

AUDIT REPORT

BRYAN COUNTY RURAL WATER, SEWER AND
SOLID WASTE MANAGEMENT DISTRICT #6
BRYAN COUNTY, OKLAHOMA

DECEMBER 31, 2015



KERSHAW CPA & ASSOCIATES, PC

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BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT #6
BRYAN COUNTY, OKLAHOMA
DECEMBER 31, 2015

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BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT #6
BRYAN COUNTY, OKLAHOMA
DECEMBER 31, 2015

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>
BILL MILLER	CHAIRMAN
DAN HULL	VICE CHAIRMAN
GERALD NICKLES	SECRETARY
TERRY REECE	VICE SECRETARY
PATRICK MILLER	DIRECTOR

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Bryan County Rural Water, Sewer and Solid Waste Management District #6
Caddo, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Bryan County Rural Water, Sewer and Solid Waste Management District #6, as of and for the fiscal year ended December 31, 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 the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the

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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 Rural Water, Sewer and Solid Waste Management District #6, as of December 31, 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.

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

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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 1, 2017, on our consideration of the Bryan County Rural Water, Sewer and Solid Waste Management District #6'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 Rural Water, Sewer and Solid Waste Management District #6's internal control over financial reporting and compliance.

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

February 1, 2017

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT DISTRICT #6
BRYAN COUNTY, OKLAHOMA
STATEMENT OF NET POSITION
DECEMBER 31, 2015

	2015	Memo Only 2014
<u>ASSETS</u>		
<u>CURRENT ASSETS:</u>		
Cash and Cash Equivalents	\$ 223,948	\$ 253,023
Accounts Receivable	25,854	24,928
Inventory	10,000	10,000
Prepaid Insurance	3,163	3,425
Total Current Assets	262,965	291,376
<u>RESTRICTED ASSETS:</u>		
Restricted Savings Accounts	82,848	80,172
Restricted Trust Fund Accounts	100,795	101,845
Total Restricted Assets	183,643	182,017
<u>CAPITAL ASSETS:</u>		
Land	25,780	13,447
Machinery & Equipment	60,295	60,295
Water Distribution System	2,300,888	2,264,552
Building	71,914	71,914
Construction in Progress	-	-
Less: Accumulated Depreciation	(991,999)	(916,014)
Net Capital Assets	1,466,878	1,494,194
<u>OTHER ASSETS:</u>		
Bond Issuance Costs	56,396	56,396
Less: Accumulated Amortization	(23,968)	(21,149)
Total Other Assets	32,428	35,247
TOTAL ASSETS	\$ 1,945,913	\$ 2,002,835
<u>LIABILITIES & NET POSITION</u>		
<u>CURRENT LIABILITIES:</u>		
Accounts Payable	\$ 2,608	\$ 2,376
Payroll Taxes Payable	3,952	3,416
Accrued Interest Payable	12,227	12,480
Current Maturities of Long-Term Debt	20,000	20,000
Total Current Liabilities	38,787	38,272
<u>LONG-TERM LIABILITIES:</u>		
Revenue Bonds Payable	900,000	920,000
Less: Unamortized Discount on Bonds Payable	(12,608)	(13,704)
Less: Current Maturities of Long-Term Debt	(20,000)	(20,000)
Total Long-Term Liabilities	867,392	886,296
TOTAL LIABILITIES	906,179	924,568
<u>NET POSITION:</u>		
Net investment in capital assets	566,878	574,194
Restricted for debt service	183,643	182,017
Unrestricted	289,213	322,056
TOTAL NET POSITION	1,039,734	1,078,268
TOTAL LIABILITIES AND NET POSITION	\$ 1,945,913	\$ 2,002,835

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

EXHIBIT B

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT DISTRICT #6
 BRYAN COUNTY, OKLAHOMA
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2015

