

AUDIT REPORT

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT DISTRICT NO. 2 BRYAN COUNTY, OKLAHOMA

SEPTEMBER 30, 2011



KERSHAW CPA & ASSOCIATES, PC

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BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT DISTRICT NO.2
BRYAN COUNTY, OKLAHOMA
SEPTEMBER 30, 2011

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BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANGEMENT DISTRICT NO. 2
BRYAN COUNTY, OKLAHOMA
SEPTEMBER 30, 2011

BOARD OF DIRECTORS

| <u>NAME</u> | <u>POSITION</u> | <u>TERM EXPIRATION</u> |
|-----------------|------------------|------------------------|
| Jerry Lewis | Chairman | 2012 |
| Bob Butlan | Vice Chairman | 2012 |
| John Hoefer | Secretary | 2012 |
| Linda Henderson | Treasurer | 2011 |
| Mark Wallace | Assist Sec-Treas | 2013 |
| Randy Cloyd | Director | 2013 |
| Don Roberts | Director | 2011 |

ADMINISTRATION

| | |
|----------------|----------------------|
| Regina Clinton | Manager |
| Merle Pearce | Field Superintendent |
| Nancy Parry | Office Manager |

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Bryan County Rural Water, Sewer & Solid Waste Management District No. 2
Bryan County, Oklahoma

I have audited the accompanying financial statements the Bryan County RWS&SWMD #2, Bryan County, Oklahoma, as of and for the fiscal year ended September 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Bryan County RWS&SWMD #2, Oklahoma's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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, and in accordance with Oklahoma Statutes. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bryan County RWS&SWMD #2, Bryan County Oklahoma, as of September 30, 2011, and the changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued my report dated February 13, 2012, on my consideration of the Bryan County RWS&SWMD #2, Oklahoma's internal control over financial reporting and on my 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 compliance with Government

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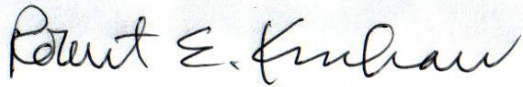
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Auditing Standards and should be considered in assessing the results of my audit.

Bryan County RWS&SWMD #2 has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34. However the District has not presented the Management's Discussion and Analysis required by the Governmental Accounting Standards Board (GASB) that the GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The introductory and the other supplementary information sections listed in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the District. Such additional information has not been subjected to the auditing procedures applied in my audit of the basic financial statements, and accordingly, I do not express an opinion thereon.



Robert E. Kershaw, CPA

February 13, 2012

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
 BRYAN COUNTY, OKLAHOMA
 STATEMENT OF NET ASSETS
 SEPTEMBER 30, 2011

| | Total 2011 | Total (Memo Only) 2010 |
|---|---------------------|------------------------------|
| <u>ASSETS</u> | | |
| <u>Current Assets:</u> | | |
| Cash in Bank | \$ 1,922,772 | \$ 1,760,010 |
| Customer Service Receivable | (5,700) | (800) |
| Utility Billing Receivable | 100,977 | 110,241 |
| Interest Receivable | 547 | 1,655 |
| Inventories | 176,750 | 159,455 |
| Prepaid Expenses | 69,019 | 54,291 |
| Total Current Assets | 2,264,366 | 2,084,853 |
| Net Capital Assets | 6,832,444 | 6,865,480 |
| <u>Other Assets:</u> | | |
| Cash in Bank - Debt Reserve | 76,764 | 76,764 |
| Cash in Bank - Debt Service Fund | 1 | - |
| Total Other Assets | 76,765 | 76,764 |
| TOTAL ASSETS | \$ 9,173,574 | \$ 9,027,097 |
| <u>LIABILITIES</u> | | |
| <u>Current Liabilities:</u> | | |
| Accounts Payable | \$ 81,177 | \$ 61,407 |
| Pasture Deposits | 7,813 | 6,813 |
| Current Portion of Long-Term Debt | - | 115,733 |
| Accrued Interest Payable | 5,525 | 7,056 |
| Total Current Liabilities | 94,515 | 191,009 |
| <u>Long-Term Liabilities:</u> | | |
| Notes Payable | 3,407,772 | 3,493,826 |
| Less: Current Portion | - | (115,733) |
| Total Non-Current Liabilities | 3,407,772 | 3,378,093 |
| TOTAL LIABILITIES | 3,502,286 | 3,569,101 |
| <u>NET ASSETS</u> | | |
| Invested in capital assets, net of related debt | 3,424,672 | 3,371,654 |
| Restricted for debt service | 76,765 | 76,764 |
| Unrestricted | 2,169,850 | 2,009,578 |
| TOTAL NET ASSETS | 5,671,288 | 5,457,996 |
| TOTAL LIABILITIES & NET ASSETS | \$ 9,173,574 | \$ 9,027,097 |

