

AUDIT REPORT

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

DECEMBER 31, 2014



KERSHAW CPA & ASSOCIATES, PC

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MCINTOSH COUNTY, OKLAHOMA
DECEMBER 31, 2014

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RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
MCINTOSH COUNTY, OKLAHOMA
DECEMBER 31, 2014

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>	<u>TERM EXPIRATION</u>
Mike Minnick	Chairman	2016
Bill Reynolds	Vice-Chairman	2017
Kenneth Pemberton	Secretary/Treasurer	2017
Lawanna Emerson	Vice-Secretary/Treasurer	2016
Mike Williams	Member	2015

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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

Report on the Financial Statements

We have audited the accompanying financial statements of Rural Water, Sewer, and Solid Waste Management District No. 2, McIntosh County, as of and for the fiscal year ended December 31, 2014, 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 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.

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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 Rural Water, Sewer, and Solid Waste Management District No. 2, McIntosh County as of December 31, 2014, 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

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.

Supplementary and Other Information

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 or provide and assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated April 13, 2015, on our consideration of the Rural Water, Sewer, and Solid Waste Management District No. 2, McIntosh County'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

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financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rural Water, Sewer, and Solid Waste Management District No. 2, McIntosh County's internal control over financial reporting and compliance.

Kershaw CPA & Associates, P.C.

Kershaw, CPA & Associates, PC

April 13, 2015

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
MCINTOSH COUNTY, OKLAHOMA
STATEMENT OF NET POSITION
DECEMBER 31, 2014

	2014	Memorandum Only 2013
<u>ASSETS</u>		
<u>CURRENT ASSETS:</u>		
Cash and Cash Equivalents	\$ 140,551	\$ 337,764
Accounts Receivable	52,992	49,896
Inventory	25,754	25,754
Prepaid Insurance	13,059	11,522
TOTAL CURRENT ASSETS	232,355	424,936
<u>NONCURRENT ASSETS:</u>		
<u>RESTRICTED ASSETS:</u>		
Restricted Certificates of Deposit	90,426	183,779
Restricted BOK Trust Accounts	725,648	-
TOTAL RESTRICTED ASSETS	816,074	183,779
<u>CAPITAL ASSETS:</u>		
Land	25,483	25,483
Construction in Progress	33,357	31,072
Other Capital Assets	3,819,831	3,402,414
Less: Accumulated Depreciation	(1,637,901)	(1,528,262)
NET CAPITAL ASSETS	2,240,770	1,930,707
<u>OTHER ASSETS:</u>		
Loan Fees, Net of Accumulated Amortization	112,214	-
TOTAL OTHER ASSETS	112,214	-
TOTAL NON-CURRENT ASSETS	3,169,059	2,114,486
TOTAL ASSETS	3,401,414	2,539,423
<u>LIABILITIES & NET POSITION</u>		
<u>CURRENT LIABILITIES:</u>		
Accounts Payable	1,422	1,821
Payroll Taxes Payable	4,979	4,355
Accrued Interest	9,085	2,286
Current maturity of long-term debt	98,085	44,790
Total Current Liabilities	113,571	53,252
LONG-TERM LIABILITIES	2,629,223	1,805,165
TOTAL LIABILITIES	2,742,794	1,858,417
<u>NET POSITION:</u>		
Net investment in capital assets	(486,538)	80,752
Restricted for debt service	816,074	183,779
Unrestricted	329,083	416,474
TOTAL NET POSITION	\$ 658,620	\$ 681,005

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 POSITION
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2014**

	2014	Memorandum Only 2013
<u>OPERATING REVENUES:</u>		
Water Sales	\$ 584,487	\$ 544,736
New installations	21,000	16,000
Other income	13,449	61,887
TOTAL OPERATING REVENUES	618,936	622,623
<u>OPERATING EXPENSES:</u>		
NFMHO	11,147	11,633
Water storage fees	1,459	4,365
Professional fees & Dues	20,776	12,719
Office Expense	8,523	9,387
Payroll & related expenses	233,779	198,919
Operations: Repairs & Supplies	96,598	97,940
Insurance	22,749	22,541
Utilities	26,664	24,056
Telephone	5,249	5,954
Vehicles	11,266	12,661
Miscellaneous expense	3,372	2,930
Amortization	427	-
Depreciation	109,638	99,666
Total Operating Expenses	551,647	502,769
NET OPERATING INCOME (LOSS)	67,289	119,854
<u>OTHER REVENUES (EXPENSES):</u>		
Interest Income	1,959	5,717
Interest Expense	(91,632)	(88,187)
Total Other Revenues (Expenses)	(89,674)	(82,470)
CHANGE IN NET POSITION	(22,385)	37,384
TOTAL NET POSITION, Beginning of Year	681,005	643,621
TOTAL NET POSITION, Prior Year Adjustment	-	-
TOTAL NET POSITION, End of Year	\$ 658,620	\$ 681,005

