

# AUDIT REPORT

## BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT DISTRICT #6 BRYAN COUNTY, OKLAHOMA

DECEMBER 31, 2011



### KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE  
MUSKOGEE, OKLAHOMA 74401  
PHONE (918) 684-1040  
FAX (918) 684-1041

WEB: [KERSHAWCPA.COM](http://KERSHAWCPA.COM)  
E-MAIL: [REK@KERSHAWCPA.COM](mailto:REK@KERSHAWCPA.COM)

607 NORTH 1<sup>ST</sup> STREET  
PONCA CITY, OKLAHOMA 74601  
PHONE (580) 762-1040  
FAX (580) 762-1047

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT DISTRICT #6  
BRYAN COUNTY, OKLAHOMA  
DECEMBER 31, 2011

TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTORY SECTION:	
BOARD OF DIRECTORS	3
FINANCIAL SECTION:	
INDEPENDENT AUDITOR'S REPORT	4-5
BASIC FINANCIAL STATEMENTS:	
EXHIBIT A    STATEMENT OF NET ASSETS	6
EXHIBIT B    STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS	7
EXHIBIT C    STATEMENT OF CASH FLOWS	8
NOTES TO THE FINANCIAL STATEMENTS	9-15
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	16-17
SCHEDULE OF FINDINGS	18

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT DISTRICT #6  
BRYAN COUNTY, OKLAHOMA  
DECEMBER 31, 2011

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>
BILL MILLER	CHAIRMAN
DAN HULL	VICE CHAIRMAN
GERALD NICKLES	SECRETARY
TERRY REECE	VICE SECRETARY
BILL AMMONS	DIRECTOR

# KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE  
MUSKOGEE, OKLAHOMA 74401  
PHONE (918) 684-1040  
FAX (918) 684-1041

WEB: KERSHAWCPA.COM  
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1<sup>ST</sup> STREET  
PONCA CITY, OKLAHOMA 74601  
PHONE (580) 762-1040  
FAX (580) 762-1047

---

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Bryan County Rural Water, Sewer and Solid Waste Management District #6  
Caddo, Oklahoma

We have audited the accompanying financial statements of the Bryan County Rural Water, Sewer and Solid Waste Management District #6, as of and for the fiscal year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the Bryan County Rural Water, Sewer and Solid Waste Management District #6'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, and in accordance with Oklahoma Statutes. 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 financial position of the Bryan County Rural Water, Sewer and Solid Waste Management District #6, Caddo, Oklahoma, as of December 31, 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, we have also issued our report dated July 2, 2012, on our consideration of the Bryan County Rural Water, Sewer and Solid Waste Management District #6's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be considered in assessing the results of our audit.

Bryan County Rural Water, Sewer and Solid Waste Management District #6 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

# KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE  
MUSKOGEE, OKLAHOMA 74401  
PHONE (918) 684-1040  
FAX (918) 684-1041

WEB: KERSHAWCPA.COM  
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1<sup>ST</sup> STREET  
PONCA CITY, OKLAHOMA 74601  
PHONE (580) 762-1040  
FAX (580) 762-1047

---

part of the basic financial statements of the District. Such additional information has not been subjected to the auditing procedures applied in our audit of the basic financial statements, and accordingly, we do not express an opinion thereon.

*Kershaw CPA & Associates, P.C.*

Kershaw CPA & Associates, PC

July 2, 2012

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT DISTRICT #6  
 BRYAN COUNTY, OKLAHOMA  
 STATEMENT OF NET ASSETS  
 DECEMBER 31, 2011