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
BRYAN COUNTY, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

| | Total September 30, 2011 | Total (Memo Only) September 30, 2010 |
|--|-----------------------------|--|
| <u>Operating Revenues:</u> | | |
| Water & Sewer Revenues | \$ 1,652,987 | \$ 1,533,185 |
| Grant Income | - | 115,979 |
| Installation Revenues | 54,038 | 74,658 |
| Total Operating Revenues | 1,707,025 | 1,723,822 |
| <u>Operating Expenses:</u> | | |
| Wages, Salaries and Payroll Expenses | 410,507 | 392,187 |
| Employee Benefits | 71,848 | 65,918 |
| Property, Casualty Insurance | 34,333 | 33,498 |
| Licenses and Dues | 11,112 | 10,985 |
| Purchased Water | 70,375 | 30,542 |
| Office Expenses | 64,302 | 45,644 |
| Bad Debt Expense | 10,510 | 7,140 |
| Electricity | 71,894 | 63,554 |
| Telephone | 8,825 | 5,485 |
| Professional Fees | 8,494 | 13,585 |
| Operating and Maintenance Expenses | 335,348 | 314,528 |
| Depreciation Expense | 330,592 | 323,420 |
| Total Operating Expenses | 1,428,139 | 1,306,485 |
| Operating Income (Loss) | 278,886 | 417,337 |
| <u>Non-Operating Revenues (Expenses):</u> | | |
| Rental Income | 2,400 | 2,400 |
| Other non-operating Income | - | 75,000 |
| Interest Income | 33,926 | 42,319 |
| Gain on Sale of Assets | 1,800 | 4,100 |
| Interest Expense | (135,266) | (132,141) |
| Total Non-operating Revenues (Expenses) | (97,141) | (8,322) |
| Net Income (Loss) Before Contributions | 181,745 | 409,015 |
| Capital Contributions - Memberships | 30,000 | 35,000 |
| Change in Net Assets | 211,745 | 444,015 |
| Total Net Assets - Beginning | 5,457,996 | 5,014,750 |
| Total Net Assets - Prior Year Adjustment | 1,547 | (769) |
| Total Net Assets - Ending | \$ 5,671,288 | \$ 5,457,996 |

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
BRYAN COUNTY, OKLAHOMA
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

| | 9/30/11 | Memo Only 9/30/10 |
|--|---------------------|----------------------|
| <u>Net Cash Flows from Operating Activities:</u> | | |
| Cash Receipts from Customers | \$ 1,721,189 | \$ 1,616,831 |
| Cash Receipts from Operating Grant | - | 115,979 |
| Payments to Suppliers for Goods & Services | (699,293) | (626,272) |
| Payments to Employees & Laborers | (410,507) | (392,187) |
| Receipts of Customer Utility Deposits, Net of Refunds | 1,000 | (1,000) |
| Net Cash Provided (Used) by Operating Activities | 612,389 | 713,351 |
| <u>Net Cash Flows from Capital & Related Financing Activities:</u> | | |
| Additions to Capital Assets | (297,556) | (446,711) |
| Proceeds from sale of Capital Assets | 1,800 | 4,100 |
| Loan Proceeds | 42,238 | 339,762 |
| Principal paid on Debt | (128,292) | (235,685) |
| Interest paid on Debt | (135,250) | (130,766) |
| Net Cash Provided (Used) by Capital & Related Financing Activities | (517,060) | (469,300) |
| <u>Net Cash Flows from Investing Activities:</u> | | |
| Membership Contributions | 30,000 | 35,000 |
| Rental & Other non-operating income | 2,400 | 77,400 |
| Interest Income | 35,033 | 41,655 |
| Net Cash Provided (Used) by Investing Activities | 67,433 | 154,055 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 162,762 | 398,107 |
| Cash & Cash Equivalents, Beginning of Year | 1,836,774 | 1,438,668 |
| Cash & Cash Equivalents, Prior Year Adjustment | - | - |
| Cash & Cash Equivalents, End of Year | \$ 1,999,537 | \$ 1,836,774 |
| <u>Reconciliation of operating income (loss) to net cash provided</u> | | |
| <u>operating activities:</u> | | |
| Operating Income (Loss) | \$ 278,886 | \$ 417,337 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities | | |
| Depreciation | 330,592 | 323,420 |
| (Increase)Decrease in Utility Receivable | 14,164 | 8,988 |
| (Increase)Decrease in Inventory | (17,296) | (32,241) |
| (Increase)Decrease in Prepaid Expenses | (14,727) | (28,184) |
| Increase(Decrease) in Accounts Payable | 19,770 | 25,032 |
| Increase(Decrease) in Security Deposits | 1,000 | (1,000) |
| Net Cash Provided (Used) by Operating Activities | \$ 612,389 | \$ 713,351 |

