated September 27, 2005, Attachment 33.).

On March 30, 2006, to show that he was purchasing the track hoe from the water company, ROOKS provided me with a copy of Rooks Enterprise check #1026, intended for the down payment of $25,000, dated February 21, 2006, and copies of the invoices and the purchase agreement (Attachment 34). The check had not cleared the bank and when asked about it, ROOKS stated that he did not have the entire $25,000 and he provided the check to show his intension to purchase the track hoe. He said that he was paying the water company through payroll deductions. No other records of payments were received until 2007, when records were received from CNH Capital, the Cascade Machinery Company, the CRRWC, and ROOKS.

The agreement between ROOKS and the Board for the purchase of the track hoe should be recorded as a loan to ROOKS. Besides the initial payment of $25,000, the water company made payments of $2,145.47 each month to CNH Capital for the loan on the track hoe. The water company paid a total of $42,163.76 for the track hoe that ROOKS states he was purchasing from the water company. ROOKS said that the hammer belonged to the water company. It should be noted that the hammer, CRRWC equipment, can only be used with the track hoe that ROOKS says is his. Despite his claim of ownership in 2006, ROOKS did not repay the water company for the track hoe until 2007.

QuickBooks records contain two checks for the purchase of the track hoe and hammer (Attachment 35). Check number 3469 and check number 3470, both dated September 23, 2005, payable to Cascade Machinery Company for the purchase of the hammer and the down payment on the track hoe. These checks are dated four days prior to the date on the resolution to purchase these items.

Records received from CNH Capital and Cascade Machinery Company in 2007, in reference to the track hoe (Attachment 41 and 42), show the CRRWC made payments of $42,163.76 to Cascade Machinery Company and CNH Capital. The payments to CNH Capital from the CRRWC were made each month until June 7, 2006. This is the date of ROOKS first payment to CNH Capital for the track hoe contract. ROOKS signed paperwork to take over the contract for the track hoe in April 2006.

In addition to making payments to CNH Capital, the water company maintained the insurance on the track hoe. According to records obtained from the Sage Insurance Company, the following amounts, above the regular CRRWC insurance costs, were paid to Safeco Insurance for the track hoe; for 2004-05, $42.00; for 2005-06, $1,039.00; and for five months in 2007, $509.00, for a total of $1,590.00.

ROOKS stated, on March 29, 2006 and December 14, 2006, that his wife, Jacquie, kept track of any purchases made using water company funds and she deducts the payments from his paycheck. In addition, he wrote checks to the water company for payments on the track hoe. In 2007, records were received from Jacquie ROOKS in reference to purchases by James ROOKS and his repayments for these purchases through payroll deductions, checks from ROOKS' company and checks from his personal account. This information shows total repayments of $72,738.02 (Attachment 32, January 2000 to October 2007) and purchases of $77,058.62 (Attachment 47, January 2000 to November 2006); leaving a balance owed to the water company of $4,320.60. This balance does not include any equipment or supplies purchased in 2007.

Using subpoenaed records provided by CNH Capital and bank records of the CRRWC and Rooks Enterprise, I entered the information in reference to the track hoe on a spreadsheet (Attachment 41). According to these records, from the month the track hoe was purchased (November 2005) to September 2007, ROOKS made payments to the CRRWC totaling $41,840.29. These payments did not start until January 2006 with payroll deductions. The CRRWC made payments of $42,163.76 to CNH Capital on the loan. This leaves a balance owed by ROOKS of $323.47. With the additional insurance costs to the water company the total owed by ROOKS to the water company, as of September 2007, is $1,913.47.

Board Members' Knowledge

When questioned on September 19, 2006 about the purchase of the track hoe and hammer, Board member Richard KEEN stated he approved the purchase not knowing the water company was putting up the down payment funds for the track hoe. He said ROOKS asked to use the water company's name to purchase the track hoe so he could get a discount. Board member John COMBS, on September 22, 2006, stated that he did not know about the purchase of the track hoe and hammer. Board member Wayne SUTTON, on March 29, 2006, said he told ROOKS the water company could rent a track hoe and hammer as needed. In that way they would not have to worry about maintenance. On September 21, 2006, Board member Randolph SCOTT said he believed the water company put up the money to purchase the track hoe and ROOKS repaid the water company, but he was unsure of the actual details. None of the Board members were aware that the hammer could only be used with the track hoe belonging to ROOKS, nor did they know if ROOKS repaid the water company for the down payment. None of the Board members viewed ROOKS as conducting unauthorized business or operating outside the scope of his contract and obligations to CRRWC.

