BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
ELK CITY, OKLAHOMA
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORTS
YEARS ENDED DECEMBER 31, 2012 AND 2011

BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
ELK CITY, OKLAHOMA
DECEMBER 31, 2012

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BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
ELK CITY, OKLAHOMA
BOARD OF DIRECTORS
December 31, 2012

BOARD OF DIRECTORS

Chairman ..... Ronald Whittenberg

Vice Chairman ..... Wesley Pierce

Secretary ..... Clifford Williams

Treasurer ..... Kyle Merrick

Member ..... Wendell Dunn

Member ..... Jim Graham

Member ..... Bobby Elliott

MANAGER

Doug Wallin

BRITTON, KUYKENDALL, & MILLER
CERTIFIED PUBLIC ACCOUNTANTS

JAMES M. KUYKENDALL
RICK D. MILLER

204 E. FRANKLIN - P.O. BOX 507
WEATHERFORD, OK 73096
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CORDELL, OK 73632
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INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Directors
Beckham County Rural Water District No. 3
Elk City, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of Beckham County Rural Water District No. 3, Elk City, Oklahoma, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the District's basic 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, and the aggregate remaining fund information of Beckham County Rural Water District No. 3, Elk City, Oklahoma, as of December 31, 2012 and 2011, and the respective changes in financial position and cash flows, thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Beckham County Rural Water District No. 3, Elk City, Oklahoma's basic financial statements. The other information such as the introductory section and the accompanying Schedule of Insurance Coverage and Prepaid Premiums as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Insurance Coverage and Prepaid Premiums as listed in the accompanying table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic

financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Insurance Coverage and Prepaid Premiums as listed in the accompanying table of contents is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2013, on our consideration of Beckham County Rural Water District No. 3, Elk City, Oklahoma's internal control over 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Beckham County Rural Water District No. 3, Elk City, Oklahoma's internal control over financial reporting and compliance.

Britton, Kuykendall & Miller

BRITTON, KUYKENDALL & MILLER
Certified Public Accountants

Weatherford, Oklahoma
May 17, 2013

BECKHAM COUNTY RURAL WATER DIST #3

1925 SOUTH RANDALL
ELK CITY, OK 73644

Phone 580-243-4505
Fax 580-243-4504

Britton Kuykendall & Miller
204 East Franklin - P.O.Box 507
Weatherford, Oklahoma 73096

Dear Gentlemen,

Subject:

Management Discussion & Analysis Letter

This correspondence is in response to your request for the required components Of Management Discussion & Analysis Letter.

Component No. 1

The Districts monthly financial statements are prepared by Eden, Sprowls & company, P.C. Each Board member is provided a copy of the Statement and these are received in our monthly board meetings. Of particular Interest is the "Comparative Statements of Revenue and Expenses for the Current Month and Year to Date Period". The statement services as an excellent guide for the board.

Component No. 2

As mentioned in component No 1. Above our financial statements are Prepared each month by Eden, Sprowls & Company. Each monthly statement Includes a comparative analysis of the income and expenses for the current year with that of the prior year. Again this is reviewed in detail each month at the Board meetings.

Component No. 3

The district reports that our financial position has slightly declined for the year due to the lawyer fees.

Component No 4

Our district has not experienced any significant changes in availability of funds nor in limitations of funds. Our Greatest changes are probably in the amount of money spent on repairs and maintenance. Even though this expenditure is

Primarily weather related, the district is able to operate within ten (10) percent of budget on this item.

Component No. 5

Thus for the district has not been subjected to significant budget variances. This is attributed to good budgeting and management of funds.

Component No.6

In accordance with the districts financial statements, the assets continue to increase.Our credit is excellent with our lending agent and approval is anticipated for future loans.

Component No. 7

Depreciation cost is a significant item in our monthly financial statements. Our reserve account is full funded for the initial and major indebtedness. The reserve account for our second loan is properly funded, but continue to increase until the loan is paid in full.

Component No. 8

The board does not anticipate any significant impact on our financial position because of the audit. Our accounting firm keeps us well informed of all financial matters. The districts staff provides them good raw data for all accounting practices. In return, Eden, Sprowls provides the District with excellent timely and accurate reports.

Each of the eight components of Management Decision & analysis Letter as Required by Governmental Account Standards Board Statement No 34 has been dealt with to the best of our Knowledge.