	2011	Memo Only 2010
<b><u>ASSETS</u></b>		
<b><u>CURRENT ASSETS:</u></b>		
Cash and Cash Equivalents	\$ 161,819	\$ 133,138
Accounts Receivable	24,369	28,589
Inventory	12,881	12,881
Prepaid Insurance	2,855	2,000
<b>Total Current Assets</b>	<b>201,924</b>	<b>176,609</b>
<b><u>RESTRICTED ASSETS:</u></b>		
Restricted Savings Accounts	71,879	69,271
Restricted Trust Fund Accounts	97,887	98,049
<b>Total Restricted Assets</b>	<b>169,766</b>	<b>167,320</b>
<b><u>CAPITAL ASSETS:</u></b>		
Land	7,424	7,424
Machinery & Equipment	45,095	17,477
Water Distribution System	2,251,124	2,226,609
Building	71,914	71,914
Construction in Progress	-	-
Less: Accumulated Depreciation	(691,061)	(616,840)
<b>Net Capital Assets</b>	<b>1,684,495</b>	<b>1,706,583</b>
<b><u>OTHER ASSETS:</u></b>		
Bond Issuance Costs	56,396	56,396
Less: Accumulated Amortization	(12,689)	(9,869)
<b>Total Other Assets</b>	<b>43,707</b>	<b>46,527</b>
<b>TOTAL ASSETS</b>	<b>\$ 2,099,891</b>	<b>\$ 2,097,039</b>
<b><u>LIABILITIES &amp; NET ASSETS</u></b>		
<b><u>CURRENT LIABILITIES:</u></b>		
Accounts Payable	\$ 2,521	\$ 3,791
Payroll Taxes Payable	3,029	2,396
Accrued Interest Payable	13,119	13,294
Current Maturities of Long-Term Debt	15,000	15,000
<b>Total Current Liabilities</b>	<b>33,669</b>	<b>34,481</b>
<b><u>LONG-TERM LIABILITIES:</u></b>		
Revenue Bonds Payable	975,000	990,000
Less: Unamortized Discount on Bonds Payable	(16,993)	(18,090)
Less: Current Maturities of Long-Term Debt	(15,000)	(15,000)
<b>Total Long-Term Liabilities</b>	<b>943,007</b>	<b>956,910</b>
<b>TOTAL LIABILITIES</b>	<b>976,676</b>	<b>991,391</b>
<b><u>NET ASSETS:</u></b>		
Invested in capital assets, net of related debt	709,495	716,583
Restricted for debt service	169,766	167,320
Unrestricted	243,954	221,744
<b>TOTAL NET ASSETS</b>	<b>1,123,215</b>	<b>1,105,647</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 2,099,891</b>	<b>\$ 2,097,039</b>

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

EXHIBIT B

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT DISTRICT #6  
 BRYAN COUNTY, OKLAHOMA  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2011

	2011	Memo Only 2010
<b><u>OPERATING REVENUES:</u></b>		
Metered Water Sales, Less Bad Debts	\$ 310,500	\$ 268,072
Reimbursement for supplies provided	1,537	1,318
Other Income	3,719	6,125
<b>TOTAL OPERATING REVENUES</b>	<b>315,757</b>	<b>275,514</b>
<b><u>OPERATING EXPENSES:</u></b>		
Water Purchases	10,127	7,440
Salaries and wages	78,899	66,954
Contract Labor	7,751	1,530
Fuel and oil	11,064	7,924
Insurance	15,609	14,150
Professional Fees	4,350	1,490
Repairs and maintenance	7,375	4,943
Rent	-	-
Telephone	2,649	2,576
Utilities	9,217	7,370
Water Samples	941	928
Dues and memberships	3,284	1,838
Supplies	14,156	5,522
Office expense	1,205	1,688
Postage	2,012	2,016
Printing	587	-
Miscellaneous	350	-
Payroll Taxes	9,063	6,502
Permits and Fees	-	-
Trustee Fees	2,000	2,000
Depreciation	74,221	68,993
Amortization	2,820	2,820
<b>TOTAL OPERATING EXPENSES</b>	<b>257,678</b>	<b>206,683</b>
<b>NET OPERATING INCOME (LOSS)</b>	<b>58,078</b>	<b>68,831</b>
<b><u>OTHER REVENUES (EXPENSES):</u></b>		
Interest and Dividend Income	339	338
Interest Expense, inclusive of amortization of bond discount of \$1,096	(53,174)	(53,864)
Membership Fees	12,325	6,000
<b>NET INCOME (LOSS)</b>	<b>17,568</b>	<b>21,305</b>
<b>TOTAL NET ASSETS, Beginning of Year</b>	<b>1,105,647</b>	<b>1,084,342</b>
<b>TOTAL NET ASSETS, Prior Year Adjustment</b>	<b>-</b>	<b>-</b>
<b>TOTAL NET ASSETS, End of Year</b>	<b>\$ 1,123,215</b>	<b>\$ 1,105,647</b>

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

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT DISTRICT #6  
 BRYAN COUNTY, OKLAHOMA  
 STATEMENT OF CASH FLOWS  
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