Payroll Records Analysis

QuickBooks payroll records, which were received from Jacquie ROOKS, for the time period 2003 up to October 17, 2007, were used to record hours James and Jacquie ROOKS were paid for working for the CRRWC in the office, in operations and in overtime (Attachment 46). The concern here is not the amount of money they were paid, but the number of hours listed as being paid in the CRRWC payroll records.

The total hours (regular and overtime hours as General Manager and not for his company Rooks Enterprise) James ROOKS was paid for working for the CRRWC in 2003 was 3531 hours. Of this total 72 hours are for holidays giving total work hours of 3459. ROOKS would have to average 9.5 hours per day if he worked everyday (3459/365 = 9.5 hours) to get the total work hours of 3459. He would have to average 13.78 hours per day if he only worked workdays (3459/251 = 13.78 hours), and he would have to average 11.42 hours per day (3459/303 = 11.42 hours), not working Sundays, holidays, or vacations to get the total hours of 3459. The below chart is a summary of total hours (includes regular hours, overtime hours, holidays, sick days, and vacations) recorded in the QuickBooks payroll records and paid to James and Jacquie ROOKS for 2003 up to October 17, 2007. (It needs to be noted that the "Average work all days" column is not based on 365 days per year as the pay period is every two weeks and there is some overlap each year. Attachment 46 has details related to the number of workdays in each yearly pay period.)

Name	Year	Total Hours Paid	Work Hours	Average work all days	Average work only work days	Average not including Sun, Vac, or Holidays
James ROOKS	2003	3531	3459	9.5	13.78	11.42
Jacquie ROOKS	2003	2537.5	2449.5	6.7	9.8	8.1
James ROOKS	2004	2980	2852	7.53	11.18	9.23
Jacquie ROOKS	2004	2681.0	2575.0	7.0	10.4	8.6
James ROOKS	2005	3331.25	3199.25	8.81	13.19	10.86
Jacquie ROOKS	2005	2642.5	2556.5	7.0	10.3	8.5
James ROOKS	2006	3485.5	3274.5	9.0	13.90	11.38
Jacquie ROOKS	2006	2667.8	2487.8	6.8	10.5	8.6
James ROOKS	2007	2550	2306	7.84	12.85	10.41
Jacquie ROOKS	2007	2256.3	1825.3	6.0	11.1	8.8

In reviewing the hours ROOKS was paid for by the water company (Attachment 46) the following items were noticed. In 2003 there are consecutive time periods of two weeks where the amount of hours is the same, for example:

- 08/01/03 to 08/14/03, 40 hours in office, 40 hours operational, and 78.5 hours operations overtime.
- 08/15/03 to 08/28/03, 40 hours in office, 40 hours operational, and 78.5 hours operations overtime.
- 08/29/03 to 09/11/03, 40 hours in office, 40 hours operational, and 78.5 hours operations overtime.

These types of patterns occur up until August 2005, when the overtime hours became more varied. (It was in 2005 that this investigation began and in May 2005 that David GLENN, the water company attorney, was contacted about interviews and company records.) From November 30, 2006 up to May 30, 2007, ROOKS working hours (80 for two weeks) was recorded in office full time and

all overtime was recorded in operations overtime for this same time period. The reason for this change in how hours were recorded is not known.

The above hours do not include hours ROOKS worked for his company, Rooks Enterprise. During this time Rooks Enterprise was paid $1,500 in 2003, $31,100 in 2004, $25,250 in 2005, $26,000 in 2006, and $21,000 in 2007 (up to October 18, 2007).

Hours for Jacquie ROOKS were also reviewed and to some extent reflect similar overtime issues as James ROOKS, but not to the same degree. For the total working hours (does not include Saturdays, Sundays, holidays, vacation, or sick days) during this time, Jacquie would need to average 10.4 hours per day and James would need to average 12.96 hours per day. If Sundays, holidays, vacations, or sick leave, are not counted the average for Jacquie would be 8.5 hours per day and for James 10.68 hours per day.

