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**JOHNSTON COUNTY RURAL WATER  
DISTRICT #3**

**FINANCIAL STATEMENTS AND  
AUDITORS' REPORT**

**JUNE 30, 2011**



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

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

10501 South Refuge Road

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Tishomingo, Oklahoma 73460-0636

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

### **Management Discussion and Analysis For the Year Ending June 30, 2011**

(Unaudited)

Our discussion and analysis of the Johnston County Rural Water District No. 3's financial performance provides an overview of the District's financial activities for the fiscal year ending June 30, 2011. 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.

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, 2010 there were 1047 billings. The District added 12 new water services/customers and 6 water services have expired this past year.

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 107,977,810 gallons of water from the two well fields. The average pumped monthly is 8,998,150 gallons.

The System began with 2 water towers and 200 miles of pipeline. Presently, there are 3 additional, towers and approximately 360 miles of water pipeline.

Revenue from water sales for this past year, ending June 30, 2011, was \$513,093, up from \$480,047 the previous year. Total revenue from all other sources was \$564,034 and total expenses were \$474,559.

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.

# Management Discussion and Analysis For the Year Ending June 30, 2011

(Unaudited)

***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 us by most private-sector companies. Accrual of current year's revenues and expenses are taken in account regardless of when the cash is received or paid.

These two statements report the System's net assets and changes in assets. You can think of the System's net assets and differences 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 are, 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 \$ 2,182,512 to \$2,271,987. Table 1 focuses on net assets and changes in net assets.

**Table 1  
Net Asset**

	2011	2010
Cash and other current assets	1,070,610	980,720
Capital assets	<u>1,243,070</u>	<u>1,239,937</u>
	<u>2,313,680</u>	<u>2,220,657</u>
Accounts payable and accrued liabilities	41,693	38,145
Total net assets	<u>2,271,987</u>	<u>2,182,512</u>
Total liabilities and net assets	<u>2,313,680</u>	<u>2,220,657</u>

Total net assets increased because of an increase in certificates of deposit. Table 2 compares the change in net assets between the years.

**Management Discussion and Analysis**  
**For the Year Ending June 30, 2011**  
(Unaudited)

**Table 2**  
**Changes in Net Assets**

	2011	2010
Operating revenues	553,041	546,916
Operating expenditures	<u>474,559</u>	<u>559,149</u>
Net revenue from operations	78,482	(12,233)
Other revenues and expenditures	<u>10,993</u>	<u>13,331</u>
Increase in net assets	<u><u>89,475</u></u>	<u><u>1,098</u></u>

The increase in operating revenues was the result of a rate increase also the decrease in expenses was primarily a result of lower employment costs and professional fees.

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 2011 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.

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 2011 were \$11,570.

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 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 \$1,000.00. The fees paid to the System for water services for 2011 were \$12,000.00.

## Management Discussion and Analysis For the Year Ending June 30, 2011 (Unaudited)

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 purchased approximately 720 acres of surface rights north of Highway 7 and west of the west R-S Well Field.

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.

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

Year	Water Sold	Water Produced	Water Lost	Percentage Sold
June-02	67,937,180	95,311,000	27,373,820	71.28%
June-03	67,876,610	103,940,390	36,063,390	65.30%
June-04	79,033,790	102,561,000	23,527,210	77.06 %
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%

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

**Management Discussion and Analysis**  
**For the Year Ending June 30, 2011**  
(Unaudited)

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

Year	Number of Customers	Billings per Customer	Average per Customer
June-02	881	273,779	\$ 311
June-03	900	284,847	\$ 316
June-04	932	310,007	\$ 333
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

**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 2011 was \$10,652 and \$13,056 for 2010.

**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 preformed 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

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

We have audited the accompanying statement of net assets of Johnston County Rural Water District #3 (the District) as of June 30, 2011, and the related statements of revenues, expenditures and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *GOVERNMENT AUDITING STANDARDS*, issued by the Comptroller General of the United States. 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Johnston County Rural Water District #3 as of June 30, 2011, and the respective changes in financial position and cash flows for the year 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 September 20, 2011, on our consideration of the District's internal control over financial reporting and 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 audit.

The management's discussion and analysis on pages 3-7 are not required as part of the basic financial statements but are supplementary information required by *Government Auditing Standards*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the District taken as a whole. The accompanying schedule of operating expenses is presented for purposes of additional analysis and is not a required part of the financial statements of Johnston County Rural Water District #3. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

*Chamber Jackson and Inc PC*

Ardmore, Oklahoma  
September 20, 2011

**Johnston County Rural Water District #3**  
**Statement of Net Assets**  
**June 30, 2011**

**ASSETS**

**CURRENT ASSETS**

Cash on hand and in banks	\$	71,412
Certificates of deposit		891,692
Accounts receivable		48,484
Inventory		52,665
Prepaid insurance		<u>6,357</u>
Total current assets		<u>1,070,610</u>

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

Water systems	\$ 2,753,930	
Building and acreage	87,243	
Office equipment	11,775	
Generator	33,530	
Vehicles	<u>86,620</u>	
	2,973,097	
Less accumulated depreciation	<u>1,730,028</u>	
		<u>1,243,070</u>
		<u>\$ 2,313,680</u>

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Accounts payable	\$	16,580
Accrued liabilities		<u>25,114</u>
Total current liabilities		41,693

**NET ASSETS - unrestricted**

		<u>2,271,987</u>
		<u>\$ 2,313,680</u>

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, 2011**

**REVENUES**

Water sales	\$ 513,093
Water taps	12,000
Tenant deposits, net of refunds	1,710
Service fees	3,510
Meter reading	11,570
Material sales, other	1,116
Machine work	950
Penalties / late charges	<u>9,092</u>

