

**JOHNSTON COUNTY RURAL WATER  
DISTRICT #3**

**FINANCIAL STATEMENTS AND  
AUDITORS' REPORT**

**JUNE 30, 2014**



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

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## JOHNSTON COUNTY RURAL WATER DIST. #3

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### **Management Discussion and Analysis For the Year Ending June 30, 2014 (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, 2014. 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.

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.

The first 338 water billings were mailed on September 26, 1977. As of June 30, 2014 there were 1094 billings. The District added (19) new water services/customers and (5) 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.

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 105,885,370 gallons of water from the two well fields. The average pumped monthly is 8,823,780 gallons.

The System began with 2 water towers and 200 miles of pipeline. Presently, there are 3 additional, towers and approximately 365 miles of water pipeline.

Revenue from water sales for this past year, ending June 30, 2014, was, \$606,256 from \$562,223 the previous year. Total revenue from all sources was \$690,464 and total expenses were \$110,492.

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

**Johnston County Rural Water District #3**  
**Management Discussion and Analysis**  
**For the Year Ending June 30, 2014**  
(Unaudited)

*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 net assets changed from a year ago, increasing from \$2,564,230 to \$2,677,642 Table 1 focuses on net assets and changes in net assets.

	<b>Table 1</b>	
	<b>Net Asset</b>	
	<b>2014</b>	<b>2013</b>
Cash and other current assets	\$1,245,011	\$1,113,917
Capital assets	<u>1,472,530</u>	<u>1,483,824</u>
<b>Total Assets</b>	<u>2,717,541</u>	<u>2,597,741</u>
Accounts payable and accrued liabilities	<u>39,899</u>	<u>33,511</u>
<b>Total Net Assets</b>	<u>2,677,642</u>	<u>2,564,230</u>
<b>Total Liabilities and net assets</b>	<u>\$2,717,541</u>	<u>2,597,741</u>

The increase in net assets resulted from increasing inventory on hand.

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

<b>Table 2</b>		
<b>Changes in Net Assets</b>		
	2014	2013
Operating revenues	\$690,464	<u>649,478</u>
Operating expenditures	<u>579,972</u>	<u>506,092</u>
Net revenues from operations	<u>110,492</u>	<u>143,386</u>
Other revenues expenditures	<u>2,920</u>	<u>3,057</u>
Increases in net assets	<u>\$113,412</u>	<u>146,443</u>

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 gallon. 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.

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. The fees paid to the System for water meter reading for 2014 were \$15,210.

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

**Johnston County Rural Water District #3**  
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**For the Year Ending June 30, 2014**  
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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 up 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 2014 were \$21,000.

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 purchased 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.

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 impossible to acquire from any dealer.

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

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(Unaudited)**

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 project to serve the Rock Creek area.

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

**Table 3  
Water Production**

Year	Water Sold	Water Produced	Water Lost	Percentage Sold
June-05	69,122,260	91,551,000	23,912,860	73.88%
June-06	87,041,330	110,884,600	23,843,270	78.50%
June-07	87,107,460	117,692,000	30,584,540	74.01%
June-08	80,065,020	114,728,000	34,662,980	69.79%
June-09	88,742,620	112,962,210	24,205,740	78.56%
June-10	87,982,800	115,884,680	27,826,530	75.99%
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%

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-05	950	320,392	\$ 332
June-06	970	382,949	\$ 395
June-07	995	408,554	\$ 411
June-08	1009	407,225	\$ 404
June-09	1031	456,922	\$ 443
June-10	1047	480,047	\$ 459
June-11	1051	518,848	\$ 494
June -12	1064	575,057	\$ 540
June-13	1080	566,492	\$ 525
June-14	1094	608,978	\$ 557

**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 2014 was \$2,343 and \$2,230 for 2013.

**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

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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

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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, 2014, 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, 2014, 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 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 audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Johnston County Rural Water District #3 basic financial statements. The schedule of operating expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2014, on our consideration of the Johnston County Rural Water District #3'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 Johnston County Rural Water District #3's internal control over financial reporting and compliance.

*Jackson and Fox PC*

Ardmore, Oklahoma  
October 28, 2014

**Johnston County Rural Water District #3  
Statement of Net Assets  
June 30, 2014**

**ASSETS**

**CURRENT ASSETS**

Cash on hand and in banks	\$	302,820
Certificates of deposit		804,995
Accounts receivable		60,835
Inventory		68,093
Prepaid insurance		8,268
		1,245,011
<b>Total current assets</b>		<b>1,245,011</b>

**NONCURRENT ASSETS - AT COST - NOTE F**

Water systems	\$	2,934,473
Building and acreage		88,141
Water rights		295,699
Office equipment		17,213
Generator		33,530
Vehicles		87,040
		3,456,095
Less accumulated depreciation		1,983,566
		1,472,530
<b>Total assets</b>		<b>\$ 2,717,541</b>

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Accounts payable	\$	16,864
Accrued liabilities		23,035
		39,899
<b>Total current liabilities</b>		<b>39,899</b>

**NET ASSETS - unrestricted**

		2,677,642
<b>Total liabilities and net assets</b>		<b>\$ 2,717,541</b>

The accompanying notes are an integral part of this financial statement.