CC
Rural Development
Eden Sprowls

District Secretary

Clifford Williams

FINANCIAL STATEMENTS

OF

BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
ELK CITY, OKLAHOMA

Schedule 1-00

BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
STATEMENT OF NET ASSETS
As of December 31, 2012 and 2011

ASSETS	12-31-12	12-31-11
Current Assets		
Cash on Hand	$ 400.00	$ 400.00
Cash in Bank - Note 1	335,285.21	240,065.37
Cash in Bank - Reserve Fund (Restricted Asset)	78,768.00	78,768.00
Cash in Bank - Reserve Fund 2 (Restricted Asset)	6,860.70	4,369.10
Certificates of Deposit	39,048.07	38,838.29
Total Cash and Cash Equivalents	460,361.98	362,440.76
Accounts Receivable - Note 1	36,735.67	54,553.90
Inventory	25,436.79	32,378.28
Prepaid Insurance	8,554.98	8,160.61
TOTAL CURRENT ASSETS	531,089.42	457,533.55
Fixed Assets - Note 1		
Land	17,500.00	17,500.00
Easements	3,000.00	3,000.00
Water Rights	17,000.00	17,000.00
Buildings	140,214.95	140,214.95
Office Furniture	26,441.74	26,441.74
Equipment and Tools	88,861.74	88,861.74
Transportation Equipment	42,522.50	50,189.33
Lines and Storage	4,208,023.44	3,839,147.46
Total Fixed Assets	4,543,564.37	4,182,355.22
Less: Accumulated Depreciation	(2,035,296.60)	(1,938,673.43)
Total Fixed Assets - Net of Depreciation	2,508,267.77	2,243,681.79
TOTAL ASSETS	$ 3,039,357.19	$ 2,701,215.34

See accompanying notes to financial statements.

BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
STATEMENT OF NET ASSETS - CONTINUED
As of December 31, 2012 and 2011

LIABILITIES	12-31-12	12-31-11
Current Liabilities		
Payroll Taxes Payable	$ 3,276.40	$ 2,853.19
Current Portion of Long-Term Debt	35,534.19	46,047.76
Customer Deposits	852.00	852.00
TOTAL CURRENT LIABILITIES - Note 2	39,662.59	49,752.95
Long-Term Debt - Note 2	1,514,432.07	1,259,507.59
TOTAL LIABILITIES	1,554,094.66	1,309,260.54
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	958,301.51	938,126.44
Restricted	85,628.70	83,137.10
Unrestricted	441,332.32	370,691.26
TOTAL NET ASSETS	1,485,262.53	1,391,954.80
TOTAL LIABILITIES AND NET ASSETS	$ 3,039,357.19	$ 2,701,215.34

See accompanying notes to financial statements.

Schedule 2-00

BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
For Years Ended December 31, 2012 and 2011

	12-31-12	12-31-11
Revenue from Operations:		
Water	$ 581,599.33	$ 564,724.70
Grant Income	0.00	0.00
Memberships	4,500.00	3,700.00
Miscellaneous	4,790.79	4,017.42
TOTAL REVENUE FROM OPERATIONS	590,890.12	572,442.12
Expenses from Maintenance and Operation:		
Salaries	112,519.06	102,442.40
Contract Labor	12,035.14	0.00
Water	56,959.59	56,477.79
Utilities	22,624.68	21,837.08
Operating Supplies	6,966.87	24,189.76
Office Supplies	5,717.09	4,457.04
Repairs and Maintenance	12,552.93	5,188.17
Fuel	9,119.36	10,597.91
Water Testing	2,563.60	586.81
Telephone	5,622.32	4,678.96
Insurance	16,411.20	15,766.38
Employee Benefits	13,234.90	19,066.86
Accounting	2,400.00	2,200.00
Dues and Fees	1,772.14	876.32
Travel	535.00	75.00
Payroll Taxes	9,277.63	8,385.49
Audit Fees	1,500.00	1,500.00
Legal	22,993.30	62.50
Bank Charges	80.00	20.00
Directors' Fees	3,042.40	2,188.20
Postage	3,631.23	3,168.00
Land & Equipment Leases	1,872.50	1,900.00
Miscellaneous	5,138.75	3,688.25
Depreciation	118,990.00	113,462.00
TOTAL EXPENSES FROM OPERATIONS	447,559.69	402,814.92

See accompanying notes to financial statements.

BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS - CONTINUED
For Years Ended December 31, 2012 and 2011

	12-31-12	12-31-11
Net Income (Loss) From Operations	$ 143,330.43	$ 169,627.20
Other Income (Expenses)		
Interest Earnings	780.21	1,140.00
Gain on Sale of Water Rights	12,700.00	10,867.20
Interest Expense	(63,502.91)	(56,260.80)
TOTAL OTHER INCOME (EXPENSES)	(50,022.70)	(44,253.60)
Net Income (Loss)	93,307.73	125,373.60
Net Assets, Beginning of Year	1,391,954.80	1,266,581.20
Net Assets, End of Year	$ 1,485,262.53	$ 1,391,954.80

See accompanying notes to financial statements.

Schedule 3-00

BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
STATEMENT OF CASH FLOWS
For Years Ended December 31, 2012 and 2011

	12-31-12	12-31-11
Cash Flows From Operating Activities:		
Cash Received From Customers	$ 603,917.56	$ 549,192.27
Cash Paid to Suppliers	(56,959.59)	(56,477.79)
Cash Received From Other Revenues	4,790.79	4,017.42
Cash Paid for Operating Expenses and Salaries	(264,639.77)	(242,103.21)
Cash Paid for Interest	(63,502.91)	(56,260.80)
Cash Received From Other Income	12,700.00	10,867.20
Cash Received From Interest and Dividends	780.21	1,140.00
Cash Paid for Income Taxes	0.00	0.00
Net Cash Provided (Used) by Operating Activities	237,086.29	210,375.09
Cash Flows From Investing Activities:		
Capital Expenditures	(383,575.98)	(143,573.19)
Net Cash Provided (Used) by Investing Activities	(383,575.98)	(143,573.19)
Cash Flows From Financing Activities:		
Cash Paid for Loans	(40,189.09)	(36,607.20)
Cash Received From Loans	284,600.00	131,000.00
Net Cash Provided (Used) by Financing Activities	244,410.91	94,392.80
Net Increase (Decrease) in Cash and Cash Equivalents	97,921.22	161,194.70
Cash and Cash Equivalents, Beginning of Year	362,440.76	201,246.06
Cash and Cash Equivalents, End of Year	$ 460,361.98	$ 362,440.76
Adjustments to Reconcile Net Income to Net Cash Provided From Operating Activities:		
Net Income (Loss)	$ 93,307.73	$ 125,373.60
Depreciation	118,990.00	113,462.00
(Increase) Decrease in Receivables	17,818.23	(19,684.43)
(Increase) Decrease in Inventory	6,941.49	(9,843.01)
(Increase) decrease in Prepaid Expenses	(394.37)	(214.18)
Increase (Decrease) in Customer Deposits	0.00	452.00
Increase (Decrease) in Payroll Taxes Payable	423.21	829.11
Net Cash Provided (Used) by Operating Activities	$ 237,086.29	$ 210,375.09

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

OF

BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
ELK CITY, OKLAHOMA

BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
ELK CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

1. Significant Accounting Policies

Organization

Beckham County Rural Water District No. 3 is organized and operated as a water-supply source for its members.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Accounting

The accrual basis of accounting is followed for all accounts. Revenues are recorded when earned and accrued liabilities are recognized when incurred. This policy is in accordance with accounting principles generally accepted in the United States of America.

Major Funds

The reporting model as defined in GASB Statement No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues, or expenditures/expenses, of either fund category or the governmental and enterprise combined) for the determination of major funds. The District's major fund is the Enterprise Fund.

Cash and Investments

The District's funds are required to be deposited into one or more banks, trust companies, credit unions or savings and loan associations. All deposits including investments in a depository may not exceed the Federal Deposit Insurance Corporation insurance plus the amount of approved collateral securities pledged by the depository.

The District may invest monies in direct obligations of the United States Government, certificates of deposit, savings accounts or certificates of savings and loan associations. The District's investments are recorded at cost.

Significant Accounting Policies, (Continued)

Cash and Investments, (Continued)

For the years ended December 31, 2012 and 2011, the District recognized $780.21 and $1,140.00 of investment income, respectively. Due to minimal rates of return on allowable investments in the current environment, most of the District's deposits are in demand deposits and short-term time deposits.

