

RURAL WATER DISTRICT #2,
GARVIN COUNTY, OKLAHOMA

ANNUAL FINANCIAL STATEMENTS AND
ACCOMPANYING INDEPENDENT
AUDITOR'S REPORTS

FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2011

RURAL WATER DISTRICT #2, GARVIN COUNTY, OKLAHOMA
TABLE OF CONTENTS
For the fiscal year ended December 31, 2011

	<u>Page</u>
LIST OF PRINCIPAL OFFICIALS	1
INDEPENDENT AUDITOR'S REPORT	2
BASIC FINANCIAL STATEMENTS:	<u>Statement</u>
<i>Government-Wide Financial Statements</i>	
Statement of Net Assets	1 3
Statement of Activities	2 4
Statement of Cash Flows	3 5
Notes to Basic Financial Statements	6-12
INTERNAL CONTROL AND COMPLIANCE:	
Report on Internal Control Over Financial Reporting Based and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed In Accordance with <i>Government Auditing Standards</i>	13-14

RURAL WATER DISTRICT #2, GARVIN COUNTY, OKLAHOMA

LIST OF PRINCIPAL OFFICIALS

For the fiscal year ended December 31, 2011

Board of Directors

Darrell Lewis - Chairman

Dannita McCullough - Vice Chairman

Rick Henry - Secretary/Treasurer

Bob Faulkenberry – Director

Phindle Robbins – Director

Michelle Brown – Bookkeeper

Derek Taylor - Manager

INDEPENDENT AUDITOR'S REPORT

March 10, 2012

To The Board of Directors
Rural Water District #2, Garvin County, Oklahoma

I have audited the accompanying financial statements of Rural Water District #2, Garvin County (the "District") as of and for the year ended December 31, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As further explained in Note 1.C., the amounts reported in the financial statements for capital assets, accumulated depreciation and depreciation expense are based on estimates and may not represent a complete accounting of all capital assets in service as required by accounting principles generally accepted in the United States of America. Capital asset records necessary to provide reasonable assurance that these amounts are not materially misstated are not readily available.

In my opinion, except for the effects any adjustments that might have been necessary had I been able to obtain sufficient evidence related to capital assets and related accounts, the financial statements referred to above present fairly the financial position of Rural Water District #2, Garvin County at December 31, 2011, and the changes in financial position and cash flows, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated March 10, 2012 on my consideration of the District's internal control over financial reporting and on my 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 my 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* and should be considered in assessing the results of my audit.

The District has not presented the Management's Discussion and Analysis required by the Governmental Accounting Standards Board (GASB) that the GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.



Kristi Dobbins, CPA

RURAL WATER DISTRICT #2, GARVIN COUNTY, OKLAHOMA
STATEMENT OF NET ASSETS
December 31, 2011

	Business-Type Activities
ASSETS	
Cash and cash equivalents, unrestricted	\$101,891
Cash and cash equivalents, restricted	58,385
Accounts receivable	38,519
Inventory	14,426
Capital assets, net of depreciation	454,771
Total Assets	667,992
LIABILITIES	
Customer deposits	58,385
Accounts payable	2,301
Payroll taxes payable	2,961
Accrued interest	29
Notes payable-current	9,418
Notes payable-non current	13,002
Total Liabilities	86,096
NET ASSETS	
Invested in capital assets, net of related debt	432,351
Unrestricted	149,545
Total Net Assets	\$581,896

See accompanying notes to the basic financial statements.

Statement 2

RURAL WATER DISTRICT #2, GARVIN COUNTY, OKLAHOMA
STATEMENT OF ACTIVITIES

For the fiscal year ended December 31, 2011

Operating Revenues:	
Water	\$296,003
Late fees	7,118
Meter reading charges	13,912
Restore service charges	4,444
Benefit units	6,000
Miscellaneous	14,936
Total Operating Revenues	<u>342,413</u>
Operating Expenses:	
Salaries	121,915
Payroll taxes	9,160
Employee Benefits	3,491
Depreciation	34,872
Insurance	41,651
Materials and supplies	17,105
Repairs and maintenance	7,914
Pickup maintenance and fuel	16,918
Utilities	22,944
Telephone	3,764
Office expense	7,826
Dues, licenses and fees	3,443
Board member expense	6,380
Professional fees	1,850
Water purchases	19,713
Annual Meeting Expense	270
Miscellaneous	877
Total Operating Expenses	<u>320,093</u>
Net Operating Loss	22,320
Non-Operating Revenues (Expenses):	
Interest income	425
Rent income	7,200
Interest expense	(1,278)
Net Loss	<u>28,667</u>
Net assets - beginning of year	553,229
Net assets - end of year	<u>\$581,896</u>

See accompanying notes to financial statements.

