

BECKHAM COUNTY RURAL WATER DISTRICT
NO. 3
ELK CITY, OKLAHOMA
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORTS
YEARS ENDED DECEMBER 31, 2011 AND 2010

**BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
ELK CITY, OKLAHOMA
DECEMBER 31, 2011**

TABLE OF CONTENTS

Board of Directors

Independent Auditor's Report

Management's Discussion and Analysis

Financial Statements

Statement of Net AssetsSchedule 1-00

Statement of Revenues, Expenses and Changes in Fund Net AssetsSchedule 2-00

Statement of Cash FlowsSchedule 3-00

Notes to Financial Statements

SUPPORTING SCHEDULES

Schedule of Insurance Coverage and Prepaid Premiums

Report on Internal Control and on Compliance

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

**BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
ELK CITY, OKLAHOMA
BOARD OF DIRECTORS
December 31, 2011**

BOARD OF DIRECTORS

Chairman.....Ronald Whittenberg
Vice ChairmanWesley Pierce
Secretary Clifford Williams
Treasurer Kyle Merrick
Member Wendell Dunn
Member Jim Graham
Member Bud Suthers

MANAGER

Shane Suanny



BRITTON, KUYKENDALL, & MILLER
CERTIFIED PUBLIC ACCOUNTANTS

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RICK D. MILLER

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INDEPENDENT AUDITOR'S REPORT

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

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, 2011 and 2010, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of Beckham County Rural Water District No. 3, Elk City, Oklahoma's management. 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 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. We believe that our audits provide a reasonable basis for our 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, 2011 and 2010, and the respective changes in financial position and cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2012, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

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 regarding 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.

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 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements referred to above and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Britton, Kuykendall & Miller

BRITTON, KUYKENDALL & MILLER
Certified Public Accountants

Weatherford, Oklahoma
February 10, 2012

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

January 11, 2012

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 the 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 are reviewed 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 serves 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 improved for the year, due to the increase in bulk sales of water for oil & gas drilling.

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

(10) percent of budget on this item.

Component No. 5

Thus far 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 fully funded for the initial and major indebtedness. The reserve account for our second loan is properly funded, but will continue to increase until the loan is paid in full. New reserve acct. have been established for Emergency and contingency use.

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 District's 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 Discussion & 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

Manager

Shane Suanny

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

BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
STATEMENT OF NET ASSETS
As of December 31, 2011 and 2010

<u>ASSETS</u>	<u>12-31-11</u>	<u>12-31-10</u>
<u>Current Assets</u>		
Cash on Hand	\$ 400.00	\$ 400.00
Cash in Bank - Note 1	240,065.37	80,476.96
Cash in Bank - Reserve Fund (Restricted Asset)	78,768.00	78,768.00
Cash in Bank - Reserve Fund 2 (Restricted Asset)	4,369.10	3,139.50
Certificates of Deposit	38,838.29	38,461.60
	<hr/>	<hr/>
Total Cash and Cash Equivalents	362,440.76	201,246.06
Accounts Receivable - Note 1	54,553.90	34,869.47
Inventory	32,378.28	22,535.27
Prepaid Insurance	8,160.61	7,946.43
	<hr/>	<hr/>
TOTAL CURRENT ASSETS	457,533.55	266,597.23
<u>Fixed Assets - Note 1</u>		
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	50,189.33	50,189.33
Lines and Storage	3,839,147.46	3,695,574.27
	<hr/>	<hr/>
Total Fixed Assets	4,182,355.22	4,038,782.03
Less: Accumulated Depreciation	(1,938,673.43)	(1,825,211.43)
	<hr/>	<hr/>
Total Fixed Assets - Net of Depreciation	2,243,681.79	2,213,570.60
	<hr/>	<hr/>
TOTAL ASSETS	\$ 2,701,215.34	\$ 2,480,167.83

See accompanying notes to financial statements.

BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
STATEMENT OF NET ASSETS - CONTINUED
As of December 31, 2011 and 2010

<u>LIABILITIES</u>	<u>12-31-11</u>	<u>12-31-10</u>
<u>Current Liabilities</u>		
Payroll Taxes Payable	\$ 2,853.19	\$ 2,024.08
Current Portion of Long-Term Debt	46,047.76	27,988.67
Customer Deposits	852.00	400.00
	<u>49,752.95</u>	<u>30,412.75</u>
TOTAL CURRENT LIABILITIES - Note 2		
Long-Term Debt - Note 2	<u>1,259,507.59</u>	<u>1,183,173.88</u>
TOTAL LIABILITIES	<u>1,309,260.54</u>	<u>1,213,586.63</u>
<u>NET ASSETS</u>		
Nonspendable:		
Inventory	32,378.28	22,535.27
Prepays	8,160.61	7,946.43
Restricted For:		
Debt Service Reserve	83,137.10	81,907.50
Capital Projects	223.33	0.00
Assigned To:		
Contingency	100,000.00	0.00
Building	50,000.00	0.00
Unassigned:	<u>1,118,055.48</u>	<u>1,154,192.00</u>
TOTAL NET ASSETS	<u>1,391,954.80</u>	<u>1,266,581.20</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,701,215.34</u>	<u>\$ 2,480,167.83</u>

See accompanying notes to financial statements.

BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
For Years Ended December 31, 2011 and 2010

	<u>12-31-11</u>	<u>12-31-10</u>
Revenue from Operations:		
Water	\$ 564,724.70	\$ 369,509.41
Grant Income	0.00	0.00
Memberships	3,700.00	2,100.00
Miscellaneous	4,017.42	4,361.45
	<u>572,442.12</u>	<u>375,970.86</u>
TOTAL REVENUE FROM OPERATIONS		
Expenses from Maintenance and Operation:		
Salaries	102,442.40	88,624.80
Water	56,477.79	32,494.00
Utilities	21,837.08	14,933.41
Operating Supplies	24,189.76	7,625.73
Office Supplies	4,457.04	4,500.10
Repairs and Maintenance	5,188.17	5,963.49
Fuel	10,597.91	7,678.51
Water Testing	586.81	1,485.69
Telephone	4,678.96	4,331.77
Insurance	15,766.38	15,114.29
Employee Benefits	19,066.86	29,800.16
Accounting	2,200.00	2,500.00
Dues and Fees	876.32	1,761.94
Travel	75.00	1,193.37
Payroll Taxes	8,385.49	7,284.68
Audit Fees	1,500.00	1,500.00
Legal	62.50	139.20
Bank Charges	20.00	0.00
Directors' Fees	2,188.20	1,969.45
Postage	3,168.00	2,904.00
Land & Equipment Leases	1,900.00	1,700.00
Miscellaneous	3,688.25	2,849.60
Depreciation	113,462.00	114,957.67
	<u>402,814.92</u>	<u>351,311.86</u>
TOTAL EXPENSES FROM OPERATIONS		

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, 2011 and 2010

	12-31-11	12-31-10
Net Income (Loss) From Operations	\$ 169,627.20	\$ 24,659.00
Other Income (Expenses)		
Interest Earnings	1,140.00	1,534.72
Gain on Sale of Water Rights	10,867.20	0.00
Interest Expense	(56,260.80)	(55,284.60)
TOTAL OTHER INCOME (EXPENSES)	(44,253.60)	(53,749.88)
Net Income (Loss)	125,373.60	(29,090.88)
Net Assets, Beginning of Year	1,266,581.20	1,295,672.08
Net Assets, End of Year	\$ 1,391,954.80	\$ 1,266,581.20

See accompanying notes to financial statements.

BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
STATEMENT OF CASH FLOWS
For Years Ended December 31, 2011 and 2010

	<u>12-31-11</u>	<u>12-31-10</u>
Cash Flows From Operating Activities:		
Cash Received From Customers	\$ 549,192.27	\$ 363,084.90
Cash Paid to Suppliers	(56,477.79)	(32,494.00)
Cash Received From Other Revenues	4,017.42	4,361.45
Cash Paid for Operating Expenses and Salaries	(242,103.21)	(205,389.85)
Cash Paid for Interest	(56,260.80)	(55,284.60)
Cash Received From Other Income	10,867.20	0.00
Cash Received From Interest and Dividends	1,140.00	1,534.72
Cash Paid for Income Taxes	0.00	0.00
	<u>210,375.09</u>	<u>75,812.62</u>
Cash Flows From Investing Activities:		
Capital Expenditures	(143,573.19)	(30,028.15)
	<u>(143,573.19)</u>	<u>(30,028.15)</u>
Cash Flows From Financing Activities:		
Cash Paid for Loans	(36,607.20)	(26,759.40)
Cash Received From Loans	131,000.00	0.00
	<u>94,392.80</u>	<u>(26,759.40)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	161,194.70	19,025.07
Cash and Cash Equivalents, Beginning of Year	<u>201,246.06</u>	<u>182,220.99</u>
Cash and Cash Equivalents, End of Year	<u>\$ 362,440.76</u>	<u>\$ 201,246.06</u>
Adjustments to Reconcile Net Income to Net Cash Provided From Operating Activities:		
Net Income (Loss)	\$ 125,373.60	\$ (29,090.88)
Depreciation	113,462.00	114,957.67
(Increase) Decrease in Receivables	(19,684.43)	(8,524.51)
(Increase) Decrease in Inventory	(9,843.01)	(1,484.96)
(Increase) decrease in Prepaid Expenses	(214.18)	(366.97)
Increase (Decrease) in Customer Deposits	452.00	0.00
Increase (Decrease) in Payroll Taxes Payable	829.11	322.27
	<u>829.11</u>	<u>322.27</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 210,375.09</u>	<u>\$ 75,812.62</u>

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, 2011 and 2010

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 new 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.

**BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
ELK CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010**

Significant Accounting Policies, (Continued)

Cash and Investments

Investments are recorded at cost. The District's accounts are comprised as follows:

	<u>12-31-11</u>	<u>12-31-10</u>
Bank of Western Oklahoma, Elk City, OK	\$ 162,985.61	\$ 63,016.34
First National Bank, Elk City, OK	156,705.22	95,869.54
Great Plains National Bank, Elk City, OK	38,838.29	38,461.60
Legacy Bank, Elk City, OK	3,511.64	3,498.58
Petty Cash	<u>400.00</u>	<u>400.00</u>
 Total Cash and Investments	 <u>\$ 362,440.76</u>	 <u>\$ 201,246.06</u>

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, 2011 and 2010, are \$54,553.90 and \$34,869.47, 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.

BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
ELK CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

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:

	<u>12-31-11</u>	<u>12-31-10</u>
Beginning Balance	\$ 78,768.00	\$ 78,768.00
Monthly Deposits	0.00	0.00
Interest	0.00	0.00
Ending Balance	<u>\$ 78,768.00</u>	<u>\$ 78,768.00</u>

BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
ELK CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

Significant Accounting Policies, (Continued)

Restricted Assets, (Continued)

The December 31, 2011 and 2010, 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, 2011 and 2010.

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:

12-31-11			
	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
12-31-10			
	Loan No. 91-04	Loan No. 91-06	Total
Beginning Balance	\$ 2,811.9	\$ 0.00	\$ 2,811.90
Monthly Deposits	327.60	0.00	327.60
Interest	0.00	0.00	0.00
Ending Balance	\$ 3,139.50	\$ 0.00	\$ 3,139.50

BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
ELK CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

Significant Accounting Policies, (Continued)

Federal Income Tax

The District is exempt from federal and state income taxes.