	<u>2011</u>	<u>Memo Only 2010</u>
<b><u>Net Cash Flows from Operating Activities:</u></b>		
Cash Receipts from Customers	\$ 319,978	\$ 262,754
Payments to Suppliers for Goods & Services	(103,230)	(68,294)
Payments to Employees & Laborers	<u>(78,899)</u>	<u>(66,954)</u>
Net Cash Provided (Used) by Operating Activities	<u>137,848</u>	<u>127,507</u>
<b><u>Net Cash Flows from Capital &amp; Related Financing Activities:</u></b>		
Additions to Capital Assets	(52,133)	-
Proceeds from long-term debt	-	-
Bond issuance costs and discount	-	-
Principal paid on long-term debt	(15,000)	(15,000)
Interest paid on Debt	<u>(52,253)</u>	<u>(52,943)</u>
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(119,386)</u>	<u>(67,943)</u>
<b><u>Net Cash Flows from Investing Activities:</u></b>		
Membership Fees	12,325	6,000
(Increase)Decrease in Restricted Assets	(2,446)	(4,461)
Interest and Dividend Income	<u>339</u>	<u>338</u>
Net Cash Provided (Used) by Investing Activities	<u>10,219</u>	<u>1,877</u>
Net Increase (Decrease) in Cash and Cash Equivalents	28,681	61,441
Cash & Cash Equivalents, Beginning of Year	133,138	71,698
Cash & Cash Equivalents, Prior Year Adjustment	<u>-</u>	<u>-</u>
Cash & Cash Equivalents, End of Year	<u>\$ 161,819</u>	<u>\$ 133,138</u>
<b><u>Reconciliation of operating income (loss) to net cash provided operating activities:</u></b>		
Operating Income (Loss)	\$ 58,078	\$ 68,831
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	74,221	68,993
Amortization	2,820	2,820
(Increase)Decrease in Accounts Receivable	4,221	(12,760)
(Increase)Decrease in Inventory	-	(2,098)
(Increase)Decrease in Prepaid Insurance	(855)	2
Increase(Decrease) in Accounts Payable	(1,270)	1,140
Increase(Decrease) in Payroll Taxes Payable	<u>632</u>	<u>579</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 137,848</u>	<u>\$ 127,507</u>

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

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT DISTRICT #6  
BRYAN COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011

NOTE 1 -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

Rural Water, Sewer and Solid Waste Management District #6, Bryan County, Oklahoma (the District) was organized January 28, 1994 for the purpose of supplying water to residents in rural Bryan County, Oklahoma.

FUND ACCOUNTING

The District is accounted for within the framework of enterprise fund accounting. Enterprise funds are used to account for operations that are operated in a manner similar to private business enterprises wherein the intent of the District's Board of Directors is to recover the cost of providing goods and services through user charges.

BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. The District utilizes the accrual basis of accounting, which is in accordance with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses when incurred.

ASSETS, LIABILITIES & EQUITY

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents including restricted cash.

Capital Assets

Asset acquisitions are recorded and depreciated at historical cost. Depreciation on capital assets is calculated using the straight-line method of depreciation with useful lives as follows:

	Life (in years)
Building and improvements	10-40
Machinery and Equipment	5-7
Water Distribution System	20-40

The dollar threshold for capitalization has been set at \$500.00.

Accounts Receivable

Uncollectible accounts receivable are charged directly against earnings when they are determined to be uncollectible. Use of this method does not result in a material difference from the valuation method required by generally accepted accounting principles.

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT DISTRICT #6  
BRYAN COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011

Inventory

Inventory consists of supplies and parts on hand and are valued at cost using the first-in, first-out method.

Long-Term Debt

Long-term debt is reported at face value, net of applicable discounts and deferred loss on refunding. Costs related to the issuance of debt are deferred and amortized over the lives of various debt issues.

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.

Governmental Accounting Standards Board Statement No. 34

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Certain of the significant changes in the Statement include the following:

1. For the first time the financial statement should include:
  - a. A Management Discussion and Analysis (MD&A) section providing analysis of the District's overall financial position and results of operations. However, the District has chosen not to present the required MD&A for the current year.

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT DISTRICT #6  
BRYAN COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011

- b. Financial statements prepared using full accrual accounting for all of the District's activities, except for including the General capital assets or infrastructure (lines, pump stations, etc.).
- 2. A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The District has elected to implement the general provisions of the Statement and report infrastructure acquired after December 31, 2003 as provided by GASB standards.

Income Taxes

The District is exempt from income taxes under Section 501(c)(12) of the Internal Revenue Code and a similar state statute.

Compensated Absences

Employees of the District do not accrued vacation or sick leave since it is the District's policy to not do so. Therefore, no provision has been made for such.