Statement 3

**RURAL WATER DISTRICT #2, GARVIN COUNTY, OKLAHOMA
STATEMENT OF CASH FLOWS
For the fiscal year ended December 31, 2011**

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$331,630
Payments to suppliers	(157,601)
Payments to employees	(129,961)
Receipts from customer meter deposits	7,400
Refunds of customer meter deposits	(3,345)
Net Cash Provided by Operating Activities	<u>48,123</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital assets purchased	(32,576)
Principal paid on capital debt	(8,985)
Interest paid on capital debt	(1,290)
Net Cash Used by Capital and Related Financing Activities	<u>(42,851)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment income	425
Rent income	7,200
Net Cash Provided by Investing Activities	<u>7,625</u>
Net Increase (Decrease) in Cash and Cash Equivalents	12,897
Balance - beginning of the year	<u>147,379</u>
Balance - end of the year	<u>\$160,276</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	\$22,322
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	34,872
Change in assets and liabilities:	
Accounts receivable	(10,783)
Inventory	(3,283)
Accounts payable	(175)
Payroll taxes payable	1,115
Customer deposits	4,055
Net cash provided by operating activities	<u>\$48,123</u>

See accompanying notes to the basic financial statements.

**RURAL WATER DISTRICT #2, GARVIN COUNTY, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity
- B. Basis of Presentation
- C. Assets, Liabilities and Equity
- D. Revenue and Expenses
- E. Use of Estimates

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

- A. Deposits and Investments Laws and Regulations

NOTE 3. DETAIL NOTES - TRANSACTION CLASSES/ACCOUNTS

- A. Cash and Cash Equivalents
- B. Capital Assets
- C. Long-Term Debt

NOTE 4. OTHER NOTES

- A. Employee Pension and Other Benefits
- B. Risk Management
- C. Commitments and Contingencies
- D. Subsequent Events

**RURAL WATER DISTRICT #2, GARVIN COUNTY, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.A. FINANCIAL REPORTING ENTITY

Rural Water District #2, Garvin County, Oklahoma was established pursuant to Title 82 of Oklahoma State Law in July 1966. The purpose of the District is to provide a water distribution system for its members in the Lindsay, Oklahoma area. Members are owners of land located within the District who have subscribed to one or more Benefit Units, provided payments of charges are current on at least one of the Benefit Units. Each member represents one vote of the governing body of the District without any direct ownership in its assets.

The accompanying financial statements include all functions and activities over which the District exercises financial accountability. The District is considered a primary government as defined by the Governmental Accounting Standards Board (GASB) and has no other component units within its reporting entity.

1.B. BASIS OF PRESENTATION

The District is considered a governmental entity as defined by the Governmental Accounting Standards Board (GASB). Its operations are considered proprietary in nature and therefore, the District has adopted a reporting framework similar to that of proprietary type funds. Proprietary fund types utilize the accrual basis of accounting, revenues are recognized when earned and expenses (including depreciation) are recorded when the liability is incurred or economic asset used.

1.C. ASSETS, LIABILITIES AND EQUITY

Cash and Cash Equivalents

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three-months or less.

Accounts Receivable

Material receivables consist of all revenues earned at year-end and not yet received. Utility charges comprise all of the District's receivables. Due to the past history of immaterial bad debt expenses incurred and the enforcement of the District's cutoff policy, no allowance for doubtful accounts is considered necessary.

Inventory

Inventory includes all inventory on-hand at December 31, 2011 and is valued at cost on the first-in, first-out method.

Capital Assets

Available detailed fixed asset records do not contain a complete detail of all property and equipment still in service and annual physical inventories are not performed to ensure all additions and deletions are properly recorded. Therefore, the amount of property, plant and equipment reported in the financial statements does not represent the historical cost of all fixed assets which are still in service.

Recorded fixed assets are stated at historical cost or estimated historical cost if actual historical cost is not available. The District has determined that assets with a cost of more than \$1,000 will be capitalized. Depreciation of exhaustible fixed assets is charges as an expense against their operations. Accumulated depreciation is reported on the balance sheet, although no detail records exist to support these amounts. Depreciation has been provided over the estimated useful lives using the straight-line method since 1994 and estimated each year before 1994.

**RURAL WATER DISTRICT #2, GARVIN COUNTY, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

Long-Term Debt

Long-term debt to be repaid from District resources are reported as liabilities in the balance sheet. As of December 31, 2011 long-term debt is comprised of one note payable.

Restricted Assets

Restricted assets include current assets that are legally restricted as to their use. The District currently has restricted assets in the amount of \$54,330 comprised of amounts held by the District for utility deposits (refunded upon termination of service or applied to the final bill).

Equity Classification

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

- a. Invested in capital assets, net of related debt - 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.
- b. Restricted net assets - Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

It is the District's policy to first use restricted net assets prior to the use of unrestricted net assets when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. However, the District currently has no restricted net assets.