Collateral Pledged

All funds were adequately insured by Federal Deposit Insurance Corporation as of December 31, 2011 and 2010.

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.

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, 2011, a total of \$27,100.69 was applied to the principal on this loan.

BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
ELK CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

Long-term Debt, (Continued)

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, 2011, a total of \$890.20 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 \$8,616.31 was applied to the principal on this loan leaving a balance of \$122,383.69 at December 31, 2011. The remaining unadvanced commitment of \$284,600.00 on this loan is to be advanced during the fiscal year ended December 31, 2012.

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

		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

		12-31-10			
		Rural Dev. Loan #91-03	Rural Dev. Loan #91-04	Rural Dev. Loan #91-06	Totals
Current Portion of Long-Term Debt	\$	27,098.55	\$ 890.12	\$ 0.00	\$ 27,988.67
Long-Term Debt		1,133,430.70	49,743.18	0.00	1,183,173.88
Total Debt	\$	1,160,529.25	\$ 50,633.30	\$ 0.00	\$ 1,211,162.55

**BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
ELK CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010**

Long-term Debt, (Continued)

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, 2012	\$ 28,343.55	\$ 50,424.45	\$ 78,768.00
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

Rural Development Loan #91-04			
Year Ending	Principal	Interest	Total
December 31, 2012	\$ 933.34	\$ 2,342.66	\$ 3,276.00
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

Rural Development Loan #91-06			
Year Ending	Principal	Interest	Total
December 31, 2012	\$ 16,770.87	\$ 4,877.13	\$ 21,648.00
December 31, 2013	17,497.68	4,150.32	21,648.00
December 31, 2014	18,255.98	3,392.02	21,648.00
December 31, 2015	19,047.16	2,600.84	21,648.00
December 31, 2016	19,872.61	1,775.39	21,648.00

The total interest paid on all debt for the years ended December 31, 2011 and 2010, was \$56,260.80 and \$55,284.60, respectively.

3. Accumulated Unpaid Vacation and Sick Pay

At December 31, 2011 and 2010, no determination of the aggregate dollar value of vacation or sick pay had been made.

BECKHAM COUNTY RURAL WATER DISTRICT NO. 3
ELK CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

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 February 14, 2012, 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.

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, 2011

POLICY NUMBER	COMPANY	COVERAGE	AMOUNT	EXPIRATION DATE	ANNUAL PREMIUM	PREPAID PREMIUM
10215	ORWA Assurance Group	I. Liability Coverage A. Bodily Injury B. Property Damage C. Personal Injury D. Errors and Omissions II. Business Auto Coverage A. Bodily Injury B. Property Damage C. Auto Physical Damage III. Property Coverage A. Buildings and Personal Prop. IV. Blanket Bond Fidelity By Position Held	\$ 125,000 25,000 125,000 125,000 125,000 25,000 25,000 25,000 ACV 103,668	6-1-12	\$ 13,027.00	\$ 5,156.52
360434	ORWA Assurance Group	Worker's Compensation		10-31-12	3,604.91	3,004.09
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REPORT ON INTERNAL CONTROL AND ON COMPLIANCE

OF

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



BRITTON, KUYKENDALL, & MILLER
CERTIFIED PUBLIC ACCOUNTANTS

JAMES M. KUYKENDALL
RICK D. MILLER

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580-832-5313
FAX 580-832-5314

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 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, 2011 and 2010, which collectively comprise Beckham County Rural Water District No. 3, Elk City, Oklahoma's basic financial statements and have issued our report thereon dated February 10, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Beckham County Rural Water District No. 3, Elk City, Oklahoma's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, we identified a certain deficiency in internal control over financial reporting 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 of 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 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 administrative employees, all applicable county, state and federal agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Britton, Kuykendall & Miller

BRITTON, KUYKENDALL AND MILLER
Certified Public Accountants

Weatherford, Oklahoma
February 10, 2012