

# AUDIT REPORT

## LATIMER COUNTY RURAL WATER DISTRICT #2 LATIMER COUNTY, OKLAHOMA

DECEMBER 31, 2011



### KERSHAW CPA & ASSOCIATES, PC

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LATIMER COUNTY RURAL WATER DISTRICT #2  
LATIMER COUNTY, OKLAHOMA  
DECEMBER 31, 2011

TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTORY SECTION:	
BOARD OF DIRECTORS	3
FINANCIAL SECTION:	
INDEPENDENT AUDITOR'S REPORT	4-5
BASIC FINANCIAL STATEMENTS:	
EXHIBIT A    STATEMENT OF NET ASSETS - MODIFIED CASH BASIS	6
EXHIBIT B    STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - MODIFIED CASH BASIS	7
EXHIBIT C    STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS	8
NOTES TO THE FINANCIAL STATEMENTS	9-13
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	14-15
SCHEDULE OF FINDINGS	16

LATIMER COUNTY RURAL WATER DISTRICT #2  
LATIMER COUNTY, OKLAHOMA  
DECEMBER 31, 2011

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>
T.J. GREY	CHAIRMAN
SCOTT MEDDERS	VICE CHAIRMAN
JOHN BULL	SECRETARY/TREASURER
BRENDA FOGARTY	MEMBER (Sardis Board)
STACEY COLE	MEMBER (Sardis Board)

STAFF

LINDA PETTY	OFFICE MANAGER
MICHAEL DEWBRE	MAINTENANCE

Unaudited

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Latimer County Rural Water District #2  
Latimer County, Oklahoma

I have audited the accompanying financial statements of the Latimer County Rural Water District #2, as of and for the fiscal year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the Latimer County Rural Water District #2'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, and in accordance with Oklahoma Statutes. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the 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 described in Note 1, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the Latimer County Rural Water District #2, Latimer County, Oklahoma, as of December 31, 2011, and the respective changes in cash basis financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, I have also issued my report dated April 18, 2012, on my consideration of the Latimer County Rural Water District #2'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 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 compliance with Government Auditing Standards and should be considered in assessing the results of my audit.

Latimer County Rural Water District #2 has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34. However the District has not presented the Management's Discussion and Analysis required by the Governmental

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Accounting Standards Board (GASB) that the GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

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 my audit of the basic financial statements, and accordingly, I do not express an opinion thereon.

Robert E. Kershaw  
Certified Public Accountant

April 18, 2012

LATIMER COUNTY RURAL WATER DISTRICT #2  
LATIMER COUNTY, OKLAHOMA  
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS  
DECEMBER 31, 2011

	Total 2011	Total (Memo Only) 2010
<b><u>ASSETS</u></b>		
<b><u>Current Assets:</u></b>		
Cash and Cash Equivalents	\$ 82,859	\$ 75,146
Investments	95,423	94,553
Total Current Assets	178,281	169,698
<b><u>Restricted Assets:</u></b>		
ORWA Water Assistance Certificate	1,000	1,000
Total Restricted Assets	1,000	1,000
<b>TOTAL ASSETS</b>	<b>\$ 179,281</b>	<b>\$ 170,698</b>
<b><u>LIABILITIES</u></b>		
<b><u>Current Liabilities:</u></b>		
Payroll Taxes Payable	\$ 3	\$ 704
Water Deposits Payable	2,125	2,075
Current Portion of Long-Term Debt	-	-
Total Current Liabilities	2,128	2,779
<b><u>Long-Term Liabilities:</u></b>		
Notes Payable	-	-
Less: Current Portion of Long-Term Debt	-	-
Total Long-Term Liabilities	-	-
<b>TOTAL LIABILITIES</b>	<b>2,128</b>	<b>2,779</b>
<b><u>NET ASSETS</u></b>		
Invested in capital assets, net of related debt	-	-
Restricted for debt service	2,125	2,075
Unrestricted	175,027	165,844
<b>TOTAL NET ASSETS</b>	<b>177,152</b>	<b>167,919</b>
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b>\$ 179,281</b>	<b>\$ 170,698</b>

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

**LATIMER COUNTY RURAL WATER DISTRICT #2**  
**LATIMER COUNTY, OKLAHOMA**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**- MODIFIED CASH BASIS -**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

