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State Auditor & Inspector

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**Central Oklahoma  
Master Conservancy District**

*Financial Statements*

June 30, 2011 and 2010  
(With Independent Auditors' Report Thereon)



# CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT

## FINANCIAL STATEMENTS

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Central Oklahoma Master Conservancy District

We have audited the accompanying statements of net assets of the Central Oklahoma Master Conservancy District (the "District") as of June 30, 2011 and 2010, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States 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 we 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. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2011, on our consideration of the District's internal control over financial reporting and on 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 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 our audit.

(Continued)

**INDEPENDENT AUDITORS' REPORT, CONTINUED**

Accounting principles generally accepted in the United States require that the management's discussion and analysis information on pages I-1 through I-4 and the required supplementary information on pages 22 through 23 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Finley & Cook, PLLC*

Shawnee, Oklahoma  
November 30, 2011

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Central Oklahoma Master Conservancy District's (the "District") annual financial report presents a discussion and analysis of its financial performance for the years ended June 30, 2011 and 2010. Please read it in conjunction with the financial statements which follow this section. The following tables summarize the net assets and changes in net assets of the District for 2011 and 2010.

### Statements of Net Assets

	June 30,	
	<u>2011</u>	<u>2010</u>
<b>Assets</b>		
Current assets	\$ 3,356,091	3,643,215
Capital assets, net	9,276,410	8,799,055
Other noncurrent assets	<u>3,911,613</u>	<u>4,425,755</u>
 Total assets	 <u>\$ 16,544,114</u>	 <u>16,868,025</u>
 <b>Liabilities</b>		
Current liabilities	\$ 881,176	978,705
Long-term debt, less current maturities	<u>3,718,103</u>	<u>4,236,062</u>
Total liabilities	<u>4,599,279</u>	<u>5,214,767</u>
 <b>Net Assets</b>		
Invested in capital assets, net	5,040,348	4,059,519
Unrestricted	6,854,487	7,543,739
Restricted	<u>50,000</u>	<u>50,000</u>
Total net assets	<u>11,944,835</u>	<u>11,653,258</u>
 Total liabilities and net assets	 <u>\$ 16,544,114</u>	 <u>16,868,025</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

### Statements of Revenues, Expenses, and in Changes Net Assets

	Years Ended June 30,	
	<u>2011</u>	<u>2010</u>
Operating revenues:		
Operations and maintenance	\$ 1,324,505	1,350,584
Electric power	440,015	442,483
Total operating revenues	<u>1,764,520</u>	<u>1,793,067</u>
Operating expenses:		
Pumping power	496,353	436,114
Salaries and benefits	501,749	479,922
Other operating expenses	612,005	508,808
Total operating expenses	<u>1,610,107</u>	<u>1,424,844</u>
Operating income	<u>154,413</u>	<u>368,223</u>
Total non-operating income	<u>137,164</u>	<u>1,233,170</u>
Changes in net assets	291,577	1,601,393
Net assets, beginning of year	<u>11,653,258</u>	<u>10,051,865</u>
Net assets, end of year	<u>\$ 11,944,835</u>	<u>11,653,258</u>

### Overview of the Financial Statements

The three financial statements are as follows:

- Statement of Net Assets—This statement presents information reflecting the District's assets, liabilities, and net assets. Net assets represent the amount of total assets less total liabilities. The statement of net assets is categorized as to current and noncurrent assets and liabilities. For purposes of the financial statements, current assets and liabilities are those assets and liabilities with immediate liquidity or which are collectible or becoming due within 12 months of the statement date.
- Statement of Revenues, Expenses, and Changes in Net Assets—This statement reflects the operating revenues and expenses, as well as non-operating revenues and expenses, during the fiscal year. Major sources of operating revenues are operations and maintenance, and electric power revenue; and major sources of operating expenses are salaries and benefits, and pumping power expense. Major sources of non-operating income are from the federal agencies funding and the net gain resulting from tornado damage. The change in net assets for an enterprise fund is the equivalent of net profit or loss for any other business enterprise.

## MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

### Overview of the Financial Statements, Continued

- Statement of Cash Flows—The statement of cash flows is presented using the direct method of reporting which reflects cash flows from operating, capital and related financing, and investing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash and cash equivalents for the fiscal year.

### Financial Highlights

- During the year ended June 30, 2007, the District entered into a contract for the \$2,400,000 Energy Project construction. The Energy Project was being financed by a \$1,500,000 note payable with a financial institution, with repayment coming from assessments from the City of Norman and the City of Del City, and amounts placed into an escrow account by the City of Midwest City to fund its share of the project. The Energy Project was completed in July 2009, and the note payable was refinanced with a lower rate through the Oklahoma Water Resources Board.
- The decrease in total operating revenues of approximately \$66,000 in 2010 compared to the prior year was due to a planned operating budget decrease. The decrease in total operating revenues of approximately \$29,000 in 2011 compared to the prior year was due to a planned operating budget decrease.
- The increase in total operating expenses of approximately \$54,000 in 2010 compared to the prior year was due primarily to increases in salaries and benefits, professional services, and depreciation expense of approximately \$56,000, \$25,000, and \$130,000, respectively, offset by decreases to state and federal services and pumping power of approximately \$91,000 and \$107,000, respectively. The increase in total operating expenses of approximately \$185,000 in 2011 compared to the prior year was due primarily to increases in maintenance, depreciation expense, and pumping power of approximately \$73,000, \$62,000, and \$60,000, respectively.
- Non-operating income increased approximately \$818,000 in 2010 compared to the prior year, mainly resulting from federal government funding, a gain from tornado damage, and a reduction in assessments to the Cities for the Energy Project. Non-operating income decreased approximately \$1,096,000 in 2011 compared to the prior year, mainly resulting from decreases in federal government funding and interest income of approximately \$829,000 and \$41,000, respectively. As of June 30, 2011 and 2010, the District recognized approximately \$233,000 and \$981,000, respectively, from the Clean Water State Revolving Fund—American Recovery and Reinvestment Act of 2009 to fund the Green Project and \$18,000 and \$99,000, respectively, in federal funds from a matching grant for the District's augmentation water supply study. The District recognized approximately \$276,000 of net gain in 2010 resulting from tornado damage.

## MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

### Capital Assets

As of June 30, 2010, the District had invested approximately \$14,731,000 in capital assets, including dam and reservoir, construction in-progress, pipelines, pumping plant, buildings and structures, vehicles, and equipment. Net of accumulated depreciation, the District's net capital assets at June 30, 2010, approximated \$8,799,000. As of June 30, 2011, the District had invested approximately \$15,436,000 in capital assets, including dam and reservoir, construction in-progress, pipelines, pumping plant, buildings and structures, vehicles, and equipment. Net of accumulated depreciation, the District's net capital assets at June 30, 2011, approximated \$9,276,000. Additional details concerning the District's capital assets can be found in the financial statements (see Note 3).

The District's infrastructure assets, which are reported using the modified approach for depreciation, consisted of dam and reservoir related assets. The infrastructure assets are typically required to have annual condition assessments performed by the U.S. Department of the Interior's Bureau of Reclamation. The condition assessment assigned to the assets was 89 and 95 in the last two issued assessment reports, respectively. A rating of 80 or greater is considered to be a "Good" rating. The District's objective is to maintain a "Good" condition assessment rating.

### Debt Administration

As of June 30, 2011, the District had approximately \$2,846,000 payable to the U.S. Department of the Interior, compared to approximately \$3,276,000 at June 30, 2010.

As of June 30, 2011 and 2010, the District had an approximately \$1,390,000 and \$1,464,000 note payable with the Oklahoma Water Resources Board, respectively.

Additional details concerning the District's long-term debt can be found in the financial statements (see Note 4).

