

**JOHNSTON COUNTY RURAL WATER  
DISTRICT #3**

**FINANCIAL STATEMENTS AND  
AUDITORS' REPORT**

**JUNE 30, 2020**



**Jackson, Fox, and Richardson  
A Professional Corporation  
Certified Public Accountants  
Ardmore, Oklahoma**

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**JOHNSTON COUNTY RURAL WATER DIST. #3**

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580-371-2141 FAX # 580-371-3871

**Management Discussion and Analysis  
For the Year Ending June 30, 2020  
(Unaudited)**

Our discussion and analysis of the Johnston County Rural Water District No. 3 financial performance provides an overview of the District's financial activities for the fiscal year ending June 30, 2020. Please review it in conjunction with the basic financial statements, which follow.

***Background of the District***

The Johnston County Rural Water District No. 3 was organized on June 14, 1973 by the Johnston County Commissioners for the purpose of serving water to rural Johnston County. Seven board members govern the District, consisting of a Chairman, Vice-Chairman, Secretary/Treasurer and four members. A System Manager was hired on February 1, 1977 and the System Secretary/Bookkeeper was hired on April 1, 1977. A third full time employee was added in 1987 to work in the field. April 2000 the District added another office employee. A fifth employee was hired March 17, 2008 to work in the field. System Secretary/Bookkeeper retired January 1, 2010 after 32 plus years of service. The Water Clerk was promoted to the Bookkeeper position and a new Clerk was hired November 16, 2009. On March 11, 2013, a full time Operator/Management Trainee was employed by the District to start training for the System Manager position. On October 19, 2015, a temporary water operator was hired, then was hired as a permanent full-time operator on January 11, 2016. On March 14, 2018, the District created and filled a fifth permanent full-time operator position.

April 1, 1977, the District rented office space from the Johnston County Farm Bureau located West of Tishomingo. In October 1979, the District purchased 1 1/2 acres with large metal building with office space and shop space located 1/2 mile south on Refuge Road, Southeast of Tishomingo.

Location address: 10501 S. Refuge Road, Tishomingo, Oklahoma.

Construction on a new 75' x 40' storage building located by the office on Refuge Rd. was completed in May 2018.

The first 338 water billings were mailed on September 26, 1977. As of June 30, 2020, there were 1181 billings. The District added (34) new water services/customers and (10) water services have expired this past year.

In October 2011, The District purchased two new office computers to accommodate a new accounting program that will interface with the existing water billing program.

The District launched a new website May 17, 2018 and began offering ACH bank drafts as a bill payment option.

Beginning with only one well field having 3 wells in the Mill Creek area, the System has grown to include an additional well field having 6 wells located North of Tishomingo and 1 additional well added to the Mill Creek well field. The System pumped 35,264,000 gallons of water its first year. This past year the System pumped 117,605,900 gallons of water from the two well fields. The average pumped monthly is 9,800,492 gallons.

The System began with 2 water towers and 200 miles of pipeline. Presently, there are 3 additional towers and approximately 365.5 miles of water pipeline.

**JOHNSTON COUNTY RURAL WATER DIST. #3**  
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(Unaudited)

Revenue from water sales for this past year, ending June 30, 2020, was, \$682,677 from \$700,062 the previous year. Total revenue from all sources was \$783,201 and total expenses were \$702,873.

The System serves the towns of Milburn, Ravia, and Coleman on an emergency only basis.

**Using This Annual Report**

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities listed herein provide information about the activities of the System as a whole and present a longer-term view of the System's finances. These statements tell how we are financed in the short term as well as what remains for future spending.

**Reporting the District as a Whole**

The statement of Net Assets and the Statement of Activities

Our analysis of the System as a whole follows. One of the most important questions asked about the System's finances is "Is the System as a whole better off or worse as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the System as a whole and about its activities in a way that helps answer that question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to accounting used by most private-sector companies. Accrual of current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the System's net assets and changes in them. You can think of the System's net assets and difference between assets, what the System owns, and liabilities, what the System owes, as one way to measure the System's financial health, or financial position. Over time, increases or decreases in the System's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the System's service area, capital projects, and demographic changes to assess the overall health of the system.

The System's total assets changed from a year ago, decreasing from \$4,100,905 to \$3,941,624. Table 1 focuses on total assets and changes in total assets.

