

AUDIT REPORT

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

DECEMBER 31, 2011



KERSHAW CPA & ASSOCIATES, PC

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RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
MCINTOSH COUNTY, OKLAHOMA
DECEMBER 31, 2011

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RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
MCINTOSH COUNTY, OKLAHOMA
DECEMBER 31, 2011

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>	<u>TERM EXPIRATION</u>
Vacant Position	Chairman	
Bud McCombs	Vice-Chairman	2012
Kenneth Pemberton	Secretary/Treasurer	2014
Mike Waid	Vice-Secretary/Treasurer	2012
Bill Reynolds	Director	2014
Robin Patterson	Director	2013
Mike Minnick	Director	2013

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INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying financial statements of the Rural Water, Sewer, and Solid Waste Management District No. 2, McIntosh County, 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 Rural Water, Sewer, and Solid Waste Management District No. 2, McIntosh County'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 Rural Water, Sewer, and Solid Waste Management District No. 2, McIntosh County, 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, I have also issued my report dated April 14, 2012, on my consideration of the Rural Water, Sewer, and Solid Waste Management District No. 2, McIntosh County'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 Auditing Standards and should be considered in assessing the results of my audit.

Rural Water, Sewer, and Solid Waste Management District No. 2, McIntosh County 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.

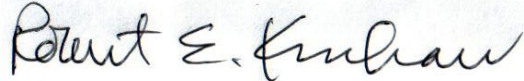
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The introductory and the other supplementary information sections listed in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the District. Such 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
Certified Public Accountant

April 14, 2012

**RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
MCINTOSH COUNTY, OKLAHOMA
STATEMENT OF NET ASSETS
DECEMBER 31, 2011**

	2011	Memorandum Only 2010
<u>ASSETS</u>		
<u>CURRENT ASSETS:</u>		
Cash and Cash Equivalents	\$ 290,159	\$ 221,980
Accounts Receivable, Net of Allowance for Doubtful Accounts	48,256	39,982
Inventory	25,754	25,754
Prepaid Insurance	11,219	9,047
TOTAL CURRENT ASSETS	375,388	296,762
<u>NONCURRENT ASSETS:</u>		
RESTRICTED CERTIFICATES OF DEPOSIT	175,267	170,924
<u>CAPITAL ASSETS:</u>		
Land	25,483	25,483
Construction in Progress	-	5,000
Water tower	309,652	309,652
Office building, equipment and fixtures	82,896	82,896
Transportation equipment	27,440	35,740
Heavy equipment	27,209	27,209
Water treatment facility	2,474,151	2,438,800
Lines and storage	423,001	423,001
Storage building	4,400	4,400
Less: Accumulated Depreciation	(1,330,241)	(1,244,708)
NET CAPITAL ASSETS	2,043,991	2,107,472
TOTAL ASSETS	2,594,646	2,575,158
<u>LIABILITIES & NET ASSETS</u>		
<u>CURRENT LIABILITIES:</u>		
Accounts Payable	-	-
Payroll Taxes Payable	2,984	3,830
Accrued Interest	2,388	2,443
Current maturity of long-term debt	40,733	38,845
Total Current Liabilities	46,105	45,117
LONG-TERM LIABILITIES	1,892,671	1,933,408
TOTAL LIABILITIES	1,938,776	1,978,526
<u>NET ASSETS:</u>		
Invested in capital assets, net of related debt	110,587	135,218
Restricted for debt service	175,267	170,924
Unrestricted	370,016	290,490
TOTAL NET ASSETS	\$ 655,870	\$ 596,632

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

**RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
MCINTOSH COUNTY, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2011**