The hours James ROOKS worked for his company, Rooks Enterprise, repairing CRRWC equipment (These hours are not included in the hours in the above chart or Attachment 46) is not known. This repair work is not part of his General Manager duties. Since these hours are not known it can not be determined how many hours he would need to work to fulfill his job as General Manager and as the repair person under Rooks Enterprise. It can be seen by the hours ROOKS was paid by the water company for working for them that he had few hours in the day to devote to repair and maintenance, unless he was using company time to perform his repair and maintenance duties. Rooks Enterprise was paid an average of $2,592 per month in 2004, $2,104 per month in 2005, $2,167 per month in 2006 and $2,100 in 2007 for work allegedly performed by ROOKS.

There is no way to verify if the hours are correct or if James and Jacquie ROOKS actually worked these hours. There was no oversight by the Board and no one, other than Jacquie, James, or another office worker, recorded the hours.

Conclusion - Allegation V:

Although ROOKS stated on October 11, 2005, March 29, 2006, and October 27, 2006 that the CRRWC does not and cannot make loans, ROOKS has used CRRWC funds to purchase equipment and supplies for his personal business and is making payments to the CRRWC by having funds withheld from his paycheck. The payments received from ROOKS are recorded as income in a Reimbursement Account under Metered Water Sales and some payments are recorded in expense accounts. This gives an incorrect picture of the water company's finances. The reimbursement account should not be classified as income under Metered Water Sales. There should be an Accounts Receivable with a Note Receivable Account for any loans the company makes, either to ROOKS or to other employees.

Prior to December 31, 2006, there were no Accounts Receivable or Notes Receivable Accounts for loans made to employees. A General Journal Transaction was added in the QuickBooks records for the CRRWC on December 31, 2006 to account for the loan to ROOKS,

Account number "1100: N/R JR ROOKS." No interest was recorded or charged for this "note receivable." Adding this account indicates that all such transactions should have been reported as a loan to ROOKS. When asked about paying interest ROOKS said that the water company, as a nonprofit corporation, could not charge interest.

In reference to the track hoe, it appears that ROOKS did not make arrangements to repay the water company and take over the loan until questioned about it in March 2006, although he was using it as his personal company's equipment. In April 2006 ROOKS signed a note for the track hoe and on April 19, 2006 the transfer of sale from the CRRWC to ROOKS with CNH Capital, the loan holder on the track hoe, was signed. Rooks first payment to CNH Capital was June 7, 2006. ROOKS is currently paying CNH Capital for the track hoe and has repaid most of the loan to the water company. With insurance costs the balance ROOKS owes as of September 2007 is $1,913.47. ROOKS stated on November 26, 2007 that he is not paying for insurance on the track hoe. According to ROOKS, he and the CRRWC Board have an agreement that the water company would continue to insure the track hoe and could then use it at no cost. Without insurance costs the balance owed on the track hoe is $323.47 as of September 2007.

ROOKS has used CRRWC funds, with the CRRWC Board's knowledge, to purchase items for his personal use. This use of CRRWC funds, especially to purchase large items such as the track hoe, should have been classified as loans and recorded as such in the company records. Although they were not classified as loans, ROOKS has purchased items totaling $77,058.62 and repaid the water company $72,738.02 leaving a balance owed to the water company of $4,320.60. No interest was paid by ROOKS to the water company for these loans. ROOKS was paid for overtime hours but there is no way to determine if he actually worked these hours or if this was an effort to obtain additional funds to repay the water company.

V. CONCLUSION

The investigation was unable to determine that monies are missing from the CRRWC income or that they were illegally diverted to ROOKS or his business. QuickBooks records were changed numerous times over the years from 2003 to 2007 making it difficult to determine actual income and expenses. A true accounting of the water company books would be difficult, if not impossible, without a complete audit and full cooperation from ROOKS, his family members, and the CRRWC members. When a comparison is made of the CRRWC bank statements to the CRRWC QuickBooks records from 2007, it appears that all funds recorded in the QuickBooks records are in the bank accounts.

The investigation does show that there are many questionable practices and procedures used by the Board and General Manager which led members to suspect misuse of equipment and thefts of funds. The CRRWC appears to be run as a "family business" with very little oversight by the Board of Directors. The Board of Directors failed to monitor the finances of the company, they failed to monitor the hours worked by the employees, they did not review the income or expenses regularly

(only yearly, and then not thoroughly), they failed to hold quarterly meetings, they failed to maintain Board minutes, and they failed to be available to the members of the corporation.

The investigation does show that for the period from 2001 to 2005, ROOKS, his family, and his business have been compensated by the water company $837,637.13 for wages, maintenance contracts, and employee benefits (Attachment 36).