**Table 1**  
**Net Assets**

	2020	2019
Cash and other current assets	\$ 738,064	\$ 884,129
Capital assets	3,203,560	3,216,776
<b>Total assets</b>	<b>\$ 3,941,624</b>	<b>\$ 4,100,905</b>
Deferred outflow s of resources	48,682	81,013
Accounts payable and current accrued liabilities	\$ 339,616	\$ 349,631
Long-term liabilities	297,640	543,160
Deferred inflow s of resources	16,082	21,289
<b>Total net position</b>	<b>\$ 3,336,968</b>	<b>\$ 3,267,838</b>

**JOHNSTON COUNTY RURAL WATER DIST. #3**  
**Management Discussion and Analysis**  
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(Unaudited)

The increase in net position resulted from a reduction in long-term liabilities.

Table 2 compares the change in net position between the years.

**Table 2**  
**Changes in Net Position**

	2020	2019
Operating revenues	\$ 776,151	\$ 781,665
Operating expenses	714,070	755,384
Net revenues from operations	62,081	26,281
Other revenues expenditures	7,050	17,327
Increases in net position	\$ 69,131	\$ 43,608

The overall increase in net revenues from operations resulted from a rate increase.

Historically, the System engages in regular rate increases in order to meet the cost of water production. The water rates from September 1977 to November 1981 were: 1,000 gallons or minimum \$8.00 the next 2,000 gallons was \$2.00 per 1,000 gallons, the next 2,000 gallons was \$1.50 per 1,000 gallons, the next 5,000 gallons was \$1.00 per 1,000 gallons and all over 10,000 gallons was \$.60 per 1,000 gallons. In November 1981 to January 1, 1993 were: 1,000 gallons or minimum \$8.00 and all over 1,000 gallons was \$2.00 per 1,000 gallons. January 1993 to April 2000 the rates were increased to: \$11.00 for first 1,000 gallons or minimum and all over 1,000 gallons was \$2.20 per 1,000 gallons. April 2000 to December 2001, the rates were increased to \$12.00 for the first 1,000 gallons and \$2.50 per 1,000 gallons after the first. In December 2001 to January 2004 the rates were increased to: \$12.60 for the first 1,000 gallons or minimum and \$2.65 per 1,000 gallons after the first. In January 2004, the rates were increased to: \$13.25 for the first 1,000 gallons or minimum and \$2.80 per 1,000 gallons after the first. In January 2005, the rates were increased to: \$13.90 for the first 1,000 gallons or minimum and \$2.95 per 1,000 gallons after the first. In January 2006, the rates were increased to: \$14.60 for the first 1,000 gallons or minimum and \$3.10 per 1,000 gallons after the first. In January 2007, the rates were increased to \$15.35 for the first 1,000 gallons or the minimum and \$3.25 per 1,000 gallons after the first. In January 2008, the rates were increased to \$16.10 for the first 1,000 gallons or minimum and \$3.40 per 1,000 gallons after the first. In January 2009, the rates were increased to \$16.90 for the first 1,000 gallons or minimum and \$3.60 per 1,000 gallons after the first. In January 2010, the rates were increased to \$17.75 for the first 1,000 gallons or minimum and \$3.80 per 1,000 gallons after the first. In January 2010, the rates were increased to \$18.65 for the first 1,000 gallons or minimum and \$4.00 per 1,000 gallons after the first. In January 2011, the rates were increased to \$19.60 for the first 1,000 gallons or minimum and \$4.20 per 1,000 gallons after the first. In January 2013, the rates were increased to \$20.60 for the first 1,000 gallons or minimum and \$4.40 per 1,000 gallons after the first. January 1, 2014 rates were increased to \$21.60 for the first 1,000 gallons or minimum and \$4.60 per 1,000 gallons after the first. In January 2015 rates were increased to \$22.00 for the first 1,000 gallons or minimum and \$4.70 per 1,000 gallons after the first. In January 2016 rates were increased to \$22.65 for the first 1,000 gallons or minimum and \$4.85 per 1,000 gallons after the first 1,000 gallons. In January 2017 rates were increased to \$23.10 for the first 1,000 gallons or minimum and \$5.00 per 1,000 gallons after the first 1,000 gallons. In January 2018 rates were increased to \$23.70 for the first 1,000 gallons or minimum and \$5.10 per 1,000 gallons after the first 1,000 gallons. In January 2019, rates were increased to \$24.30 for the first 1,000 gallons or minimum and \$5.20 per 1,000 gallons after the first 1,000 gallons. In January 2020, rates were increased to 24.80 for the first 1,000 gallons or minimum and \$5.30 per 1,000 gallons after the first 1,000 gallons.

