

AUDIT REPORT

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

SEPTEMBER 30, 2012



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, 2012

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BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANGEMENT DISTRICT NO. 2
BRYAN COUNTY, OKLAHOMA
SEPTEMBER 30, 2012

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>	<u>TERM EXPIRATION</u>
Jerry Lewis	Chairman	2015
Bob Butlan	Vice Chairman	2015
John Hoefer	Secretary	2015
Linda Henderson	Treasurer	2014
Don Roberts	Assist Sec-Treas	2013
Randy Cloyd	Director	2013
Don Roberts	Director	2014

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

We 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, 2012, as listed in the table of contents. These financial statements are the responsibility of the Bryan County RWS&SWMD #2, Oklahoma'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 RWS&SWMD #2, Bryan County Oklahoma, as of September 30, 2012, 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 March 8, 2013, on our consideration of the Bryan County RWS&SWMD #2, Oklahoma'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

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Auditing Standards and should be considered in assessing the results of our 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 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

March 8, 2013

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
 BRYAN COUNTY, OKLAHOMA
 STATEMENT OF NET ASSETS
 SEPTEMBER 30, 2012

	Total 2012	Total (Memo Only) 2011
<u>ASSETS</u>		
<u>Current Assets:</u>		
Cash in Bank	\$ 1,929,080	\$ 1,922,772
Utility Billing Receivable	93,538	100,977
Other Receivables	31,234	(5,700)
Interest Receivable	538	547
Inventories	201,018	176,750
Prepaid Expenses	90,363	69,019
Total Current Assets	2,345,770	2,264,366
Net Capital Assets	6,483,376	6,832,444
<u>Other Assets:</u>		
Cash in Bank - Debt Reserve	76,764	76,764
Cash in Bank - Debt Service Fund	30	1
Total Other Assets	76,794	76,765
TOTAL ASSETS	\$ 8,905,940	\$ 9,173,574
<u>LIABILITIES</u>		
<u>Current Liabilities:</u>		
Accounts Payable	\$ 37,466	\$ 81,177
Pasture Deposits	8,570	7,813
Current Portion of Long-Term Debt	134,439	129,460
Accrued Interest Payable	5,451	5,525
Total Current Liabilities	185,926	223,975
<u>Long-Term Liabilities:</u>		
Notes Payable	3,277,814	3,407,772
Less: Current Portion	(134,439)	(129,460)
Total Non-Current Liabilities	3,143,375	3,278,312
TOTAL LIABILITIES	3,329,301	3,502,286
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	3,205,562	3,424,672
Restricted for debt service	76,794	76,765
Unrestricted	2,294,283	2,169,850
TOTAL NET ASSETS	5,576,639	5,671,288
TOTAL LIABILITIES & NET ASSETS	\$ 8,905,940	\$ 9,173,574

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, 2012

	Total September 30, 2012	Total (Memo Only) September 30, 2011
<u>Operating Revenues:</u>		
Water & Sewer Revenues	\$ 1,616,426	\$ 1,652,987
Grant Income	-	-
Installation Revenues	64,775	54,038
Total Operating Revenues	1,681,201	1,707,025
<u>Operating Expenses:</u>		
Wages, Salaries and Payroll Expenses	443,956	410,507
Employee Benefits	62,342	71,848
Property, Casualty Insurance	38,772	34,333
Licenses and Dues	10,355	11,112
Purchased Water	37,476	70,375
Office Expenses	52,224	64,302
Bad Debt Expense	6,282	10,510
Electricity	78,321	71,894
Telephone	6,680	8,825
Professional Fees	10,660	8,494
Operating and Maintenance Expenses	356,788	335,348
Depreciation Expense	425,008	330,592
Total Operating Expenses	1,528,866	1,428,139
Operating Income (Loss)	152,335	278,886
<u>Non-Operating Revenues (Expenses):</u>		
Rental Income	2,400	2,400
Other non-operating Income	-	-
Interest Income	16,577	33,926
Gain (Loss) on Disposal of Assets	(71)	1,800
Interest Expense	(129,662)	(135,266)
Total Non-operating Revenues (Expenses)	(110,756)	(97,141)
Net Income (Loss) Before Contributions	41,578	181,745
Capital Contributions - Memberships	29,400	30,000
Change in Net Assets	70,978	211,745
Total Net Assets - Beginning	5,671,288	5,457,996
Total Net Assets - Prior Year Adjustment	(165,628)	1,547
Total Net Assets - Ending	\$ 5,576,639	\$ 5,671,288