Total revenues 553,041

**EXPENDITURES - OPERATING**

Operating expenses	\$ 386,873
Depreciation	<u>87,686</u>
	<u>474,559</u>

Net Revenue from operations 78,482

**OTHER REVENUE (EXPENDITURES)**

Interest income	10,652
Capital credit refund	<u>341</u>
	<u>10,993</u>

**NET REVENUES** 89,475

**NET ASSETS JULY 1, 2010** 2,182,512

**NET ASSETS JUNE 30, 2011** \$ 2,271,987

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

**Statement of Cash Flows**  
**For the year ended June 30, 2011**

**Cash flow from Operating Activities:**

Cash received from customers	\$ 554,718
Cash payments to supplies for goods and services	(39,278)
Cash payments to employees	(218,462)
Cash paid to contract services	(36,284)
Cash payment for other operating expenses	<u>(84,254)</u>
Net cash provided (used) by operating activities	<u>176,440</u>

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

Cash used to purchase assets	<u>(90,819)</u>
------------------------------	-----------------

**Cash flows from investing activities:**

Interest income on unrestricted accounts	10,652
Capital coop dividend	<u>341</u>
Net cash provided (used) by investing activities	<u>10,993</u>

Net Increase (Decrease) in Cash 96,614

Cash and certificate equivalents July 1, 2010 866,490

Cash and certificate equivalents July 1, 2011 963,104

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

Operating income (loss)	78,482
Adjustment to reconcile net revenues to net cash provided by operating activities	
Depreciation and amortization	87,686
(Increase) Decrease accounts receivable	1,677
(Increase) Decrease prepaid items	115
(Increase) Decrease in inventory	4,932
Increase (Decrease) accounts payable	5,688
Increase (Decrease) accrued liabilities	<u>(2,140)</u>
Total adjustments	<u>97,958</u>

**Net cash provided (used) by operating activities** \$ 176,440

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

**Johnston County Rural Water District 34**  
**Notes to the Financial Statements**  
**June 30, 2011**

**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. Allowance for Uncollected Accounts

No provision is made for uncollectible accounts based on the collection experience of the District.

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 exempt from 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.

**Johnston County Rural Water District 34**  
**Notes to the Financial Statements**  
**June 30, 2011**

**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 \$19,415.

**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, 2011, are as follows:

Deposits	Risk Category			Bank Balance	Financial Statement Carrying Amount
	1	2	3		
Demand deposits	\$ 71,312	-	-	\$ 71,312	\$ 71,312
Certificates of Deposit	178,688	713,104	-	891,692	891,692
Totals	<u>\$250,000</u>	<u>\$713,104</u>	<u>-</u>	<u>\$963,004</u>	<u>\$963,004</u>

(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, 2011**

**NOTE F - CAPITAL ASSETS**

Capital assets are comprised of the water system, plant office and equipment. Additions are

	Beginning Asset	Additions	Deletions	Ending Balance	Beginning Accumulated Depreciation	Additions	Deletions	Ending Accumulated Depreciation
Water System	\$2,671,936	\$84,172	\$(2,178)	\$2,753,930	\$1,487,748	\$71,346		\$1,559,094
Buildings / Acreage	87,243			87,243	52,822	3,146		55,968
Office equipment	11,775			11,775	11,405	186		11,591
Vehicles	77,795	8,825		86,620	58,106	12,860		70,965
Generator	33,529			33,529	32,260	149		32,409
	<u>\$2,882,278</u>	<u>\$92,997</u>	<u>\$(2,178)</u>	<u>\$2,973,097</u>	<u>\$1,642,342</u>	<u>\$87,686</u>		<u>\$1,730,028</u>

Total depreciation expense for the year ended June 30, 2011 was \$87,686.

**Johnston County Rural Water District 34**  
**Notes to the Financial Statements**  
**June 30, 2011**

**Note G - SUBSEQUENT EVENTS**

Management has evaluated all events subsequent to the balance sheet date of June 30, 2010 through the date of issuance of these financial statements, September 20, 2011, and has determined that there are no subsequent events that require disclosure under generally accepted accounting principles.

**SUPPLEMENTAL INFORMATION**

**Johnston County Rural Water District #3  
Schedule of Operating Expenses  
For the year ended June 30, 2011**

Unaudited

**OPERATING EXPENSES**

Salary, payroll taxes, benefits	\$ 216,203
Insurance	6,235
Water systems	
Utilities	26,494
Materials and operating supplies	43,165
Truck expense	24,449
Miscellaneous	4,242
Contract labor	16,282
Royalty	12,806
Maintenance	
Bldg and yard	601
Office equipment	2,525
Office expenses	
Office supplies	4,515
Office utilities	3,162
Telephone	3,030
Professional fees	20,002
Miscellaneous	<u>3,163</u>
 TOTAL OPERATING EXPENSES	 <u>\$ 386,873</u>

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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 the accompanying financial statements of Johnston County Rural Water District #3 (the District) as of and for the year ended June 30, 2011, and have issued our report thereon dated September 20, 2011. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District'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 District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District'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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statement that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all significant deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we did not identify any deficiencies in internal control that we consider to be material weaknesses.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the District'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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees, management, and beneficiaries of the public trust and is not intended to be and should not be used by anyone other than these specified parties.

*Chambers Jackson and Inc PC*

Ardmore, Oklahoma  
September 20, 2011