At December 31, 2012 and 2011, the District held the following cash and investments:

	12-31-12	12-31-11
Cash on Hand	$ 400.00	$ 400.00
Demand Deposits	420,913.91	323,202.47
Time Deposits	39,048.07	38,838.29
Total Cash and Investments	$ 460,361.98	$ 362,440.76

Custodial Credit Risk:

Exposure to custodial credit related to deposits exists when the District holds deposits that are uninsured and uncollateralized; collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the District's name; or collateralized without a written or approved collateral agreement. Exposure to custodial credit risk related to investments exists when the District holds investments that are uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the District's name. The District's policy as it relates to custodial credit risk is to secure its uninsured deposits with collateral, valued at no more than market value, at least at a level of 100% of the uninsured deposits and accrued interest thereon. Acceptable collateral is defined in state statutes and includes U.S. Treasury securities and direct debt obligations of municipalities, counties, and school districts in the state of Oklahoma, surety bonds, and letters of credit. As required by Federal 12 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the District must have a written collateral agreement approved by the board of directors or loan committee.

Significant Accounting Policies, (Continued)

Cash and Investments, (Continued)

The cash deposits at December 31, 2012 are categorized to give an indication of the level of risk assumed by the District at year end as follows:

(A) Insured or collateralized with securities held by the District or by its agent in the District's name.

(B) Collateralized with securities held by the pledging financial institutions trust department or agent in the District's name.

(C) Uncollateralized.

	Category			Bank
	(A)	(B)	(C)	Balance
Cash	$ 421,313.91	$ 0.00	$ 0.00	$ 421,313.91
Investments	39,048.07	0.00	0.00	39,048.07
Total	$ 460,361.98	$ 0.00	$ 0.00	$ 460,361.98

Investment Credit Risk:

The District has no investment policy that limits its investment choices. The District generally authorizes investments in (1) full faith and credit, direct obligations of the U.S. Government, its agencies and instrumentalities, and the State of Oklahoma and certain mortgage insured federal debt; (2) certificates of deposit or savings accounts that are either insured or secured with acceptable collateral; (3) negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations; (4) 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; and government money market funds regulated by the SEC. The investments held by the District are certificates of deposits.

Significant Accounting Policies, (Continued)

Cash and Investments, (Continued)

Investment Interest Rate Risk:

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District has no investment policy that limits based on maturity. The District discloses its exposure to interest rate risk by disclosing the maturity dates of its various investments. The District's only investment at December 31, 2012 and 2011 is a short-term certificate of deposit with Great Plains National Bank of Elk City, Oklahoma.

Concentration of Investment Credit Risk:

Exposure to concentration of credit risk is considered to exist when investments in any one issuer represent a significant percent of total investments of the District. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this consideration. The District has no investment policy regarding concentration of credit risk. At December 31, 2012 and 2011, the District had no concentration of credit risk as defined above.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the District considers all highly liquid investments with a maturity of three (3) months or less when purchased to be cash equivalents.

Accounts Receivable

Billings for accounts receivable at December 31, 2012 and 2011 are $36,735.67 and $54,553.90, respectively. Allowance for doubtful accounts was not computed on these balances because uncollectibles do not have a material effect on the balance sheet.

Inventory

Inventory is valued at cost. Inventory consists of supplies necessary for the maintenance and operation of the water system.

Significant Accounting Policies, (Continued)

Fixed Assets

Fixed assets are valued at cost. Depreciation is computed by use of the straight-line method. The estimated useful lives of these assets are as follows:

Office Furniture and Fixtures	7 years
Equipment and Tools	7 years
Transportation Equipment	10 years
Lines and Storage	40 years

Restricted Assets

Under the terms of the USDA Rural Development loan agreements, the Beckham County Rural Water District No. 3, Elk City, Oklahoma, must maintain reserve funds. The original loan agreements required the district to deposit $860.00 monthly into the reserve fund until a required balance of $103,200.00 was reached. In July 1993, Rural Development agreed that the District could defer making transfers to the reserve account until the District received income from the sale of water to Hammon Public Works Authority (PWA). Rural Development also agreed to accept reduced payments until the Hammon PWA income was received. The sale of water to Hammon PWA began in March 1995, and the original loan was reamortized. The District resumed transfers to the reserve account one month after the loan reamortization. (See Note 2 for more information on the loan reamortization.)