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**Management Discussion and Analysis**  
**For the Year Ending June 30, 2020**  
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The System was designed, and water rates set for the customers to read their own meters monthly. In August 1979 there were several who just would not read their meter. A charge of \$5.00 per month was charged to those customers who were physically able to read their meter and would not. In January 2004 that charge was increased to \$10.00 per meter per month. In 2006, that charge was increased to \$12.50 per meter per month. In 2008 that charge was increased to \$13.00 per meter per month. In 2015 the meter reading fee was increased to \$15.00 per month. In 2018 the reading fee was increased to \$17.50 per month. The fees paid to the System for water meter reading for 2020 were \$27,475.

Before construction of The System a benefit unit/water service cost \$75.00; after the construction of the System in 1977 to March 1985 the cost was \$300.00. May 1981 The System was shut down on all new water services with 542 customers, due to the inability to serve the communities of Emet, Bold Springs and Fillmore areas adequately during the peak usage times of July and August. In March 1985, the System was able to open for new water services after acquiring a new water source North of Tishomingo. Since March 1985 to present the cost of a benefit unit/water service is \$1,000. The fees paid to the System for water services for 2020 were \$34,500.

In August 2001, 5 test holes were drilled on the West side of Highway 377. Two of those holes were prospective wells to be developed in the near future. In April 2007, the #1 hole was reamed and casing set. In April 2008, the #1 hole was plumbed. In December 2008 this well was ready to use.

In addition, the District leased approximately 950 acres of surface rights along Highway 377/99 about 5 miles north of our present well field to provide water for future growth. In April 2007 we drilled 8 test holes. None were feasible to produce the quantity of water needed to make a commercial well.

In November 2009, the District leased approximately 720 acres of property for surface rights north of Highway 7 and west of the west R-S Well Field.

December 29, 2011 the District purchased 743.49 acres of water rights from John & Doris Row. Water Rights are where our existing wells are north of Tishomingo on Row Ranch.

In November 2013, five (5) test holes were drilled on the Row water rights property. Only one well produced water. The District is undecided at this time, about developing this well, due to dirty water.

In November 2016, the District purchased 310 acres of underground water rights from Tommy G. and LuAnne Johnson. The property is located approximately 2 miles south of Connersville, OK on the east side of SH-377/99.

In November 2017, the District purchased 1090 acres of underground water rights from Mike and Kellie Row. The water rights include our existing wellfield located on the west side of Highway 377 north of Tishomingo, OK.

The District has plans for construction of more storage tanks in the Central part of the distribution area.

In January 2003, the District purchased an Onan Diesel Generator and had a tandem axle utility trailer built to haul the generator. It is now ready for emergency use. In February 2006, the Generator was used to test pump one of the test holes drilled north of Tishomingo on the West side of Highway 377.

Rehabilitation of all electrical equipment was finished in 2006. Due to the age of the equipment, replacement parts have become obsolete.

**JOHNSTON COUNTY RURAL WATER DIST. #3**  
**Management Discussion and Analysis**  
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(Unaudited)

In August 2003, the District started a water meter change out program. In the beginning the District used Rockwell/Sensus water meters and now changing to Precision/Invensys/Sensus water meters. Sensus has purchased the Precision/Invensys Company and using the old Precision meter style.

In August 2009, the District purchased a 16' utility trailer outfitted with 23HP portable Miller Generator/Welder and space to hold tools and materials needed for service installations and repairs.

In March 2008, the District hired Fox Engineering to put the system on GPS mapping. This project was completed In February 2010. We now have up-to-date maps with the system's water lines, meters, valves, hydrants, wells, tanks, etc.

In May of 2010, the District was required by the EPA Region 6 to have the Mill Creek Well Field and R-S Well Field on the east and west side of Highway 377/99, be 4-log compliant. This meant mandatory chlorination and testing chlorine residuals at a designated test site at each well field. A Monthly report on the testing is also required to be sent to the EPA.

In March 2011, the District changed its disinfection process from granular chlorine (calcium hypochlorite) to liquid bleach (sodium hypochlorite). This was done due to the difficulty and cost of disposing the residue left from the granular chlorine.

On December 12, 2011, the board of directors approved for the district to pay for and extend our main waterline 3,420 feet north of Lakes Estates into Rock Creek Part II. The district will charge a \$5,000 impact fee along with a \$1,000 water tap fee to any new customers wanting water service in the Rock Creek area. This extension is phase I of a three (3) phase projects to serve the Rock Creek area.

On April 15, 2019, a 4600 ft. loop was completed on Dove Road in Ravia, OK.

The following table relates the water production for the past 10 years.

