

**MAYES COUNTY
RURAL WATER DISTRICT NO. 3**

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED JUNE 30, 2013

MAYES COUNTY RURAL WATER DISTRICT #3

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INTRODUCTION

Mayes County Rural Water District No. 3, hereafter referred to as the "District," is pleased to present its 2013 Annual Financial Report.

The mission of the District is to provide abundant, affordable and high quality drinking water to the membership of the District. This mission serves as the foundation for the District's planning, operational and financial initiatives of the District, and the performance of the District employees. This Annual Financial Report is one of the tools used to communicate financial condition and performance results.

Responsibility and Controls

The District has prepared and is responsible for the financial statements and related information included in this report. A system of internal accounting controls is maintained to provide reasonable assurance that assets are safeguarded and the books and records reflect only authorized transactions. Limitations exist in any system of internal controls. However, based on recognition that the cost of the system should not exceed its benefits, management believes its system of internal accounting controls maintains an appropriate cost/benefit relationship.

The District's system of internal accounting controls is evaluated on an ongoing basis by the District's staff. An independent external auditor also considers certain elements of the internal control system in order to determine the auditing procedures for the purpose of expressing an opinion on the financial statements.

The District's Chairman and Treasurer serve the role of an Audit Committee. Periodically, they meet with management and the independent external auditor to ensure the District staff is fulfilling their obligations and to discuss auditing, controls, and financial reporting matters.

Management believes that its policies and procedures provide guidance and reasonable assurance that the District's operations are conducted according to management's intentions and to a high standard of business ethics. In management's opinion, the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the District in conformity with accounting principles generally accepted in the United States of America.

Audit Assurance

The unqualified (i.e. clean) opinion of our independent external auditors, Wingard, Ragsdale, Langley, CPAs, PLLC, is included in this report. A summary of the audit results may be obtained at the District's business office located at 241 West Main Street, Disney, Oklahoma.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's analysis of the District's financial condition and activities for the year. This information should be read in conjunction with the financial statements.

Financial Highlights

Management believes the District's financial condition is strong. The District is well within its debt management capabilities and follows stringent financial policies and guidelines set by the Board and management. The following are key financial highlights:

The District has had a net increase of 20 new customers added to bring total membership to 1,277. During the year, there were 12 units removed from service, 9 due to non payment, and 3 returned to the District voluntarily.

Income from water sales totaled \$466,972, an increase of \$12,686 from the year ending June 30, 2012, and exceeding budgeted water sales by \$10,972. Income of \$24,815 on sales of water benefit units (taps) was a decrease from the previous year of \$6,625. Net assets showed an increase of \$16,662, resulting in net assets of \$1,858,665 at the end of the year.

Interest cost for the three existing loans was down this year by \$2,065 and the interest rates have stayed in the 1.5 to 2.56% range.

Overview of Annual Financial Report

Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the basic audited financial statements and supplementary information. The MD&A represents management's examination and analysis of the District's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the District's strategic plan, budget and other management tools were used for this analysis.

The financial statements report information about the District using full accrual accounting methods as utilized by similar business activities in the private sector. However, rate-regulated accounting principles applicable to private sector utilities are not used by government utilities. The financial statements include a statement of net assets; a statement of revenues, expenses, and changes in net assets; a statement of cash flow; and notes to the financial statements.

The *statement of net assets* presents the financial position of the District on a full accrual historical cost basis. The statement of net assets presents information on all of the District's assets and liabilities, with the difference reported as net assets. Over time, increases and decreases in net assets are one indicator of whether the financial position of the District is improving or deteriorating.

While the *statement of net assets* provides information about the nature and amount of resources and obligations at year-end, the *statement of revenues, expenses, and changes in net assets* presents the results of the business activities over the course of the fiscal year and information as to how the net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the District's recovery of its costs. Rate setting policies use different methods of cost recovery not fully provided for by generally accepted accounting principles. The primary objectives of the rate model are to improve equity among customer classes and to ensure that capital costs are allocated on the basis of long-term capacity needs, ensuring that growth pays for growth.

The *statement of cash flows* presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The *notes to the financial statements* provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the District's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

The financial statements were prepared by the District's staff from the detailed books and records of the District. The financial statements were audited and adjusted, if material, during the independent external audit process.

