

AUDIT REPORT

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

SEPTEMBER 30, 2015



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, 2015

TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTORY SECTION:	
BOARD OF DIRECTORS	3
FINANCIAL SECTION:	
INDEPENDENT AUDITOR'S REPORT	4-6
BASIC FINANCIAL STATEMENTS:	
EXHIBIT A STATEMENT OF NET POSITION	7
EXHIBIT B STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION	8
EXHIBIT C STATEMENT OF CASH FLOWS	9
NOTES TO THE FINANCIAL STATEMENTS	10-21
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	22-23

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANGEMENT
DISTRICT NO. 2
BRYAN COUNTY, OKLAHOMA
SEPTEMBER 30, 2015

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	2017
Terry Bourne	Assist Sec-Treas	2017
Randy Cloyd	Director	2016
Mark Smith	Director	2016

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, 2015, 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, 2015, 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

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

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Supplementary and Other Information

The introductory section listed in the accompanying table of contents is presented for the purpose of additional analysis and 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 March 11, 2016, 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

March 11, 2016

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
 BRYAN COUNTY, OKLAHOMA
 STATEMENT OF NET POSITION
 SEPTEMBER 30, 2015

	Total 2015	Total (Memo Only) 2014
<u>ASSETS</u>		
<u>Current Assets:</u>		
Cash in Bank	\$ 1,759,766	\$ 1,663,544
Utility Billing Receivable	85,341	58,915
Other Receivables	-	-
Interest Receivable	18	18
Inventories	289,005	192,693
Prepaid Expenses	38,041	57,980
Total Current Assets	<u>2,172,172</u>	<u>1,973,150</u>
Net Capital Assets	6,736,840	6,945,775
<u>Other Assets:</u>		
Cash in Bank - Debt Reserve	76,764	76,764
Cash in Bank - Debt Service Fund	56	47
Total Other Assets	<u>76,820</u>	<u>76,811</u>
TOTAL ASSETS	<u>\$ 8,985,832</u>	<u>\$ 8,995,736</u>
<u>LIABILITIES</u>		
<u>Current Liabilities:</u>		
Accounts Payable	\$ 48,348	\$ 36,417
Pasture Deposits	11,320	10,320
Current Portion of Long-Term Debt	190,047	188,310
Accrued Interest Payable	3,288	3,261
Total Current Liabilities	<u>253,003</u>	<u>238,308</u>
<u>Long-Term Liabilities:</u>		
Notes Payable	2,787,692	2,976,007
Less: Current Portion	(190,047)	(188,310)
Total Non-Current Liabilities	<u>2,597,645</u>	<u>2,787,697</u>
TOTAL LIABILITIES	<u>2,850,648</u>	<u>3,026,005</u>
<u>NET POSITION</u>		
Net investment in capital assets	3,949,148	3,969,768
Restricted for debt service	76,820	76,811
Unrestricted	2,109,216	1,923,152
TOTAL NET POSITION	<u>6,135,184</u>	<u>5,969,731</u>
TOTAL LIABILITIES & NET POSITION	<u>\$ 8,985,832</u>	<u>\$ 8,995,736</u>

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, 2015

	Total September 30, 2015	Total (Memo Only) September 30, 2014
<u>Operating Revenues:</u>		
Water & Sewer Revenues	\$ 1,602,842	\$ 1,605,317
Installation Revenues	39,212	69,825
Total Operating Revenues	1,642,055	1,675,142
<u>Operating Expenses:</u>		
Wages, Salaries and Payroll Expenses	437,688	424,752
Employee Benefits	71,698	59,011
Property, Casualty Insurance	42,747	43,927
Licenses and Dues	15,488	10,985
Purchased Water	27,808	33,140
Office Expenses	49,776	55,904
Bad Debt Expense	6,247	14,991
Electricity	79,862	68,628
Telephone	5,354	6,787
Professional Fees	(7,675)	6,153
Operating and Maintenance Expenses	318,760	449,470
Depreciation Expense	386,371	398,032
Total Operating Expenses	1,434,122	1,571,779
Operating Income (Loss)	207,933	103,363
<u>Non-Operating Revenues (Expenses):</u>		
Rental Income	2,400	2,400
Other non-operating Income	-	-
Interest Income	2,616	10,304
Gain (Loss) on Disposal of Assets	1,806	-
Interest Expense	(71,307)	(90,929)
Total Non-operating Revenues (Expenses)	(64,485)	(78,224)
Net Income (Loss) Before Contributions	143,448	25,139
Capital Contributions - Grant Income	-	249,999
Capital Contributions - Memberships	22,050	30,800
Change in Net Position	165,498	305,938
Total Net Position - Beginning	5,969,731	5,663,834
Total Net Position - Prior Year Adjustment	(46)	(40)
Total Net Position - Ending	\$ 6,135,184	\$ 5,969,731