### Contacting the District's Management

This financial report is designed to provide patrons and interested parties with a general overview of the District's finances and to demonstrate the District's accountability for its finances. If you have questions about this report or need additional financial information, contact:

Randy Worden, District Manager  
Central Oklahoma Master Conservancy District  
12500 Alameda Drive  
Norman, OK 73026  
Telephone: 405-329-5228

**CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT**

**STATEMENTS OF NET ASSETS**

<i>June 30,</i>	<i>2011</i>	<i>2010</i>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 2,247,879	2,170,178
Assessments receivable—the Cities, current portion	442,399	429,546
Assessments receivable—the Cities—Energy Project, current portion	56,649	73,928
Accounts receivable	462,285	442,869
Due from grantor—Oklahoma Water Resources Board	19,422	149,027
Due from insurance company	9,318	248,730
Due from City of Norman—excess water	59,604	59,604
Accrued interest receivable	58,535	69,333
Total current assets	<u>3,356,091</u>	<u>3,643,215</u>
Noncurrent assets:		
Certificate of deposit	124,730	120,913
Restricted cash and cash equivalents	50,000	50,000
Prepaid expenses and other deposits	18,780	18,780
Assessments receivable—the Cities	2,403,958	2,846,357
Assessments receivable—the Cities—Energy Project	1,314,145	1,389,705
Capital assets, net	9,276,410	8,799,055
Total noncurrent assets	<u>13,188,023</u>	<u>13,224,810</u>
 Total assets	 <u>\$ 16,544,114</u>	 <u>16,868,025</u>

(Continued)

See Independent Auditors' Report.  
See accompanying notes to financial statements.

# CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT

## STATEMENTS OF NET ASSETS, CONTINUED

<i>June 30,</i>	<i>2011</i>	<i>2010</i>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 216,969	319,880
Due to the Cities of Del City and Midwest City— excess water	59,604	59,604
Compensated absences payable	16,590	16,016
Accrued interest payable	70,054	79,731
Long-term debt, current portion	517,959	503,474
Total current liabilities	<u>881,176</u>	<u>978,705</u>
Long-term debt, less current maturities	<u>3,718,103</u>	<u>4,236,062</u>
Total liabilities	<u>4,599,279</u>	<u>5,214,767</u>
Net assets:		
Invested in capital assets, net	5,040,348	4,059,519
Unrestricted	6,854,487	7,543,739
Restricted	50,000	50,000
Total net assets	<u>11,944,835</u>	<u>11,653,258</u>
Total liabilities and net assets	<u>\$ 16,544,114</u>	<u>16,868,025</u>

See Independent Auditors' Report.  
See accompanying notes to financial statements.

**CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT**

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

<i>Years Ended June 30,</i>	<i>2011</i>	<i>2010</i>
Operating revenues:		
Operations and maintenance	\$ 1,324,505	1,350,584
Electric power	440,015	442,483
Total operating revenues	<u>1,764,520</u>	<u>1,793,067</u>
Operating expenses:		
Salaries and benefits	501,749	479,922
Maintenance	159,902	87,006
Utilities	16,429	14,540
Insurance and bond	48,381	37,457
Administrative supplies	7,446	10,067
Professional services	73,876	82,669
State and federal services	43,799	64,193
Pumping power	496,353	436,114
Depreciation	262,172	200,594
Other	-	12,282
Total operating expenses	<u>1,610,107</u>	<u>1,424,844</u>
Operating income	<u>154,413</u>	<u>368,223</u>
Non-operating income (expense):		
ARRA grant revenue—Green Project	232,939	980,829
Grant revenue—augmentation water supply study	17,511	98,964
Interest income	127,147	168,079
Net gain resulting from tornado damage	-	275,679
Interest expense	(120,888)	(147,078)
ARRA—Green Project operating expenses	(100,250)	-
Augmentation water supply study expense	(11,637)	(151,488)
Other, net	(7,658)	8,185
Total non-operating income	<u>137,164</u>	<u>1,233,170</u>
Changes in net assets	291,577	1,601,393
Net assets, beginning of year	<u>11,653,258</u>	<u>10,051,865</u>
Net assets, end of year	<u>\$ 11,944,835</u>	<u>11,653,258</u>

See Independent Auditors' Report.  
See accompanying notes to financial statements.

CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT

STATEMENTS OF CASH FLOWS

Increase (Decrease) in Cash and Cash Equivalents

<i>Years Ended June 30,</i>	<i>2011</i>	<i>2010</i>
<b>Cash flows from operating activities:</b>		
Cash received from assessments to the Cities	\$ 1,745,104	1,812,352
Cash payments for goods and services	(949,097)	(737,515)
Cash payments for salaries and benefits	(501,175)	(477,174)
Net cash provided by operating activities	<u>294,832</u>	<u>597,663</u>
<b>Cash flows from capital, noncapital, and related financing activities:</b>		
Acquisition and development of capital assets	(764,252)	(1,242,328)
Proceeds from sale of capital assets	24,725	18,972
Repayment of debt obligations	(503,474)	(1,928,245)
Borrowing from debt obligations	-	1,500,000
Interest paid	(130,565)	(178,449)
Augmentation water supply study, net	5,874	(52,524)
Proceeds from ARRA grant revenue—Green Project	362,544	831,802
ARRA—Green Project operating expenses	(100,250)	-
Other	231,754	69,548
Net cash used in capital, noncapital, and related financing activities	<u>(873,644)</u>	<u>(981,224)</u>
<b>Cash flows from investing activities:</b>		
Principal received on assessments receivable	522,385	429,536
Interest received	137,945	174,692
Purchase of a certificate of deposit	(3,817)	(120,913)
Net cash provided by investing activities	<u>656,513</u>	<u>483,315</u>
<b>Net increase in cash and cash equivalents</b>	<b>77,701</b>	<b>99,754</b>
Cash and cash equivalents at beginning of year	<u>2,220,178</u>	<u>2,120,424</u>
Cash and cash equivalents at end of year	<u>\$ 2,297,879</u>	<u>2,220,178</u>

(Continued)

See Independent Auditors' Report.  
See accompanying notes to financial statements.

CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT

STATEMENTS OF CASH FLOWS, CONTINUED

Increase (Decrease) in Cash and Cash Equivalents

<i>Years Ended June 30,</i>	<i>2011</i>	<i>2010</i>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 154,413	368,223
Depreciation	262,172	200,594
Change in operating assets and liabilities:		
Accounts receivable	(19,416)	19,285
Accounts payable	(102,911)	6,813
Due from City of Norman—excess water	-	(59,604)
Due to the Cities of Del City and Midwest City—excess water	-	59,604
Compensated absences payable	<u>574</u>	<u>2,748</u>
Net cash provided by operating activities	<u>\$ 294,832</u>	<u>597,663</u>
<b>Reconciliation of cash and cash equivalents to the statements of net assets:</b>		
Cash and cash equivalents classified as current assets	\$ 2,247,879	2,170,178
Cash and cash equivalents classified as noncurrent assets	<u>50,000</u>	<u>50,000</u>
	<u>\$ 2,297,879</u>	<u>2,220,178</u>

See Independent Auditors' Report.  
See accompanying notes to financial statements.

# CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

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### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Organization and Nature of Operations

The Central Oklahoma Master Conservancy District (the "District") is a governmental organization established pursuant to Oklahoma Statute by order of the Cleveland County District Court entered on September 30, 1959. Its primary purpose is to distribute raw water from Lake Thunderbird to the Cities of Del City and Midwest City (under a contract dated November 13, 1961) and the City of Norman (under a contract dated September 5, 1961) [collectively, the "Cities"] for municipal, domestic, and industrial use. The District manages and operates the dam, facilities, land, and rights of way under a September 5, 1961, agreement with the United States. The District also provides flood control, fish and wildlife benefits, and recreational opportunities. The District is obligated to repay the United States for a portion of the construction cost (considered to be cost related to municipal and industrial water supply), with interest, for which it assesses the member cities annually based on a stated formula. The members of the District's board of directors are nominated by the Cities and appointed by the Cleveland County District Court.

#### Reporting Entity

The financial statements presented herein include only the operations of the District and do not include the assets, liabilities, or results of operations of the Cities serviced.

#### Basis of Accounting

The District prepares its financial statements on the enterprise fund basis using the economic measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the obligation is incurred. The District has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with the Governmental Accounting Standards Board (GASB). The District has elected to not apply FASB pronouncements issued after the applicable date.