Summary of Organization and Business

The District was created under provisions of Section 6 of the Rural Water Districts Act (82 Ok. St. Ann. ss 1301-1321) that the County Clerk on the 10th day of March, 1965, by registered or certified mail, mailed to each of the petitioners a Notice of Hearing Upon Petition to Incorporate and Organize a Rural Water District. The Board of County Commissioners of Mayes County, Oklahoma, created the Mayes County Rural Water District No.3 to construct, operate and maintain water storage, distribution, treatment, supply, and other waterworks installations, improvements and facilities for water storage, transportation and utilization conducive to promote the public health, convenience and welfare. The District is governed by a board that consists of eight members who are elected by the members of the District.

The District has no taxing power. Operational and maintenance costs are funded from customer fees and charges. The acquisition and construction of capital assets are funded by capital (cash and systems) contributions from customers and Federal and State grants and loans, and customer revenues.

The District provides reliable high quality supplies of potable water used for drinking, irrigation, fire protection and other purposes. The District surface water treatment plant uses Grand Lake as its source.

Financial Analysis

The following condensed financial statements serve as the key financial data and indicators for management, monitoring and planning.

	2013	2012
Current Assets	330,209	283,686
Restricted Assets	111,861	111,347
Capital Assets - Net of Depreciation	3,027,191	3,111,705
Other Assets	-	27,586
Total Assets	3,469,261	3,534,324
Total Liabilities	1,610,596	1,665,902
Net Assets, Invested in Capital Assets Net of Related Debt	1,477,322	1,499,129
Net Assets, Restricted	111,861	111,347
Net Assets, Unrestricted	269,482	257,946
Total Net Assets	1,858,665	1,868,422
Total Operating Revenues	466,974	454,286
Operating Expenses	(472,768)	(486,298)
Other Non-Operating Revenues (Expenses) (Net)	22,458	11,303
Net Income (Loss)	16,663	(20,709)

WINGARD, RAGSDALE & LANGLEY

CERTIFIED PUBLIC ACCOUNTANTS, PLLC

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INDEPENDENT AUDITOR'S REPORT

Honorable Chairman and Board of Directors
Mayes County Rural Water District No. 3
Disney, Ok 74340

We have audited the accompanying financial statements of the business-type activities of the Mayes County Rural Water District #3 (the District), State of Oklahoma as of and for the year ended June 30, 2013, which collectively comprise the District's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

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 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. 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 involves performing procedures to obtain 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 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 obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

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 Mayes County Rural Water District #3, State of Oklahoma, as of June 30, 2013, 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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 6 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.

Sincerely,



WINGARD, RAGSDALE & LANGLEY
CERTIFIED PUBLIC ACCOUNTANTS, PLLC
PRYOR, OKLAHOMA

SEPTEMBER 6, 2013

MAYES COUNTY RURAL WATER DISTRICT NO. 3
STATEMENT OF NET ASSETS
 JUNE 30,

	<u>2013</u>
ASSETS	
Current Assets	
Cash and cash equivalents	\$ 278,877
Accounts receivable,	36,115
Inventory	15,216
Total Current Assets	<u>330,208</u>
Property and Equipment	
Land	180,164
Equipment	182,763
Furniture & fixtures	9,363
Vehicles	92,987
Other	3,897,083
Total property and equipment	4,362,360
Less: Accumulated depreciation	<u>(1,335,168)</u>
Net Property and Equipment	<u>3,027,192</u>
Restricted Assets	
Cash and Investments	<u>111,861</u>
Total Assets	<u><u>3,469,261</u></u>
LIABILITIES	
Current Liabilities	
Accounts payable	9,291
Current notes payable	50,523
Accrued interest payable	4,690
Total Current Liabilities	<u>64,504</u>
Non Current Liabilities	
Long Term Notes Payable	1,499,346
Customer Deposits	46,745
Total Non Current Liabilities	1,546,091
Total Liabilities	<u>1,610,596</u>
Net Assets	
Invested in capital assets, net of related debt	1,477,322
Restricted	111,861
Unrestricted	269,482
Total Net Assets	<u>1,858,665</u>
Total Liabilities and Net Assets	<u>\$ 3,469,261</u>

The accompanying notes are an integral part of these financial statements.