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, 2015

	9/30/15	Memo Only 9/30/14
<u>Cash Flows from Operating Activities:</u>		
Cash Receipts from Customers	\$ 1,615,628	\$ 1,724,971
Payments to Suppliers for Goods & Services	(674,552)	(757,686)
Payments to Employees & Laborers	(437,688)	(424,752)
Receipts of Customer Utility Deposits, Net of Refunds	1,000	500
Net Cash Provided (Used) by Operating Activities	504,389	543,033
<u>Cash Flows from Capital & Related Financing Activities:</u>		
Additions to Capital Assets	(177,436)	(979,046)
Proceeds from disposal of Capital Assets	1,806	-
Capital Grant Income	-	249,999
Loan Proceeds	-	-
Principal paid on Debt	(188,315)	(166,849)
Interest paid on Debt	(71,280)	(92,935)
Net Cash Provided (Used) by Capital & Related Financing Activities	(435,225)	(988,831)
<u>Cash Flows from Investing Activities:</u>		
Membership Contributions	22,050	30,760
Rental & Other non-operating income	2,400	2,400
Interest Income	2,616	10,811
Net Cash Provided (Used) by Investing Activities	27,066	43,971
Net Increase (Decrease) in Cash and Cash Equivalents	96,230	(401,827)
Cash & Cash Equivalents, Beginning of Year	1,740,356	2,142,183
Cash & Cash Equivalents, Prior Year Adjustment	-	-
Cash & Cash Equivalents, End of Year	\$ 1,836,586	\$ 1,740,356
<u>Reconciliation of operating income (loss) to net cash provided</u>		
<u>operating activities:</u>		
Operating Income (Loss)	\$ 207,933	\$ 103,363
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	386,371	398,032
(Increase)Decrease in Utility Receivable	(26,426)	49,828
(Increase)Decrease in Inventory	(96,358)	4,758
(Increase)Decrease in Prepaid Expenses	19,939	14,973
Increase(Decrease) in Accounts Payable	11,931	(28,422)
Increase(Decrease) in Security Deposits	1,000	500
Net Cash Provided (Used) by Operating Activities	\$ 504,389	\$ 543,033

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, 2015

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.

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT NO. 2
BRYAN COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

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.

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT NO. 2
BRYAN COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

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

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT NO. 2
BRYAN COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

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, 2015, the District held deposits of approximately \$1,836,586 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.

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT NO. 2
BRYAN COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

- 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, 2015, 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, 2015, was as follows:

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT NO. 2
BRYAN COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

	Balance at 9-30-14	Additions	Deductions	Balance at 9-30-15
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	3,306,267	-	-	3,306,267
Upgrades & New Lines	188,291	-	-	188,291
Upgrades & New Lines (RD)	1,589,514	-	-	1,589,514
Vehicles	173,394	22,000	(18,782)	176,612
Buildings	116,131	-	-	116,131
Furniture & Equipment	245,620	4,349	-	249,969
Misc. Completed Projects	3,350,442	-	-	3,350,442
Construction in Progress	981,548	151,087	-	1,132,635
Subtotal	12,220,769	177,436	(18,782)	12,379,423
Less: Accum. Depr.	(5,274,994)	(386,371)	18,782	(5,642,583)
Total Capital Assets (Net of Depreciation)	<u>\$ 6,945,775</u>	<u>\$ (208,935)</u>	<u>\$ -</u>	<u>\$ 6,736,840</u>

Current year additions to capital assets include the following:

Vehicles - 2015 Ford F-350
Equipment - Electrofusion Processor
CIP - Water System Improvement Projects

Current year deductions to capital assets include the following:

Vehicles - 2004 GMC ¾ Ton

NOTE 6 - LONG-TERM DEBT

Note Payable - OWRB ORF-97-0007-DW

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.

Effective October 1, 2013, OWRB has refinanced its outstanding Revolving Fund Revenue Bonds, Series 2003. The District was given three savings options related to this refinancing and chose Option 1,

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT NO. 2
BRYAN COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

which was to keep the entity's debt service payments the same and pay off the entity's loan sooner. The new final maturity to be subject to the amount of savings realized. The new payments for this loan will be applied to principal and administration fees only with zero interest. The new maturity date for this loan is March 15, 2020.

Note Payable - OWRB ORF-04-0008-DW

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 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.