1.D. REVENUES AND EXPENSES

Operating Revenue and Expenses

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

Benefit Unit Fees

Benefit unit fees represent a membership/connection fee required of each District member at the time they request service. This nonrefundable fee is designed to cover the estimated cost of connection, tap and related hook-up costs to the District's system. As such, the fees are recorded as operation revenues.

1.E. USE OF ESTIMATES

The preparation of financial statements in conformity GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

**RURAL WATER DISTRICT #2, GARVIN COUNTY, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

By its nature as a government unit, the District and its component unit are subject to various federal, state and local laws and contractual regulations. An analysis of the District's compliance with significant laws and regulations and demonstration of its stewardship over District resources follows:

2.A. DEPOSITS AND INVESTMENT LAWS AND REGULATIONS

In accordance with State law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State of Oklahoma or political subdivision debt obligations, surety bonds and certain letters of credit. As required by 12 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the District must have a written collateral agreement approved by the board of directors or loan committee. For the year ended December 31, 2011, the District's deposits were fully insured or collateralized.

NOTE 3. DETAIL NOTES-TRANSACTION CLASSES/ACCOUNTS

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues and expenditures/expenses.

3.A. CASH AND CASH EQUIVALENTS

Custodial Credit Risk

At December 31, 2011, the District held deposits of approximately \$ at financial institutions. The District's cash deposits, including the interest-bearing certificates of deposit, are entirely covered by the 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 the 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, bonds or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality, or school district.

**RURAL WATER DISTRICT #2, GARVIN COUNTY, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

- 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 obligation 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.).

The investments held at December 31, 2011 are as follows:

Type	Weighted Average Maturity (Months)	Credit Rating	Market Value	Cost
Investments				
Money Market	N/A	N/A	-	-
Certificates of deposit	3.00	N/A		
Total Investments			<u>\$</u>	<u>\$</u>

3.B. CAPITAL ASSETS

Capital assets activity resulting from accrual basis transactions for the fiscal year ended December 31, 2011, was as follows:

	Balance at January 1, 2010	Additions	Disposals	Balance at December 31, 2010
Capital assets being depreciated:				
Building	\$ 77,230	\$ 15,000	-	\$ 92,230
Office equipment & furniture	31,636	-	-	31,636
Machinery and equipment	52,479	-	-	52,479
Utility property and improvements	1,006,260	26,447	-	1,032,707
Work in progress	6,486	-	6,486	-
Total capital assets at historical cost	<u>1,174,091</u>	<u>41,447</u>	<u>6,486</u>	<u>1,209,052</u>
Less accumulated depreciation for:				
Building	16,054	2,239	-	18,293
Office equipment & furniture	24,950	1,836	-	26,786
Machinery and equipment	28,440	5,845	-	34,285
Utility property and improvements	645,483	27,138	-	672,621
Total accumulated depreciation	<u>714,927</u>	<u>37,058</u>	<u>-</u>	<u>751,985</u>
 Capital assets, net	 <u>\$ 459,164</u>	 <u>\$ 4,389</u>	 <u>6,486</u>	 <u>\$ 457,067</u>

**RURAL WATER DISTRICT #2, GARVIN COUNTY, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

3.C. LONG-TERM DEBT

At December 31, 2011, the District had the following long-term debt outstanding:

Note payable to The State Bank of Wynnewood, payable in monthly installments, including principal and interest at 4.72%, final payment due April 20, 2014, secured by utility facilities	<u>\$31,404</u>
Current portion	8,988
Noncurrent portion	<u>22,416</u>
Total note payable	<u>\$31,404</u>

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended December 31, 2011:

Type of Debt	Balance January 1, 2011	Amount Issued	Amount Retired	Balance December 31, 2011
Notes Payable	<u>\$39,978</u>	<u>\$-0-</u>	<u>\$8,574</u>	<u>\$31,404</u>

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of December 31, 2011 are as follows:

Annual Debt Service Requirements:

Year Ending December 31,	Principal	Interest
2012	\$9,418	\$856
2013	9,875	399
2014	3,126	29
Total	<u>\$22,419</u>	<u>\$1,284</u>

NOTE 4 - OTHER NOTES

4.A. EMPLOYEE PENSION AND OTHER BENEFITS

The District provides pension benefits through a Simple IRA. As of December 31, 2011, the District provided a benefit to each employee in the amount of 3% of each employee's gross income. The District provides no other deferred compensation or other post-employment benefits to employees of the District.