MAYES COUNTY RURAL WATER DISTRICT NO. 3
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
 JUNE 30,

	<u>2013</u>
Support and Revenue	
Water income	\$ 466,974
Total Support and Revenue	
Expenses	
Water purchases	6,520
Depreciation	101,030
Salaries	181,294
Chemicals	21,542
Maintenance	8,225
Operating supplies	4,757
Office expense	11,600
Utilities	33,953
Professional fees	10,420
Vehicle expense	7,005
Miscellaneous	4,021
Insurance	18,724
Workshop training	315
Payroll taxes	14,994
Lab testing	10,571
Bad debt	1,643
Employee pension plan and health insurance	36,154
Total Expenses	<u>472,768</u>
Operating Income	<u>(5,795)</u>
Non-Operating Revenue (Expense)	
Interest expense	(28,086)
Loan administration fees	(5,093)
Late charges	6,359
Interest income	890
Gain on sale of asset	2,750
Miscellaneous	20,824
Total Support and Revenue	<u>(2,357)</u>
Increase (Decrease) in Net Assets, Before Capital Contributions	(8,152)
Capital Contributions	
Tap fees	24,815
Increase (Decrease) in Net Assets, After Capital Contributions	<u>16,663</u>
Net Assets, beginning of year	<u>1,842,002</u>
Net Assets, end of year	<u>\$ 1,858,665</u>

The accompanying notes are an integral part of these financial statements.

MAYES COUNTY RURAL WATER DISTRICT NO. 3
STATEMENT OF CASH FLOWS
June 30,

	<u>2013</u>
Cash flows from operating activities	
Receipts from customers	\$ 469,743
Payments to suppliers	(199,158)
Payments to employees	(181,294)
Net cash provided by operating activities	<u>89,291</u>
Cash flows from capital and related financing activities	
Interest payments	(26,964)
Purchase of property and equipment	(16,516)
Proceeds from insurance claim on assets	14,923
Payments on long term debt	(56,893)
Net cash used in capital and related financing activities	<u>(85,450)</u>
Cash flows from investing activities	
Member tap, late and other fees	37,523
Interest income	890
Net cash provided by investing activities	<u>38,413</u>
Net increase in cash	42,254
Cash and cash equivalents, beginning of year	<u>348,484</u>
Cash and cash equivalents, end of year	<u><u>\$ 390,738</u></u>

	<u>2013</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating Income (loss)	\$ (5,795)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	101,030
Gain disposal of assets	(2,750)
Change in assets and liabilities:	
Decrease in accounts receivable	2,771
Decrease in inventory	(7,553)
Decrease in accounts payable	2,230
Decrease in accrued interest	(1,122)
Decrease in customer deposits	480
Net cash provided by operating activities	<u><u>\$ 89,291</u></u>

The accompanying notes are an integral part of these financial statements

Note 1 - Nature of Organization

Mayes County Rural Water District No. 3 (the District) was formed under the provisions of Title 82, O.S. 1981, Sections 1324.1-1324.26 inclusive. The District operates as a nontaxable government agency to service residents of the Mayes County Rural Water District No. 3. The District's primary income is from the sale of water to its members in an area close to Disney, Oklahoma.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting - The District complies with all applicable Statements issued by the Governmental Accounting Standards Board (GASB), which classify the District's fund as an enterprise fund. Enterprise funds are proprietary funds used to account for business like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with Generally Accepted Accounting Principles (GAAP) promulgated in the United States of America. The accounting and financial reporting treatment is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation are included on the statement of net assets. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) in net total assets. Depreciation expense is provided for capital assets based upon estimated useful lives. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The Board of Directors adopts a budget at the meeting prior to the beginning of the new fiscal year. Actual revenues and expenditures are monitored and compared with the budget during the year. Significant variations from budgeted amounts are researched and the board is informed of the results.

Cash and Cash Equivalents - Cash and cash equivalents, for purposes of the statement of cash flows, include restricted and unrestricted cash on hand or on deposit, interest in State Treasurer's Pool, certificates of deposit, repurchase agreements and investments with a maturity of three months or less.

Investments are reported at their fair market value. The District is permitted to invest in certificates of deposit and United States general obligations. Banks must guarantee all District funds they hold with specified securities the bank owns for cumulative amounts exceeding the \$250,000 FDIC guarantee.