	2011	Memorandum Only 2010
<u>OPERATING REVENUES:</u>		
Water Sales	\$ 556,121	\$ 513,296
New installations	11,500	16,000
Other income	16,911	3,389
TOTAL OPERATING REVENUES	584,532	532,686
<u>OPERATING EXPENSES:</u>		
NFMHO	11,286	10,195
Contract labor - meter reader	-	-
Water storage fees	2,118	1,998
Professional fees & Dues	11,344	9,999
Office Expense	11,382	8,367
Payroll & related expenses	172,062	186,954
Operations: Repairs & Supplies	69,364	70,886
Insurance	19,125	19,319
Utilities	25,951	24,855
Telephone	5,389	5,865
Vehicles	13,828	9,563
Miscellaneous expense	3,274	4,975
Depreciation	93,832	92,364
Total Operating Expenses	438,955	445,341
NET OPERATING INCOME (LOSS)	145,577	87,345
<u>OTHER REVENUES (EXPENSES):</u>		
Interest Income	5,702	5,870
Interest Expense	(92,041)	(93,838)
Total Other Revenues (Expenses)	(86,339)	(87,968)
CHANGE IN NET ASSETS	59,238	(623)
TOTAL NET ASSETS, Beginning of Year	596,632	597,650
TOTAL NET ASSETS, Prior Year Adjustment	-	(395)
TOTAL NET ASSETS, End of Year	\$ 655,870	\$ 596,632

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

**RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
MCINTOSH COUNTY, OKLAHOMA
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

	<u>2011</u>	<u>Memo Only 2010</u>
<u>Net Cash Flows from Operating Activities:</u>		
Cash Receipts from Customers	\$ 576,258	\$ 543,204
Payments to Suppliers for Goods & Services	(176,080)	(161,812)
Payments to Employees & Laborers	(172,062)	(186,954)
Net Cash Provided (Used) by Operating Activities	<u>228,116</u>	<u>194,438</u>
<u>Net Cash Flows from Capital & Related Financing Activities:</u>		
Additions to Capital Assets	(30,352)	(42,852)
Proceeds from long-term debt	-	-
Principal paid on long-term debt	(38,849)	(37,053)
Interest paid on Debt	(92,095)	(93,891)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(161,296)</u>	<u>(173,796)</u>
<u>Net Cash Flows from Investing Activities:</u>		
Net (purchase)/redemption and reinvestment of earnings on certificates of deposit	(4,343)	(4,365)
Net activity with restricted accounts	-	-
Interest Income	5,702	5,870
Net Cash Provided (Used) by Investing Activities	<u>1,359</u>	<u>1,505</u>
Net Increase (Decrease) in Cash and Cash Equivalents	68,179	22,146
Cash & Cash Equivalents, Beginning of Year	221,979	200,228
Cash & Cash Equivalents, Prior Year Adjustment	1	(395)
Cash & Cash Equivalents, End of Year	<u>\$ 290,159</u>	<u>\$ 221,979</u>
<u>Reconciliation of operating income (loss) to net cash provided operating activities:</u>		
Operating Income (Loss)	\$ 145,577	\$ 87,345
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	93,832	92,364
(Increase)Decrease in Accounts Receivable	(8,274)	10,518
(Increase)Decrease in Inventory	-	-
(Increase)Decrease in Prepaid Insurance	(2,172)	380
Increase(Decrease) in Accounts Payable	-	-
Increase(Decrease) in Payroll Taxes Payable	(846)	3,830
Net Cash Provided (Used) by Operating Activities	<u>\$ 228,116</u>	<u>\$ 194,438</u>

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

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

NATURE OF BUSINESS

Rural Water, Sewer, and Solid Waste Management District No. 2, McIntosh County, Oklahoma (The District) was organized to sell water and operate and maintain a sewage disposal system to its members. This organization is exempt from federal income tax under Section 501(c)(12) of the Internal Revenue Code

Basis of Presentation

The Enterprise Fund is used to account for the operations of the District that are financed and operated in a manner similar to private business enterprises where the intent is that costs or providing goods or services be recovered in whole or part through user fees or charges.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses when incurred.

Assets, Liabilities, & Equity

Cash & Cash Equivalents

For purposes of these financial statements, the District considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents, excluding restricted cash.