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, 2014**

	<u>2014</u>	<u>Memo Only 2013</u>
<u>Cash Flows from Operating Activities:</u>		
Cash Receipts from Customers	\$ 615,840	\$ 616,513
Payments to Suppliers for Goods & Services	(209,115)	(203,181)
Payments to Employees & Laborers	(233,779)	(198,919)
Net Cash Provided (Used) by Operating Activities	<u>172,946</u>	<u>214,413</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>		
Additions to Capital Assets	(419,702)	(42,259)
Loan Fees	(112,641)	-
Proceeds from long-term debt	2,740,085	-
Principal paid on long-term debt	(1,861,697)	(42,711)
Interest paid on Debt	(85,869)	(88,233)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>260,177</u>	<u>(173,203)</u>
<u>Cash Flows from Investing Activities:</u>		
Net activity with restricted accounts	(632,295)	(4,305)
Interest Income	1,959	5,717
Net Cash Provided (Used) by Investing Activities	<u>(630,336)</u>	<u>1,412</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(197,214)	42,622
Cash & Cash Equivalents, Beginning of Year	337,764	295,142
Cash & Cash Equivalents, Prior Year Adjustment	-	-
Cash & Cash Equivalents, End of Year	<u>\$ 140,551</u>	<u>\$ 337,764</u>
<u>Reconciliation of operating income (loss) to net cash provided operating activities:</u>		
Operating Income (Loss)	\$ 67,289	\$ 119,854
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation & Amortization	110,065	99,666
(Increase)Decrease in Accounts Receivable	(3,096)	(6,110)
(Increase)Decrease in Inventory	-	-
(Increase)Decrease in Prepaid Insurance	(1,537)	(79)
Increase(Decrease) in Accounts Payable	(399)	187
Increase(Decrease) in Payroll Taxes Payable	624	895
Net Cash Provided (Used) by Operating Activities	<u>\$ 172,946</u>	<u>\$ 214,413</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, 2014

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 of 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

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

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 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.
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.

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

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.
 - 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.

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

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.

Finance-related Legal & Contractual Provisions

Under the provisions of the OWRB Loan Agreement, 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, 2014, 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, 2014, the District held deposits of approximately \$956,625 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.

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

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 agreement with the Oklahoma Water Resources Board for the District's loan refinancing and project requires that certain monies be put in a trust type account. These funds are restricted to servicing the loan with the OWRB. Monthly payments are made to a debt service account and then invested upon receipt by the loan trustee, BOK Trust Services. Semi-annual payments are then made by the trustee from this account to OWRB. When funds are received by the Trustee they are immediately invested in securities guaranteed by the United States Government. The District also is required to maintain a debt service reserve fund with the trustee bank in the amount of \$172,675.00. As of December 31, 2014, the District also has a project fund account with the trustee bank with a balance of \$551,796.

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
 MCINTOSH COUNTY, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2014

NOTE 5 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended December 31, 2014, was as follows:

	Balance at Dec. 31, 2013	Additions	Deductions	Balance at Dec. 31, 2014
Land	\$ 25,483	\$ -	\$ -	\$ 25,483
Construction in Progress	31,072	2,285	-	33,357
Water Tower	309,652	-	-	309,652
Office building, equipment and fixtures	82,896	62,556	-	145,451
Transportation equipment	50,440	-	-	50,440
Heavy equipment	27,209	-	-	27,209
Water treatment facility	2,504,817	354,861	-	2,859,678
Lines and storage	423,001	-	-	423,001
Storage Building	4,400	-	-	4,400
Subtotal	<u>3,458,969</u>	<u>419,702</u>	<u>-</u>	<u>3,878,671</u>
Less: Accum. Depr.	<u>(1,528,262)</u>	<u>(109,638)</u>	<u>-</u>	<u>(1,637,901)</u>
Total Capital Assets (Net of Depreciation)	<u>\$ 1,930,707</u>	<u>\$ 310,063</u>	<u>\$ -</u>	<u>\$ 2,240,770</u>

The current year capital asset additions included an automatic meter reading system, polyethylene bead replacement, office building repairs and the raw water intake project.

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. This loan was paid off during 2014.

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. These loans were paid in full during 2014 by the OWRB refinancing loan.