	2015	Memo Only 2014
<u>OPERATING REVENUES:</u>		
Metered Water Sales, Less Bad Debts	\$ 307,939	\$ 303,778
Reimbursement for supplies provided	21,740	27,264
Other Income	360	650
TOTAL OPERATING REVENUES	330,039	331,692
<u>OPERATING EXPENSES:</u>		
Water Purchases	1,454	1,269
Salaries and wages	94,607	84,920
Contract Labor	6,500	27,198
Fuel and oil	10,275	13,204
Insurance	30,964	30,220
Professional Fees	3,100	3,013
Repairs and maintenance	9,374	6,625
Rent	-	-
Telephone	3,682	3,352
Utilities	10,475	9,415
Water Samples	325	300
Dues and memberships	4,283	4,642
Supplies	64,012	37,954
Office expense	4,311	5,096
Postage	2,627	2,495
Printing	126	112
Miscellaneous	805	69
Payroll Taxes	8,200	8,270
Permits and Fees	-	-
Trustee Fees	2,000	1,000
Depreciation	75,985	75,586
Amortization	2,820	2,820
TOTAL OPERATING EXPENSES	335,925	317,557
OPERATING INCOME (LOSS)	(5,886)	14,135
<u>OTHER REVENUES (EXPENSES):</u>		
Interest and Dividend Income	201	203
Interest Expense, inclusive of amortization of bond discount of \$1,096	(49,721)	(50,701)
Membership Fees	16,873	22,420
CHANGE IN NET POSITION	(38,534)	(13,943)
TOTAL NET POSITION, Beginning of Year	1,078,268	1,092,211
TOTAL NET POSITION, Prior Year Adjustment	-	-
TOTAL NET POSITION, End of Year	\$ 1,039,734	\$ 1,078,268

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

EXHIBIT C

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT DISTRICT #6
 BRYAN COUNTY, OKLAHOMA
 STATEMENT OF CASH FLOWS
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015

	<u>2015</u>	<u>Memo Only 2014</u>
<u>Cash Flows from Operating Activities:</u>		
Receipts from Customers	\$ 329,113	\$ 330,420
Payments to Suppliers for Goods & Services	(161,483)	(155,565)
Payments to Employees & Laborers	<u>(94,607)</u>	<u>(84,920)</u>
Net Cash Provided (Used) by Operating Activities	<u>73,023</u>	<u>89,936</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>		
Additions to Capital Assets	(48,669)	(21,224)
Proceeds from long-term debt	-	-
Bond issuance costs and discount	-	-
Principal paid on long-term debt	(20,000)	(20,000)
Interest paid on Debt	<u>(48,877)</u>	<u>(49,838)</u>
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(117,546)</u>	<u>(91,061)</u>
<u>Cash Flows from Investing Activities:</u>		
Membership Fees	16,873	22,420
(Increase)Decrease in Restricted Assets	(1,626)	(3,502)
Interest and Dividend Income	<u>201</u>	<u>203</u>
Net Cash Provided (Used) by Investing Activities	<u>15,448</u>	<u>19,122</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(29,075)	17,997
Cash & Cash Equivalents, Beginning of Year	253,023	235,026
Cash & Cash Equivalents, Prior Year Adjustment	<u>-</u>	<u>-</u>
Cash & Cash Equivalents, End of Year	<u>\$ 223,948</u>	<u>\$ 253,023</u>
<u>Reconciliation of operating income (loss) to net cash provided operating activities:</u>		
Operating Income (Loss)	\$ (5,886)	\$ 14,135
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	75,985	75,586
Amortization	2,820	2,820
(Increase)Decrease in Accounts Receivable	(926)	(1,272)
(Increase)Decrease in Inventory	-	-
(Increase)Decrease in Prepaid Insurance	262	(621)
Increase(Decrease) in Accounts Payable	232	(30)
Increase(Decrease) in Payroll Taxes Payable	<u>535</u>	<u>(682)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 73,023</u>	<u>\$ 89,936</u>

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

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT #6
BRYAN COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1 -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

Rural Water, Sewer and Solid Waste Management District #6, Bryan County, Oklahoma (the District) was organized January 28, 1994 for the purpose of supplying water to residents in rural Bryan County, Oklahoma.

FUND ACCOUNTING

The District is accounted for within the framework of enterprise fund accounting. Enterprise funds are used to account for operations that are operated in a manner similar to private business enterprises wherein the intent of the District's Board of Directors is to recover the cost of providing goods and services through user charges.

BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. The District utilizes the accrual basis of accounting, which is in accordance with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses when incurred.

ASSETS, LIABILITIES & EQUITY

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents including restricted cash.

Capital Assets

Asset acquisitions are recorded and depreciated at historical cost. Depreciation on capital assets is calculated using the straight-line method of depreciation with useful lives as follows:

	<u>Life (in years)</u>
Building and improvements	10-40
Machinery and Equipment	5-7
Water Distribution System	20-40

The dollar threshold for capitalization has been set at \$500.00.

