

AUDIT REPORT

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

SEPTEMBER 30, 2016



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, 2016

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BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANGEMENT
DISTRICT NO. 2
BRYAN COUNTY, OKLAHOMA
SEPTEMBER 30, 2016

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>	<u>TERM EXPIRATION</u>
Jerry Lewis	Chairman	2018
Bob Butlan	Vice Chairman	2018
John Hoefer	Secretary	2018
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, 2016, 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

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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 qualified audit opinion.

Basis for Qualified Opinion

Sales and receivable amounts generated from the District's customer billing software do not reconcile with sales and receivable data generated from the District's QuickBooks accounting software. Accumulated adjustments to various customer accounts over time do not appear to be consistently and accurately accounted for between the two software programs.

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraphs, 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, 2016, 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 February 7, 2017, on our consideration of the Bryan County RWS&SWMD #2's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Bryan County RWS&SWMD #2's internal control over financial reporting and compliance.

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

February 7, 2017

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
 BRYAN COUNTY, OKLAHOMA
 STATEMENT OF NET POSITION
 SEPTEMBER 30, 2016

	<u>Total</u> <u>2016</u>	<u>Total</u> <u>(Memo Only)</u> <u>2015</u>
<u>ASSETS</u>		
<u>Current Assets:</u>		
Cash in Bank	\$ 1,991,666	\$ 1,759,766
Utility Billing Receivable	99,571	85,341
Other Receivables	-	-
Interest Receivable	20	18
Inventories	292,701	289,005
Prepaid Expenses	27,683	38,041
Total Current Assets	2,411,642	2,172,172
Net Capital Assets	6,457,834	6,736,840
<u>Other Assets:</u>		
Cash in Bank - Debt Reserve	76,764	76,764
Cash in Bank - Debt Service Fund	64	56
Total Other Assets	76,828	76,820
TOTAL ASSETS	\$ 8,946,304	\$ 8,985,832
<u>LIABILITIES</u>		
<u>Current Liabilities:</u>		
Accounts Payable	\$ 72,804	\$ 48,348
Pasture Deposits	11,320	11,320
Current Portion of Long-Term Debt	191,925	190,047
Accrued Interest Payable	3,055	3,288
Total Current Liabilities	279,104	253,003
<u>Long-Term Liabilities:</u>		
Notes Payable	2,597,640	2,787,692
Less: Current Portion	(191,925)	(190,047)
Total Non-Current Liabilities	2,405,715	2,597,645
TOTAL LIABILITIES	2,684,819	2,850,648
<u>NET POSITION</u>		
Net investment in capital assets	3,860,194	3,949,148
Restricted for debt service	76,828	76,820
Unrestricted	2,324,463	2,109,216
TOTAL NET POSITION	6,261,485	6,135,184
TOTAL LIABILITIES & NET POSITION	\$ 8,946,304	\$ 8,985,832

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, 2016

	Total September 30, 2016	Total (Memo Only) September 30, 2015
<u>Operating Revenues:</u>		
Water & Sewer Revenues	\$ 1,635,008	\$ 1,602,842
Installation Revenues	60,522	39,212
Total Operating Revenues	1,695,530	1,642,055
<u>Operating Expenses:</u>		
Wages, Salaries and Payroll Expenses	479,523	437,688
Employee Benefits	73,724	71,698
Property, Casualty Insurance	41,220	42,747
Licenses and Dues	11,974	15,488
Purchased Water	30,336	27,808
Office Expenses	59,478	49,776
Bad Debt Expense	10,993	6,247
Electricity	61,562	79,862
Telephone	4,969	5,354
Professional Fees	10,652	(7,675)
Operating and Maintenance Expenses	416,855	318,760
Depreciation Expense	416,733	386,371
Total Operating Expenses	1,618,020	1,434,122
Operating Income (Loss)	77,510	207,933
<u>Non-Operating Revenues (Expenses):</u>		
Rental Income	2,400	2,400
Other non-operating Income	-	-
Interest Income	2,768	2,616
Gain (Loss) on Disposal of Assets	-	1,806
Interest Expense	(69,087)	(71,307)
Total Non-operating Revenues (Expenses)	(63,920)	(64,485)
Net Income (Loss) Before Contributions	13,590	143,448
Capital Contributions - Grant Income	-	-
Capital Contributions - Memberships	30,100	22,050
Change in Net Position	43,690	165,498
Total Net Position - Beginning	6,135,184	5,969,731
Total Net Position - Prior Year Adjustment	82,610	(46)
Total Net Position - Ending	\$ 6,261,485	\$ 6,135,184