Table 3  
Water Production

Year	Water Sold	Water Produced	Water Lost	% Sold
June-11	91,566,530	107,977,810	16,216,180	84.98%
June-12	98,452,980	116,422,190	17,639,730	84.85%
June-13	87,344,190	118,347,810	30,970,756	73.83%
June-14	91,014,400	105,885,370	14,870,970	85.96%
June-15	89,527,050	103,941,460	14,371,760	86.17%
June-16	88,125,350	121,376,354	33,172,084	72.67%
June-17	95,207,300	125,096,066	29,806,316	76.17%
June-18	91,337,930	112,058,300	20,692,680	81.53%
June-19	89,550,540	119,149,750	29,526,960	75.22%
June-20	82,996,700	117,605,900	34,485,175	70.68%

**JOHNSTON COUNTY RURAL WATER DIST. #3**  
**Management Discussion and Analysis**  
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(Unaudited)

Table 4 demonstrates the annual billings and the average billings per customer for the last 10 years.

**Table 4**  
**Water Billings**

Year	Number of Customers	Billings per Customer	Average per Customer
June-11	1051	518,848	\$ 494
June-12	1064	575,057	\$ 540
June-13	1080	566,492	\$ 525
June-14	1094	608,978	\$ 557
June-15	1101	620,528	\$ 564
June-16	1128	635,927	\$ 564
June-17	1144	695,187	\$ 608
June-18	1147	698,026	\$ 609
June-19	1158	706,626	\$ 610
June-20	1181	668,490	\$ 566

**Financing and Investing**

The District managed to pay off its initial indebtedness in prior years. Since that time, all new additions to the System have been paid for from accumulated savings. The District invests in certificates of deposit held by local banking institutions. Interest income to the District for 2020 was \$6,507 and \$12,572 for 2019.

**Long-range plan**

On May 9, 2005, the Board of Directors made a resolution to purchase property in an area where water may exist. This would help to have more control of the acre-feet of water, which will be needed in the future. Only prime locations will be selected, and engineering feasibility study and test drilling will be performed before any land will be purchased.

The System is keeping up with the State Comprehensive Water Plan.

**Request for Information**

This financial report is designed to provide a general overview of the System's finances for those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Johnston County Rural Water Dist. #3  
P O BOX 636  
Tishomingo, Ok. 73460-0636



**Johnston County Rural Water District #3**  
**GASB 68 Pension Schedules and Related Ratios**  
**For the year ended June 30, 2020**

Schedule 1

Schedule of Proportionate Shares

	2019	2018	2017	2016	2015	2014
District proportion of the net pension liability	0.01968922%	0.01222071%	0.01013368%	0.00961599%	0.00889881%	0.00890104%
District proportional share of the net pension liability	\$ 26,224	\$ 23,836	\$ 54,789	\$ 95,413	\$ 32,008	\$ 99,188
District covered-employee payroll	317,538	283,034	245,703	217,671	199,688	190,577
District proportionate share of the net pension liability as a percentage of covered payroll	8.26%	8.42%	22.30%	43.83%	16.03%	52.05%
OPERS fiduciary net position as a percentage of the total pension liability	98.63%	97.96%	94.28%	89.48%	96.00%	97.90%

Schedule 2

Schedule of Contributions

	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 51,820	\$ 31,576	\$ 27,259	\$ 28,439	\$ 25,956	\$ 24,882
Contributions in relation the contractually required contributions	59,193	31,690	27,259	28,787	24,492	24,882
Contribution deficiency (excess)	(7,373)	(114)	-	(348)	1,464	-
District's covered employee payroll	317,538	283,034	245,703	217,671	199,688	190,577
Contributions as a percentage of covered employee payroll	18.64%	11.20%	11.09%	13.23%	12.27%	13.06%

Notes to schedule:

GASB Statement 68 requires the information presented in the above schedules cover the 10 most recent fiscal years. The information above covers the period retroactive to the adoption of GASB Statement 68 and is the latest information available.

Benefit Changes: Information to present a 10-year history is not readily available

Changes in Actuarial Assumptions: Information to present a 10-year history is not readily available

**Johnston County Rural Water District #3**  
**GASB 75 Pension Schedules and Related Ratios**  
**For the year ended June 30, 2020**

Schedule 1

Schedule of Proportionate Shares

	2019	2018	2017
District proportion of the OPEB liability	0.01968922%	0.01222071%	0.01013368%
District proportional share of the OPEB liability	\$ (7,654)	\$ (1,581)	\$ 1,161
District covered-employee payroll	317,538	283,034	245,703
District proportionate share of the OPEB liability as a percentage of covered payroll	-2.41%	-0.56%	0.47%
OPERS fiduciary net position as a percentage of the total OPEB liability	112.11%	103.94%	96.50%

Schedule 2

Schedule of Contributions

	2019	2018	2017
Contractually required contribution	\$ 3,691	\$ 2,332	\$ 1,908
Contributions in relation the contractually required contributions	4,371	2,218	1,908
Contribution deficiency (excess)	(680)	114	-
District's covered employee payroll	317,538	283,034	245,703
Contributions as a percentage of covered employee payroll	1.38%	0.78%	0.78%

Notes to schedule:

GASB Statement 75 requires the information presented in the above schedules cover the 10 most recent fiscal years. The information above covers the period retroactive to the adoption of GASB Statement 75 and is the latest information available.