Under the terms of the new Rural Development loan agreement, the district is to deposit 10% of the monthly payment ($6,564.00) into the reserve account until a balance of 120 times the 10% is achieved which equals $78,768.00. During the year ended December 31, 2004, the $78,768.00 reserve requirement balance was met.

A summary of the Rural Development reserve fund is presented below:

	12-31-12	12-31-11
Beginning Balance	$ 78,768.00	$ 78,768.00
Monthly Deposits	0.00	0.00
Interest	0.00	0.00
Ending Balance	$ 78,768.00	$ 78,768.00

Significant Accounting Policies, (Continued)

Restricted Assets, (Continued)

The December 31, 2012 and 2011, ending balance of $78,768.00 consists of a money-market savings account at First National Bank and Trust of Elk City, Oklahoma.

Under the terms of the Rural Development loan agreement dated June 2, 2000, the District must maintain a second separate reserve fund. The loan agreement requires the District to deposit 10% of the monthly payment of $273.00 into this reserve account every month for the entire life of the loan. All required monthly payments were made to this reserve account as of December 31, 2012 and 2011.

Under the terms of the Rural Development loan agreement dated June 22, 2011, the District must maintain a reserve fund. The loan agreement requires the District to deposit 10% of the monthly payment of $1,804.00 into this reserve account every month until a balance of $21,648.00 is reached. The District has elected to combine the funding of this reserve with the reserve requirement of the loan agreement dated June 2, 2000. Therefore, the reserve requirements for the loan agreements dated June 2, 2000 and June 22, 2011 are both being deposited into the Rural Development Reserve Fund 2 bank account which consists of a money market savings account at First National Bank and Trust of Elk City, Oklahoma.

A summary of the Rural Development Reserve Fund 2 by year is presented below:

	12-31-12		
	Loan No. 91-04	Loan No. 91-06	Total
Beginning Balance	$ 3,467.10	$ 902.00	$ 4,369.10
Monthly Deposits	327.60	2,164.00	2,491.60
Interest	0.00	0.00	0.00
Ending Balance	$ 3,794.70	$ 3,066.00	$ 6,860.70

	12-31-11		
	Loan No. 91-04	Loan No. 91-06	Total
Beginning Balance	$ 3,139.50	$ 0.00	$ 3,139.50
Monthly Deposits	327.60	902.00	1,229.60
Interest	0.00	0.00	0.00
Ending Balance	$ 3,467.10	$ 902.00	$ 4,369.10

Significant Accounting Policies, (Continued)

Net Assets

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

Net assets of the business-type activity (proprietary fund) are displayed in the following two components:

1. *Restricted Net Assets* - Consists of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or law through constitutional provisions or enabling legislation.

2. *Unrestricted Net Assets* - All other net assets that do not meet the definition of restricted.

Federal Income Tax

The District is exempt from federal and state income taxes.

2. Long-term Debt

The original Rural Development loan is dated April 11, 1990, for $1,350,000 at an interest rate of 7.125%. The payment schedule called for monthly payments of $8,600.00 beginning April 1991. The District paid $2,902.09 principal on the note through December 31, 1994. The balance of principal payments was delinquent at December 31, 1994. Rural Development worked with the District to increase its revenue base in order for the District to be able to fund its debt-service requirements. Rural Development and Hammon Public Works Authority completed negotiations for the construction of a water line to connect the PWA to the District system. Hammon PWA completed the water line to the District's distribution system and was connected in March 1995.

Long-term Debt, (Continued)

Dayton K. Watkins, Rural Development acting administrator, approved that after the District was on-line with Hammon for approximately one month (target date April 14, 1995) and Hammon PWA began purchasing water, the District could reamortize the original loan. With the reamortization transaction, unpaid interest in the amount of $111,364.58 as of the date of closing became principal. The new principal amount will be repaid at an interest rate of 4.5% for 40 years. The first monthly installment was due (May 9, 1995) thirty days from the date of closing. As of April 14, 1995, the new loan balance was $1,458,462.49 at an interest rate of 4.5%. The payment schedule called for monthly payments of $6,564.00 beginning May 1995. During the year ended December 31, 2012, a total of $28,345.69 was applied to the principal on this loan.

