

# AUDIT REPORT

OKFUSKEE COUNTY RURAL WATER DISTRICT #3  
OKEMAH, OKLAHOMA

NOVEMBER 30, 2011



## KERSHAW CPA & ASSOCIATES, PC

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OKFUSKEE COUNTY RURAL WATER DISTRICT #3  
OKEMAH, OKLAHOMA  
NOVEMBER 30, 2011

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OKFUSKEE COUNTY RURAL WATER DISTRICT #3  
OKEMAH, OKLAHOMA  
NOVEMBER 30, 2011

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>
Steve Killmer P.O. Box 683 Weleetka, OK 74880-0683	Chairman
Don McDaniel Rt. 3, Box 123 Okemah, OK 74859	Vice-Chairman
Paul Haydon Rt. 1, Box 127 Okemah, OK 74859	Secretary/Treasurer
Jack York Rt. 1, Box 174 Okemah, OK 74859	Member
Frank Moore Rt. 3, Box 113 Okemah, OK 74859	Member
Clifford Gates Rt. 1, Box 186 Okemah, OK 74859	Member
Shirley Nero Rt. 1, Box 1750 Okemah, OK 74859	Member

EMPLOYEES

Randy Clark	Manager
Thomas Wallace II	Assistant Manager
Kathe McKinney	Secretary
Richard King	Operator

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Okfuskee County Rural Water District #3  
Okemah, Oklahoma

I have audited the accompanying financial statements of the Okfuskee County Rural Water District #3, as of and for the fiscal year ended November 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Okfuskee County Rural Water District #3's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As described in Note 1, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Okfuskee County Rural Water District #3, Okemah, Oklahoma, as of November 30, 2011, and the changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, I have also issued my report dated January 27, 2012, on my consideration of the Okfuskee County Rural Water District #3's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be considered in assessing the results of my audit.

The Management's Discussion and Analysis is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation

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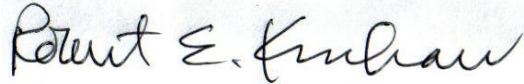
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of the required supplementary information. However, I did not audit the information and express no opinion on it.

The introductory and the other supplementary information sections listed in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the District. Such additional information has not been subjected to the auditing procedures applied in my audit of the basic financial statements, and accordingly, I do not express an opinion thereon.



Robert E. Kershaw  
Certified Public Accountant

January 27, 2012



## *Rural Water District #3, Okfuskee Co.*

P.O. Box 650 ~ 2mi. East of Okemah on HWY 62 ~ OKEMAH, OK. 74859  
Phone 918-623-2615

### MANAGEMENTS DISCUSSION AND ANALYSIS FYE 11/30/2011

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the fiscal year ended 11/30/2011 within the limitations of the District's modified cash basis of accounting. Please read it in conjunction with the District's audited financial statements which follow this section.

#### FINANCIAL HIGHLIGHTS

- The District's net assets increased by \$64,723.00 or 9.3 percent from \$628,772.00 to \$693,495.00.
- Total revenues increased by \$25,488.00 or 5.7 percent from \$418,991.00 to \$444,479.00
- Total expenses increased by \$25,525.00 or 6.7 percent from \$355,126.00 to \$380,651.00

#### OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of the following three parts:

Management's Discussion and Analysis, Financial Statements and Other Required Supplementary Information. The Financial Statements include notes which explain in detail some of the information included in the financial statements.

#### REQUIRED FINANCIAL STATEMENTS

The District has elected to present its financial statements on a modified cash basis of accounting. This modified cash basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and their related assets and liabilities. Under the District's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from cash transactions, except for the recording of depreciation expense on capital assets.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expense and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this financial report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.