**Johnston County Rural Water District #3**  
**Statement of Revenues, Expenditures**  
**and**  
**Changes in Net Assets**  
**For the year ended June 30, 2014**

**REVENUES**

Water sales	\$	606,256
Water taps		21,000
Tenant deposits, net of refunds		1,500
Service fees		2,925
Meter reading		15,210
Material sales, other		1,872
Impact fee		5,000
Machine work		28,162
Penalties / late charges		<u>8,540</u>

Total revenues 690,464

**EXPENDITURES - OPERATING**

Operating expenses	\$	498,668
Depreciation		<u>81,304</u>
		<u>579,972</u>

Net Revenue from operations 110,492

**OTHER REVENUE (EXPENDITURES)**

Interest income	2,343	
Capital credit refund	<u>577</u>	<u>2,920</u>

**NET REVENUES** 113,412

**NET ASSETS JULY 1, 2013** 2,564,230

**NET ASSETS JUNE 30, 2014** \$ 2,677,642

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, 2014**

**Cash flow from Operating Activities:**

Cash received from customers	\$ 682,134
Cash payments to supplies for goods and services	(53,400)
Cash payments to employees	(271,582)
Cash paid to contract services	(63,037)
Cash payment for other operating expenses	<u>(114,964)</u>
Net cash provided (used) by operating activities	<u>\$ 179,150</u>

**Cash flows from capital and related financing activities:**

Cash used to purchase assets	<u>\$ (70,010)</u>
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**Cash flows from investing activities:**

Interest income on unrestricted accounts	\$ 2,343
Capital coop dividend	<u>577</u>
Net cash provided (used) by investing activities	<u>2,920</u>

Net Increase (Decrease) in Cash 112,060

Cash and certificate equivalents July 1, 2013 995,756

Cash and certificate equivalents June 30, 2014 \$ 1,107,815

**Reconciliation of operating income to cash flows from operating activities**

Operating income (loss)	\$ 110,492
Adjustment to reconcile net revenues to net cash provided by operating activities	
Depreciation and amortization	81,304
(Increase) Decrease accounts receivable	(8,331)
(Increase) Decrease prepaid items	(453)
(Increase) Decrease in inventory	(10,251)
Increase (Decrease) accounts payable	2,788
Increase (Decrease) accrued liabilities	<u>3,600</u>
Total adjustments	<u>68,658</u>
Net cash provided (used) by operating activities	<u><u>\$ 179,150</u></u>

The accompanying notes are an integral part of this financial statement.

**Johnston County Rural Water District 34  
Notes to the Financial Statements  
June 30, 2014**

**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 on 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.

**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.

**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.

**NOTE C - RETIREMENT PLAN**

The District participates in the Oklahoma Public Service Retirement System. The District contributes a certain percentage of the employees' salaries to the plan. In addition, the employees may contribute

portions of their salaries. Pension expense for the District for the year was \$24,882.

**Johnston County Rural Water District 34  
Notes to the Financial Statements  
June 30, 2014**

**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.

Deposits by type at June 30, 2014, are as follows:

Deposits	Risk Category			Bank Balance	Financial Statement Carrying Amount
	1	2	3		
Demand Deposits	\$ 250,000	\$ 52,720	\$ -	\$ 302,720	\$ 302,720
Certificates of Deposit	-	804,995	-	804,995	804,995
<b>Totals</b>	<b>\$ 250,000</b>	<b>\$ 857,715</b>	<b>\$ -</b>	<b>\$ 1,107,715</b>	<b>\$ 1,107,715</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.

**Johnston County Rural Water District 34**  
**Notes to the Financial Statements**  
**June 30, 2014**

**NOTE F – CAPITAL ASSETS**

Capital assets are comprised of the water system, plant office d 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	Beginning Accumulated Depreciation	Additions	Deletions	Ending Accumulated Depreciation
Water System	\$2,865,581	\$ 68,892	\$ -	\$ 2,934,473	\$ 1,707,910	\$ 76,739	\$ -	\$ 1,784,649
Buildings/Acreage	87,243	898	-	88,141	62,259	3,225	-	65,484
Office Equipment	16,993	220	-	17,213	13,037	878	-	13,915
Vehicles	87,040	-	-	87,040	86,577	427	-	87,004
Generator	33,529	-	-	33,529	32,479	35	-	32,514
	<u>\$3,090,386</u>	<u>\$ 70,010</u>	<u>\$ -</u>	<u>\$ 3,160,396</u>	<u>\$ 1,902,262</u>	<u>\$ 81,304</u>	<u>\$ -</u>	<u>\$ 1,983,566</u>

Total depreciation expense for the year ended June 30, 2014 was \$81,304.

**NOTE G – SUBSEQUENT EVENTS**

Management has evaluated all events subsequent to the balance sheet date of June 30, 2014 through the date of issuance of these financial statements, July 22, 2014, and has determined that there are no subsequent events that require disclosure under generally accepted accounting principles.

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**SUPPLEMENTAL INFORMATION**

**Johnston County Rural Water District #3**  
**Schedule of Operating Expenses**  
**For the year ended June 30, 2014**  
(Unaudited)

**OPERATING EXPENSES**

Salary, payroll taxes, benefits	\$ 275,393
Insurance	7,824
Water systems	
Utilities	28,536
Materials and operating supplies	58,383
Truck expense	32,855
Miscellaneous	3,996
Contract labor	22,539
Royalty	9,784
Maintenance	
Bldg. and yard	515
Office equipment	1,040
Office expenses	
Office supplies	6,521
Office utilities	3,335
Telephone	4,663
Professional fees	40,499
Miscellaneous	<u>2,783</u>
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ <u>498,668</u></b>

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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, 2014, 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 October 28, 2014.

**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

*Jason and Tracy PC*

Ardmore, Oklahoma  
October 28, 2014