Effective April 1, 2014, OWRB has refinanced its outstanding Revolving Fund Revenue Bonds, Series 2004. The District was given three savings options related to this refinancing and chose Option 1, which was to keep the entity's debt service payments the same and pay off the entity's loan sooner. The new final maturity to be subject to the amount of savings realized. The new payments for this loan will be applied to principal and administration fees only with zero interest. The new maturity date for this loan is September 15, 2024.

Note Payable - OWRB ORF-09-0020-DW

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.

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT NO. 2
BRYAN COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

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, 2015:

	Balance at 9-30-14	Additions	Deductions	Balance at 9-30-15
Note Payable - OWRB	\$ 208,390.96	\$ -	\$ (39,276.91)	\$ 169,114.05
Note Payable - OWRB #2	1,189,648.90	-	(118,957.25)	1,070,691.65
Note Payable - OWRB #3	215,352.95	-	(10,884.13)	204,468.82
Note Payable - USDA RD	976,733.54	-	(13,322.80)	963,410.74
Note Payable - USDA RD #2	385,880.45	-	(5,873.70)	380,006.75
Total Long-Term Debt	<u>\$ 2,976,006.80</u>	<u>\$ -</u>	<u>\$ (188,314.79)</u>	<u>\$ 2,787,692.01</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, 2015, are as follows:

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT NO. 2
BRYAN COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

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

Year Ending September 30,	Principal	Interest	Admin Fee	Total
2016	\$ 39,442	\$ -	\$ 796	\$ 40,239
2017	39,619	-	599	40,218
2018	39,799	-	401	40,200
2019	39,986	-	201	40,188
2020	10,267	-	26	10,293
2021	-	-	-	-
Total	<u>\$ 169,114</u>	<u>\$ -</u>	<u>\$ 2,023</u>	<u>\$ 171,137</u>

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

Year Ending September 30,	Principal	Interest	Admin Fee	Total
2016	\$ 119,362	\$ -	\$ 5,204	\$ 124,566
2017	119,813	-	4,607	124,420
2018	120,264	-	4,007	124,272
2019	120,732	-	3,405	124,138
2020	121,207	-	2,801	124,008
2021-2024	469,314	-	5,112	474,426
Total	<u>\$ 1,070,692</u>	<u>\$ -</u>	<u>\$ 25,137</u>	<u>\$ 1,095,829</u>

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

Year Ending September 30,	Principal	Interest	Admin Fee	Total
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	12,384	4,576	844	17,804
2020	12,776	4,245	783	17,804
2021-2025	70,515	15,622	2,882	89,020
2026-2030	73,971	5,189	957	80,117
Total	<u>\$ 204,469</u>	<u>\$ 45,325</u>	<u>\$ 8,363</u>	<u>\$ 258,157</u>

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT NO. 2
BRYAN COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

Note Payable - USDA RURAL DEVELOPMENT 91-10

Year Ending September 30,	Principal	Interest	Total
2016	\$ 13,931	\$ 43,069	\$ 57,000
2017	14,571	42,429	57,000
2018	15,241	41,759	57,000
2019	15,941	41,059	57,000
2020	16,673	40,327	57,000
2021-2025	95,584	189,416	285,000
2026-2030	119,652	165,348	285,000
2031-2035	149,780	135,220	285,000
2036-2040	187,494	97,506	285,000
2041-2045	234,704	50,296	285,000
2046-2047	99,839	4,353	104,192
Total	<u>\$ 963,411</u>	<u>\$ 850,781</u>	<u>\$ 1,814,192</u>

Note Payable - USDA RURAL DEVELOPMENT 91-11

Year Ending September 30,	Principal	Interest	Total
2016	\$ 6,089	\$ 13,675	\$ 19,764
2017	6,313	13,451	19,764
2018	6,546	13,218	19,764
2019	6,787	12,977	19,764
2020	7,038	12,726	19,764
2021-2025	39,276	59,544	98,820
2026-2030	47,067	51,753	98,820
2031-2035	56,405	42,415	98,820
2036-2040	67,595	31,225	98,820
2041-2045	81,005	17,815	98,820
2046-2048	55,885	3,172	59,057
Total	<u>\$ 380,007</u>	<u>\$ 271,970</u>	<u>\$ 651,977</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.

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT NO. 2
BRYAN COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 8 - CONTINGENCIES

Litigation

As of September 30, 2015, 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.

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT NO. 2
BRYAN COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

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 March 11, 2016, 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, 2015.

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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 September 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated March 11, 2016. Management has omitted the MD&A required by accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, 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

The purpose of this report is 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

March 11, 2016