

AUDIT REPORT

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

SEPTEMBER 30, 2013



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, 2013

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BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANGEMENT
DISTRICT NO. 2
BRYAN COUNTY, OKLAHOMA
SEPTEMBER 30, 2013

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	2016
Randy Cloyd	Director	2016
Tommy Sleeper	Director	2015

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

Report on the Financial Statements

We have audited the accompanying financial statements of Bryan County RWS&SWMD #2, as of and for the fiscal year ended September 30, 2013, as listed in the table of contents and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of

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the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Bryan County RWS&SWMD #2, as of September 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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.

Supplementary and Other Information

The introductory section listed in the accompanying table of contents is presented for the purpose of additional analysis and

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is 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 or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 5, 2014, on our consideration of the Bryan County RWS&SWMD #2's internal control over financial reporting and 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 accordance with *Government Auditing Standards* in considering Bryan County RWS&SWMD #2's internal control over financial reporting and compliance.

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

February 5, 2014

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
 BRYAN COUNTY, OKLAHOMA
 STATEMENT OF NET POSITION
 SEPTEMBER 30, 2013

	<u>Total</u> <u>2013</u>	<u>Total</u> <u>(Memo Only)</u> <u>2012</u>
<u>ASSETS</u>		
<u>Current Assets:</u>		
Cash in Bank	\$ 2,065,380	\$ 1,929,080
Utility Billing Receivable	108,744	93,538
Other Receivables	-	31,234
Interest Receivable	525	538
Inventories	197,451	201,018
Prepaid Expenses	72,953	90,363
Total Current Assets	2,445,053	2,345,770
Net Capital Assets	6,364,761	6,483,376
<u>Other Assets:</u>		
Cash in Bank - Debt Reserve	76,764	76,764
Cash in Bank - Debt Service Fund	39	30
Total Other Assets	76,803	76,794
TOTAL ASSETS	\$ 8,886,617	\$ 8,905,940
<u>LIABILITIES</u>		
<u>Current Liabilities:</u>		
Accounts Payable	\$ 64,839	\$ 37,466
Pasture Deposits	9,820	8,570
Current Portion of Long-Term Debt	139,405	134,439
Accrued Interest Payable	5,268	5,451
Total Current Liabilities	219,332	185,926
<u>Long-Term Liabilities:</u>		
Notes Payable	3,142,856	3,277,814
Less: Current Portion	(139,405)	(134,439)
Total Non-Current Liabilities	3,003,451	3,143,375
TOTAL LIABILITIES	3,222,783	3,329,301
<u>NET POSITION</u>		
Net investment in capital assets	3,221,905	3,205,562
Restricted for debt service	76,803	76,794
Unrestricted	2,365,126	2,294,283
TOTAL NET POSITION	5,663,834	5,576,639
TOTAL LIABILITIES & NET POSITION	\$ 8,886,617	\$ 8,905,940

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

EXHIBIT B

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

BRYAN COUNTY, OKLAHOMA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2013

	Total September 30, 2013	Total (Memo Only) September 30, 2012
<u>Operating Revenues:</u>		
Water & Sewer Revenues	\$ 1,661,665	\$ 1,616,426
Grant Income	-	-
Installation Revenues	51,169	64,775
Total Operating Revenues	1,712,835	1,681,201
<u>Operating Expenses:</u>		
Wages, Salaries and Payroll Expenses	440,649	443,956
Employee Benefits	60,786	62,342
Property, Casualty Insurance	37,597	38,772
Licenses and Dues	10,458	10,355
Purchased Water	32,963	37,476
Office Expenses	44,965	52,224
Bad Debt Expense	8,680	6,282
Electricity	66,202	78,321
Telephone	7,484	6,680
Professional Fees	4,442	10,660
Operating and Maintenance Expenses	443,712	356,788
Depreciation Expense	409,119	425,008
Total Operating Expenses	1,567,056	1,528,866
Operating Income (Loss)	145,779	152,335
<u>Non-Operating Revenues (Expenses):</u>		
Rental Income	2,400	2,400
Other non-operating Income	-	-
Interest Income	15,005	16,577
Gain (Loss) on Disposal of Assets	25,000	(71)
Interest Expense	(124,738)	(129,662)
Total Non-operating Revenues (Expenses)	(82,334)	(110,756)
Net Income (Loss) Before Contributions	63,446	41,578
Capital Contributions - Memberships	23,800	29,400
Change in Net Position	87,246	70,978
Total Net Position - Beginning	5,576,639	5,671,288
Total Net Position - Prior Year Adjustment	(50)	(165,628)
Total Net Position - Ending	\$ 5,663,834	\$ 5,576,639