The investigation was able to show that the CRRWC made loans to ROOKS in the amount of at least $77,058.62. This investigation did not uncover any signed contract on the loans, other than for the track hoe, any indication of interest being paid on the loans, or written approval by the Board for these loans. Further complicating this issue, Jacquie ROOKS, James ROOKS' wife, maintains the payment records without any oversight by the Board or members.

The investigation also shows that Jacquie and James ROOKS are being paid for working hours that would be almost impossible for a person to sustain over a period of four and one half years. They were able to do this as no one checked on the hours they were paid either as CRRWC employees or as independent contractors. The Board did not review any monthly or yearly financial statements.

On October 11, 2005, March 29, 2006, October 27, 2006, and December 14, 2006 ROOKS said he would not steal from the water company. He added that it was in his best interest to keep the water company financially sound as he, his wife, and his daughter work for the water company. Plus his personal business, Rooks Enterprise, only works for the water company. If the water company would go under because of thefts, he and his family would be without a job.

Wayne A. Trucke
Special Agent

Attachments

WAT/si/CRJ38871

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ATTACHMENTS

1. Articles of Incorporation for the Crooked River Ranch Water Company (CRRWC) filed April 27, 1977, Articles of Dissolution for the Crooked River Ranch Water Company filed July 5, 2006, and Articles of Incorporation for the Crooked River Ranch Water Cooperative filed July 5, 2006. Received from the Secretary of State Corporation Division on July 19, 2006. (22 pages)
2. Bylaws for the CRRWC as amended September 24, 2004. Bylaws for the Crooked River Ranch Water Cooperative as amended June 30, 2006. (35 pages)
3. Partial pages of Bylaws for the CRRWC, for 1991, 1992, 1995, 1996, 1997, June 16, 1996, and May 4, 2001. (26 pages)
4. CRRWC resolution, dated December 19, 2003, approving the "Application Process for Board of Director" presented by ROOKS to the CRRWC Board. With a copy of an application form for Board. (9 pages)
5. PUC Order No. 01-832 titled "Disposition: Formal Investigation Opened" to determine whether CRRWC is subject to PUC jurisdiction. Entered September 27, 2001. (3 pages)
6. PUC Order No. 03-116 titled "Disposition: No Jurisdiction Asserted; Docket Closed." Entered February 13, 2003. (7 pages)
7. CRRWC Employment Policy Outline – Conditions of Employment as of January 1, 2000: presented to the CRRWC Board by ROOKS and signed by Chuck PETERSON, Barbara OAKLEY, Wayne SUTTON, Bill PEMBERTON, and Paul DINSMOOR. (1 page)
8. Spreadsheet prepared by TRUCKE summarizing CRRWC's Tax Form 990 for 1999 to 2005. (3 pages)
9. CRRWC's Form 990 for 1999. (7 pages)
10. CRRWC's Form 990 for 2000. (19 pages)
11. CRRWC's Form 990 for 2001. (14 pages)
12. CRRWC's Form 990 for 2002. (15 pages)
13. CRRWC's Form 990 for 2003. (8 pages)
14. CRRWC's Form 990 for 2004. (17 pages)
15. CRRWC's Form 990 for 2005. (14 pages)
16. CRRWC resolution: Disqualification of a Board of Director dated December 29, 2005. Presented to the CRRWC Board by ROOKS and signed by Rick KEEN and Randy SCOTT (who were allowed to remain on the Board as a result of this resolution), and John COMBS. (1 page)
17. A spreadsheet prepared by TRUCKE documenting nine (9) Board resolutions signed by three Board members on different dates. (1 page)
18. CRRWC Financial Statements and Supplementary Information for the Year Ended December 31, 2003. In addition, CRRWC Financial Statements and Supplementary Information for the Year Ended December 31, 2006. Prepared by the accounting firm Harrigan Price Fronk & Co. (20 pages)
19. Four page worksheet prepared by William (Bill) HOBBS for 2003 and 2004 detailing alleged unreported income. (4 pages)
20. QuickBooks backup of CRRWC records up to October 14, 2005. (1 CD)