Restricted Assets - Restricted assets represent cash, investments and receivables maintained in accordance with bond resolutions, loan agreements, grant awards, and other resolutions and formal actions of the District or by agreement for the purpose of funding certain debt service payments, depreciation and contingency activities, and improvements and extensions to the water system.

Note 2 - Summary of Significant Accounting Policies (continued)

Receivables and Payables - Customer receivables represent service fees earned, but not yet collected. Service billings at the end of the year are made and the revenues recorded through year-end.

Inventories - Inventories consist of construction materials, repair parts, and chemicals. Materials and supplies are stated at cost.

Capital Assets - Property, plant and equipment in service and construction in progress are recorded at cost, if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value, if applicable or at engineers' fair market value or cost to construct at the date of contribution. Internal engineering costs are capitalized to the extent of direct support and contribution to construct and expansion projects. Costs of studies that directly result in specific construction projects are capitalized.

Maintenance and repairs, which do not significantly extend the value or life of property, plant and equipment, are expensed as incurred.

Assets are depreciated on the straight-line method. Depreciation is calculated using the following estimated useful lives:

	<u>Years</u>
Land and Buildings	10 - 30
Water System	10 - 75
Furniture and Fixtures	5-10
Equipment	3-10
Vehicles	10

Long Term Obligations - Long-term obligations are reported at face value, net of applicable premiums and discounts.

Revenues and Rate Structure - Revenues from water services are recognized on the accrual basis and as earned. Services are supplied to customers under a rate structure designed to produce revenues sufficient to provide for operating and maintenance costs, capital outlay, debt service, reserves and debt service coverage.

Capital Contributions - Contributions are recognized in the Statement of Revenues, Expenses and changes in Net Assets when earned. Contributions include tap fees, capital grants, and other supplemental support by federal, state and local grants in support of system improvements.

Note 2 - Summary of Significant Accounting Policies (continued)

Net Assets - Net assets comprise the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net assets are classified in the following three components: invested in capital assets, net of related liabilities; Restricted for capital activity and debt service; and unrestricted net assets. Invested in capital assets, net of related debt, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from determination. Restricted for capital activity and debt service consists of net assets for which constraints are placed by external parties, such as lenders, grantors, contributors, laws, regulations, legislation, including self-imposed legal mandates, less any related liabilities. Unrestricted consists of all other assets not included in the above categories.

Note 3 - Deposits and Investments

Deposits include demand deposits and certificates of deposit in financial institutions. All bank balances are covered by federal depository insurance or by collateral held by the bank and pledged to the District.

Note 4 - Accounts Receivable

Accounts receivable are composed of unpaid billings for services rendered as of the end of the fiscal year. The uncollectible accounts are written off to bad debts after 90 days. After a members overdue bill is determined uncollectible and written off the associated customer deposit is applied to the overdue bill and the associated membership is cancelled. For service to be reconnected to the related property a new membership and customer deposit is required. This minimizes the loss the District may incur due to nonpayment of service billings.

Note 5 – Restricted Assets

The components of the restricted assets at year end were as follows:

	<u>6/30/2013</u>
Debt Service Fund	\$ 1,597
Debt Service Fund	10,593
Debt Service Fund Reserve	41,840
Debt Service Fund Reserve	<u>57,832</u>
Total Restricted Assets	<u><u>\$ 111,861</u></u>

All restricted funds are invested in securities issued by the United States Government.

MAYES COUNTY RURAL WATER DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENT
 June 30, 2013

Note 6 - Capital Assets

Capital asset activity during the year was as follows:

	2012	Additions	Disposals	2013
Land and Buildings	\$ 180,164	\$ -	\$ -	\$ 180,164
Water System	3,893,463	3,620	-	3,897,083
Furniture and Fixtures	9,363	-	-	9,363
Equipment	171,866	12,896	(2,000)	182,763
Vehicles	92,987	-	-	92,987
Total Property Plant and Equipment	4,347,843	16,516	(2,000)	4,362,359
Accumulated Depreciation	(1,236,137)	(99,030)	2,000	(1,335,168)
Total Capital Assets (net accum. depreciation)	\$ 3,111,705	\$ (82,514)	\$ -	\$ 3,027,191