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
BRYAN COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

Bryan County Rural Water District No. 2 (the District) is a Water District organized under the laws of the State of Oklahoma. The District provides water service to rural residents of Bryan County Oklahoma. The District and its financial statements are comprised of only the water operations of the District.

Basis of Presentation

The accounts of the District are organized on the basis of proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net assets, revenues and expenses. Enterprise Funds account for activities (1) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (2) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (3) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Basis of Accounting

The financial statements of the District are prepared on the accrual basis of accounting. Revenues are recognized when they earned and expenses are recognized when they are incurred. The District uses the accounting standards issued by the Financial Accounting Standards Board whenever possible; if no FASB pronouncement is applicable then Government Accounting Standards Board pronouncements are used.

Budgetary Data

The District prepares an annual budget for internal bookkeeping purposes.

Inventory

Inventory is valued at cost and consists of chemicals, meters, pipe connections and PVC pipe not yet installed in the system. The inventory figure included in the financial statements is an estimate because the District performed a yearend inventory count but has not calculated the actual value.

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
BRYAN COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

Property and Equipment

Property and equipment are recorded at cost. Management has established a capitalization policy of assets acquired for over \$2,500 will be capitalized. Depreciation is provided using the straight-line method over estimated useful lives of the respective assets. Maintenance and repairs are charged to expenses as incurred; major repairs and betterments are capitalized.

Cash and Cash Equivalents

The District considers all highly liquid investments with an original maturity of three months or less to be a cash equivalent. The District does not consider restricted cash to be a cash equivalent.

Accounts Receivable

There is no provision for bad debts; all accounts are considered to be collectible.

Equity Classification

Equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
2. Restricted net assets—Consists of net assets with constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets—All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Revenues, expenditures & expenses

Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
BRYAN COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Memorandum Totals

The "memorandum only" captions above the total columns mean that totals are presented for overview information purposes only.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

As a local government unit, the District is subject to various federal, state, and local laws and contractual regulations. In accordance with Government Auditing Standards, the auditor has issued a report on his consideration of the District's internal control over financial reporting and tested its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be read in conjunction with this report in considering the results of the audit.

Finance-related Legal & Contractual Provisions

The District has complied with the reserve requirements of the USDA Rural Development loan agreements.

Deficit Fund Balance or Retained Earnings

As indicated in the financial statements, there are no fund balance or retained earnings deficits for the District for this fiscal year.

NOTE 3 - CASH AND INVESTMENTS

Custodial Credit Risk

At September 30, 2011, the District held deposits of approximately \$1,999,537 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name.

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
BRYAN COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

Investment Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The District has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

NOTE 4 - RESTRICTED ASSETS

The loan agreements with the United States Department of Agriculture Rural Development (USDA) require the District to set aside into a Reserve Account the sum of the annual installment for each loan (\$57,000 for 1st loan and \$19,764 for the 2nd loan), after which deposits may be suspended, except to replace withdrawals. The District cannot withdraw funds from the reserve account without USDA approval. As of September 30, 2011, the account balance for the reserve account was \$76,764.00, which equals the required balance of \$76,764.00.