21. Receipt for 2003 CRRWC records received from CRRWC by TRUCKE on November 1, 2005. (2 pages)
22. QuickBooks backup of CRRWC records up to January 25, 2006. (1 CD)
23. Profit and Loss Statements for 2003-2007 prepared by TRUCKE using QuickBooks records provided by CRRWC. (18 pages)
24. Spreadsheet prepared by TRUCKE using information provided by the CRRWC (attached) showing the number of customers billed by CRRWC in 2003. (18 pages)
25. Spreadsheet, prepared by TRUCKE, comparing Assessment Funds using QuickBooks records received in January 2006, those received in October 2007, and the information CRRWC provided to the PUC on April 8, 2008. (32 pages)
26. Resolution from ROOKS to the CRRWC Board dated March 29, 2004 approving the $8 per month Special Assessment Fee. (2 pages)
27. The CRRWC "Condensed 20 Year Project Report and Explanation of Expenditures and Assessments" with a list of projects to be completed with the Special Assessment Funds on pages 10 and 11. (27 pages)
28. Spreadsheet, prepared by TRUCKE, of purchases made with Assessment Funds as indicated in records received from Jacquie ROOKS, James ROOKS, John COMBS, and Craig SOULE with their documentation attached. (24 pages)
29. Copy of the CRRWC Washington Mutual Bank Check #7253 to First American Title for $15,000.00 and the CRRWC Washington Mutual Check #7301 to First American Title for $15,476.95. These two checks were used to purchase property at 8820 SW Crater Loop, Crooked River Ranch in April 2001. (2 pages)
30. CRRWC resolution from ROOKS to the CRRWC Board dated April 9, 2001 to purchase property at 8820 SW Crater Loop. (4 pages)
31. CRRWC resolution from ROOKS to the CRRWC Board dated August 11, 1999 approving the use of Company Equipment by employees and the Board. And page 45 of the 2004 Employee Policies Handbook about Use of Company Equipment. (2 pages)
32. Spreadsheet prepared by TRUCKE, using the CRRWC QuickBooks records, listing payments to the Reimbursement Account from ROOKS for 2003 to 2005. And listing the payments for 2000 to 09/05/2007. (5 pages)
33. CRRWC resolution from ROOKS to the CRRWC Board dated September 27, 2005 to purchase track hoe and hammer. (1 page)
34. Non negotiated check #1026 for $25,000 from Rooks Enterprises, LLC to show purchase of track hoe. Plus additional information, purchase order and invoices, on track hoe provided by ROOKS. (4 pages)
35. Two CRRWC Washington Mutual Bank checks to Cascade Machinery Company for the purchase of the hammer, check #3470, and for a down payment on the track hoe, check #3469. (1 page)
36. Spreadsheet prepared by TRUCKE, using the CRRWC QuickBooks records, listing a summary of money paid by the CRRWC to ROOKS, his family, and their companies for 2001 to 2005 and for 2001 to 2007 with attached QuickBooks records. (99 pages)
37. List of CRRWC Board members, 1999 to 2006. (1 page)
38. Copy of records received from the Jefferson County District Attorney. (41 pages)

39. Email from ROOKS, received December 14, 2007, in reference to the use of Rooks Enterprise equipment exclusively for the CRRWC. (2 pages)
40. Spreadsheet prepared by TRUCKE of Profit and Loss statements and Balance Sheets summarizing QuickBooks records from January 2006 and October 2007 with attached QuickBooks records. (56 pages)
41. Spreadsheet of summarized information on the purchase of the track hoe, prepared by TRUCKE, using the CRRWC QuickBooks records and records received from CNH Capital, Sage Insurance, ROOKS, and Cascade Machinery Company. (6 pages)
42. Time line, prepared by TRUCKE, covering information gathered during this investigation. (6 pages)
43. CRRWC payments for 2000 to 2005 to Rooks Enterprise, We Can Do Services, Wayne's Body Shop, Greg SUTTON, Star Excavations & Trucking, and Scott Enterprises. (7 pages)
44. Warranty Deed for sale of SCOTT's CRRWC property (1 page); Warranty Deed for sale of KEEN's CRRWC property (1 page), and a Bargain and Sale Deed which adds SCOTT and KEEN to ROOKS' property (1 page). (Total – 3 pages)
45. Copies of deposited checks from deposit of $69,000 to the Community First Bank. (12 pages)
46. Spreadsheet, prepared by TRUCKE using the CRRWC QuickBooks payroll records, listing the hours worked by James and Jacquie ROOKS. (25 pages)
47. List of items purchased by ROOKS using CRRWC funds. Prepared by TRUCKE using records provided by Jacquie ROOKS. (3 pages)

END OF ATTACHMENTS