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MANAGEMENTS DISCUSSION AND ANALYSIS  
FYE 11/30/2011

The Statement of Net Assets includes information on the District’s assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). The Statement of Revenues, Expenses and Changes in Net Assets identify the District’s revenues and expenses for the fiscal years ended 11/30/2011. This statement provides information on the District’s operations over the past fiscal year and can be used to determine whether the District has recovered all of its actual costs through user fees and other charges. The third financial statement is the Statement of Cash Flows. This statement provides information on the District’s cash receipts, cash payments and changes in cash resulting from operations, investments and financing activities. From the Statement of Cash Flows, the reader can obtain comparative information on the source and use of cash and the change in the cash balance for the last fiscal year.

FINANCIAL ANALYSIS OF THE DISTRICT

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets provide an indication of the District’s financial condition and also indicate that the financial condition of the District improved/declined during the last fiscal year. The District’s net assets reflect the difference between assets and liabilities. An increase in net assets over time typically indicates an improvement in financial condition.

A summary of the District’s Statement of Net Assets is presented below:

**Table 1**  
Condensed Statement of Net Assets – Modified Cash Basis

	2011	2010	Dollar Change	Percent Change
Current and Other Assets	202,659	123,694	78,695	39
Capital Assets	505,132	510,401	5,269	(1)
Total Assets	707,791	634,095	73,696	10.5
Long-Term Debt		N/A		
Other Liabilities	14,296	5,322	8,974	137.8
Total Liabilities	14,296	5,322	8,974	137.8
Net assets invested in capital assets, net of related debt	505,132	510,401	5,269	(1)
Net assets restricted for debt service	1,000	1,000	0	0
Unrestricted net assets	187,363	117,372	69,991	37.4
Total Net Assets	693,495	628,773	64,722	9.4



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MANAGEMENTS DISCUSSION AND ANALYSIS  
FYE 11/30/2011

As the above table indicates, total assets increased by \$ 73,696.00 from \$634,095.00 to \$707,791.00 during the fiscal year ended 11/30/2011. This is comprised of an increase of \$78,695.00 in current and other assets and a decrease of \$5,269.00 in capital assets.

Total liabilities reflect an increase of \$8,974.00.

Table 1 also indicates that total net assets increased by \$64,722.00 from \$628,773.00 to \$693,495.00. This increase is the result of a decrease of \$5,269.00 in net assets invested in capital assets, net of related debt.

**Table 2**  
Condensed Statement of Revenues, Expenses and Changes in Net Assets  
Modified Cash Basis

	2011	2010	Dollar Change	Percent Change
Operating Revenues	444,491	418,991	25,500	5.8
Non-operating Revenues	894	515	379	42.4
Total Revenues	445,385	419,506	25,879	5.9
Depreciation Expense	24,532	52,308	(27,776)	(153.2)
Other Operating Expenses	356,119	302,818	53,301	15
Non Operating Expenses	0	681	(681)	100
Total Expenses	380651	355,126	25,525	6.8
Income Before Capital Contributions and Special Items	64,723	63,698	1,025	1.2
Capital Contributions				
Special Items		N/A		
Changes in Net Assets	64,723	63,698	1,025	1.2
Beginning Net Assets	628,772	565,074	63,698	10.2
Prior Year Adjustment	0	0		
Ending Net Assets	693495	628,772	64,723	9.4

The Statement of Revenues, Expenses and Changes in Net Assets identify the various revenue and expense items which impact the change in net assets. As the information in Table 2





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MANAGEMENTS DISCUSSION AND ANALYSIS  
FYE 11/30/2011

indicates, income before capital contributions and special items of \$64,723.00 and capital contributions of \$0.00 were the two items which resulted in an increase of \$1,025.00 in net assets by the end of the 2011 fiscal year.

Table 2 indicates that the District’s total revenues increased by \$25,879.00 or 5.9 percent to \$445,385.00 in the fiscal year ended 11/30/2011 from \$419,506.00 the prior year. Total expenses increased by \$25,525.00 or (6.8) percent during the 2011 fiscal year.