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 Only

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 terms of the loan agreements require Reserve Accounts as shown in Note 4. All of the requirements have been met.

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT DISTRICT #6  
BRYAN COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011

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 EQUIVALENTS

Custodial Credit Risk

At December 31, 2011, the District held deposits of approximately \$331,585 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.

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.).

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT DISTRICT #6  
 BRYAN COUNTY, OKLAHOMA  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2011

NOTE 4 - RESTRICTED ASSETS

Restricted Savings Accounts

The Restricted Savings Accounts are the Debt Reserve account and the Reserve Savings Account.

Cash in Trust Fund

The Cash in Trust Fund account is an account that is an offset to the Revenue Bonds Payable (See Note 6). This fund is made up of three individual accounts all held by the Trustee Bank (RCB Trust Services). The three accounts are the bond fund, the debt service reserve fund, and the project account.

NOTE 5 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended December 31, 2011, was as follows:

	Balance at Dec. 31, 2010	Additions	Deductions	Balance at Dec. 31, 2011
Land	\$ 7,424	\$ -	\$ -	\$ 7,424
Machinery & Equipment	17,477	27,618	-	45,095
Water Distribution System	2,226,609	24,515	-	2,251,124
Building	71,914	-	-	71,914
Construction-in-progress	-	-	-	-
Subtotal	2,323,424	52,133	-	2,375,557
Less: Accum. Depr.	(616,840)	(74,221)	-	(691,061)
Total Capital Assets (Net of Depreciation)	<u>\$ 1,706,583</u>	<u>\$ (22,088)</u>	<u>\$ -</u>	<u>\$ 1,684,495</u>

NOTE 6 - LONG-TERM DEBT

Revenue Bonds Payable

On April 27, 2007, the District issued \$1,035,000.00 Revenue Bonds Series 2007, to provide funds to refund certain outstanding indebtedness of the District and to provide improvements to the water system as approved by the District. The District sold the Revenue Bonds at a discount of \$21,926.79, said Bonds to bear interest at varying rates ranging from 4.60% to 5.50%. Final maturity of the bonds is April 1, 2037.

The Series 2007 Revenue Bonds are secured by a pledge of real estate and other assets, revenues of the District and amounts held by the bond trustee bank. Under the terms of the Bond Indenture Agreement, the District is required to maintain certain deposits with a trustee bank. Such deposits are included as restricted assets in the Statement of Net Assets.

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT DISTRICT #6  
 BRYAN COUNTY, OKLAHOMA  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2011

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended December 31, 2011:

	Balance at December 31, 2010	Additions	Deductions	Balance at December 31, 2011
Revenue Bonds Payable	\$ 990,000	\$ -	\$ (15,000)	\$ 975,000
Total Long-Term Debt	<u>\$ 990,000</u>	<u>\$ -</u>	<u>\$ (15,000)</u>	<u>\$ 975,000</u>
Less: Unamortized Discount on Bonds Payable	\$ (18,090)	<u>\$ -</u>	<u>\$ 1,096</u>	\$ (16,993)
Less: Current Maturities of Long-Term Debt	\$ (15,000)			\$ (15,000)
Net Long-Term Debt	<u>\$ 956,910</u>			<u>\$ 943,007</u>

The annual debt service requirements to maturity, including principal and interest, for long-term debt, as of December 31, 2011, are as follows:

Revenue Bonds Payable Year Ended December 31,	Principal	Interest	Annual Payment
2012	\$ 15,000	\$ 51,563	\$ 66,563
2013	20,000	50,758	70,758
2014	20,000	49,838	69,838
2015	20,000	48,878	68,878
2016	20,000	47,878	67,878
2017-2021	120,000	222,388	342,388
2022-2026	160,000	186,483	346,483
2027-2031	200,000	138,725	338,725
2032-2036	265,000	76,140	341,140
2037	135,000	3,746	138,746
Total	<u>\$ 975,000</u>	<u>\$ 876,394</u>	<u>\$ 1,851,394</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 restricted net assets are described in Note 4 above.

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT DISTRICT #6  
BRYAN COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011

NOTE 8 - CONTINGENCIES

Litigation

According to management there were no known contingent liabilities at December 31, 2011, which would have a material effect on the financial statements.

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.

