

AUDIT REPORT

OKFUSKEE COUNTY RURAL WATER DISTRICT #3
OKEMAH, OKLAHOMA

NOVEMBER 30, 2014



KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

OKFUSKEE COUNTY RURAL WATER DISTRICT #3
OKEMAH, OKLAHOMA
NOVEMBER 30, 2014

TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTORY SECTION:	
BOARD OF DIRECTORS	3
FINANCIAL SECTION:	
INDEPENDENT AUDITOR'S REPORT	4-6
BASIC FINANCIAL STATEMENTS:	
EXHIBIT A STATEMENT OF NET POSITION - MODIFIED CASH BASIS	7
EXHIBIT B STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - MODIFIED CASH BASIS	8
EXHIBIT C STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS	9
NOTES TO THE FINANCIAL STATEMENTS	10-19
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	20-21
OTHER SUPPLEMENTARY INFORMATION:	
SCHEDULE OF WATER RATES & CUSTOMERS	22

OKFUSKEE COUNTY RURAL WATER DISTRICT #3
OKEMAH, OKLAHOMA
NOVEMBER 30, 2014

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>
Steve Killmer P.O. Box 683 Weleetka, OK 74880-0683	Chairman
Shirley Nero 110216 N. 3830 Rd. Clearview, OK 74880	Vice-Chairman
Paul Haydon 378130 E. 980 Rd. Okemah, OK 74859	Secretary/Treasurer
Jack York 380049 Hwy 56 Okemah, OK 74859	Member
Frank Moore 109133 N. 3820 Rd. Okemah, OK 74859	Member
Clifford Gates 382070 Hwy 56 Okemah, OK 74859	Member
Don McDaniel PO Box 123 Okemah, OK 74859	Member

EMPLOYEES

Randy Clark	Manager
Brandon Anderson	Operator
Kathe McKinney	Secretary
Richard King	Operator

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the Okfuskee County Rural Water District #3, as of and for the fiscal year ended November 30, 2014, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1. This includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and 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 we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of significant accounting estimates made, by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of the Okfuskee County Rural Water District #3, Okfuskee County, Oklahoma, as of November 30, 2014, and the changes in modified cash basis financial position and, where applicable, cash flows, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

Other Matters

Supplementary and Other Information

The introductory and 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 our audit of the basic financial statements, and accordingly, we do not express an opinion or provide and assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 30, 2015, on our consideration of the Okfuskee County Rural Water District #3's internal control over

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in compliance with *Government Auditing Standards* in considering Okfuskee County Rural Water District #3's internal control over financial reporting and compliance.

Basis of Accounting

We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Kershaw CPA & Associates, P.C.

Kershaw CPA & Associates, PC

January 30, 2015

OKFUSKEE COUNTY RURAL WATER DISTRICT #3
OKEMAH, OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
NOVEMBER 30, 2014

	2014	Memorandum Only 2013
<u>ASSETS</u>		
<u>Current Assets:</u>		
Cash on Hand	\$ 250	\$ 250
Cash in Bank - Revenue Fund	18,059	14,126
Savings in Bank - Replacement Fund	103,090	2,865
ORWAAG Reserve Certificate	1,000	1,000
Prepaid Insurance	9,603	9,251
Inventory	46,033	33,140
Total Current Assets	178,035	60,632
<u>Capital Assets:</u>		
Property and equipment	2,353,888	2,284,441
Less: Accumulated Depreciation	(1,537,853)	(1,499,192)
Total Capital Assets	816,035	785,248
TOTAL ASSETS	994,070	845,880
<u>LIABILITIES & NET POSITION</u>		
<u>Current Liabilities:</u>		
Other Current Liabilities	-	851
Payroll Taxes Payable	2,172	3,097
Renter Deposits Payable	5,100	4,800
Notes Payable - Short-term	-	93,242
Total Current Liabilities	7,272	101,989
<u>Long-term Liabilities:</u>		
Notes Payable	-	-
Less: Current Portion of Long-Term Debt	-	-
Total Long-term Liabilities	-	-
TOTAL LIABILITIES	7,272	101,989
<u>Net Position:</u>		
Net investment in capital assets	816,035	692,007
Restricted for debt service	1,000	1,000
Unrestricted	169,763	50,884
TOTAL NET POSITION	\$ 986,798	\$ 743,891

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 POSITION - MODIFIED CASH BASIS
FOR THE TWELVE MONTHS ENDED NOVEMBER 30, 2014**