#### Financial Statement Presentations

The District follows the provisions of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* (GASB 34), in preparing its financial statements.

See Independent Auditors' Report.

# CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

#### Cash and Cash Equivalents

For purposes of the statements of cash flows, the District considers all highly liquid investments with an original maturity of 3 months or less to be cash and cash equivalents.

#### Restricted Cash and Cash Equivalents

The contract with the U.S. Department of the Interior (see Note 4) requires that \$50,000 be restricted for maintenance and operations.

#### Capital Assets

Capital assets are stated at cost and depreciated on the date they are placed into service. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are 20–25 years for buildings and structures, pumping plant, and pipelines; 7 years for vehicles and office equipment; and 20 years for the Energy Project equipment and fencing and equipment.

The District considers the dam and reservoir related assets to be infrastructure assets, which are reported using the modified approach for depreciation. Under the modified approach, infrastructure assets are not required to be depreciated as long as certain requirements, as defined by GASB 34, are met. All expenditures made for infrastructure assets, using the modified approach, are expensed in the period incurred, except for expenditures considered to be for additions or improvements.

#### Intangible Assets

The District believes its only intangible assets consist of certain rights of way, all of which were received prior to July 2009. Since the District is considered to be a Phase 3 government under GASB 34, the District is not required to retroactively apply GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* (GASB 51). Therefore, the District has not accounted for and reported its rights of way intangible assets.

#### Compensated Absences

The District's employees can accrue a maximum of 360 hours of vacation pay. Upon termination, accrued, unpaid hours will be paid at the employee's hourly rate then in effect. Sick leave can be accrued at a rate of 12 days per year (8 hours for every full month of service) but is not paid upon termination.

See Independent Auditors' Report.

CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**Income Taxes**

Because the District is a governmental institution pursuant to Title 82, Chapter 5 of the Oklahoma Statutes, as amended, the District is exempt from federal and state income taxes.

**Concentrations**

The District is located in Norman, Oklahoma, and serves the Cities and, therefore, is reliant on the Cities' ability to meet their obligations.

**Contingencies**

The District carries appropriate insurance with regard to comprehensive general liability, comprehensive automobile liability, personal injury, general property, and workers' compensation insurance.

**Net Asset Classification**

Net assets are classified as follows:

*Invested in Capital Assets, Net of Related Debt*—Consists of capital assets, net of accumulated depreciation, less the balance of debt incurred to finance the acquisition or construction of the related capital assets.

*Restricted Net Assets*—Consists of assets whose use is constrained for specific purposes.

*Unrestricted Net Assets*—Consists of all other net assets that do not meet the definition of "Invested in Capital Assets, Net of Related Debt" or "Restricted Net Assets."

**Revenues**

The District considers all assessments charged to the Cities to fund its normal operations as operating revenues. Assessments to the Cities to fund capital or special projects, and grants or other contracts received from federal and state agencies, are considered to be non-operating income.

**Federal Grant Revenues and Expenditures**

The District's federal grant revenues are primarily expenditure driven, in that prior to requesting grant monies, expenditures are incurred. Grant receivable represents the amount needed to fund expenditures accrued at June 30, 2011 and 2010.

See Independent Auditors' Report.

CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**Reclassification of Prior Year Amounts**

Certain prior year amounts have been reclassified to make them comparable with the 2011 presentation.

**Use of Estimates in Preparing Financial Statements**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

**Recent Accounting Pronouncements**

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements* (GASB 62). The objective of GASB 62 is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

- (a) Financial Accounting Standards Board Statements and Interpretations.
- (b) Accounting Principles Board Opinions.
- (c) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedures.

The requirements in GASB 62 will improve financial reporting by contributing to GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. GASB 62 is effective for financial statements for periods beginning after December 15, 2011, with earlier application encouraged. The provisions of GASB 62 are required to be applied retroactively for all periods presented and is not expected to have a significant impact on the District's financial statements.

See Independent Auditors' Report.

CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Date of Management's Review of Subsequent Events

Management of the District has evaluated subsequent events through November 30, 2011, the date which the financial statements were available to be issued.