Benefit Changes: Information to present a 10-year history is not readily available

Changes in Actuarial Assumptions: Information to present a 10-year history is not readily available

**JACKSON, FOX, and RICHARDSON**  
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**INDEPENDENT AUDITORS' REPORT**

To the Board of Trustees  
Johnston County Rural Water District #3  
Tishomingo, Oklahoma

**Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of Johnston County Rural Water District #3 (the District) as of and for the year ended June 30, 2020, 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 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 of the Johnston County Rural Water District #3, as of June 30, 2020, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

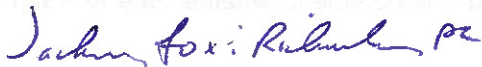
**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis pages 3-8, and the Pension/OPEB Schedules on pages 9-10 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 Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2021, on our consideration of the District'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 the District's internal control over financial reporting and compliance.



Ardmore, Oklahoma  
June 4, 2021

**Johnston County Rural Water District #3**  
**Statement of Net Position**  
**June 30, 2020**  
**ASSETS**

<b>Current Assets</b>		
Cash on hand and in banks	\$	227,609
Certificates of deposit		349,158
Accounts receivable		78,254
Inventory		57,292
Prepaid insurance		18,096
OPEB asset		7,655
		738,065
<b>Noncurrent Assets - at cost - Note G</b>		
Water systems	\$	3,354,092
Building and acreage		461,887
Water rights		1,676,199
Office equipment		19,231
Generator		33,529
Vehicles		160,391
		5,705,328
Less accumulated depreciation		2,501,768
		3,203,560
<b>Total Assets</b>	<b>\$</b>	<b>3,941,625</b>
		3,941,625
<b>Deferred Outflows of Resources</b>	<b>\$</b>	<b>48,682</b>
		48,682

**LIABILITIES AND NET POSITION**

<b>Current Liabilities</b>		
Accounts payable	\$	22,970
Accrued liabilities		44,902
Net pension liability		26,224
Current portion of contracts payable		245,520
		339,616
<b>Long-term Liabilities</b>		
Long-term contracts payable		297,640
<b>Total Liabilities</b>	<b>\$</b>	<b>637,256</b>
		637,256
<b>Deferred Inflows of Resources</b>	<b>\$</b>	<b>16,082</b>
		16,082
<b>Net Position:</b>		
Net investment in capital assets	2,660,400	
Unrestricted	676,569	
Restricted	-	
		-
<b>Total Net Position</b>	<b>\$</b>	<b>3,336,969</b>
		3,336,969

The accompanying notes are an integral part of this financial statement

**Johnston County Rural Water District #3**  
**Statement of Revenues, Expenses and**  
**Changes in Net Position**  
**For the year ended June 30, 2020**

<b>Operating Revenues</b>	
Water sales, net of uncollectible accounts	\$ 681,302
Water taps	34,500
Tenant deposits, net of refunds	857
Service fees	5,950
Meter reading	27,773
Material sales, other	2,991
Machine work	11,196
Penalties / late charges	<u>11,582</u>
<b>Total Operating Revenues</b>	<b>\$ 776,151</b>
<b>Expenses - operating</b>	
Salary, payroll taxes, benefits	412,759
Insurance	11,278
Water systems	
Utilities	25,413
Materials and operating supplies	60,343
Truck expense	31,056
Miscellaneous	14,578
Contract labor	20,534
Royalty	26,957
Maintenance	
Bldg. and yard	1,483
Office equipment	1,105
Office expenses	
Office supplies	8,177
Office utilities	4,953
Telephone	4,138
Professional fees	1,874
Miscellaneous	20,040
Depreciation	<u>69,383</u>
<b>Total Operating Expense</b>	<b>714,070</b>
<b>Operating Income</b>	<b>\$ 62,081</b>
<b>Non-Operating Revenues</b>	
Interest income	6,507
Miscellaneous income	50
Capital credit refund	<u>494</u>
<b>Total Non-Operating Revenues</b>	<b>7,050</b>
<b>Change in Net Position</b>	<b>\$ 69,131</b>
<b>Net Position, July 1, 2019</b>	<u>3,267,838</u>
<b>Net Position, June 30, 2020</b>	<u><u>\$ 3,336,969</u></u>