Note 7 - Long-Term Debt

Note 1

The Oklahoma Water Resources Board provided the MAYES COUNTY RURAL WATER DISTRICT NO. 3 with a note in the amount of \$ 465,000.00 on June 17, 1998. This note requires semi-annual principal and interest payments on February 15 and August 15. Monthly payments are made to the loan trustee, The Bank of New York Trust Company, N.A. The monthly payments are invested in securities by the trustee. Quarterly, the monthly payments and earnings are used by the trustee to make the principal and interest payments. The note also required an amount be kept in reserve of \$ 41,840. This is to be used to make principal and interest payments in case the District is not able to make such payments. The rate of interest on this variable rate loan is 1.50%. As of June 30, 2013, the balance on this note is \$317,400.

Note 2

The Oklahoma Water Resources Board provided the MAYES COUNTY RURAL WATER DISTRICT NO. 3 a note in the amount of \$845,000.00 on December 17, 2003. This note requires semi-annual principal and interest payments on March 15 and September 15. Monthly payments are made to the loan trustee, The Bank of New York Trust Company, NA. The monthly payments are invested in securities by the trustee. Quarterly, the monthly payments and earnings are used by the trustee to make the principal and interest payments. The note also required an amount be kept in reserve of \$57,832.00. This is to be used to make principal and interest payments in case the District is not able to make such payments. The rate of interest currently charged on this variable rate loan is 1.56%. As of June 30, 2013, the balance on this note is \$682,950.

Note 7 - Long-Term Debt - continued

Note 3

The Oklahoma Water Resources Board provided the MAYES COUNTY RURAL WATER DISTRICT NO. 3 with a \$900,000 note on December 15, 2009 to expand its water system. The district only drew \$893,777 on the note. This note required semi-annual interest only payments until the construction was completed and required semi-annual principal and interest payments on March 15 and September 15 of each year starting on March 15, 2011. The note was closed in early 2012 and started semi-annual principle and interest payments on March 15, 2012. Monthly payments are made to the loan trustee, The Bank of Oklahoma. The rate of interest currently charged on this variable rate loan is 3.06%. As of June 30, 2013 the balance on this is \$549,519.

Principal payments on the notes are required as follows:

	Note 1	Note 2	Note 3
Year 1	\$ 11,100	\$ 15,350	\$ 24,073
Year 2	15,900	21,500	24,826
Year 3	17,300	22,700	25,561
Year 4	18,700	24,000	26,401
Year 5	20,200	25,300	27,227
Thereafter	234,200	574,100	421,431
Total	<u>\$ 317,400</u>	<u>\$ 682,950</u>	<u>\$ 549,519</u>

Note 8 – Prior Period Adjustment

As a result of implementing Statement No. 65 of the Governmental Accounting Standards Board *Items Previously Reported as Assets and Liabilities*, amounts previously reported as "loan costs" will no longer be subject to the capitalization and amortization of origination or similar fees in conjunction with borrowing activities. In accordance with this standard, these amounts were adjusted by changing beginning net assets from \$1,868,425, to \$1,842,002, a difference of \$26,423. This difference represented previously capitalized loan origination fees that should be expensed as incurred. This Statement was effective for periods ending after December 15, 2012 and required such retroactive application.

Note 9 – Subsequent Events

Subsequent events have been evaluated through the date of the auditor's report.

WINGARD, RAGSDALE & LANGLEY

CERTIFIED PUBLIC ACCOUNTANTS, PLLC

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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*

Honorable Chairman and Board of Directors
Mayes County Rural Water District No. 3
Disney, Ok 74340

We have audited the statement of net assets, statement of revenues, expenses and changes in net assets and statement of cash flows, which collectively comprise the basic financial statements of the Mayes County Rural Water District #3 as of June 30, 2013. 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

Management of Mayes County Rural Water District No. 3 is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Mayes County Rural Water District #3's internal control over financial reporting as a basis for designing our auditing procedures 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 Mayes County Rural Water District #3's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Mayes County Rural Water District #3's internal control over financial reporting.

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 Mayes County Rural Water District #3'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*.

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.



WINGARD, RAGSDALE & LANGLEY
CERTIFIED PUBLIC ACCOUNTANTS, PLLC

SEPTEMBER 6, 2013