CAPITAL ASSETS

As of 11/30/2011, the District’s investment in capital assets totaled \$505,132.00 which is a decrease of \$5,269.00 or (1) percent under the capital asset balance of \$505,132.00 at FYE 2011. Capital assets include all of the District’s major capital assets, including infrastructure assets, water treatment facilities, water mains, pipes and storage reservoirs. A comparison of the District’s capital assets over the past two fiscal years is presented in Table 3 below.

Table 3  
Capital Assets - Modified Cash Basis

	2011	2010	Dollar Change	Percent Change
Water Line Extension	1,944,507	1,925,224	19,263	2.1
Pump Station	40,000	40,000	0	0
Equipment	26,916	26,916	0	0
Construction				
Construction in Progress				
Subtotal	2,011,423	1,921,214	90,209	4.5
Less: Accumulated Depreciation	(1,439,375)	(1,141,843)	(24,532)	(1.1)

Included among the capital projects completed during the 2011 fiscal year are. The District replaced 10 house meters and installed three new 2” site meters. 1. Hwy. 75 & E1100 Rd, 2. Hwy. 62 & N3800 Rd, and 3. Hwy. 75 and N3850 Rd. Began building an addition to the office. Install one flush hydrant on Hwy. 56 for the purpose of flushing dirty water in line before getting into the system. Replace three broken flush valves with three flush hydrants.

LONG-TERM DEBT

As of FYE 2011, the District had no outstanding long-term debt.



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MANAGEMENTS DISCUSSION AND ANALYSIS  
FYE 11/30/2011

ECONOMIC FACTORS AND NEXT YEARS BUDGET AND RATES

For year end 2011 the Board of Director has approved the 2012 budget and upgrades presented by Manager Randy Clark. The major upgrade will be to replace one 2" site meters, install four 2" site meters, change out 10 house meters, install one two inch auto flush hydrant, recoat inside and paint outside of the Clearview tower, and build one 25' X 55' shop building with manager's office inside. Discussion will be made concerning possible water rate increase in 2012 to meet the needs of the district.

ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide the District's customers, creditors and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact Rural Water District #3 - Okfuskee County's office at P.O. Box 650, Okemah, OK 74859

OKFUSKEE COUNTY RURAL WATER DISTRICT #3  
OKEMAH, OKLAHOMA  
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS  
NOVEMBER 30, 2011

	2011	Memorandum Only 2010
<b><u>ASSETS</u></b>		
<b><u>Current Assets:</u></b>		
Cash on Hand	\$ 50	\$ 50
Cash in Bank - Revenue Fund	23,305	27,438
Savings in Bank - Replacement Fund	138,221	67,669
ORWAAG Reserve Certificate	1,000	1,000
Prepaid Insurance	7,752	8,389
Inventory	32,331	19,148
	202,659	123,694
<b><u>Capital Assets:</u></b>		
Property and equipment	1,944,507	1,925,244
Less: Accumulated Depreciation	(1,439,375)	(1,414,843)
	505,132	510,401
<b>TOTAL ASSETS</b>	<b>707,791</b>	<b>634,094</b>
<b><u>LIABILITIES &amp; FUND BALANCES</u></b>		
<b><u>Current Liabilities:</u></b>		
Other Current Liabilities	7,935	1
Payroll Taxes Payable	2,061	1,321
Renter Deposits Payable	4,300	4,000
	14,296	5,322
<b><u>Long-term Liabilities:</u></b>		
Notes Payable	-	-
Less: Current Portion of Long-Term Debt	-	-
	-	-
<b>TOTAL LIABILITIES</b>	<b>14,296</b>	<b>5,322</b>
<b><u>Net Assets:</u></b>		
Invested in capital assets, net of related debt	505,132	510,401
Restricted for debt service	1,000	1,000
Unrestricted	187,363	117,372
	693,495	628,772
<b>TOTAL NET ASSETS</b>	<b>\$ 693,495</b>	<b>\$ 628,772</b>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**OKFUSKEE COUNTY RURAL WATER DISTRICT #3  
OKEMAH, OKLAHOMA  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - MODIFIED CASH BASIS  
FOR THE TWELVE MONTHS ENDED NOVEMBER 30, 2011**