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT #6
BRYAN COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

Accounts Receivable

Uncollectible accounts receivable are charged directly against earnings when they are determined to be uncollectible. Use of this method does not result in a material difference from the valuation method required by generally accepted accounting principles.

Inventory

Inventory consists of supplies and parts on hand and are valued at cost using the first-in, first-out method.

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.

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT #6
BRYAN COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

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 income taxes under Section 501(c)(12) of the Internal Revenue Code and a similar state statute.

Compensated Absences

Employees of the District do not accrue vacation or sick leave since it is the District's policy to not do so. Therefore, no provision has been made for such.

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT #6
BRYAN COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

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 Only

The "Memorandum Only" captions above the total columns mean that totals are presented for overview information purposes only.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

As a local government unit, the District is subject to various federal, state, and local laws and contractual regulations. In accordance with Government Auditing Standards, the auditor has issued a report on his consideration of the District's internal control over financial reporting and tested its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be read in conjunction with this report in considering the results of the audit.

Finance-related Legal & Contractual Provisions

The terms of the loan agreements require Reserve Accounts as shown in Note 4. All of the requirements have been met.

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 EQUIVALENTS

Custodial Credit Risk

At December 31, 2015, the District held deposits of approximately \$407,591 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name.

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT #6
BRYAN COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

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

Restricted Savings Accounts

The Restricted Savings Accounts are the Debt Reserve account and the Reserve Savings Account.

Cash in Trust Fund

The Cash in Trust Fund account is an account that is an offset to the Revenue Bonds Payable (See Note 6). This fund is made up of three individual accounts all held by the Trustee Bank (UMB Corporate Trust Services). The three accounts are the bond fund, the debt service reserve fund, and the project account.

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT #6
BRYAN COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 5 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended December 31, 2015, was as follows:

	Balance at Dec. 31, 2014	Additions	Deductions	Balance at Dec. 31, 2015
Land	\$ 13,447	\$ 12,333	\$ -	\$ 25,780
Machinery & Equipment	60,295	-	-	60,295
Water Distribution System	2,264,552	36,336	-	2,300,888
Building	71,914	-	-	71,914
Construction-in-progress	-	-	-	-
Subtotal	2,410,208	48,669	-	2,458,877
Less: Accum. Depr.	(916,014)	(75,985)	-	(991,999)
Total Capital Assets (Net of Depreciation)	<u>\$ 1,494,194</u>	<u>\$ (27,317)</u>	<u>\$ -</u>	<u>\$ 1,466,878</u>

NOTE 6 - LONG-TERM DEBT

Revenue Bonds Payable

On April 27, 2007, the District issued \$1,035,000.00 Revenue Bonds Series 2007, to provide funds to refund certain outstanding indebtedness of the District and to provide improvements to the water system as approved by the District. The District sold the Revenue Bonds at a discount of \$21,926.79, said Bonds to bear interest at varying rates ranging from 4.60% to 5.50%. Final maturity of the bonds is April 1, 2037.

The Series 2007 Revenue Bonds are secured by a pledge of real estate and other assets, revenues of the District and amounts held by the bond trustee bank. Under the terms of the Bond Indenture Agreement, the District is required to maintain certain deposits with a trustee bank. Such deposits are included as restricted assets in the Statement of Net Position.

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT #6
BRYAN COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended December 31, 2015:

	Balance at December 31, 2014	Additions	Deductions	Balance at December 31, 2015
Revenue Bonds Payable	\$ 920,000	\$ -	\$ (20,000)	\$ 900,000
Total Long-Term Debt	\$ 920,000	\$ -	\$ (20,000)	\$ 900,000
Less: Unamortized Discount on Bonds Payable	\$ (13,704)	\$ -	\$ 1,096	\$ (12,608)
Less: Current Maturities of Long-Term Debt	\$ (20,000)			\$ (20,000)
Net Long-Term Debt	<u>\$ 886,296</u>			<u>\$ 867,392</u>

The annual debt service requirements to maturity, including principal and interest, for long-term debt, as of December 31, 2015, are as follows:

Revenue Bonds Payable

Year Ended December 31,	Principal	Interest	Annual Payment
2016	\$ 20,000	\$ 47,878	\$ 67,878
2017	20,000	46,878	66,878
2018	25,000	45,753	70,753
2019	25,000	44,503	69,503
2020	25,000	43,253	68,253
2021-2025	150,000	194,660	344,660
2026-2030	190,000	149,203	339,203
2031-2035	250,000	90,330	340,330
2036-2037	195,000	12,904	207,904
Total	<u>\$ 900,000</u>	<u>\$ 675,359</u>	<u>\$ 1,575,359</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 restricted amounts are described in Note 4 above.