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, 2016

	9/30/16	Memo Only 9/30/15
<u>Cash Flows from Operating Activities:</u>		
Cash Receipts from Customers	\$ 1,789,908	\$ 1,615,629
Payments to Suppliers for Goods & Services	(688,145)	(674,552)
Payments to Employees & Laborers	(479,523)	(437,688)
Receipts of Customer Utility Deposits, Net of Refunds	-	1,000
Net Cash Provided (Used) by Operating Activities	622,240	504,389
<u>Cash Flows from Capital & Related Financing Activities:</u>		
Additions to Capital Assets	(166,225)	(177,436)
Proceeds from disposal of Capital Assets	-	1,806
Capital Grant Income	-	-
Loan Proceeds	-	-
Principal paid on Debt	(190,052)	(188,315)
Interest paid on Debt	(69,321)	(71,280)
Net Cash Provided (Used) by Capital & Related Financing Activities	(425,598)	(435,225)
<u>Cash Flows from Investing Activities:</u>		
Membership Contributions	30,100	22,050
Rental & Other non-operating income	2,400	2,400
Interest Income	2,765	2,616
Net Cash Provided (Used) by Investing Activities	35,265	27,066
Net Increase (Decrease) in Cash and Cash Equivalents	231,908	96,230
Cash & Cash Equivalents, Beginning of Year	1,836,586	1,740,356
Cash & Cash Equivalents, Prior Year Adjustment	-	-
Cash & Cash Equivalents, End of Year	\$ 2,068,494	\$ 1,836,586
<u>Reconciliation of operating income (loss) to net cash provided</u>		
<u>operating activities:</u>		
Operating Income (Loss)	\$ 77,510	\$ 207,933
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	416,733	386,371
(Increase)Decrease in Utility Receivable	94,378	(26,426)
(Increase)Decrease in Inventory	(3,696)	(96,358)
(Increase)Decrease in Prepaid Expenses	10,358	19,939
Increase(Decrease) in Accounts Payable	26,957	11,931
Increase(Decrease) in Security Deposits	-	1,000
Net Cash Provided (Used) by Operating Activities	\$ 622,240	\$ 504,389

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, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

Bryan County Rural Water District No. 2 (the District) is a Water District organized under the laws of the State of Oklahoma. The District provides water service to rural residents of Bryan County Oklahoma. The District and its financial statements are comprised of only the water operations of the District.

Basis of Presentation

The accounts of the District are organized on the basis of proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net assets, revenues and expenses. Enterprise Funds account for activities (1) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (2) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (3) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Basis of Accounting

The financial statements of the District are prepared on the accrual basis of accounting. Revenues are recognized when they earned and expenses are recognized when they are incurred. The District uses the accounting standards issued by the Financial Accounting Standards Board whenever possible; if no FASB pronouncement is applicable then Government Accounting Standards Board pronouncements are used.

Budgetary Data

The District prepares an annual budget for internal bookkeeping purposes.

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NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

Inventory

Inventory is valued at cost and consists of chemicals, meters, pipe connections and PVC pipe not yet installed in the system. The inventory figure included in the financial statements is an estimate because the District performed a yearend inventory count but has not calculated the actual value.

Property and Equipment

Property and equipment are recorded at cost. Management has established a capitalization policy of assets acquired for over \$2,500 will be capitalized. Depreciation is provided using the straight-line method over estimated useful lives of the respective assets. Maintenance and repairs are charged to expenses as incurred; major repairs and betterments are capitalized.

Cash and Cash Equivalents

The District considers all highly liquid investments with an original maturity of three months or less to be a cash equivalent. The District does not consider restricted cash to be a cash equivalent.