Capital Assets

Fixed assets are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance, repairs and renewals of relatively minor items are charged to expense as incurred. The estimated useful lives of the assets are as follows:

	<u>Years</u>
Water tower	25
Office building, equipment and fixtures	5-20
Transportation equipment	5-10
Heavy equipment	10
Water treatment facility	7-40
Lines and storage	10-20

It is the District's policy to capitalize asset purchases greater than \$500 and expense asset purchases less than \$500.

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

Inventories

Inventories are stated at the lower of cost or market using the first-in, first-out method.

Allowance for Doubtful Accounts

The District considers all accounts fully collectible.

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.

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
MCINTOSH 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 federal income tax under Section 501(c)(12) of the Internal Revenue Code.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Compensated Absences

Employees of the District began accruing vacation and sick leave in 2005. However, no provision has been made for such because the amount is not considered material to the financial statements.

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.

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

Finance-related Legal & Contractual Provisions

Under the provisions of the USDA Loan Agreements, the District is required to establish, fund and maintain a debt service fund account and a debt reserve account with the trustee bank. As of December 31, 2011, the District has complied with these provisions.

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 December 31, 2011, the District held deposits of approximately \$465,426 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.).

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
 MCINTOSH COUNTY, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2011

NOTE 4 - RESTRICTED ASSETS

The loan resolution agreement with Rural Development requires the District to establish a reserve account. Transfers to this account should equal 10% of the monthly loan payments, or \$1,028 (\$949 + \$79) per month until the equivalent of an annual installment, or \$123,396 (\$113,928 + \$9,468) is obtained. At December 31, 2011, this reserve account should have a balance of approximately \$123,396. The requirement of this account was met with the reserve certificates of deposit, which at December 31, 2011 had balances of \$61,505.74, \$85,716.78 and \$28,044.19 for a total of \$175,266.71.

The restricted checking account was established to account for the construction of the water tower in progress. The balance at December 31, 2011 was \$0.

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	\$ 25,483	\$ -	\$ -	\$ 25,483
Construction in Progress	5,000	-	(5,000)	-
Water Tower	309,652	-	-	309,652
Office building, equipment and fixtures	82,896	-	-	82,896
Transportation equipment	35,740	-	(8,300)	27,440
Heavy equipment	27,209	-	-	27,209
Water treatment facility	2,438,800	35,351	-	2,474,151
Lines and storage	423,001	-	-	423,001
Storage Building	4,400	-	-	4,400
Subtotal	<u>3,352,180</u>	<u>35,351</u>	<u>(13,300)</u>	<u>3,374,232</u>
Less: Accum. Depr.	<u>(1,244,708)</u>	<u>(93,832)</u>	<u>8,300</u>	<u>(1,330,241)</u>
Total Capital Assets (Net of Depreciation)	<u>\$ 2,107,472</u>	<u>\$ (58,481)</u>	<u>\$ (5,000)</u>	<u>\$ 2,043,991</u>

The current year capital asset additions included road bores, electric work, Express II Dialer, and pump platform. The deduction was to removed disposed vehicles.

NOTE 6 - LONG-TERM DEBT

The District has one loan with Berkadia (formerly Capmark, also formerly GMAC Commercial Mortgage Company). Collateral for the loans is property and equipment and revenues. The first loan is payable at \$629 per month includes 5.00% interest, and matures May 13, 2016.

The District also has two loans with USDA Rural Development. Collateral for the loans is property and equipment and revenues. The first loan is payable at \$9,494 per month includes 4.75% interest, and matures May 21, 2040. The second loan is payable at \$789 per month includes 4.25% and matures September 30, 2043.