NOTE 5 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended September 30, 2011, was as follows:

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
 BRYAN COUNTY, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2011

| | Balance at 9-30-10 | Additions | Deductions | Balance at 9-30-11 |
|---|-----------------------|-------------------|---------------------|-----------------------|
| Land | \$ 39,629 | \$ - | \$ - | \$ 39,629 |
| Water System | 1,423,700 | - | - | 1,423,700 |
| Sewer System | 666,238 | - | - | 666,238 |
| Installations | 121,695 | - | - | 121,695 |
| Treatment Plant | 3,191,538 | 108,418 | - | 3,299,956 |
| Upgrades & New Lines | 182,271 | - | - | 182,271 |
| Upgrades & New Lines (RD) | 1,589,514 | - | - | 1,589,514 |
| Vehicles | 158,550 | 24,847 | (17,250) | 166,147 |
| Buildings | 99,231 | 11,800 | - | 111,031 |
| Furniture & Equipment | 159,319 | 63,665 | - | 222,984 |
| Construction in Progress | 2,860,532 | 222,956 | (134,131) | 2,949,357 |
| Subtotal | <u>10,492,216</u> | <u>431,687</u> | <u>(151,381)</u> | <u>10,772,521</u> |
| Less: Accum. Depr. | (3,626,736) | (330,592) | 17,250 | (3,940,078) |
| Total Capital Assets (Net of Depreciation) | <u>\$ 6,865,480</u> | <u>\$ 101,095</u> | <u>\$ (134,131)</u> | <u>\$ 6,832,444</u> |

Current year additions to capital assets include the following:

| | |
|-------------------|--|
| Treatment Plant - | Generator, New Lab & Raw Water Valve |
| Vehicles - | 2011 Ford F250 & Utility Bed |
| Buildings - | New A/C Unit for Office Building |
| Furn. & Equip. - | New Dell Computers, Generator, Excavator |
| CIP - | Water System Improvement Projects |

Current year deduction to capital assets include the following:

| | |
|----------|-----------------------|
| Vehicles | 2004 GMC ¾ Ton Pickup |
|----------|-----------------------|

NOTE 6 - LONG-TERM DEBT

Notes Payable - OWRB

During the year ending September 30, 2000, the District incurred an obligation to the Oklahoma Water Resources Board. This note is for \$576,675 for the building of a water treatment facility. The note bears an interest rate of 3.059%. The note was set up on a 20 year amortization at the time of closing. The District is required to make two payments per year of \$20,163.71 each March and September. This obligation will mature September 2020. Collateral for this obligation are the revenues of the District and the constructed asset.

During the year ending September 30, 2006, the District incurred a second obligation to the Oklahoma Water Resources Board. The total note will be for \$1,800,000 for drinking water treatment system improvements benefiting those persons served by the District. The note bears an interest rate of 3.050% plus an administration fee of 0.50%. The note will be on a 20 year amortization after completion of construction. The District will be required to make two payments per year of \$45,000.00 each March and September until an Amortization Table is provided to the District. This obligation will mature September 2026. Collateral for this obligation are the revenues of the District and the constructed asset.

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
 BRYAN COUNTY, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2011

During the year ending September 30, 2010, the District incurred a third obligation to the Oklahoma Water Resources Board. The total note will be for \$382,000 for installing emergency and portable generators. The note was reduced by a grant received in the amount of \$115,979.14. The note bears an interest rate of 2.71% plus an administration fee of 0.50%. The note will be on a 20 year amortization after completion of construction. Collateral for this obligation are the revenues of the District and the constructed asset.

Notes Payable - USDA Rural Development

During the year ending September 30, 2008, the District incurred a note due to Rural Development in the amount of \$1,055,500 with a fixed interest rate of 4.50% with 480 monthly payments of principal and interest of \$4,750.00 starting July 9, 2008 and due June 9, 2048. The note is for the purpose of providing loan funds for a portion of the cost of a water line replacement/extension.

During the year ending September 30, 2009, the District incurred a note due to Rural Development in the amount of \$416,750 with a fixed interest rate of 3.625% with 480 monthly payments of principal and interest of \$1,647.00 starting March 27, 2009 and due April 27, 2049. The note is for the purpose of providing loan funds for a portion of the cost of a water line replacement/extension.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended September 30, 2011:

| | Balance at 9-30-10 | Additions | Deductions | Balance at 9-30-11 |
|---------------------------|------------------------|---------------------|------------------------|------------------------|
| Note Payable - OWRB | \$ 335,999.13 | \$ - | \$ (28,459.87) | \$ 307,539.26 |
| Note Payable - OWRB #2 | 1,509,899.23 | - | (71,190.48) | 1,438,708.75 |
| Note Payable - OWRB #3 | 216,142.60 | 42,238.26 | (12,428.15) | 245,952.71 |
| Note Payable - USDA RD | 1,024,424.52 | - | (11,131.86) | 1,013,292.66 |
| Note Payable - USDA RD #2 | 407,360.16 | - | (5,081.99) | 402,278.17 |
| Total Long-Term Debt | <u>\$ 3,493,825.64</u> | <u>\$ 42,238.26</u> | <u>\$ (128,292.35)</u> | <u>\$ 3,407,771.55</u> |

Debt Services Requirements to Maturity

The annual debt service requirements to maturity, including principal and interest, for long-term debt, as of September 30, 2011, are as follows:

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
 BRYAN COUNTY, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2011

Note Payable - OWRB (ORF-97-007-DW)

| Year Ending September 30, | Principal | Interest | Admin Fee | Total |
|------------------------------|-------------------|------------------|-----------------|-------------------|
| 2012 | \$ 29,465 | \$ 9,339 | \$ 1,526 | \$ 40,329 |
| 2013 | 30,569 | 8,390 | 1,371 | 40,329 |
| 2014 | 31,682 | 7,433 | 1,215 | 40,329 |
| 2015 | 32,836 | 6,441 | 1,052 | 40,329 |
| 2016 | 34,013 | 5,429 | 887 | 40,329 |
| 2017-2020 | 148,974 | 10,609 | 1,734 | 161,317 |
| Total | <u>\$ 307,539</u> | <u>\$ 47,640</u> | <u>\$ 7,784</u> | <u>\$ 362,964</u> |

Note Payable - OWRB (ORF-04-008-DW)

| Year Ending September 30, | Principal | Interest | Admin Fee | Total |
|------------------------------|---------------------|-------------------|------------------|---------------------|
| 2012 | \$ 73,722 | \$ 44,040 | \$ 7,220 | \$ 124,982 |
| 2013 | 76,544 | 41,616 | 6,822 | 124,982 |
| 2014 | 79,324 | 39,228 | 6,431 | 124,982 |
| 2015 | 82,205 | 36,753 | 6,025 | 124,982 |
| 2016 | 85,077 | 34,285 | 5,620 | 124,982 |
| 2017-2021 | 474,565 | 129,170 | 21,175 | 624,911 |
| 2022-2026 | 567,272 | 49,521 | 8,118 | 624,911 |
| Total | <u>\$ 1,438,709</u> | <u>\$ 374,613</u> | <u>\$ 61,412</u> | <u>\$ 1,874,734</u> |

Note Payable - OWRB (ORF-09-0020-DW)

| Year Ending September 30, | Principal | Interest | Admin Fee | Total |
|------------------------------|-------------------|------------------|------------------|-------------------|
| 2012 | \$ 9,858 | \$ 6,708 | \$ 1,238 | \$ 17,804 |
| 2013 | 10,204 | 6,417 | 1,184 | 17,804 |
| 2014 | 10,538 | 6,134 | 1,132 | 17,804 |
| 2015 | 10,884 | 5,842 | 1,078 | 17,804 |
| 2016 | 11,223 | 5,556 | 1,025 | 17,804 |
| 2017-2021 | 61,969 | 22,837 | 4,214 | 89,020 |
| 2022-2026 | 72,829 | 13,669 | 2,522 | 89,020 |
| 2027-2030 | 58,448 | 3,263 | 602 | 62,313 |
| Total | <u>\$ 245,953</u> | <u>\$ 70,426</u> | <u>\$ 12,994</u> | <u>\$ 329,372</u> |

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
 BRYAN COUNTY, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2011

Note Payable - USDA RURAL DEVELOPMENT 91-10

| Year Ending September 30, | Principal | Interest | Total |
|------------------------------|---------------------|---------------------|---------------------|
| 2012 | \$ 11,147 | \$ 45,853 | \$ 57,000 |
| 2013 | 11,660 | 45,340 | 57,000 |
| 2014 | 12,197 | 44,803 | 57,000 |
| 2015 | 12,758 | 44,242 | 57,000 |
| 2016 | 13,345 | 43,655 | 57,000 |
| 2017-2021 | 76,518 | 208,482 | 285,000 |
| 2022-2026 | 95,816 | 189,184 | 285,000 |
| 2027-2031 | 119,981 | 165,019 | 285,000 |
| 2032-2036 | 150,240 | 134,760 | 285,000 |
| 2037-2041 | 188,131 | 96,869 | 285,000 |
| 2042-2046 | 235,577 | 49,423 | 285,000 |
| 2047-2051 | 85,924 | 13,213 | 99,137 |
| Total | <u>\$ 1,013,293</u> | <u>\$ 1,080,844</u> | <u>\$ 2,094,137</u> |