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, 2012

	<u>9/30/12</u>	<u>Memo Only 9/30/11</u>
<u>Net Cash Flows from Operating Activities:</u>		
Cash Receipts from Customers	\$ 1,651,706	\$ 1,721,189
Cash Receipts from Operating Grant	-	-
Payments to Suppliers for Goods & Services	(748,113)	(699,293)
Payments to Employees & Laborers	(443,956)	(410,507)
Receipts of Customer Utility Deposits, Net of Refunds	757	1,000
Net Cash Provided (Used) by Operating Activities	<u>460,393</u>	<u>612,389</u>
<u>Net Cash Flows from Capital & Related Financing Activities:</u>		
Additions to Capital Assets	(275,484)	(297,556)
Proceeds from disposal of Capital Assets	32,734	1,800
Loan Proceeds	-	42,238
Principal paid on Debt	(129,957)	(128,292)
Interest paid on Debt	(129,736)	(135,250)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(502,443)</u>	<u>(517,060)</u>
Net Cash Flows from Investing Activities:		
Membership Contributions	29,400	30,000
Rental & Other non-operating income	2,400	2,400
Interest Income	16,586	35,033
Net Cash Provided (Used) by Investing Activities	<u>48,386</u>	<u>67,433</u>
Net Increase (Decrease) in Cash and Cash Equivalents	6,336	162,762
Cash & Cash Equivalents, Beginning of Year	1,999,537	1,836,774
Cash & Cash Equivalents, Prior Year Adjustment	-	-
Cash & Cash Equivalents, End of Year	<u>\$ 2,005,873</u>	<u>\$ 1,999,537</u>
<u>Reconciliation of operating income (loss) to net cash provided operating activities:</u>		
Operating Income (Loss)	\$ 152,335	\$ 278,886
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	425,008	330,592
(Increase)Decrease in Utility Receivable	(29,495)	14,164
(Increase)Decrease in Inventory	(24,267)	(17,296)
(Increase)Decrease in Prepaid Expenses	(21,344)	(14,727)
Increase(Decrease) in Accounts Payable	(42,600)	19,770
Increase(Decrease) in Security Deposits	757	1,000
Net Cash Provided (Used) by Operating Activities	<u>\$ 460,393</u>	<u>\$ 612,389</u>

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, 2012

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, 2012

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, 2012

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, 2012, the District held deposits of approximately \$2,005,873 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, 2012

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, 2012, 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, 2012, was as follows:

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
 BRYAN COUNTY, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2012

	Balance at 9-30-11	Additions	Deductions	Balance at 9-30-12
Land	\$ 39,629	\$ 14,500	\$ -	\$ 54,129
Water System	1,423,700	3,800	-	1,427,500
Sewer System	666,238	-	-	666,238
Installations	121,695	-	-	121,695
Treatment Plant	3,299,956	-	-	3,299,956
Upgrades & New Lines	182,271	6,020	-	188,291
Upgrades & New Lines (RD)	1,589,514	-	-	1,589,514
Vehicles	166,147	19,850	(12,603)	173,394
Buildings	111,031	5,100	-	116,131
Furniture & Equipment	222,984	71,540	(36,450)	258,074
Misc. Completed Projects	-	2,736,832	-	2,736,832
Construction in Progress	2,949,357	154,674	(2,736,832)	367,199
Subtotal	10,772,522	3,012,317	(2,785,885)	10,998,953
Less: Accum. Depr.	(3,940,078)	(594,528)	19,029	(4,515,577)
Total Capital Assets (Net of Depreciation)	<u>\$ 6,832,444</u>	<u>\$ 2,417,789</u>	<u>\$ (2,766,856)</u>	<u>\$ 6,483,376</u>

Current year additions to capital assets include the following:

Land -	Hwy 70 Pump Station Land
Water System -	Flow Meter
Upgrades & New Lines -	Line Upgrade - Blue River
Vehicles -	2012 Ford F-250
Buildings -	New A/C Unit for T.P. #1
Furn. & Equip. -	2012 Case Backhoe, Pipe & Cable Locator
Complete Projects -	Reclassified Completed CIP
CIP -	Water System Improvement Projects

Current year deductions to capital assets include the following:

Vehicles	2001 Dodge Pickup
Furn. & Equip. -	40KW Generator
CIP -	Reclassified Completed CIP

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

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 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2012

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.