On October 1, 2014, the District entered into a Government Obligation Contract with Kansas State Bank of Manhattan for the purchase of an automatic meter reading system from Utility Technology Services. The District made a down payment of \$90,000 and financed \$201,760 thru this contract. The contract includes 48 monthly payments of \$4,533.91 with interest of 3.76% until maturity on September 1, 2018.

In December 2014, the Districted entered into a Promissory Note, Series 2014, FAP-14-0005-L with the Oklahoma Water Resources Board (OWRB). The security

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 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2014

for the Note includes a pledge and assignment of revenues derived by the District from its operation of the water system of the District pursuant to the terms of the Loan Agreement. The Note is further secured by a Mortgage dated December 4, 2014 by the District to the OWRB. The loan is for a principal amount of \$2,265,000.00, plus premium of \$281,109, less original issue discount of \$7,783.75, less OWRB transactions costs. The discount and the premium are both being amortized over the term of the loan. The loan is for a term of 22 years maturing on October 1, 2036 with varying interest rates between 2.400% and 5.400% until maturity.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended December 31, 2014:

	Balance at December 31, 2013	Additions	Deductions	Balance at December 31, 2014
GMAC #1 (Berkadia)	\$ 14,467	\$ -	\$ (14,467)	\$ -
Rural Development #1	1,677,937	-	(1,677,937)	-
Rural Development #2	157,551	-	(157,551)	-
Kansas State Bank	-	201,760	(11,742)	190,018
OWRB FAP-14-0005-L	-	2,265,000	-	2,265,000
Total Long-Term Debt	<u>1,849,955</u>	<u>2,466,760</u>	<u>(1,861,697)</u>	<u>2,455,018</u>
Less: Current Portion	(44,790)	-	-	(98,085)
Less: Discount on OWRB	-	(7,784)	29	(7,754)
Plus: Premium on OWRB	-	281,109	(1,065)	280,044
Net Long-Term Debt	<u>\$ 1,805,165</u>	<u>\$ 2,740,085</u>	<u>\$ (1,862,732)</u>	<u>\$ 2,629,223</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, 2014, are as follows:

Year Ending December 31,	Note Payable - KSB		Total
	Principal	Interest	
2015	\$ 48,085	\$ 6,322	\$ 54,407
2016	49,925	4,482	54,407
2017	51,835	2,572	54,407
2018	40,173	632	40,805
2019	-	-	-
2020-2024	-	-	-
Total	<u>\$ 190,018</u>	<u>\$ 14,008</u>	<u>\$ 204,026</u>

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
 MCINTOSH COUNTY, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2014

Year Ending December 31,	Note Payable - OWRB		Total
	Principal	Interest	
2015	\$ 50,000	\$ 86,201	\$ 136,201
2016	65,000	103,285	168,285
2017	70,000	101,725	171,725
2018	70,000	99,345	169,345
2019	75,000	96,965	171,965
2020-2024	410,000	441,935	851,935
2025-2029	525,000	333,375	858,375
2030-2034	675,000	176,505	851,505
2035-2036	325,000	19,110	344,110
Total	<u>\$ 2,265,000</u>	<u>\$ 1,458,445</u>	<u>\$ 3,723,445</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 restrictions on net position are described in Note 4 above.

NOTE 8 - CONTINGENCIES

Litigation

According to management there were no known contingent liabilities at December 31, 2014, which would have a material effect on the financial statements.

Federally Assisted Programs

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

NOTE 9 - INSURANCE COVERAGE

Property Coverage

Insurer ORWA Assurance Group

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
 MCINTOSH COUNTY, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2014

Expiration	June 1, 2015
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, 2015

NOTE 10 - DEBT ISSUANCE COSTS

The District incurred the following loan fees with the OWRB refinancing loan.

Bound Counsel & Data Collection	\$ 52,127.50
Local Counsel	17,500.00
Financial Advisor	25,150.00
OWRB Transaction Costs	<u>17,863.22</u>
Total Loan Fees	\$112,640.72

The fees are being amortized over the term of the loan which is 22 years. The amortization expense for 2014 was 426.67.

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 13, 2015, 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, 2014.

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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

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 Rural Water, Sewer, and Solid Waste Management District No. 2, McIntosh County, as of and for the year ended December 31, 2014, and the related notes to the financial statements, and have issued our report thereon dated April 13, 2015. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Rural Water, Sewer, and Solid Waste Management District No. 2, McIntosh County'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 Rural Water, Sewer, and Solid Waste Management District No. 2, McIntosh County's internal control. Accordingly, we do not express an opinion on the effectiveness of Rural Water, Sewer, and Solid Waste Management District No. 2, McIntosh County'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. 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 Rural Water, Sewer, and Solid Waste Management District No. 2, McIntosh County'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

April 13, 2015