The accompanying notes are an integral part of this financial statement

**Johnston County Rural Water District #3**  
**Statement of Cash Flows**  
**For the year ended June 30, 2020**

<b>Cash flow from operating activities:</b>	
Cash received from customers	763,629
Cash payments to supplies for goods and services	(89,654)
Cash payments to employees	(384,259)
Cash paid to contract services	(20,534)
Cash payment for other operating expenses	(151,545)
Net cash provided (used) by operating activities	<u>117,637</u>
<b>Cash flows from capital and related financing activities:</b>	
Cash used to purchase assets	<u>(56,167)</u>
	(56,167)
<b>Cash flows from investing activities:</b>	
Reduction on contracts for water rights	(245,520)
Interest income on unrestricted accounts	6,507
Miscellaneous income	50
Capital coop dividend	494
Net cash provided (used) by investing activities	<u>(238,470)</u>
Net Increase (Decrease) in Cash	(177,000)
Cash and certificate equivalents July 1, 2019	<u>753,767</u>
Cash and certificate equivalents June 30, 2020	<u><u>576,767</u></u>
<b>Reconciliation of operating income to cash flows from operating activities</b>	
Operating income (loss)	62,081
Adjustment to reconcile net revenues to net cash provided by operating activities	
Depreciation and amortization	69,383
(Increase) Decrease accounts receivable	(12,522)
(Increase) Decrease prepaid items	(3,473)
(Increase) Decrease in inventory	(8,865)
Increase (Decrease) accounts payable	(17,467)
Increase (Decrease) accrued liabilities	28,500
Total adjustments	<u>55,556</u>
Net cash provided (used) by operating activities	<u><u>117,637</u></u>

The accompanying notes are an integral part of this financial statement

**Johnston County Rural Water District #3**  
**Notes to the Financial Statements**  
**June 30, 2020**

**NOTE A - ORGANIZATION**

The Johnston County Rural Water District #3 (The District) was formed in June 1973, as a public trust under Oklahoma Statutes with the beneficiaries to be the residents of Johnston County. The District serves the rural residents of Johnston County by providing adequate water supply for their needs.

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

1. Principles of Accounting

The District's policy is to prepare its financial statements using the economic resources measurement focus and the accrual method. Under this method, revenues are recognized when earned, rather than when collected, and expenditures are recognized when the liability is incurred, rather than when paid.

The District's net assets are reported in three components:

1. Investment in capital assets – consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of notes that are attributable to the acquisition of those assets.
2. Restricted - consists of net assets with constraints placed on the use either by external groups, such as grantors or laws and regulations of other governments, or law through constitutional provisions or enabling legislation.
3. Unrestricted – All other assets that do not meet the definition of restricted or investment in capital assets.

2. Inventory

Inventory is stated at cost. Cost is determined principally by the first-in, first-out method. Inventory is primarily operating and repair supplies.

3. Receivables

Accounts receivable are recorded at fair market value. The District uses the specific identification method to write off uncollectible accounts. The District considers account delinquent after the second month and service is locked. The account remains on the books for one year and then the account is written off.

4. Depreciation

Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives ranging from 3 to 40 years, principally on the straight-line method.

5. Income Taxes

No provision is made for income taxes. The District is a public trust and therefore not subject to income taxes under the Internal Revenue Code.



**Johnston County Rural Water District #3**  
**Notes to the Financial Statements**  
**June 30, 2020**

6. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

7. Deferred Outflows and Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position or fund balance that applies to a future period and thus, will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position or fund balance that applies to a future period and thus, will not be recognized as an inflow of resources (revenue) until then. SEE NOTE C

**NOTE C - RETIREMENT PLAN**

Pension Liability

The District participates in the Oklahoma Public Service Retirement System (OPERS). The District contributes a certain percentage of the employees' salaries to the plan. In addition, the employees may contribute portions of their salaries. Contributions to OPERS by the District for the year were \$32,676.

The net pension liability and OPEB liability were measured as of June 30, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2019. The District's proportion of both the net pension and OPEB liabilities were based on the Board's contributions received by OPERS relative to the total contributions received by OPERS for all participating employers as of June 30, 2019. Based upon this information, the District's proportion was 0.01968922%.