	Total 2011	Total (Memo Only) 2010
<b><u>Operating Revenues:</u></b>		
Water Sales	\$ 241,134	\$ 225,133
Miscellaneous	12,554	6,996
<b>Total Operating Revenues</b>	<b>253,688</b>	<b>232,130</b>
<b><u>Operating Expenses:</u></b>		
Bank Charges	75	74
Office Rent	4,200	4,200
Group Health Insurance	10,884	10,737
Bonds & Insurance	5,963	5,560
Contract Labor	28,504	695
Wages	49,667	46,290
Payroll Taxes	4,640	4,305
Dues & Subscriptions	1,049	957
Professional Fees	2,800	1,798
Postage	2,646	1,597
Miscellaneous	961	2,514
Office Supplies	798	1,611
Retirement	4,971	4,650
Supplies	19,394	24,543
Telephone & Utilities	4,019	4,469
Vehicle Expense	8,505	5,954
Travel Expense	973	937
Water Purchases	87,514	97,039
Machine Rentals	7,935	4,910
Equipment Purchase	-	-
<b>Total Operating Expenses</b>	<b>245,497</b>	<b>222,839</b>
<b>Operating Income (Loss)</b>	<b>8,191</b>	<b>9,290</b>
<b><u>Non-Operating Revenues (Expenses):</u></b>		
Interest Income	1,042	1,830
Interest Expense	-	-
<b>Total Non-operating Revenues (Expenses)</b>	<b>1,042</b>	<b>1,830</b>
<b>Change in Net Assets</b>	<b>9,233</b>	<b>11,120</b>
<b>Total Net Assets - Beginning</b>	<b>167,919</b>	<b>156,800</b>
<b>Total Net Assets - Prior Year Adjustment</b>	<b>-</b>	<b>-</b>
<b>Total Net Assets - Ending</b>	<b>\$ 177,152</b>	<b>\$ 167,919</b>

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

**LATIMER COUNTY RURAL WATER DISTRICT #2  
LATIMER COUNTY, OKLAHOMA  
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

	<u>2011</u>	<u>Memorandum Only 2010</u>
<b><u>Net Cash Flows from Operating Activities:</u></b>		
Cash Receipts from Customers	\$ 253,688	\$ 232,130
Payments to Suppliers for Goods & Services	(186,920)	(166,890)
Payments to Employees and Laborers	(59,278)	(55,246)
	<u>7,491</u>	<u>9,994</u>
<b><u>Net Cash Provided (Used) by Operating Activities</u></b>		
<b><u>Net Cash Flows from Capital &amp; Related Financing Activities:</u></b>		
Customer Deposits Received (Refunded)	50	225
Principal paid on Debt	-	-
Interest paid on Debt	-	-
	<u>50</u>	<u>225</u>
<b><u>Net Cash Provided (Used) by Capital &amp; Related Financing Activities</u></b>		
<b><u>Net Cash Flows from Investing Activities:</u></b>		
(Increase)Decrease in Investments	(870)	(1,627)
Interest Income	1,042	1,830
	<u>172</u>	<u>203</u>
<b><u>Net Cash Provided (Used) by Investing Activities</u></b>		
<b><u>Net Increase (Decrease) in Cash and Cash Equivalents</u></b>	<u>7,713</u>	<u>10,422</u>
<b><u>Cash &amp; Cash Equivalents, Beginning of Year</u></b>	<u>75,146</u>	<u>64,724</u>
<b><u>Cash &amp; Cash Equivalents, Prior Year Adjustment</u></b>	<u>-</u>	<u>-</u>
<b><u>Cash &amp; Cash Equivalents, End of Year</u></b>	<u>\$ 82,859</u>	<u>\$ 75,146</u>
<b><u>Reconciliation of operating income (loss) to net cash provided operating activities:</u></b>		
Operating Income (Loss)	\$ 8,191	\$ 9,290
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	-	-
Increase(Decrease) in Payroll Tax Payable	(700)	704
	<u>7,491</u>	<u>9,994</u>
<b><u>Net Cash Provided (Used) by Operating Activities</u></b>	<u>\$ 7,491</u>	<u>\$ 9,994</u>

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



LATIMER COUNTY RURAL WATER DISTRICT #2  
LATIMER COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization & Reporting Entity

Latimer County Rural Water District #2, Latimer County, Oklahoma, operates as a nonprofit corporation under Oklahoma Statutes, Title 82, Sections 1234.1 through 1234.26, as amended.

B. Basis of Accounting

The accompanying financial statements have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Revenues are recognized when received and expenses are recorded when paid and depreciation is not included as the District does not maintain capital asset ledgers and depreciation.

C. Assets, Liabilities, & Equity

Cash & Cash Equivalents

For the purpose of financial reporting, "cash & 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.

