

AUDIT REPORT

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

DECEMBER 31, 2016



KERSHAW CPA & ASSOCIATES, PC

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DECEMBER 31, 2016

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RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
MCINTOSH COUNTY, OKLAHOMA
DECEMBER 31, 2016

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>	<u>TERM EXPIRATION</u>
Mike Minnick	Chairman	2019
Mike Williams	Vice-Chairman	2018
Kenneth Pemberton	Secretary/Treasurer	2017
Lawanna Emerson	Vice-Secretary/Treasurer	2019
Bill Reynolds	Member	2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Rural Water, Sewer, and Solid Waste Management District No. 2,
McIntosh County, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Rural Water, Sewer, and Solid Waste Management District No. 2, McIntosh County, as of and for the fiscal year ended December 31, 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 express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Rural Water, Sewer, and Solid Waste Management District No. 2, McIntosh County as of December 31, 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.

Supplementary and Other Information

The introductory and the other supplementary information sections listed in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the District. Such additional information has not been subjected to the auditing procedures applied in our audit of the basic financial statements, and accordingly, we do not express an opinion or provide and assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 5, 2017, on our consideration of the Rural Water, Sewer, and Solid Waste Management District No. 2, McIntosh County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing

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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 Rural Water, Sewer, and Solid Waste Management District No. 2, McIntosh County's internal control over financial reporting and compliance.

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

April 5, 2017

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
MCINTOSH COUNTY, OKLAHOMA
STATEMENT OF NET POSITION
DECEMBER 31, 2016

	2016	Memorandum Only 2015
<u>ASSETS</u>		
<u>CURRENT ASSETS:</u>		
Cash and Cash Equivalents	\$ 184,881	\$ 145,202
Accounts Receivable	48,770	47,178
Inventory	25,754	25,754
Prepaid Insurance	14,922	14,800
TOTAL CURRENT ASSETS	274,326	232,933
<u>NONCURRENT ASSETS:</u>		
<u>RESTRICTED ASSETS:</u>		
Restricted Certificates of Deposit	90,946	90,686
Restricted BOK Trust Accounts	223,057	240,231
TOTAL RESTRICTED ASSETS	314,003	330,916
<u>CAPITAL ASSETS:</u>		
Land	25,483	25,483
Construction in Progress	-	535,802
Other Capital Assets	4,373,671	3,819,831
Less: Accumulated Depreciation	(1,894,216)	(1,759,135)
NET CAPITAL ASSETS	2,504,938	2,621,981
<u>OTHER ASSETS:</u>		
Loan Fees, Net of Accumulated Amortization	-	-
TOTAL OTHER ASSETS	-	-
TOTAL NON-CURRENT ASSETS	2,818,941	2,952,897
TOTAL ASSETS	3,093,268	3,185,830
<u>LIABILITIES & NET POSITION</u>		
<u>CURRENT LIABILITIES:</u>		
Accounts Payable	1,520	1,610
Payroll Taxes Payable	5,601	4,799
Accrued Interest	29,958	30,570
Current maturity of long-term debt	121,835	114,925
Total Current Liabilities	158,914	151,904
LONG-TERM LIABILITIES	2,367,616	2,501,874
TOTAL LIABILITIES	2,526,529	2,653,778
<u>NET POSITION:</u>		
Net investment in capital assets	15,488	5,182
Restricted for debt service	314,003	330,916
Unrestricted	237,247	195,954
TOTAL NET POSITION	\$ 566,738	\$ 532,052

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

**RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
MCINTOSH COUNTY, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2016**