For the year ended June 30, 2020, the District recognized the following related to its proportionate share of the Net Pension Liability:

**Johnston County Rural Water District #3**  
**Notes to the Financial Statements**  
**June 30, 2020**

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	-	(6,171)
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	(7,913)
Change in proportion and differences between contributions and proportionate share of contributions	13,720	-
Contributions during measurement date	-	4,559
Contributions subsequent to measurement date	30,504	-
	\$ 44,224	\$ (9,525)

Net pension liability - \$26,224 Pension expense - \$42,331

Reported deferred outflows of resources of \$44,224 resulting from the District's contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2021. Any other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	Deferred Outflows	Deferred Inflows
2021	16,190	(3,211)
2022	(13,497)	1,575
2023	6,749	(7,561)
2024	4,278	(328)
2025	-	-
Thereafter	-	-
	\$ 13,720	\$ (9,525)

**Johnston County Rural Water District #3**  
**Notes to the Financial Statements**  
**June 30, 2020**

The total pension liability was determined on an actuarial valuation prepared as of July 1, 2019 using the following actuarial assumptions:

- Investment return – 7% compounded annually net of investment expense and including inflation
- Salary increase – 3.5% to 9.5% per year, including inflation
- Mortality rates – Active participants and nondisabled pensioners: RP-2014 Mortality Table projected to 2025 (disabled pensioners set forward 12 years)
- Annual post-retirement benefit increase – none
- Assumed inflation rate – 2.75%
- Payroll growth rate – 3.5%
- Actuarial cost method – entry age
- Select period for termination of employment assumptions – 10 years

The actuarial assumptions used in this valuation are based on the results of the most recent actuarial experience study, which covers the 3-year period ending June 30, 2016.

The target asset allocation and best estimates of geometric real rates of return for each major asset class as of June 30, 2019 are summarized in the following table:

Asset Class	Target Asset Allocation	Long-term Expected Real Rate of Return
US Large Cap Equity	38.0%	3.8%
US Small Cap Equity	6.0%	4.9%
Non-US Equity	24.0%	9.2%
US Fixed Income	32.0%	1.4%
	100.0%	

The discount rate used to measure the total pension liability was 7% for the year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and the employers will be made at the current contribution rate as set out in the state statute. Based on those assumptions, OPERS fiduciary net position was projected through 2114 to be available to make all projected future benefit payments of current plan members.

The following presents the net pension liability of the employer calculated using the discount rate of 7%, as well as what the District net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1% Decrease	Current Rate	1% Increase
	6.00%	7.00%	8.00%
Net Pension Liability	\$ 237,103	\$ 26,224	\$ (152,562)

**Other Post-Employment Benefit Plans**

OPERS also administers a health insurance subsidy plan (HISP) as part of its cost-sharing pension plan. This plan is considered OPEB in accordance with the provisions of GASB 75.

**Johnston County Rural Water District #3**  
**Notes to the Financial Statements**  
**June 30, 2020**

For the year ended June 30, 2020, the District recognized the following related to its proportionate share of the OPEB Liability:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	-	(6,220)
Changes in assumptions	1,150	-
Net difference between projected and actual earnings on pension plan investments	-	(827)
Change in proportion and differences between contributions and proportionate share of contributions	1,136	-
Contributions during measurement date	-	489
Contributions subsequent to measurement date	2,172	-
	\$ 4,458	\$ (6,558)

OPEB asset \$7,654

Reported deferred outflows of resources of \$4,458 resulting from the District's contributions subsequent to the measurement date will be recognized as a decrease of the OPEB liability in the year ended June 30, 2020.

The same actuarial methods and assumptions were used for the OPEB liability as the net pension liability.

Any other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEBs will be recognized in OPEB expense as follows:

	Deferred Outflows	Deferred inflows
2021	590	(1,932)
2022	590	(1,932)
2023	590	(1,324)
2024	367	(852)
2025	149	(518)
Thereafter	-	-
	2,286	(6,558)

**Johnston County Rural Water District #3**  
**Notes to the Financial Statements**  
**June 30, 2020**

The discount rate used to measure the total OPEB liability was also 7% for the year. The following presents the OPEB liability of the employer calculated using the discount rate of 7%, as well as what the District's OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1% Decrease	Current Rate	1% Increase
	6.00%	7.00%	8.00%
OPEB liability	\$ (1,209)	\$ (7,654)	\$ (13,198)

Detailed information about the pension's plan fiduciary net position is available in the separately issued financial report of the OPERS, which can be located at [www.opers.ok.gov](http://www.opers.ok.gov).

Attorney General opinions as well as the Oklahoma Supreme Court have implied that the State of Oklahoma is legally responsible for any pension liability over the employers' set contribution amount. However, GASB Statement 68 and GASB Statement 75 requires that the net pension liability and OPEB liability be accounted for and reported by the entity that created the liability. Therefore, the District's portion of the State's net pension liability and OPEB liability have been recorded and reported.