Inventories

Supplies inventory is not recorded in the financial statements as the value of supplies at December 31, 2011 is not material to the financial statements.

Capital Assets

The District does not keep detailed records for depreciation or capital assets.

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 assets and displayed in three components:

LATIMER COUNTY RURAL WATER DISTRICT #2  
LATIMER COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011

1. 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.
2. Restricted net assets—Consists of net assets with 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 assets—All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

D. 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.

E. Income Tax Status

The District is exempt from income taxes under Section 501(c)(6) of the Internal Revenue Code.

F. Enterprise Fund

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.

G. Estimates

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

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.

LATIMER COUNTY RURAL WATER DISTRICT #2  
LATIMER COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011

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, 2011, the District held deposits of approximately \$178,281 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.
- 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.).

LATIMER COUNTY RURAL WATER DISTRICT #2  
LATIMER COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011

NOTE 4 - RESTRICTED ASSETS

Meter deposits are restricted cash. Deposits are refunded when service to a non land owner is finished. The meter deposits for the District are not separated but are co-mingled in the operating account.

NOTE 5 - CAPITAL ASSETS

The District does not maintain detailed schedules for depreciation of capital assets. The amount of depreciation and capital assets is not known.

NOTE 6 - LONG-TERM DEBT

The District has no long-term debt.

Changes in Long-Term Debt

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

	Balance at Dec. 31, 2010	Additions	Deductions	Balance at Dec. 31, 2011
Notes Payable	\$ -	\$ -	\$ -	\$ -
Total Long-Term Debt	\$ -	\$ -	\$ -	\$ -

Debt Services Requirements to Maturity

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

Year Ended December 31,	Principal	Interest	Total
2012	\$ -	\$ -	\$ -
2013	-	-	-
2014	-	-	-
2015	-	-	-
2016	-	-	-
2017-2021	-	-	-
Total	\$ -	\$ -	\$ -

NOTE 7 - FUND EQUITY

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

1. Invested in capital assets, net of related debt
2. Restricted net assets
3. Unrestricted net assets

LATIMER COUNTY RURAL WATER DISTRICT #2  
LATIMER COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011

The restricted net assets include assets restricted for the repayment of refundable water deposits as stated in Note 4 above.

NOTE 8 - CONTINGENCIES

Litigation

The District currently has no 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.

NOTE 9 - EMPLOYEE RETIREMENT SYSTEM

The District has a retirement plan. The plan is a money purchase plan. Contributions are made by the District for all eligible employees equal to ten percent (10%) of the employee's compensation for the year.

An employee, age 21 or more, with 1,000 hours of service to the District is eligible to participate in the plan. The employee vests at the rate of 20% per year of plan participation, when after five (5) years of participation, is fully vested in benefits.

The District's total contributions for 2011, 2010 and 2009 were \$4,971, \$4,650 and \$3,675, respectively.

The plan may be viewed at the District's office.

NOTE 10 - SUBSEQUENT EVENTS

The District did not have any subsequent events through April 18, 2012, 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, 2011.

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## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors  
Latimer County Rural Water District #2  
Latimer County, Oklahoma

I have audited the financial statements of the Latimer County Rural Water District #2, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles, as of December 31, 2011 and have issued my report thereon dated April 18, 2012. The Latimer County Rural Water District #2 has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, except that the District did not present the required MD&A. I conducted my audit in accordance with U.S. generally accepted auditing standards, 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.

### Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Latimer County Rural Water District #2's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Latimer County Rural Water District #2's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Latimer County Rural Water District #2's internal control over financial reporting.

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.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weakness, as defined above. However, I identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of

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Findings that I consider to be significant deficiencies in internal control over financial reporting. Those deficiencies are listed as Item 11-01. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Latimer County Rural Water District #2's financial statements are free of material misstatement, I 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 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*.

Latimer County Rural Water District #2's response to the findings identified in my audit is described in the accompanying Schedule of Findings. I did not audit Latimer County Rural Water District #2's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of the Board of Directors and management of the Latimer County Rural Water District #2 and is not intended to be and should not be used by anyone other than these specified parties.

Robert E. Kershaw  
Certified Public Accountant

April 18, 2012

LATIMER COUNTY RURAL WATER DISTRICT #2  
LATIMER COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS  
DECEMBER 31, 2011

Internal Control Findings:

Item 11-01: Segregation of Duties

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

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

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

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

Response: The Board continues to be actively involved in the operations of the District. The cost of implementing a plan to segregate duties exceeds any benefits derived.