On June 2, 2000, the District obtained a second loan from Rural Development, loan number 91-04, in the amount of $58,000.00 to help with the construction of the combined office and shop building. The interest rate for this loan is 4.75%. The loan terms called for an interest-only payment on June 2, 2001, then monthly payments of $273.00 beginning July 2, 2001, and each month thereafter until the principal and interest are fully paid, except that the final installment of the entire indebtedness, if not sooner paid, shall be due and payable 40 years from the date of this note. During the year ended December 31, 2012, a total of $933.44 was applied to the principal on this loan.

On June 22, 2001, the District obtained a third loan from Rural Development, loan number 91-06, in the amount of $415,600.00 for the purpose of providing a portion of the cost of acquiring and constructing improvements to the District's water distribution system. The interest rate for this loan is 4.25%. The loan terms call for monthly payments of $1,804.00 beginning July 22, 2011, and each month thereafter until the principal and interest are fully paid, except that the final installment of the entire indebtedness, if not sooner paid, shall be due and payable 40 years from the date of this note. During the year ended December 31, 2011, the District advanced $131,000.00 on this loan and a total of $8,616.31was applied to the principal on this loan leaving a balance of $122,383.69 at December 31, 2011. The remaining unadvanced commitment at December 31, 2011 of $284,600.00 on this loan was advanced during the fiscal year ended December 31, 2012 and a total of $10,909.88 was applied to the principal on this loan leaving a balance of $396,073.73 at December 31, 2012.

Long-term Debt, (Continued)

The following is a summary of the breakdown of the current and long-term portions of the Rural Development loans by year:

	12-31-12			
	Rural Dev. Loan #91-03	Rural Dev. Loan #91-04	Rural Dev. Loan #91-06	Totals
Current Portion of Long-Term Debt	$ 29,645.74	$ 978.68	$ 4,909.77	$ 35,534.19
Long-Term Debt	1,075,437.13	47,830.98	391,163.96	1,514,432.07
Total Debt	$ 1,105,082.87	$ 48,809.66	$ 396,073.73	$ 1,549,966.26

	12-31-11			
	Rural Dev. Loan #91-03	Rural Dev. Loan #91-04	Rural Dev. Loan #91-06	Totals
Current Portion of Long-Term Debt	$ 28,343.55	$ 933.34	$ 16,770.87	$ 46,047.76
Long-Term Debt	1,105,085.01	48,809.76	105,612.82	1,259,507.59
Total Debt	$ 1,133,428.56	$ 49,743.10	$ 122,383.69	$ 1,305,555.35

The following is a summary of debt service requirements for the Rural Development loans for the next five years:

Rural Development Loan #91-03

Year Ending	Principal	Interest	Total
December 31, 2013	$ 29,645.34	$ 49,122.66	$ 78,768.00
December 31, 2014	31,007.35	47,760.65	78,768.00
December 31, 2015	32,431.94	46,336.06	78,768.00
December 31, 2016	33,921.98	44,846.02	78,768.00
December 31, 2017	35,480.46	43,287.54	78,768.00

Rural Development Loan #91-04

Year Ending	Principal	Interest	Total
December 31, 2013	$ 978.65	$ 2,297.35	$ 3,276.00
December 31, 2014	1,026.16	2,249.84	3,276.00
December 31, 2015	1,076.01	2,199.99	3,276.00
December 31, 2016	1,128.23	2,147.77	3,276.00
December 31, 2017	1,183.01	2,092.99	3,276.00

Long-term Debt, (Continued)

Rural Development Loan #91-06			
Year Ending	Principal	Interest	Total
December 31, 2013	$ 4,909.77	$ 16,738.23	$ 21,648.00
December 31, 2014	5,122.55	16,525.45	21,648.00
December 31, 2015	5,344.55	16,303.45	21,648.00
December 31, 2016	5,576.18	16,071.82	21,648.00
December 31, 2017	5,817.84	15,830.16	21,648.00

The total interest paid on all debt for the years ended December 31, 2012 and 2011, was $63,502.91 and $56,260.80, respectively.

3. Accumulated Unpaid Vacation and Sick Pay

At December 31, 2012 and 2011, no determination of the aggregate dollar value of vacation or sick pay had been made.

4. Hammon Water Purchase Agreement Amendment

The contract was amended to read Hammon Public Works Authority (Hammon PWA) in lieu of Town of Hammon.

5. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchases commercial insurance to cover these risks of loss, including general and auto liability, property damage, and director liability. Management believes such coverage is sufficient to preclude any significant uninsured losses to the District. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

6. Contingencies

The Beckham County Rural Water District No. 3, Elk City, Oklahoma has filed a lawsuit against the City of Elk City, Oklahoma and the Elk City Public Works Authority. The District filed this action to obtain monetary damages and injunctive relief against the City of Elk City and Elk City Public Works Authority for violation of the District's 7 U.S.C. Sec. 1926(b) rights to preclude other water providers from providing water service within the District's protected territory, as well as to recover costs and attorney fees. After the District brought this action, the City of Elk City, Oklahoma and Elk City Public Works Authority filed a counterclaim seeking to have the District's federal loans declared void or graduated and to dissolve the District. The parties later filed a joint motion to consolidate the two cases. An evaluation of the likelihood of case outcome is difficult to determine. The range of possible loss in relation to this case is also difficult to determine, however, as of May 17, 2013, there were no monetary claims made against the District except for claims for costs and attorney fees, which should not be significant. However, if the federal loans are declared void, or are graduated and/or the District is dissolved, such result would have a significant impact on the District.

7. Subsequent Events

Management has evaluated subsequent events through May 17, 2013, which is the date the financial statements were available to be issued and have determined that no additional information needs to be added to the financial statements.

SUPPORTING SCHEDULES

OF

BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
ELK CITY, OKLAHOMA

BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
SCHEDULE OF INSURANCE COVERAGE AND PREPAID PREMIUMS
For the Year Ended December 31, 2012

POLICY NUMBER	COMPANY	COVERAGE	AMOUNT	EXPIRATION DATE	ANNUAL PREMIUM	PREPAID PREMIUM
10215	ORWA Assurance Group	I. Liability Coverage		6-1-13	$ 12,936.00	$ 5,120.50
		A. Bodily Injury	$ 125,000			
		B. Property Damage	25,000			
		C. Personal Injury	125,000			
		D. Errors and Omissions	125,000			
		II. Business Auto Coverage				
		A. Bodily Injury	125,000			
		B. Property Damage	25,000			
		C. Auto Physical Damage	25,000			
		III. Property Coverage				
		A. Buildings and Personal Prop.	RC			
		IV. Blanket Bond Fidelity				
		By Position Held	103,668			
360434	ORWA Assurance Group	Worker's Compensation		10-31-13	3,828.77	3,434.48
						$ 8,554.98

REPORT ON INTERNAL CONTROL AND ON COMPLIANCE

OF

BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
ELK CITY, OKLAHOMA

BRITTON, KUYKENDALL, & MILLER
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S 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*

The Honorable Board of Directors
Beckham County Rural Water District No. 3
Elk City, Oklahoma

We have audited 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, the financial statements of the business-type activities, and the aggregate remaining fund information of Beckham County Rural Water District No. 3, Elk City, Oklahoma, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise Beckham County Rural Water District No. 3, Elk City, Oklahoma's basic financial statements, and have issued our report thereon dated May 17, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Beckham County Rural Water District No. 3, Elk City, Oklahoma'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 entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described below, we identified a certain deficiency in internal control that we consider to be a material weakness.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in number one below to be a material weakness.

1. The inherent limitations resulting from a small number of employees performing functions that would normally be divided among employees where there were a larger number available prevents a proper segregation of accounting functions, which is necessary to assure adequate internal accounting control.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Beckham County Rural Water District No. 3, Elk City, Oklahoma's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of 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*.

Entity's Response to Findings

Beckham County Rural Water District No. 3, Elk City, Oklahoma's response to the finding identified in our audit is described in number one below.

1. We agree that the inherent limitations resulting from a small number of employees performing functions that would normally be divided among employees where there were a larger number available prevents a proper segregation of accounting functions, which is necessary to assure adequate internal accounting control. However, at this time, we feel that with our current financial resources and budget, we cannot financially justify hiring another employee to help segregate the accounting functions.

Beckham County Rural Water District No. 3, Elk City, Oklahoma's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

This purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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.

Britton, Kuykendall & Miller

BRITTON, KUYKENDALL AND MILLER
Certified Public Accountants

Weatherford, Oklahoma
May 17, 2013