	2016	Memorandum Only 2015
<u>OPERATING REVENUES:</u>		
Water Sales	\$ 670,205	\$ 643,412
New installations	29,000	6,000
Other income	3,746	3,051
TOTAL OPERATING REVENUES	702,951	652,463
<u>OPERATING EXPENSES:</u>		
NFMHO	9,926	12,180
Water storage fees	2,496	2,601
Professional fees & Dues	16,718	14,641
Office Expense	7,257	10,604
Payroll & related expenses	235,370	236,377
Operations: Repairs & Supplies	95,066	92,621
Insurance	31,441	27,250
Utilities	21,616	21,935
Telephone	5,560	5,446
Vehicles	9,358	17,535
Miscellaneous expense	4,399	3,545
Amortization	-	-
Depreciation	135,080	121,234
Total Operating Expenses	574,287	565,970
NET OPERATING INCOME (LOSS)	128,664	86,493
<u>OTHER REVENUES (EXPENSES):</u>		
Interest Income	754	736
Interest Expense	(94,732)	(101,583)
Total Other Revenues (Expenses)	(93,978)	(100,847)
CHANGE IN NET POSITION	34,686	(14,354)
TOTAL NET POSITION, Beginning of Year	532,052	658,620
TOTAL NET POSITION, Prior Year Adjustment	-	(112,214)
TOTAL NET POSITION, End of Year	\$ 566,738	\$ 532,052

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

**RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
MCINTOSH COUNTY, OKLAHOMA
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016**

	<u>2016</u>	<u>Memo Only 2015</u>
<u>Cash Flows from Operating Activities:</u>		
Cash Receipts from Customers	\$ 701,359	\$ 658,277
Payments to Suppliers for Goods & Services	(203,248)	(210,090)
Payments to Employees & Laborers	(235,370)	(236,377)
Net Cash Provided (Used) by Operating Activities	<u>262,741</u>	<u>211,810</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>		
Additions to Capital Assets	(18,038)	(502,445)
Loan Fees	-	-
Proceeds from long-term debt	-	-
Principal paid on long-term debt	(114,925)	(98,085)
Interest paid on Debt	(107,767)	(92,522)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(240,730)</u>	<u>(693,052)</u>
<u>Cash Flows from Investing Activities:</u>		
Net activity with restricted accounts	16,913	485,158
Interest Income	754	736
Net Cash Provided (Used) by Investing Activities	<u>17,667</u>	<u>485,894</u>
Net Increase (Decrease) in Cash and Cash Equivalents	39,679	4,651
Cash & Cash Equivalents, Beginning of Year	145,202	140,551
Cash & Cash Equivalents, Prior Year Adjustment	-	-
Cash & Cash Equivalents, End of Year	<u>\$ 184,881</u>	<u>\$ 145,202</u>
<u>Reconciliation of operating income (loss) to net cash provided operating activities:</u>		
Operating Income (Loss)	\$ 128,664	\$ 86,493
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation & Amortization	135,080	121,234
(Increase)Decrease in Accounts Receivable	(1,592)	5,814
(Increase)Decrease in Inventory	-	-
(Increase)Decrease in Prepaid Insurance	(122)	(1,740)
Increase(Decrease) in Accounts Payable	(90)	188
Increase(Decrease) in Payroll Taxes Payable	802	(180)
Net Cash Provided (Used) by Operating Activities	<u>\$ 262,741</u>	<u>\$ 211,810</u>

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

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

NATURE OF BUSINESS

Rural Water, Sewer, and Solid Waste Management District No. 2, McIntosh County, Oklahoma (The District) was organized to sell water and operate and maintain a sewage disposal system to its members. This organization is exempt from federal income tax under Section 501(c)(12) of the Internal Revenue Code

Basis of Presentation

The Enterprise Fund is used to account for the operations of the District that are financed and operated in a manner similar to private business enterprises where the intent is that costs of providing goods or services be recovered in whole or part through user fees or charges.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses when incurred.

Assets, Liabilities, & Equity

Cash & Cash Equivalents

For purposes of these financial statements, the District considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents, excluding restricted cash.

Capital Assets

Fixed assets are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance, repairs and renewals of relatively minor items are charged to expense as incurred. The estimated useful lives of the assets are as follows:

	<u>Years</u>
Water tower	25
Office building, equipment and fixtures	5-20
Transportation equipment	5-10
Heavy equipment	10
Water treatment facility	7-40
Lines and storage	10-20

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

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

Inventories

Inventories are stated at the lower of cost or market using the first-in, first-out method.

Allowance for Doubtful Accounts

The District considers all accounts fully collectible.