Accounts Receivable

There is no provision for bad debts; all accounts are considered to be collectible.

Equity Classification

Equity is classified as net position and displayed in three components:

1. Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.

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2. Restricted – Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted - Net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

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

Revenues, expenditures & expenses

Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Memorandum Totals

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

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

As a local government unit, the District is subject to various federal, state, and local laws and contractual regulations. In

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

Finance-related Legal & Contractual Provisions

The District has complied with the reserve requirements of the USDA Rural Development loan agreements.

Deficit Fund Balance or Retained Earnings

As indicated in the financial statements, there are no fund balance or retained earnings deficits for the District for this fiscal year.

NOTE 3 - CASH AND INVESTMENTS

Custodial Credit Risk

At September 30, 2016, the District held deposits of approximately \$2,068,494 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name.

Investment Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The District has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.

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SEPTEMBER 30, 2016

- 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, 2016, 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, 2016, was as follows:

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
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	Balance at 9-30-15	Additions	Deductions	Balance at 9-30-16
Land	\$ 54,129	\$ -	\$ -	\$ 54,129
Water System	1,427,500	20,493	-	1,447,993
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	176,612	39,000	-	215,612
Buildings	116,131	-	-	116,131
Furniture & Equipment	249,969	-	-	249,969
Misc. Completed				
Projects	3,350,442	824,703	-	4,175,145
Construction in Progress	1,132,635	106,732	(824,703)	414,664
Subtotal	12,379,423	990,928	(824,703)	12,545,648
Less: Accum. Depr.	(5,642,583)	(445,231)	-	(6,087,814)
Total Capital Assets (Net of Depreciation)	<u>\$ 6,736,840</u>	<u>\$ 545,697</u>	<u>\$ (824,703)</u>	<u>\$ 6,457,834</u>

Current year additions to capital assets include the following:

Water System - SCADA System Upgrade
Vehicles - 2012 Ford F-750 Dump Truck
CIP - Water System Improvement Projects

Current year deductions to capital assets include the following:

None

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,

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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.

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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, 2016:

	Balance at 9-30-15	Additions	Deductions	Balance at 9-30-16
Note Payable - OWRB	\$ 169,114.05	\$ -	\$ (39,442.29)	\$ 129,671.76
Note Payable - OWRB #2	1,070,691.65	-	(119,361.79)	951,329.86
Note Payable - OWRB #3	204,468.82	-	(11,222.71)	193,246.11
Note Payable - USDA RD	963,410.74	-	(13,934.84)	949,475.90
Note Payable - USDA RD #2	380,006.75	-	(6,090.21)	373,916.54
Total Long-Term Debt	<u>\$ 2,787,692.01</u>	<u>\$ -</u>	<u>\$ (190,051.84)</u>	<u>\$ 2,597,640.17</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, 2016, are as follows:

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

Year Ending September 30,	Principal	Interest	Admin Fee	Total
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>\$ 129,672</u>	<u>\$ -</u>	<u>\$ 1,226</u>	<u>\$ 130,898</u>

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT NO. 2
BRYAN COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

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

Year Ending September 30,	Principal	Interest	Admin Fee	Total
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	121,720	-	2,195	123,914
2022-2024	347,594	-	2,918	350,512
Total	<u>\$ 951,330</u>	<u>\$ -</u>	<u>\$ 19,933</u>	<u>\$ 971,263</u>

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

Year Ending September 30,	Principal	Interest	Admin Fee	Total
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	13,209	3,879	716	17,804
2022-2026	72,829	13,669	2,522	89,020
2027-2030	58,448	3,263	602	62,313
Total	<u>\$ 193,246</u>	<u>\$ 39,769</u>	<u>\$ 7,337</u>	<u>\$ 240,353</u>

Note Payable - USDA RURAL DEVELOPMENT 91-10

Year Ending September 30,	Principal	Interest	Total
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	17,439	39,561	57,000
2022-2026	99,975	185,025	285,000
2027-2031	125,149	159,851	285,000
2032-2036	156,661	128,339	285,000
2037-2041	196,107	88,893	285,000
2042-2046	245,486	39,514	285,000
2047	46,231	961	47,192
Total	<u>\$ 949,476</u>	<u>\$ 807,717</u>	<u>\$ 1,757,192</u>