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
 MCINTOSH 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, 2010:

	Balance at December 31, 2010	Additions	Deductions	Balance at December 31, 2011
GMAC #1 (Berkadia)	\$ 33,438	\$ -	\$ (6,014)	\$ 27,424
Rural Development #1	1,773,468	-	(30,346)	1,743,122
Rural Development #2	165,347	-	(2,489)	162,858
Total Long-Term Debt	<u>\$ 1,972,253</u>	<u>\$ -</u>	<u>\$ (38,849)</u>	<u>\$ 1,933,404</u>

Debt Services Requirements to Maturity

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

Year Ending December 31,	Note Payable - Berkadia		Total
	Principal	Interest	
2012	\$ 6,320	\$ 1,228	\$ 7,548
2013	6,767	781	7,548
2014	6,990	558	7,548
2015	7,347	201	7,548
2016	-	-	-
2017-2021	-	-	-
Total	<u>\$ 27,424</u>	<u>\$ 2,768</u>	<u>\$ 30,192</u>

Year Ending December 31,	Note Payable - USDA RD #1		Total
	Principal	Interest	
2012	\$ 31,816	\$ 82,112	\$ 113,928
2013	33,361	80,567	113,928
2014	34,980	78,948	113,928
2015	36,678	77,250	113,928
2016	38,459	75,469	113,928
2017-2021	222,182	347,458	569,640
2022-2026	281,611	288,029	569,640
2027-2031	356,937	212,703	569,640
2032-2036	452,410	117,230	569,640
2037-2041	254,688	15,111	269,799
Total	<u>\$ 1,743,122</u>	<u>\$ 1,374,877</u>	<u>\$ 3,117,999</u>

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
 MCINTOSH COUNTY, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2011

Year Ending December 31,	Note Payable - USDA RD #2		Total
	Principal	Interest	
2012	\$ 2,597	\$ 6,871	\$ 9,468
2013	2,709	6,759	9,468
2014	2,827	6,641	9,468
2015	2,949	6,519	9,468
2016	3,077	6,391	9,468
2017-2021	17,504	29,836	47,340
2022-2026	21,641	25,699	47,340
2027-2031	26,754	20,586	47,340
2032-2036	33,077	14,263	47,340
2037-2041	40,864	6,476	47,340
2042-2046	8,859	268	9,127
Total	\$ 162,858	\$ 130,309	\$ 293,167

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 restrictions on net assets are described in Note 4 above.

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 - CAPITALIZATION OF 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 2004, total interest incurred was \$101,378, of which \$4,132 was capitalized, and \$97,246 was charged to operations. In 2003, total interest incurred was \$98,680, of which \$613 was capitalized, and \$98,067 was charged to operations.

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 10 - INSURANCE COVERAGE

Property Coverage

Insurer	ORWA Assurance Group
Expiration	June 1, 2012
Policy includes	Auto liability, property, general liability, errors & omissions, employment practice, dishonesty bond and monies & securities.

Workers Compensation

Insurer	ORWA Assurance Group
Expiration	October 31, 2012

NOTE 11 - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the District to credit risk consist primarily of accounts receivable. The District sells only to its members in the Onapa, Oklahoma area.

NOTE 12 - SUBSEQUENT EVENTS

The District did not have any subsequent events through April 14, 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

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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
Rural Water, Sewer, and Solid Waste Management District No. 2,
McIntosh County, Oklahoma

I have audited the financial statements of the Rural Water, Sewer, and Solid Waste Management District No. 2, McIntosh County, as of December 31, 2011, and have issued my report thereon dated April 14, 2012. The Rural Water, Sewer, and Solid Waste Management District No. 2, McIntosh County 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 Rural Water, Sewer, and Solid Waste Management District No. 2, McIntosh County'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 District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the District'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.

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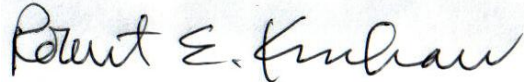
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Rural Water, Sewer, and Solid Waste Management District No. 2, McIntosh County'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 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 Rural Water, Sewer, and Solid Waste Management District No. 2, McIntosh County, Oklahoma and is not intended to be and should not be used by anyone other than these specified parties.



Robert E. Kershaw, CPA

April 14, 2012