**NOTE D - RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance for risks of loss, including workers' compensation and general liability. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Workers compensation coverage is maintained by paying premiums into the State program. The premium is calculated based upon accident history and administrative costs. All contract services provide certificates of insurance before starting projects.

**NOTE E - COMMITMENTS AND CONTINGENCIES**

(1) Concentrations of Credit Risk

The District supplies water to individuals and business, all of which are located in Johnston County. The District grants credit to customers, substantially all of whom are local residents.

(2) Cash Deposits - Additional Credit Risk

The District's bank deposits are categorized below per GASB Statement 3 to give an indication of the level of risk assumed at year-end. Deposits of the District are carried at cost. The carrying amount of deposits is stated in the balance sheet as "cash and cash equivalents". The District invests only in cash accounts and certificates of deposit.

**Johnston County Rural Water District #3**  
**Notes to the Financial Statements**  
**June 30, 2020**

Deposits by type at June 30, 2020, are as follows:

Deposits	Risk Category			Bank Balance	Financial Statement Carrying Amount
	1	2	3		
Demand Deposits	\$ 227,498	\$ -	\$ -	\$ 227,498	\$ 227,498
Certificate of Deposit	-	349,158	-	349,158	349,158
<b>Totals</b>	<b>\$ 227,498</b>	<b>\$ 349,158</b>	<b>\$ -</b>	<b>\$ 576,656</b>	<b>\$ 576,656</b>

**(2) Cash Deposits - Additional Credit Risk - continued**

- (1) Insured or collateralized with securities held by the entity or by its agent in the entity's name.
- (2) Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.
- (3) Uncollateralized.

**NOTE F – CONTRACT LIABILITY**

During the year, the District entered into contracts to purchase water rights. The payments required to be paid are as follows:

Current	\$ 245,520
FY2022	214,020
FY2023	83,620
FY2024	-
FY2025	-
Thereafter	-

**Johnston County Rural Water District #3**  
**Notes to the Financial Statements**  
**June 30, 2020**

**NOTE G – CAPITAL ASSETS**

Capital assets are comprised of the water system, plant office and equipment. Additions are stated at cost. Assets are depreciated over their estimated useful lives from 3 to 40 years. A summary of property, plant, and equipment related accumulated depreciation and respective depreciable lives follows.

	Beginning Asset	Additions	Deletions	Ending Balance
Water System	\$ 3,325,818	\$ 28,274	\$ -	\$ 3,354,092
Buildings/Acreage	461,887	-	-	461,887
Water Rights	1,676,199	-	-	1,676,199
Office Equipment	19,231	-	-	19,231
Vehicles	132,554	27,837	-	160,391
Generator	33,529	-	-	33,529
	<u>\$ 5,649,218</u>	<u>\$ 56,111</u>	<u>\$ -</u>	<u>\$ 5,705,329</u>
<b>Accumulated Depreciation:</b>				
Water System	(2,165,751)	(49,425)	-	(2,215,176)
Buildings/Acreage	(90,033)	(11,392)	-	(101,425)
Office Equipment	(17,808)	(323)	-	(18,131)
Vehicles	(126,106)	(8,206)	-	(134,312)
Generator	(32,688)	(36)	-	(32,724)
	<u>(2,432,386)</u>	<u>(69,382)</u>	<u>-</u>	<u>(2,501,769)</u>
<b>Net Capital Assets</b>	<u><u>\$ 3,216,831</u></u>			<u><u>\$ 3,203,560</u></u>

Total depreciation expense for the year ended June 30, 2020 was \$69,382.

**NOTE H – SUBSEQUENT EVENTS**

Management has evaluated all events subsequent to the balance sheet date of June 30, 2020 through the date of issuance of these financial statements, June 4, 2021, and have determined that the economic and market volatility that took place in March 2020 stemming from the COVID-19 outbreak were not representative of current conditions as of the balance sheet date of June 30, 2020 and it is unlikely they would be considered reasonable and supportable in forecasts of future conditions as of that date.

# JACKSON, FOX, and RICHARDSON

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## **INDEPENDENT AUDITORS' 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**

Board of Trustees  
Johnston County Rural Water District #3  
Tishomingo, 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, the financial statements of the business-type activities of Johnston County Rural Water District #3 (the District), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Johnston County Rural Water District #3's basic financial statements, and have issued our report thereon dated June 4, 2021.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 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. *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.

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. 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.

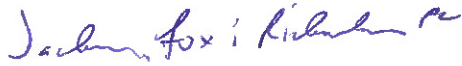
### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District'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*.



**Purpose of this Report**

The purpose of this report is 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

A handwritten signature in blue ink, appearing to read "Jackson Fox" followed by a flourish.

Ardmore, Oklahoma  
June 4, 2021