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT NO. 2
BRYAN COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

Note Payable - USDA RURAL DEVELOPMENT 91-11

Year Ending September 30,	Principal	Interest	Total
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	7,297	12,467	19,764
2022-2026	40,723	58,097	98,820
2027-2031	48,802	50,018	98,820
2032-2036	58,484	40,336	98,820
2037-2041	70,087	28,733	98,820
2042-2046	83,991	14,829	98,820
2047-2048	37,848	1,445	39,293
Total	<u>\$ 373,917</u>	<u>\$ 258,296</u>	<u>\$ 632,213</u>

NOTE 7 - FUND EQUITY

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

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

The District restricted amounts are described in Note 4 above.

NOTE 8 - CONTINGENCIES

Litigation

As of September 30, 2016, 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.

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT NO. 2
BRYAN COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

Other Commitments and Contingencies

The District has approved a Consent Order to upgrade its public water supply system in accordance with the "Public Water Supply Construction Standards" and the "Public Water Supply Operation Rules." The Consent Order was in response to an administrative proceeding brought against the District by the Department of Environmental Quality in February 1995. At the end of September 30, 2010, the District was working towards complying with the above standards.

NOTE 9 - OTHER ISSUES

Effective October 1, 2005, the Bryan County Rural Sewer District No. 8 has been taken over by Bryan County Rural Water District No. 2. The new name of the District is Bryan County Rural Water, Sewer and Solid Waste Management District No. 2.

NOTE 10 - RETIREMENT PLAN

The District sponsors a Simple IRA plan for employees. The District contributes up to 2% of the employees' gross wages to the plan, and the employee is free to contribute any amount that he/she decides upon to the plan.

NOTE 11 - ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS

Accumulated unpaid vacation and sick leave benefits have not been shown as a liability in the financial statements. The District's position is that any accrued benefits are not significant and would not materially affect the financial statements.

NOTE 12 - SUBSEQUENT EVENTS

The District did not have any subsequent events through February 7, 2017, 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, 2016.

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT NO. 2
BRYAN COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 13 - PRIOR YEAR ADJUSTMENTS

The following prior year adjustments were made to Total Net Position:

Accounts Receivable	\$108,608.13
Depreciation	(\$28,497.90)
Accounts Payable	<u>\$ 2,500.00</u>
Total Adjustment	\$ 82,610.23

The adjustment was made to accounts receivable to make the QuickBooks balance match the billing register. The adjustment to depreciation was for prior year depreciation for completed projects from past years previously not being depreciated. The adjustment to accounts payable was to remove a previously accrued amount for DEQ Dues.

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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 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, 2016, and the related notes to the financial statements, and have issued our report thereon dated February 7, 2017, which was qualified for unreconciled accounts receivable reports. 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. 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 16-01.

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.

Bryan County RWS&SWMD #2's Response to Findings

Bryan County RWS&SWMD #2's response to the findings identified in our audit is described in the accompanying Schedule of Findings. Bryan County RWS&SWMD #2'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.

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

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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 7, 2017

BRYAN COUNTY RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT NO. 2
BRYAN COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS
SEPTEMBER 30, 2016

Item 16-01: Accounts Receivable

Criteria: Internal control refers to the methods and procedures used to provide reasonable assurance regarding the achievement of objectives in the following categories: Safeguarding assets, ensuring validity of financial records and reports, promoting adherence to policies, procedures, regulations and laws, and promoting effectiveness and efficiency of operations. Internal control also refers to how an entity processes, summarizes and records the financial transactions. In general terms, internal controls are simply good business practices.

Condition: The District did not have strong internal controls in place for ensuring validity of financial records and reports.

Cause/Effect: Due to the weak internal control system, the District had a large discrepancy between accounts receivable in the billing software and accounts receivable in QuickBooks.

Recommendation: The District needs to make efforts to reconcile the billing software to QuickBooks on an ongoing basis.

Response: The District is aware of the problem and is trying to determine a solution.