	2014	Memorandum Only 2013
<u>Operating Revenue:</u>		
Water Sales, Tap Fees and Other User Fees	\$ 416,684	\$ 426,692
Miscellaneous Revenue	33,224	1,352
Total Operating Revenue	449,908	428,045
<u>Operating Expenses:</u>		
Water Purchased	110,553	107,071
Wages	102,500	114,818
Electric	5,086	4,610
Repairs & Maintenance	28,735	31,894
Vehicle & Mileage Expenditures	17,844	18,750
Professional fees	21,241	23,406
Office Supplies and Postage	10,575	9,768
Insurance	15,054	11,788
Taxes, Licenses & Fees	1,873	2,383
Payroll Taxes	8,478	9,536
Employee Benefits	7,809	3,427
Water Testing & Chemicals	3,290	1,992
Telephone	3,068	3,347
Miscellaneous	1,235	72
Contracted Services	19,768	25,715
Publications	567	616
Bank Charges	53	624
Dues & Subscriptions	682	628
Office Repairs	577	181
Meeting Expense	1,987	2,118
Depreciation Expense	38,660	35,900
Total Operating Expenses	399,633	408,643
Operating Income (Loss)	50,274	19,402
<u>Other Revenues and (Expenses):</u>		
Interest Income	340	367
Interest Expense	(3,247)	(408)
Settlement Income	195,540	-
Gain(Loss) on Disposal of Assets	-	4,751
Total Other Revenues and (Expenses)	192,633	4,710
Net Income (Loss) Before Contributions	242,907	24,113
Capital Contributions	-	-
Change in Net Position	242,907	24,113
Total Net Position, Beginning of Year	743,891	719,713
Total Net Position, Prior Year Adjustment	-	65
Total Net Position, End of Year	\$ 986,798	\$ 743,891

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, 2014

	2014	Memorandum Only 2013
<u>Cash Flows from Operating Activities:</u>		
Cash Receipts from Customers	\$ 449,908	\$ 428,045
Payments to Suppliers for Goods & Services	(258,474)	(257,925)
Payments to Employees & Laborers	(117,521)	(114,983)
Receipts of Renter Deposits, Net of Refunds	300	700
Net Cash Provided (Used) by Operating Activities	<u>74,213</u>	<u>55,837</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>		
Additions to Capital Assets	(69,447)	(215,767)
Settlement Income	195,540	-
Proceeds from Disposal of Capital Assets	-	8,001
Loan Proceeds	-	106,000
Principal paid on Debt	(93,242)	(12,758)
Interest paid on Debt	(3,247)	(408)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>29,604</u>	<u>(114,932)</u>
<u>Cash Flows from Investing Activities:</u>		
Interest Income	340	367
Net Cash Provided (Used) by Investing Activities	<u>340</u>	<u>367</u>
Net Increase (Decrease) in Cash and Cash Equivalents	104,157	(58,728)
Cash & Cash Equivalents, Beginning of Year	17,241	75,904
Cash & Cash Equivalents, Prior Year Adjustment	-	65
Cash & Cash Equivalents, End of Year	<u>\$ 121,398</u>	<u>\$ 17,241</u>
<u>Reconciliation of operating income (loss) to net cash provided operating activities:</u>		
Operating Income (Loss)	\$ 50,274	\$ 19,402
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	38,660	35,900
(Increase)Decrease in Prepaid Insurance	(353)	(320)
(Increase)Decrease in Inventory	(12,893)	119
Increase(Decrease) in Other Current Liabilities	(851)	(194)
Increase(Decrease) in Payroll Taxes Payable	(925)	230
Increase(Decrease) in Renter Deposits Payable	300	700
Net Cash Provided (Used) by Operating Activities	<u>\$ 74,213</u>	<u>\$ 55,837</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, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES & OPERATIONS

As discussed further in Note 1.C, these financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) established by the Governmental Accounting Standards Board (GASB). These modified cash-basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

A. Reporting Entity

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.

B. 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 position, 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).

OKFUSKEE COUNTY RURAL WATER DISTRICT #3
OKEMAH, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2014

C. Measurement Focus and Basis of Accounting

Measurement Focus

The District utilizes an economic resources measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), net financial position, and cash flows. All assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent or financial or nonfinancial) associated with their activities are generally reported within the limitations of the modified cash basis of accounting.

Basis of Accounting

The financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modifications to the cash basis of accounting to report in the statements of net position cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include investments, capital assets and related depreciation, and short-term and long-term liabilities arising from cash transactions or events.

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue billed or provided services not yet collected and other accrued revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

If the District utilized the basis of accounting recognized as generally accepted in the United States, the fund financial

OKFUSKEE COUNTY RURAL WATER DISTRICT #3
OKEMAH, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2014

statements for proprietary fund types would use the accrual basis of accounting.

D. Budgetary Data

The District prepares an annual budget for internal bookkeeping purposes.

E. 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.

F. Inventory

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

G. Capital Assets (Property, Plant & Equipment)

The District's capital assets are stated at cost. Depreciation is computed using the straight-line method over the estimated useful life of the assets. Expenditures for major renewals and betterments which extend the useful lives of the fixed assets are capitalized. Expenditures for maintenance and repairs are expensed as incurred.