NOTE 9 - INSURANCE COVERAGE

The District has the following insurance coverage:

- Property Coverage (Buildings and Personal Property)
- General Liability
- Auto Liability and Physical
- Hired Non-Owner
- Inland/Marine
- Directors and Officers
- Worker's Compensation

NOTE 10 - CAPITALIZED INTEREST

The District follows the policy of capitalizing interest as a component of the cost of property, plant and equipment constructed for its own use. In 2007, total interest incurred on long-term debt was \$47,804 of which \$16,720 was capitalized and \$31,084 was charged to operations.

NOTE 11 - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the District to credit risk consist primarily of accounts receivable. The receivables are from individuals located within the same geographic region.

NOTE 12 - SUBSEQUENT EVENTS

The District did not have any subsequent events through July 2, 2012, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending December 31, 2011.

# KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE  
MUSKOGEE, OKLAHOMA 74401  
PHONE (918) 684-1040  
FAX (918) 684-1041

WEB: KERSHAWCPA.COM  
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1<sup>ST</sup> STREET  
PONCA CITY, OKLAHOMA 74601  
PHONE (580) 762-1040  
FAX (580) 762-1047

---

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 Rural Water, Sewer and Solid Waste Management District #6  
Caddo, Oklahoma

We have audited the financial statements of the Bryan County Rural Water, Sewer and Solid Waste Management District #6, as of December 31, 2011 and have issued our report thereon dated July 2, 2012. The Bryan County Rural Water, Sewer and Solid Waste Management District #6 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. We conducted our 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 our audit, we considered the Bryan County Rural Water, Sewer and Solid Waste Management District #6'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 Bryan County Rural Water, Sewer and Solid Waste Management District #6's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity'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.

Our 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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weakness, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings that we consider to be significant deficiencies in internal control over financial reporting. Those deficiencies are listed as Item 11-01. 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.

# KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE  
MUSKOGEE, OKLAHOMA 74401  
PHONE (918) 684-1040  
FAX (918) 684-1041

WEB: KERSHAWCPA.COM  
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1<sup>ST</sup> STREET  
PONCA CITY, OKLAHOMA 74601  
PHONE (580) 762-1040  
FAX (580) 762-1047

---

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Bryan County Rural Water, Sewer and Solid Waste Management District #6's financial statements are free of material misstatement, we 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 our audit, and accordingly we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is included in the Schedule of Findings as Item 11-02. The results of our tests disclosed no instances of other matters that are required to be reported under *Government Auditing Standards*.

Bryan County Rural Water, Sewer and Solid Waste Management District #6's response to the findings identified in our audit is described in the accompanying Schedule of Findings. We did not audit Bryan County Rural Water, Sewer and Solid Waste Management District #6's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of directors and management of the Bryan County Rural Water, Sewer and Solid Waste Management District #6, Caddo, Oklahoma and is not intended to be and should not be used by anyone other than these specified parties.

*Kershaw CPA & Associates, P.C.*  
Kershaw CPA & Associates, PC

July 2, 2012

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT DISTRICT #6  
BRYAN COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS  
DECEMBER 31, 2011

INTERNAL CONTROL FINDINGS:

Item 11-01: Segregation of Duties

Criteria: A good system of internal control requires a proper segregation of duties to prevent one person from being in a position to authorize, execute, and record the same transaction.

Condition: Due to the size of the District's major areas of internal control, that would be prevalent in a larger District, such segregation of duties is not available for this size operation. Duties are concentrated in the hands of a few individuals, who are responsible for all phases of the accounting functions. Because of this lack of division of responsibility, internal control is determined to be weak, and in some instances, non-existent.

Cause/Effect: Due to the limited number of personnel, a breach of internal controls could occur and not be detected in the normal course of operations.

Recommendation: The Board should continue to be actively involved in the operations of the organization.

Response: The Board continues to be actively involved in the operations of the organization.

COMPLIANCE FINDINGS:

Item 11-02: Payroll Reporting and Compliance

Criteria: The District is required to withhold one half social security tax and applicable federal and state income tax from gross wages and timely remit such funds to the United States Treasury, the Oklahoma Tax Commission and the OESC. Reporting payroll activity on IRS forms 941, Oklahoma forms OW-8, OES-3 is required at various periods during the year, monthly, quarterly or annually.

Condition: Payroll taxes for the current year were not calculated correctly.

Cause/Effect: The miscalculations have left the District subject to additional tax liability, penalties, and interest charges by the taxing agencies.

Recommendation: The District needs to get in compliance with the federal and state payroll tax requirements.

Response: The District was able to have the 2011 payroll taxes recalculated and corrected.