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

EXHIBIT C

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, 2013

	9/30/13	Memo Only 9/30/12
<u>Cash Flows from Operating Activities:</u>		
Cash Receipts from Customers	\$ 1,728,863	\$ 1,651,706
Cash Receipts from Operating Grant	-	-
Payments to Suppliers for Goods & Services	(668,939)	(748,113)
Payments to Employees & Laborers	(440,649)	(443,956)
Receipts of Customer Utility Deposits, Net of Refunds	1,250	757
Net Cash Provided (Used) by Operating Activities	620,525	460,393
<u>Cash Flows from Capital & Related Financing Activities:</u>		
Additions to Capital Assets	(290,504)	(275,484)
Proceeds from disposal of Capital Assets	25,000	32,734
Loan Proceeds	-	-
Principal paid on Debt	(134,958)	(129,957)
Interest paid on Debt	(124,921)	(129,736)
Net Cash Provided (Used) by Capital & Related Financing Activities	(525,384)	(502,443)
<u>Cash Flows from Investing Activities:</u>		
Membership Contributions	23,750	29,400
Rental & Other non-operating income	2,400	2,400
Interest Income	15,018	16,586
Net Cash Provided (Used) by Investing Activities	41,168	48,386
Net Increase (Decrease) in Cash and Cash Equivalents	136,310	6,336
Cash & Cash Equivalents, Beginning of Year	2,005,873	1,999,537
Cash & Cash Equivalents, Prior Year Adjustment	-	-
Cash & Cash Equivalents, End of Year	\$ 2,142,183	\$ 2,005,873
<u>Reconciliation of operating income (loss) to net cash provided</u>		
<u>operating activities:</u>		
Operating Income (Loss)	\$ 145,779	\$ 152,335
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	409,119	425,008
(Increase)Decrease in Utility Receivable	16,028	(29,495)
(Increase)Decrease in Inventory	3,566	(24,267)
(Increase)Decrease in Prepaid Expenses	17,409	(21,344)
Increase(Decrease) in Accounts Payable	27,373	(42,600)
Increase(Decrease) in Security Deposits	1,250	757
Net Cash Provided (Used) by Operating Activities	\$ 620,525	\$ 460,393

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, 2013

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.

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SEPTEMBER 30, 2013

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.

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 position and displayed in three components:

1. Net investment in capital assets – 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 and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.

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2. Restricted – Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction 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 amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

It is the District's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

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.

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

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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, 2013, the District held deposits of approximately \$2,142,183 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.

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- 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, 2013, 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, 2013, was as follows:

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	Balance at 9-30-12	Additions	Deductions	Balance at 9-30-13
Land	\$ 54,129	\$ -	\$ -	\$ 54,129
Water System	1,427,500	-	-	1,427,500
Sewer System	666,238	-	-	666,238
Installations	121,695	-	-	121,695
Treatment Plant	3,299,956	6,311	-	3,306,267
Upgrades & New Lines	188,291	-	-	188,291
Upgrades & New Lines (RD)	1,589,514	-	-	1,589,514
Vehicles	173,394	-	-	173,394
Buildings	116,131	-	-	116,131
Furniture & Equipment	258,074	35,280	(47,734)	245,620
Misc. Completed Projects	2,736,832	-	-	2,736,832
Construction in Progress	367,199	255,224	(6,311)	616,112
Subtotal	10,998,953	296,815	(54,045)	11,241,722
Less: Accum. Depr.	(4,515,577)	(409,119)	47,734	(4,876,962)
Total Capital Assets (Net of Depreciation)	<u>\$ 6,483,376</u>	<u>\$ (112,304)</u>	<u>\$ (6,311)</u>	<u>\$ 6,364,761</u>

Current year additions to capital assets include the following:

Treatment Plant - CL2 Analyzer
Furn. & Equip. - Kohler Generator
CIP - Water System Improvement Projects

Current year deductions to capital assets include the following:

Furn. & Equip. - DitchWitch Tractor
CIP - Reclassified CL2 Analyzer

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

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

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.