4.B. RISK MANAGEMENT

Rural Water District No. 2, Garvin Co., is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District continues to carry commercial insurance for these risks, including general and auto liability, and property damage liability. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

**RURAL WATER DISTRICT #2, GARVIN COUNTY, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

4.C. COMMITMENTS AND CONTINGENCIES

Commitments

Water Contracts

Rural Water District #2, Garvin County, Oklahoma has three water lease contracts with Preston and Gladys Bunch, which sets the cost of water purchased by the District. At December 31, 2011, each contract allowed a purchase price of \$.23 per thousand gallons pumped. The lease allows an increase in the price paid by the District if the District raises rates charged to its members. The lease also states an \$80 rental fee is to be paid each year per contract and that water purchased plus the rental fee can never be less than \$400 per year, whether water is used or not. One of the leases extends through March 2017 and the other two extend through August 2022. The two newest contracts each allow a free residential water tap to Mr. and Mrs. Bunch.

The District also has a water lease contract with Robert Chandler, which sets the cost of water purchased from them. At December 31, 2011, the contract allowed a purchased price of \$.31 per thousand gallons pumped. The lease allows an increase in price paid by the District if the District raises its rates charged to its members. The lease also states an \$80 rental fee is to be paid each year and that water purchased plus the rental fee can never be less than \$400 per year, whether water is used or not. The lease extends through December 2022.

The District has another water lease contract with Berniece and Jimmy Reynolds and Lou Ann Alveraz, which sets the cost of water purchased from them. At December 31, 2011, the contract allowed a purchased price of \$.31 per thousand gallons pumped. The lease allows an increase in price paid by the District if the District raises its rates charged to its members. The lease also states an \$80 rental fee is to be paid each year. The lease extends through May 2033.

A contract with Lindsay Public Works Authority, which sets the cost of water purchased by the District is also in effect. At December 31, 2011, the contract allowed the District to purchase a maximum of 1,500,000 gallons per month at a cost of \$2.49 per thousand gallons. The contract also requires the District to pay a minimum charge of \$75 per month. The contract extends through May 2046 at which time the contract may be extended another five years if all parties consent.

Contingencies

The District is not involved with any legal proceedings, which normally occur in the course of governmental operations at this time. Therefore, the financial statements do not include accruals or provisions for loss contingencies.

While legal proceedings cannot be foreseen, the District feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the District.

4.D. SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 10, 2012, which is the date the financial statements were available to be issued and have determined that no additional information needs to be added to the financial statements.

**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**

March 10, 2012

Board of Directors
Rural Water District No. 2, Garvin County, Oklahoma

I have audited the financial statements of the business-type activities of Rural Water District No. 2, Garvin County, Oklahoma (District), as of and for the year ended December 31, 2011, which comprise the District's basic financial statements and have issued my report thereon dated March 10, 2012, which was a qualified opinion due to incomplete capital asset records. I conducted my 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. The District did not present the Management's Discussion and Analysis required by the Governmental Accounting Standards Board.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the District's internal control over financial reporting as a basis for designing my audit procedures for the purpose of expressing my opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the District's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. I consider the following to be significant deficiencies in internal control over financial reporting.

An adequate internal control structure does not exist because of the small size of the entity, nor is there adequate segregation of duties. A good internal control system would provide for separation of duties and responsibilities in financial matters between various employees. The individual receiving payments for utility billings would not be the same as the individual doing the billing, making the deposits and maintaining accounts receivable. The individual writing checks would not be the same as the individual recording those checks and reconciling bank accounts. . . However, because of the very limited number of administrative employees and the small size of the District budget, it is generally not financially efficient to have enough employees for proper segregation of duties. The best protection is to maintain sufficient bond on those handling cash to cover losses should they occur. This condition has been discussed with management, and management has concluded that the cost to correct this condition would exceed the benefit.

Rural Water District No. 2, Garvin Co.
March 10, 2012

The District does not maintain complete detailed fixed asset accounting records necessary to account for all of the District's assets. The main asset possibly not accounted for accurately are the water lines laid prior to 1994. The District would have to estimate the number of feet and the historical cost of these lines to bring the asset records up to date. However, at the present time the District does not feel it is feasible to spend the time and money to update the accounting records.

Utility accounts receivable are not reconciled on a monthly basis to ensure all billings, collections, and adjustments are properly accounted for within the utility billing system. Failure to properly reconcile utility revenue and receivables results in the possibility of material errors, fraud or illegal acts occurring in the receipting, depositing or account adjusting functions and not being detected on a timely basis. Using computer generated reports, daily deposit records and adjustment authorization forms, the District staff should month reconcile beginning and ending utility accounts receivable.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the basic financial statements will not be prevented or detected by the organization's internal control.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, I consider the significant deficiencies described above to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, I performed tests of its 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The District's response to the findings identified in my audit is described above. I did not audit the District's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of management, all applicable federal and state agencies, and those other Governments from which federal financial assistance was received and is not intended to be and should not be used by anyone other than these specified parties.



Kristi Dobbins, CPA