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT #6
BRYAN COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 8 - CONTINGENCIES

Litigation

According to management there were no known contingent liabilities at December 31, 2015, 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

The District has the following insurance coverage:

- Property Coverage (Buildings and Personal Property)
- General Liability
- Auto Liability and Physical
- Hired Non-Owner
- Inland/Marine
- Directors and Officers
- Worker's Compensation

NOTE 10 - CAPITALIZED INTEREST

The District follows the policy of capitalizing interest as a component of the cost of property, plant and equipment constructed for its own use. In 2007, total interest incurred on long-term debt was \$47,804 of which \$16,720 was capitalized and \$31,084 was charged to operations.

NOTE 11 - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the District to credit risk consist primarily of accounts receivable. The receivables are from individuals located within the same geographic region.

NOTE 12 - SUBSEQUENT EVENTS

The District did not have any subsequent events through February 1, 2017, 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, 2015.

KERSHAW CPA & ASSOCIATES, PC

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INDEPENDENT AUDITOR'S 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 Rural Water, Sewer and Solid Waste Management District #6
Caddo, 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 Rural Water, Sewer and Solid Waste Management District #6, as of and for the year ended December 31, 2015, and the related notes to the financial statements, and have issued our report thereon dated February 1, 2017. 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 Rural Water, Sewer and Solid Waste Management District #6'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 Rural Water, Sewer and Solid Waste Management District #6's internal control. Accordingly, we do not express an opinion on the effectiveness of Bryan County Rural Water, Sewer and Solid Waste Management District #6'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

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and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that 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. We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings that we consider to be significant deficiencies. Those deficiencies are listed as Item 15-01.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Bryan County Rural Water, Sewer and Solid Waste Management District #6'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 one instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is included in the Schedule Findings as Item 15-02. The results of our tests disclosed no instances of other matters that are required to be reported under *Government Auditing Standards*.

Bryan County RWS and SWMD #6's Response to Findings

Bryan County Rural Water, Sewer and Solid Waste Management District #6's response to the findings identified in our audit is described in the accompanying Schedule of Findings. Bryan County Rural Water, Sewer and Solid Waste Management District #6's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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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

February 1, 2017

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT #6
BRYAN COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS
DECEMBER 31, 2015

INTERNAL CONTROL FINDINGS:

Item 15-01: Segregation of Duties

Criteria: A good system of internal control requires a proper segregation of duties to prevent one person from being in a position to authorize, execute, and record the same transaction.

Condition: Due to the size of the District's major areas of internal control, that would be prevalent in a larger District, such segregation of duties is not available for this size operation. Duties are concentrated in the hands of a few individuals, who are responsible for all phases of the accounting functions. Because of this lack of division of responsibility, internal control is determined to be weak, and in some instances, non-existent.

Cause/Effect: Due to the limited number of personnel, a breach of internal controls could occur and not be detected in the normal course of operations.

Recommendation: The Board should continue to be actively involved in the operations of the organization.

Response: The Board continues to be actively involved in the operations of the organization.

COMPLIANCE FINDINGS:

Item 15-02: Payroll Reporting and Compliance

Criteria: The District is required to withhold one half social security tax and applicable federal and state income tax from gross wages and timely remit such funds to the United States Treasury, the Oklahoma Tax Commission and the OESC. Reporting payroll activity on IRS forms 941, Oklahoma forms OW-8, OES-3 is required at various periods during the year, monthly, quarterly or annually.

Condition: Payroll tax returns for previous years were not filed in a timely manner.

Cause/Effect: The late filings have left the District subject to additional penalty and interest charges by the taxing agencies.

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT #6
BRYAN COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS
DECEMBER 31, 2015

Recommendation: The District needs to get in compliance with the federal and state payroll tax requirements.

Response: During the current year, the District filed the past year returns and paid outstanding balances.