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Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended September 30, 2013:

	Balance at 9-30-12	Additions	Deductions	Balance at 9-30-13
Note Payable - OWRB	\$ 278,074.58	\$ -	\$ (30,568.76)	\$ 247,505.82
Note Payable - OWRB #2	1,364,986.53	-	(76,544.04)	1,288,442.49
Note Payable - OWRB #3	236,094.87	-	(10,203.57)	225,891.30
Note Payable - USDA RD	1,001,649.37	-	(12,178.19)	989,471.18
Note Payable - USDA RD #	397,008.86	-	(5,463.51)	391,545.35
Total Long-Term Debt	<u>\$ 3,277,814.21</u>	<u>\$ -</u>	<u>\$ (134,958.07)</u>	<u>\$ 3,142,856.14</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, 2013, are as follows:

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

Year Ending September 30,	Principal	Interest	Admin Fee	Total
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	36,555	3,244	530	40,329
2019-2020	77,149	3,017	493	80,658
Total	<u>\$ 247,506</u>	<u>\$ 29,912</u>	<u>\$ 4,888</u>	<u>\$ 282,305</u>

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

Year Ending September 30,	Principal	Interest	Admin Fee	Total
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	91,486	28,779	4,718	124,982
2019-2023	509,661	99,018	16,232	624,911
2024-2026	352,410	19,362	3,174	374,947
Total	<u>\$ 1,288,442</u>	<u>\$ 288,957</u>	<u>\$ 47,370</u>	<u>\$ 1,624,769</u>

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT NO. 2
BRYAN COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

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

Year Ending September 30,	Principal	Interest	Admin Fee	Total
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	11,990	4,908	906	17,804
2019-2023	66,102	19,348	3,570	89,020
2024-2028	77,683	9,571	1,766	89,020
2029-2030	25,862	712	131	26,705
Total	<u>\$ 225,891</u>	<u>\$ 57,301</u>	<u>\$ 10,572</u>	<u>\$ 293,765</u>

Note Payable - USDA RURAL DEVELOPMENT 91-10

Year Ending September 30,	Principal	Interest	Total
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	14,601	42,399	57,000
2019-2023	83,721	201,279	285,000
2024-2028	106,790	178,210	285,000
2029-2033	129,320	155,680	285,000
2034-2038	164,382	120,618	285,000
2039-2043	205,840	79,160	285,000
2044-2048	232,560	37,576	270,137
Total	<u>\$ 989,471</u>	<u>\$ 990,665</u>	<u>\$ 1,980,137</u>

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT NO. 2
BRYAN COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

Note Payable - USDA RURAL DEVELOPMENT 91-11

Year Ending September 30,	Principal	Interest	Total
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	6,546	13,218	19,764
2019-2023	36,533	62,287	98,820
2024-2028	43,781	55,039	98,820
2029-2033	52,466	46,354	98,820
2034-2038	62,875	35,945	98,820
2039-2043	75,348	23,472	98,820
2044-2048	90,057	8,527	98,585
Total	<u>\$ 391,545</u>	<u>\$ 299,959</u>	<u>\$ 691,505</u>

NOTE 7 - FUND EQUITY

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

1. Net investment in capital assets
2. Restricted
3. Unrestricted

The District restricted amounts are described in Note 4 above.

NOTE 8 - CONTINGENCIES

Litigation

As of September 30, 2013, 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.

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NOTES TO FINANCIAL STATEMENTS
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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.

NOTE 12 - SUBSEQUENT EVENTS

The District did not have any subsequent events through February 5, 2014, 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, 2013.

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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, in accordance with the 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, the financial statements of the Bryan County RWS&SWMD #2, as of and for the year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated February 5, 2014. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Bryan County RWS&SWMD #2's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 RWS&SWMD #2's internal control. Accordingly, we do not express an opinion on the effectiveness of Bryan County RWS&SWMD #2's internal control.

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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that

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is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

This report is intended solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

February 5, 2014