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, 2012:

	Balance at 9-30-11	Additions	Deductions	Balance at 9-30-12
Note Payable - OWRB	\$ 307,539.26	\$ -	\$ (29,464.68)	\$ 278,074.58
Note Payable - OWRB #2	1,438,708.75	-	(73,722.22)	1,364,986.53
Note Payable - OWRB #3	245,952.71	-	(9,857.84)	236,094.87
Note Payable - USDA RD	1,013,292.66	-	(11,643.29)	1,001,649.37
Note Payable - USDA RD #2	402,278.17	-	(5,269.31)	397,008.86
Total Long-Term Debt	<u>\$ 3,407,771.55</u>	<u>\$ -</u>	<u>\$ (129,957.34)</u>	<u>\$ 3,277,814.21</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, 2012, are as follows:

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
 BRYAN COUNTY, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
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Note Payable - OWRB (ORF-97-007-DW)

Year Ending September 30,	Principal	Interest	Admin Fee	Total
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	35,271	4,348	711	40,329
2018-2020	113,704	6,261	1,023	120,988
Total	<u>\$ 278,075</u>	<u>\$ 38,302</u>	<u>\$ 6,258</u>	<u>\$ 322,635</u>

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

Year Ending September 30,	Principal	Interest	Admin Fee	Total
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	88,280	31,533	5,169	124,982
2018-2022	491,800	114,363	18,748	624,911
2023-2026	461,757	32,796	5,376	499,929
Total	<u>\$ 1,364,987</u>	<u>\$ 330,573</u>	<u>\$ 54,192</u>	<u>\$ 1,749,752</u>

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

Year Ending September 30,	Principal	Interest	Admin Fee	Total
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	11,609	5,230	965	17,804
2018-2022	64,002	21,121	3,897	89,020
2023-2027	75,219	11,651	2,150	89,020
2028-2030	42,416	1,767	326	44,509
Total	<u>\$ 236,095</u>	<u>\$ 63,718</u>	<u>\$ 11,756</u>	<u>\$ 311,568</u>

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
 BRYAN COUNTY, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
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Note Payable - USDA RURAL DEVELOPMENT 91-10

Year Ending September 30,	Principal	Interest	Total
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	13,959	43,041	57,000
2018-2022	80,038	204,962	285,000
2023-2027	100,224	184,776	285,000
2028-2032	125,501	159,499	285,000
2033-2037	157,152	127,848	285,000
2038-2042	196,786	88,214	285,000
2043-2047	246,416	38,584	285,000
2048	31,615	10,522	42,137
Total	<u>\$ 1,001,649</u>	<u>\$ 1,035,487</u>	<u>\$ 2,037,137</u>

Note Payable - USDA RURAL DEVELOPMENT 91-11

Year Ending September 30,	Principal	Interest	Total
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	6,313	13,451	19,764
2018-2022	35,234	63,586	98,820
2023-2027	42,224	56,596	98,820
2028-2032	50,601	48,219	98,820
2033-2037	60,640	38,180	98,820
2038-2042	72,670	26,150	98,820
2043-2047	87,087	11,733	98,820
2048	19,151	374	19,526
Total	<u>\$ 397,009</u>	<u>\$ 314,257</u>	<u>\$ 711,266</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, 2012

NOTE 8 - CONTINGENCIES

Litigation

As of September 30, 2012, 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, 2012

NOTE 12 - SUBSEQUENT EVENTS

The District did not have any subsequent events through March 8, 2013, 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, 2012.

NOTE 13 - PRIOR YEAR ADJUSTMENT

Miscellaneous prior year adjustments were made to depreciate previously completed construction in progress which had not yet been depreciated.

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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

We have audited the financial statements of the Bryan County RWS&SWMD #2, as of September 30, 2012 and have issued our report thereon dated March 8, 2013. 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. 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

Management of the Bryan Co. RWS&SWMD #2 is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Bryan Co. RWS&SWMD #2'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 Co. RWS&SWMD #2's internal control over financial reporting. Accordingly, we 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.

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.

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, 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

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amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors and management of the Bryan County RWS&SWMD #2, others within the organization and federal and state awarding agencies 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

March 8, 2013