Long-Term Debt

Long-term debt is reported at face value, net of applicable discounts and deferred loss on refunding. Costs related to the issuance of debt are deferred and amortized over the lives of various debt issues.

Equity Classification

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

1. Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.
2. Restricted – Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted - Net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

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

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

Revenues, expenditures & expenses

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

Governmental Accounting Standards Board Statement No. 34

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Certain of the significant changes in the Statement include the following:

1. For the first time the financial statement should include:
 - a. A Management Discussion and Analysis (MD&A) section providing analysis of the District's overall financial position and results of operations. However, the District has chosen not to present the required MD&A for the current year.
 - b. Financial statements prepared using full accrual accounting for all of the District's activities, except for including the General capital assets or infrastructure (lines, pump stations, etc.).
2. A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The District has elected to implement the general provisions of the Statement and report infrastructure acquired after December 31, 2003 as provided by GASB standards.

Income Taxes

The District is exempt from federal income tax under Section 501(c)(12) of the Internal Revenue Code.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

Compensated Absences

Employees of the District began accruing vacation and sick leave in 2005. However, no provision has been made for such because the amount is not considered material to the financial statements.

Memorandum Totals

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

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

Finance-related Legal & Contractual Provisions

Under the provisions of the OWRB Loan Agreement, the District is required to establish, fund and maintain a debt service fund account and a debt reserve account with the trustee bank. As of December 31, 2016, the District has complied with these provisions.

Deficit Fund Balance or Retained Earnings

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

NOTE 3 - CASH AND INVESTMENTS

Custodial Credit Risk

At December 31, 2016, the District held deposits of approximately \$498,884 at financial institutions. The District’s cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District’s name.

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

Investment Interest Rate Risk

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

Investment Credit Risk

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

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

NOTE 4 - RESTRICTED ASSETS

The loan agreement with the Oklahoma Water Resources Board for the District's loan refinancing and project requires that certain monies be put in a trust type account. These funds are restricted to servicing the loan with the OWRB. Monthly payments are made to a debt service account and then invested upon receipt by the loan trustee, BOK Trust Services. Semi-annual payments are then made by the trustee from this account to OWRB. When funds are received by the Trustee they are immediately invested in securities guaranteed by the United States Government. The District also is required to maintain a debt service reserve fund with the trustee bank in the amount of \$172,675.00. As of December 31, 2016, the District also has a project fund account with the trustee bank with a balance of \$7,434.

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
 MCINTOSH COUNTY, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2016

NOTE 5 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended December 31, 2016, was as follows:

	Balance at Dec. 31, 2015	Additions	Deductions	Balance at Dec. 31, 2016
Land	\$ 25,483	\$ -	\$ -	\$ 25,483
Construction in Progress	535,802	-	(535,802)	-
Water Tower	309,652	-	-	309,652
Office building, equipment and fixtures	145,451	-	-	145,451
Transportation equipment	50,440	-	-	50,440
Heavy equipment	27,209	-	-	27,209
Water treatment facility	2,859,678	553,840	-	3,413,518
Lines and storage	423,001	-	-	423,001
Storage Building	4,400	-	-	4,400
Subtotal	4,381,116	553,840	(535,802)	4,399,154
Less: Accum. Depr.	(1,759,135)	(135,080)	-	(1,894,216)
Total Capital Assets (Net of Depreciation)	<u>\$ 2,621,981</u>	<u>\$ 418,760</u>	<u>\$ (535,802)</u>	<u>\$ 2,504,938</u>

The current year capital asset additions included media and grating. Also, the project was reclassified as completed.