	2011	Memorandum Only 2010
<b><u>Operating Revenue:</u></b>		
Water Sales, Tap Fees and Other User Fees	\$ 441,993	\$ 416,503
Miscellaneous Revenue	2,486	2,488
<b>Total Operating Revenue</b>	<b>444,479</b>	<b>418,991</b>
<b><u>Operating Expenses:</u></b>		
Water Purchased	119,440	116,747
Wages	101,909	78,962
Electric	3,165	2,156
Repairs & Maintenance	23,329	16,561
Vehicle & Mileage Expenditures	17,881	13,171
Professional fees	30,721	10,866
Office Supplies and Postage	9,866	8,889
Insurance	12,978	12,473
Taxes, Licenses & Fees	200	266
Payroll Taxes	8,481	6,399
Employee Benefits	2,886	2,306
Water Testing & Chemicals	1,301	3,769
Telephone	3,272	3,329
Miscellaneous	632	1,045
Contracted Services	15,018	21,110
Collection Expense	1,799	1,726
Publications	943	480
Bank Charges	390	242
Charitable Contributions	-	-
Office Repairs	121	72
Meeting Expense	1,787	2,249
Depreciation Expense	24,532	52,308
<b>Total Operating Expenses</b>	<b>380,651</b>	<b>355,126</b>
<b>Operating Income (Loss)</b>	<b>63,829</b>	<b>63,865</b>
<b>Other Revenues and (Expenses):</b>		
Interest Income	894	515
Interest Expense	-	(681)
Gain(Loss) on Disposal of Assets	-	-
<b>Total Other Revenues and (Expenses)</b>	<b>894</b>	<b>(166)</b>
<b>Net Income (Loss) Before Contributions</b>	<b>64,723</b>	<b>63,698</b>
<b>Capital Contributions</b>	<b>-</b>	<b>-</b>
<b>Change in Net Assets</b>	<b>64,723</b>	<b>63,698</b>
<b>Total Net Assets, Beginning of Year</b>	<b>628,772</b>	<b>565,074</b>
<b>Total Net Assets, Prior Year Adjustment</b>	<b>-</b>	<b>-</b>
<b>Total Net Assets, End of Year</b>	<b>\$ 693,495</b>	<b>\$ 628,772</b>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

OKFUSKEE COUNTY RURAL WATER DISTRICT #3  
OKEMAH, OKLAHOMA  
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS  
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2011

	2011	Memorandum Only 2010
<b><u>Net Cash Flows from Operating Activities:</u></b>		
Cash Receipts from Customers	\$ 444,479	\$ 418,991
Payments to Suppliers for Goods & Services	(254,210)	(223,856)
Payments to Employees & Laborers	(113,715)	(81,710)
Receipts of Renter Deposits, Net of Refunds	300	350
Net Cash Provided (Used) by Operating Activities	<u>76,855</u>	<u>113,774</u>
<b><u>Net Cash Flows from Capital &amp; Related Financing Activities:</u></b>		
Additions to Capital Assets	(19,263)	(67,771)
Capital Contributions	-	-
Loan Proceeds	-	-
Principal paid on Debt	7,934	(12,721)
Interest paid on Debt	-	(681)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(11,329)</u>	<u>(81,173)</u>
<b><u>Net Cash Flows from Investing Activities:</u></b>		
Interest Income	894	515
Net Cash Provided (Used) by Investing Activities	<u>894</u>	<u>515</u>
Net Increase (Decrease) in Cash and Cash Equivalents	66,419	33,116
Cash & Cash Equivalents, Beginning of Year	95,156	62,040
Cash & Cash Equivalents, Prior Year Adjustment	-	-
Cash & Cash Equivalents, End of Year	<u>\$ 161,576</u>	<u>\$ 95,156</u>
<b><u>Reconciliation of operating income (loss) to net cash provided operating activities:</u></b>		
Operating Income (Loss)	\$ 63,829	\$ 63,865
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	24,532	52,308
(Increase)Decrease in Prepaid Insurance	637	(612)
(Increase)Decrease in Inventory	(13,183)	(1,534)
Increase(Decrease) in Payroll Taxes Payable	740	(603)
Increase(Decrease) in Renter Deposits Payable	300	350
Net Cash Provided (Used) by Operating Activities	<u>\$ 76,855</u>	<u>\$ 113,774</u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