Note Payable - USDA RURAL DEVELOPMENT 91-11

| Year Ending September 30, | Principal | Interest | Total |
|------------------------------|-------------------|-------------------|-------------------|
| 2012 | \$ 5,268 | \$ 14,496 | \$ 19,764 |
| 2013 | 5,462 | 14,302 | 19,764 |
| 2014 | 5,664 | 14,100 | 19,764 |
| 2015 | 5,873 | 13,891 | 19,764 |
| 2016 | 6,089 | 13,675 | 19,764 |
| 2017-2021 | 33,982 | 64,838 | 98,820 |
| 2022-2026 | 40,723 | 58,097 | 98,820 |
| 2027-2031 | 48,802 | 50,018 | 98,820 |
| 2032-2036 | 58,484 | 40,336 | 98,820 |
| 2037-2041 | 70,087 | 28,733 | 98,820 |
| 2042-2046 | 83,991 | 14,829 | 98,820 |
| 2047-2051 | 37,853 | 1,438 | 39,291 |
| Total | <u>\$ 402,278</u> | <u>\$ 328,753</u> | <u>\$ 731,031</u> |

NOTE 7 - FUND EQUITY

As described in Note 1 above, equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt
2. Restricted net assets
3. Unrestricted net assets

The District restricted net assets are described in Note 4 above.

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
BRYAN COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 8 - CONTINGENCIES

Litigation

As of September 30, 2011, the District was not involved in any pending litigation.

Federally Assisted Programs

In the normal course of operations, the District participates in various federal or state/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

Other Commitments and Contingencies

The District has approved a Consent Order to upgrade its public water supply system in accordance with the "Public Water Supply Construction Standards" and the "Public Water Supply Operation Rules." The Consent Order was in response to an administrative proceeding brought against the District by the Department of Environmental Quality in February 1995. At the end of September 30, 2010, the District was working towards complying with the above standards.

NOTE 9 - OTHER ISSUES

Effective October 1, 2005, the Bryan County Rural Sewer District No. 8 has been taken over by Bryan County Rural Water District No. 2. The new name of the District is Bryan County Rural Water, Sewer and Solid Waste Management District No. 2.

NOTE 10 - RETIREMENT PLAN

The District sponsors a Simple IRA plan for employees. The District contributes up to 2% of the employees' gross wages to the plan, and the employee is free to contribute any amount that he/she decides upon to the plan.

NOTE 11 - ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS

Accumulated unpaid vacation and sick leave benefits have not been shown as a liability in the financial statements. The District's position is that any accrued benefits are not significant and would not materially affect the financial statements.

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
BRYAN COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE 12 - SUBSEQUENT EVENTS

The District did not have any subsequent events through February 13, 2012, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending September 30, 2011.

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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*

To the Board of Directors
Bryan County RWS&SWMD #2
Bryan County, Oklahoma

I have audited the financial statements of the Bryan County RWS&SWMD #2, as of September 30, 2011 and have issued my report thereon dated February 13, 2012. The Bryan County RWS&SWMD #2 has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, except that the District did not present the required MD&A. I conducted my audit in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Bryan Co. RWS&SWMD #2's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Bryan Co. RWS&SWMD #2's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Bryan Co. RWS&SWMD #2'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 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.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weakness, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Bryan County RWS&SWMD #2's financial statements are free of material misstatement, I performed tests of 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 my audit, and accordingly, I do not express such an opinion. The results of my

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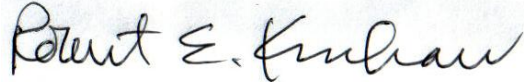
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tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors and management of the Bryan County RWS&SWMD #2 and is not intended to be and should not be used by anyone other than these specified parties.



Robert E. Kershaw
Certified Public Accountant

February 13, 2012