(2) CASH AND INVESTMENTS

*Custodial Credit Risk—Deposits:* Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's deposit policy for custodial credit risk is described as follows:

The District requires that balances on deposit with financial institutions be insured by the FDIC or collateralized by securities held by the cognizant Federal Reserve Bank, or be invested in U.S. government obligations in the District's name.

As of June 30, 2011, the carrying amount of the District's cash deposits was fully collateralized by federal depository insurance or pledges of securities by the various financial institutions.

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

*Concentration of Credit Risk:* The District places no limit on the amount the District may invest in any one issuer.

CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) CAPITAL ASSETS

Following are the changes in capital assets for the years ended June 30:

	Balance at June 30, 2010	Additions	Retirements	Transfers	Balance at June 30, 2011
Capital assets not being depreciated:					
Dam and reservoir	\$ 4,605,177	-	-	-	4,605,177
Construction in-progress:					
Buildings and structures	162,253	85,000	-	(162,253)	85,000
Green Project	972,593	-	-	(972,593)	-
Total capital assets not being depreciated	<u>5,740,023</u>	<u>85,000</u>	<u>-</u>	<u>(1,134,846)</u>	<u>4,690,177</u>
Other capital assets:					
Vehicles	299,533	33,222	(49,698)	-	283,057
Pipelines	3,402,226	-	-	-	3,402,226
Pumping plant	1,546,838	47,114	-	-	1,593,952
Office equipment	43,822	33,071	-	-	76,893
Buildings and structures	259,380	389,418	-	162,253	811,051
Energy Project equipment	2,536,613	-	-	-	2,536,613
Fencing and equipment	902,311	176,427	(9,763)	972,593	2,041,568
Total other capital assets	<u>8,990,723</u>	<u>679,252</u>	<u>(59,461)</u>	<u>1,134,846</u>	<u>10,745,360</u>
Accumulated depreciation:					
Vehicles	(162,730)	(27,203)	24,973	-	(164,960)
Pipelines	(3,402,226)	-	-	-	(3,402,226)
Pumping plant	(1,546,838)	(1,178)	-	-	(1,548,016)
Office equipment	(33,863)	(6,846)	-	-	(40,709)
Buildings and structures	(140,250)	(21,262)	-	-	(161,512)
Energy Project equipment	(126,831)	(126,831)	-	-	(253,662)
Fencing and equipment	(518,953)	(78,852)	9,763	-	(588,042)
Total accumulated depreciation	<u>(5,931,691)</u>	<u>(262,172)</u>	<u>34,736</u>	<u>-</u>	<u>(6,159,127)</u>
Capital assets, net	<u>\$ 8,799,055</u>	<u>502,080</u>	<u>(24,725)</u>	<u>-</u>	<u>9,276,410</u>

See Independent Auditors' Report.

CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) CAPITAL ASSETS, CONTINUED

	Balance at <u>June 30, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	Balance at <u>June 30, 2010</u>
Capital assets not being depreciated:					
Dam and reservoir	\$ 4,605,177	-	-	-	4,605,177
Construction in-progress:					
Energy Project	2,536,613	-	-	(2,536,613)	-
Buildings and structures	-	162,253	-	-	162,253
Green Project	-	972,593	-	-	972,593
Total capital assets not being depreciated	<u>7,141,790</u>	<u>1,134,846</u>	<u>-</u>	<u>(2,536,613)</u>	<u>5,740,023</u>
Other capital assets:					
Vehicles	308,072	45,076	(53,615)	-	299,533
Pipelines	3,402,226	-	-	-	3,402,226
Pumping plant	1,546,838	-	-	-	1,546,838
Office equipment	40,590	3,232	-	-	43,822
Buildings and structures	321,997	-	(62,617)	-	259,380
Energy Project equipment	-	-	-	2,536,613	2,536,613
Fencing and equipment	792,075	110,538	(302)	-	902,311
Total other capital assets	<u>6,411,798</u>	<u>158,846</u>	<u>(116,534)</u>	<u>2,536,613</u>	<u>8,990,723</u>
Accumulated depreciation:					
Vehicles	(172,633)	(24,741)	34,644	-	(162,730)
Pipelines	(3,402,226)	-	-	-	(3,402,226)
Pumping plant	(1,546,838)	-	-	-	(1,546,838)
Office equipment	(30,109)	(3,754)	-	-	(33,863)
Buildings and structures	(157,912)	(10,541)	28,203	-	(140,250)
Energy Project equipment	-	(126,831)	-	-	(126,831)
Fencing and equipment	(484,528)	(34,727)	302	-	(518,953)
Total accumulated depreciation	<u>(5,794,246)</u>	<u>(200,594)</u>	<u>63,149</u>	<u>-</u>	<u>(5,931,691)</u>
Capital assets, net	<u>\$ 7,759,342</u>	<u>1,093,098</u>	<u>(53,385)</u>	<u>-</u>	<u>8,799,055</u>