OKFUSKEE COUNTY RURAL WATER DISTRICT #3  
OKEMAH, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES & OPERATIONS

Rural Water District #3, Okfuskee County (the "District") was incorporated and organized in accordance with Title Eighty-two of the Oklahoma Statutes, on August 18, 1969. The District maintains a water distribution system located in Okfuskee County and Hughes County, State of Oklahoma, and provides potable water to the rural families and business in its service area.

A. Basis of Presentation

The accounts of the District are organized on the basis of proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net assets, revenues and expenses. Enterprise Funds account for activities (1) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (2) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (3) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

B. Basis of Accounting

Rural Water District #3 uses the modified cash basis of accounting in its record keeping and in the preparation of its financial statements. This method of financial accounting and statement presentation differs from generally accepted accounting principles in that revenue is recorded when received, not when earned, and the corresponding accounts receivable are not recorded; and expenses are recorded when paid, rather than when incurred, and the corresponding accounts payable balances are not recorded.

C. Budgetary Data

The District prepares an annual budget for internal bookkeeping purposes.

D. Cash and Investments

The District considers all highly liquid investments with an original maturity of three months or less to be a cash equivalent. The District does not consider restricted cash to be a cash equivalent.

E. Inventory

The District maintains inventory records of parts and supplies purchased and still on hand at yearend.

OKFUSKEE COUNTY RURAL WATER DISTRICT #3  
OKEMAH, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2011

F. Capital Assets (Property, Plant & Equipment)

The fiscal year ended November 30, 2005 is the first year that the District has depreciated its assets. In the past, depreciation was omitted and asset values were therefore overstated.

Capitalization Policy - Purchases of capital items in excess of \$300.00 that increase the capacity or operation efficiency or extend the useful life of any asset are capitalized. Repairs and maintenance are expensed as incurred.

G. Income Taxes

As an Internal Revenue Service Code Section 501(C)(12), non-profit corporation, the District is not required to pay Federal or State of Oklahoma Income Taxes.

H. Long-Term Debt

Long-term debt is reported at face value, net of applicable discounts and deferred loss on refunding. Costs related to the issuance of debt are deferred and amortized over the lives of various debt issues.

I. Equity Classification

Equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
2. Restricted net assets—Consists of net assets with constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets—All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

OKFUSKEE COUNTY RURAL WATER DISTRICT #3  
OKEMAH, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2011

J. Revenues, expenditures & expenses

Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

K. Governmental Accounting Standards Board Statement No. 34

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Certain of the significant changes in the Statement include the following:

1. For the first time the financial statement should include:
  - a. A Management Discussion and Analysis (MD&A) section providing analysis of the District's overall financial position and results of operations.
  - b. Financial statements prepared using full accrual accounting for all of the District's activities, except for including the General capital assets or infrastructure (lines, pump stations, etc.).
2. A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The District has elected to implement the general provisions of the Statement in the current year and report infrastructure acquired after November 30, 2003 as provided by GASB standards.

L. Memorandum Totals

The "memorandum only" captions above the total columns mean that totals are presented for overview information purposes only.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

As a local government unit, the District is subject to various federal, state, and local laws and contractual regulations. In accordance with Government Auditing Standards, the auditor has issued a report on his consideration of the District's internal control over financial reporting and tested its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be read in conjunction with this report in considering the results of the audit.



OKFUSKEE COUNTY RURAL WATER DISTRICT #3  
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NOVEMBER 30, 2011

Finance-related Legal & Contractual Provisions

The District does not have any loans and therefore does not have any reserve account or budget requirements.