NOTE 6 - LONG-TERM DEBT

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

In December 2014, the Districted entered into a Promissory Note, Series 2014, FAP-14-0005-L with the Oklahoma Water Resources Board (OWRB). The security for the Note includes a pledge and assignment of revenues derived by the District from its operation of the water system of the District pursuant to the terms of the Loan Agreement. The Note is further secured by a Mortgage dated December 4, 2014 by the District to the OWRB. The loan is for a principal amount of \$2,265,000.00, plus premium of \$281,109, less original issue discount of \$7,783.75, less OWRB transactions costs. The discount and the premium are both being amortized over the term of the loan. The loan is for a term of 22 years maturing on October 1, 2036 with varying interest rates between 2.400% and 5.400% until maturity.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended December 31, 2016:

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
 MCINTOSH COUNTY, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2016

	Balance at December 31, 2015	Additions	Deductions	Balance at December 31, 2016
Kansas State Bank	\$ 141,933	\$ -	\$ (49,925)	\$ 92,008
OWRB FAP-14-0005-L	2,215,000	-	(65,000)	2,150,000
Total Long-Term Debt	<u>2,356,933</u>	<u>-</u>	<u>(114,925)</u>	<u>2,242,008</u>
Less: Current Portion	(114,925)			(121,835)
Less: Discount on OWRB	(7,400)	-	354	(7,047)
Plus: Premium on OWRB	267,267	-	(12,778)	254,489
Net Long-Term Debt	<u>\$ 2,501,874</u>	<u>\$ -</u>	<u>\$ (127,349)</u>	<u>\$ 2,367,616</u>

Debt Services Requirements to Maturity

The annual debt service requirements to maturity, including principal and interest, for long-term debt, as of December 31, 2016, are as follows:

Year Ending December 31,	Note Payable - KSB		Total
	Principal	Interest	
2017	\$ 51,835	\$ 2,572	\$ 54,407
2018	40,173	632	40,805
2019	-	-	-
2020	-	-	-
2021	-	-	-
2022-2026	-	-	-
Total	<u>\$ 92,008</u>	<u>\$ 3,204</u>	<u>\$ 95,212</u>

Year Ending December 31,	Note Payable - OWRB		Total
	Principal	Interest	
2017	\$ 70,000	\$ 101,725	\$ 171,725
2018	70,000	99,345	169,345
2019	75,000	96,965	171,965
2020	75,000	94,415	169,415
2021	80,000	92,215	172,215
2022-2026	450,000	405,125	855,125
2027-2031	580,000	275,325	855,325
2032-2036	750,000	103,845	853,845
Total	<u>\$ 2,150,000</u>	<u>\$ 1,268,960</u>	<u>\$ 3,418,960</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

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

The restrictions on net position are described in Note 4 above.

NOTE 8 - CONTINGENCIES

Litigation

According to management there were no known contingent liabilities at December 31, 2016, which would have a material effect on the financial statements.

Federally Assisted Programs

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

NOTE 9 - INSURANCE COVERAGE

Property Coverage

Insurer	ORWA Assurance Group
Expiration	June 1, 2017
Policy includes	Auto liability, property, general liability, errors & omissions, employment practice, dishonesty bond and monies & securities.

Workers Compensation

Insurer	ORWA Assurance Group
Expiration	October 31, 2017

NOTE 10 - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the District to credit risk consist primarily of accounts receivable. The District sells only to its members in the Onapa, Oklahoma area.

NOTE 11 - SUBSEQUENT EVENTS

The District did not have any subsequent events through April 5, 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, 2016.

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT DISTRICT NO. 2
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 12 - PRIOR YEAR ADJUSTMENT

A prior year adjustment was made during the previous year to remove the Debt Issuance Costs of \$112,640.72 less accumulated amortization of \$426.67. GASB Statement No. 65 states that Debt Issuance Costs should no longer be included as an asset on the financial statements. Therefore, this item has been removed.

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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
Rural Water, Sewer, and Solid Waste Management District No. 2,
McIntosh County, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes, the financial statements of the Rural Water, Sewer, and Solid Waste Management District No. 2, McIntosh County, as of and for the year ended December 31, 2016, and the related notes to the financial statements, and have issued our report thereon dated April 5, 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 Rural Water, Sewer, and Solid Waste Management District No. 2, McIntosh County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Rural Water, Sewer, and Solid Waste Management District No. 2, McIntosh County's internal control. Accordingly, we do not express an opinion on the effectiveness of Rural Water, Sewer, and Solid Waste Management District No. 2, McIntosh County's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Rural Water, Sewer, and Solid Waste Management District No. 2, McIntosh County's financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

April 5, 2017