<u>Class of Asset</u>	<u>Estimated Useful Life</u>
Water Distribution Systems	40 years
Equipment	5 years

Capitalization Policy - Purchases of capital items in excess of \$500.00 that increase the capacity or operation efficiency or extend the useful life of any asset are capitalized. Repairs and maintenance are expensed as incurred.

H. 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.

OKFUSKEE COUNTY RURAL WATER DISTRICT #3
OKEMAH, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2014

I. 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.

J. Equity Classification

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

1. *Net investment in capital assets* – 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 and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.
2. *Restricted* - Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction 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 amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment of capital assets or the restricted component of net position.

It is the District's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

K. 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

OKFUSKEE COUNTY RURAL WATER DISTRICT #3
OKEMAH, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2014

not related to capital and related financing, noncapital financing, or investing activities.

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.

Finance-related Legal & Contractual Provisions

The District does not have any long-term 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, 2014, the District held deposits of approximately \$121,398 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.

OKFUSKEE COUNTY RURAL WATER DISTRICT #3
OKEMAH, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2014

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.
- 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, 2014, was as follows:

OKFUSKEE COUNTY RURAL WATER DISTRICT #3
OKEMAH, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2014

	Balance at Nov. 30, 2013	Additions	Deductions	Balance at Nov. 30, 2014
Property & Equipment	\$ 2,284,441	\$ 69,447	\$ -	\$ 2,353,888
Work-in-progress	-	-	-	-
Subtotal	2,284,441	69,447	-	2,353,888
Less: Accum. Depr.	(1,499,192)	(38,660)	-	(1,537,853)
Total Capital Assets (Net of Depreciation)	\$ 785,248	\$ 30,787	\$ -	\$ 816,035

The current year capital asset additions included the following:

- Engineering Fees for Project
- 2015 Chevrolet Truck

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, 2014:

	Balance at November 30, 2013	Additions	Deductions	Balance at November 30, 2014
Mortgages Payable	\$ -	\$ -	\$ -	\$ -
Total Long-Term Debt	\$ -	\$ -	\$ -	\$ -

Debt Services Requirements to Maturity

The annual debt service requirements to maturity, including principal and interest, for long-term debt, as of November 30, 2014, are as follows:

Year Ending November 30,	Principal	Interest	Total
2015	\$ -	\$ -	\$ -
2016	-	-	-
2017	-	-	-
2018	-	-	-
2019	-	-	-
2020-2024	-	-	-
Total	\$ -	\$ -	\$ -

OKFUSKEE COUNTY RURAL WATER DISTRICT #3
OKEMAH, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2014

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 and employee contributions for the year ended November 30, 2014 were \$3,004.31 and \$3,161.29, respectively.

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 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.

OKFUSKEE COUNTY RURAL WATER DISTRICT #3
OKEMAH, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2014

NOTE 8 - FUND EQUITY

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

1. Net investment in capital assets
2. Restricted
3. Unrestricted

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Litigation - As of November 30, 2014, 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 been tried and submitted to the court, and the court ruled that there were in fact, overcharges in the sum of \$200,021.00. After deduction of a credit for approximately \$11,000.00 that has been paid, plus the costs and a sum for the failure for the Okemah Utilities Authority to have an enterprise fund accounting system, the judgment totals \$192,385.34 bearing interest at the statutory rate of 5.25%, as set by the Oklahoma State Treasurer, from the date the Judgment was filed until the same was paid and released and satisfied. A Journal Entry of Judgment was signed and filed as of March 17, 2014. The District received a total payment of \$195,539.72 on May 2, 2014.

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, 2014, 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, 2014

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 30, 2015, 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, 2014.

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

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

We have audited, in accordance with the 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, the modified cash basis financial statements of the Okfuskee County Rural Water District #3, as of and for the year ended November 30, 2014, and the related notes to the financial statements, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles, and have issued our report thereon dated January 30, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Okfuskee County Rural Water District #3's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Okfuskee County Rural Water District #3's internal control. Accordingly, we do not express an opinion on the effectiveness of Okfuskee County Rural Water District #3's internal control.

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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Okfuskee County Rural Water District #3's financial statements are free of material misstatement, we 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 our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

This report is intended solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kershaw CPA & Associates, P.C.
Kershaw CPA & Associates, PC

January 30, 2015

OKFUSKEE COUNTY RURAL WATER DISTRICT #3
OKEMAH, OKLAHOMA
SCHEDULE OF WATER RATES AND CUSTOMERS
NOVEMBER 30, 2014

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	48,669,000
-------------------------	------------

Total Gallons Sold	37,176,803
--------------------	------------

Percentage of Loss - Total	23.61%
----------------------------	--------

Customers

The Okfuskee County Rural Water District #3 had 722 customers at the close of this fiscal year.

Current membership/tap fee \$900 per meter sign-up or \$1,100 for a 1" meter

\$100 refundable renter's deposit