Deficit Fund Balance or Retained Earnings

As indicated in the financial statements, there are no fund balance or retained earnings deficits for the District for this fiscal year.

NOTE 3 - CASH AND INVESTMENTS

Custodial Credit Risk

At November 30, 2011, the District held deposits of approximately \$162,576 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name.

Investment Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The District has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.

OKFUSKEE COUNTY RURAL WATER DISTRICT #3  
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- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

NOTE 4 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended November 30, 2011, was as follows:

	Balance at Nov. 30, 2010	Additions	Deductions	Balance at Nov. 30, 2011
Property & Equipment	\$ 1,925,244	\$ 19,263	\$ -	\$ 1,944,507
Work-in-progress	-	-	-	-
Subtotal	1,925,244	19,263	-	1,944,507
Less: Accum. Depr.	(1,414,843)	(24,532)	-	(1,439,375)
Total Capital Assets (Net of Depreciation)	<u>\$ 510,401</u>	<u>\$ (5,269)</u>	<u>\$ -</u>	<u>\$ 505,132</u>

The current year capital asset additions included the following:

- Fusion machine
- 5000 Watt Port Generator
- Office Furniture
- GPS Geo XT 6000 Series

NOTE 5 - MORTGAGES PAYABLE

The District currently has no long-term debt.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended November 30, 2011:

	Balance at November 30, 2010	Additions	Deductions	Balance at November 30, 2011
Mortgages Payable	\$ -	\$ -	\$ -	\$ -
Total Long-Term Debt	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Debt Services Requirements to Maturity

The annual debt service requirements to maturity, including principal and interest, for long-term debt, as of November 30, 2011, are as follows:

OKFUSKEE COUNTY RURAL WATER DISTRICT #3  
 OKEMAH, OKLAHOMA  
 NOTES TO FINANCIAL STATEMENTS  
 NOVEMBER 30, 2011

Year Ending November 30,	Principal	Interest	Total
2012	\$ -	\$ -	\$ -
2013	-	-	-
2014	-	-	-
2015	-	-	-
2016	-	-	-
2017-2021	-	-	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 6 - RETIREMENT PLAN

During the fiscal year ended November 30, 2005, the District began providing a pension plan to its employees. The District must match employee contributions dollar for dollar up to 3% of the employees' compensation. The total employer contribution for the year ended November 30, 2011 was \$2,886.22.

NOTE 7 - COMPENSATED ABSENCES

All Full-Time employees will earn vacation benefits based on the anniversary employment date and the number of service years. After the first year, each Full-Time employee will be entitled to one week of paid vacation, after two full years of employment, each Full-Time employee is entitled to two weeks of paid vacation and after ten full years of employment, each Full-Time employee will be entitled to three weeks of paid vacation. (A week of vacation is equivalent to the number of days worked per week.) You must wait until after your anniversary date to take your paid vacation. Advance notice is required when scheduling vacation time, unless there is an emergency or an unforeseen need. If a recognized holiday for which you would normally be paid falls within your vacation period, you will receive an additional day of vacation. The holiday will not be charged against your available vacation time. If for some reason you must leave the District's employment without having taken your accrued vacation time and you have completed a full year of continuous employment, you will be entitled to just compensation. Vacation days must be taken in the year following their accrual and cannot be carried over into future years. If you must take a leave of absence, you will not accumulate further vacation time until returning to work.

All Full-Time employees are entitled to three paid days of personal time each year for any reason, accruing at a rate of one day for each full four months of employment. Advance notice is requested when scheduling personal time unless in the case of illness or an emergency. Unused personal time may not be carried over from year to year nor paid upon termination.

All Full-Time employees are entitled to five paid days of sick leave each year, accruing at a rate of one day for each full month for the first five months of the

OKFUSKEE COUNTY RURAL WATER DISTRICT #3  
OKEMAH, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2011

year. Unused sick leave may be carried over from year to year but each employee can at no time have more than five days of accrued sick leave in one year.

NOTE 8 - FUND EQUITY

As described in Note 1 above, equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt
2. Restricted net assets
3. Unrestricted net assets

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Litigation - As of November 30, 2011, there were no claims or lawsuits pending against the District, except as noted below.

Okfuskee County RWD #3 (the "District") filed suit against the Okemah Utilities Authority (the "Authority") alleging they failed to follow the contract in setting rates for the District to obtain water from the Authority, and further that the rates included sewer costs and other costs that were not appropriate for the actual cost of providing water to Okfuskee County RWD #3. The District made a recovery, but it was not near enough, and the District filed an Appeal with the Oklahoma Supreme Court, and it reversed the matter and sent it back for determination of damages.

The case has a date of January 25, 2012 to file briefs and a trial date will be set and a hearing conducted on the issue of damages to the District and what the Authority should have to pay as such.

The management of the District has vigorously litigated this matter; however the Authority has not been reasonable whatsoever in any type of out-of-court settlement, so it appears it will proceed to hearing.

The attorney believes there will be a favorable outcome, and no loss whatsoever to the District, other than attorney's fees.

Grant Audits - The District has received several Federal and State grants for specific purposes that are subject to review and audit by grantor agencies. Such audits could result in a request for reimbursement by the Federal or State agency for expenditures disallowed under the terms and conditions of the appropriate agencies. In the opinion of management, such disallowance, if any, will not be material to the financial statements. As of November 30, 2011, the District had not received any grants which remained unaudited by the grantor agency.

OKFUSKEE COUNTY RURAL WATER DISTRICT #3  
OKEMAH, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2011

NOTE 10 - INSURANCE COVERAGE

The District maintains the following insurance coverage:

- Auto Liability
- Property Coverage
- Comprehensive General Liability
- Errors or Omissions
- Employment Related Practices Liability
- Employee Dishonesty and Crime Coverage
- Workers Compensation

NOTE 11 - WATER PURCHASES

The District purchases water from the following source:

- Okemah Utility Authority

NOTE 12 - SUBSEQUENT EVENTS

The District did not have any subsequent events through January 27, 2012, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending November 30, 2011.

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

To the Board of Directors  
Okfuskee County Rural Water District #3  
Okemah, Oklahoma

I have audited the financial statements of the Okfuskee County Rural Water District #3, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles, as of November 30, 2011 and have issued my report thereon dated January 27, 2012. I conducted my audit in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and in accordance with Oklahoma Statutes.

### Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Okfuskee County Rural Water District #3's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Okfuskee County Rural Water District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Okfuskee County Rural Water District #3's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weakness, as defined above.

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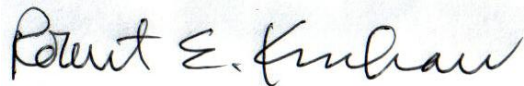
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## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Okfuskee County Rural Water District #3's financial statements are free of material misstatement, I performed tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of directors and management of the Okfuskee County Rural Water District #3, Okemah, Oklahoma and is not intended to be and should not be used by anyone other than these specified parties.



Robert E. Kershaw, CPA

January 27, 2012

OKFUSKEE COUNTY RURAL WATER DISTRICT #3  
OKEMAH, OKLAHOMA  
SCHEDULE OF WATER RATES AND CUSTOMERS  
NOVEMBER 30, 2011

Water Rates

First 1,000 Gallons	\$20.00 Minimum Bill
1,001-10,000 Gallons	\$ 7.50 Per thousand gallons
Over 10,000 Gallons	\$ 8.75 Per thousand gallons

Total Gallons Purchased 49,422,000

Total Gallons Sold 40,713,490

Percentage of Loss 18.00%

Customers

The Okfuskee County Rural Water District #3 had 717 customers at the close of this fiscal year.

Current membership/tap fee \$650 per meter sign-up or \$900 for a #1 meter  
\$100 refundable renter's deposit