In July 2009, the District completed the Energy Project and began depreciating the cost of the project using the straight-line method over a 20-year life.

See Independent Auditors' Report.

CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) CAPITAL ASSETS, CONTINUED

In May 2010, a tornado damaged several of the District’s buildings and structures, vehicles, and equipment. As of June 30, 2010, the District received \$124,951 in proceeds from its insurance company. During 2010, the District recognized a gain of \$275,679 from the tornado damage. During 2011, the District received an additional \$248,730 for damages from the insurance company, which was recorded as a receivable in the June 30, 2010, statement of net assets.

During 2011, the District used the insurance proceeds to replace buildings and structures, vehicles, and equipment which were damaged as a result of the 2010 tornado damage.

In October 2010, the District completed the construction and installation of the Green Project equipment and began depreciating the cost of the project using the straight-line method over a 20-year life.

(4) LONG-TERM DEBT

Long-term debt activity for the years ended June 30 was as follows:

	Balance at June 30, <u>2010</u>	<u>Additions</u>	<u>Reductions</u>	Balance at June 30, <u>2011</u>	Amounts Due Within <u>1 Year</u>
U.S. Department of the Interior contract payable	\$ 3,275,903	-	(429,546)	2,846,357	442,399
Drinking Water SRF note payable	<u>1,463,633</u>	<u>-</u>	<u>(73,928)</u>	<u>1,389,705</u>	<u>75,560</u>
	<u>\$ 4,739,536</u>	<u>-</u>	<u>(503,474)</u>	<u>4,236,062</u>	<u>517,959</u>

See Independent Auditors’ Report.

CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) LONG-TERM DEBT, CONTINUED

	Balance at June 30, <u>2009</u>	<u>Additions</u>	<u>Reductions</u>	Balance at June 30, <u>2010</u>	Amounts Due Within <u>1 Year</u>
U.S. Department of the Interior contract payable	\$ 3,692,961	-	(417,058)	3,275,903	429,546
Series 2007 note payable	1,474,820	-	(1,474,820)	-	-
Drinking Water SRF note payable	-	<u>1,500,000</u>	<u>(36,367)</u>	<u>1,463,633</u>	<u>73,928</u>
	<u>\$ 5,167,781</u>	<u>1,500,000</u>	<u>(1,928,245)</u>	<u>4,739,536</u>	<u>503,474</u>

*U.S. Department of the Interior Contract Payable*

In 1961, the District entered into a contract with the U.S. Department of the Interior to provide for the repayment of the District's share of the costs incurred in the construction of the water facilities. The original contract payable was for \$10,928,511 at 2.74% interest over 55 years. Interest and principal payments are due annually on October 1.

*Series 2007 Note Payable and Drinking Water SRF Note Payable*

In January 2007, the District entered into a \$1,500,000 note payable agreement with a financial institution (the Series 2007 note payable) to help fund the District's Energy Project. The note bore interest at 5.04%. Interest was payable annually beginning January 1, 2008. Beginning on January 1, 2010, the principal was to be repaid in 18 annual installments. The note had the characteristics of a line of credit, in that the District could draw down funds as they were needed. The Series 2007 note payable was refinanced in October 2009 as discussed below.

In October 2009, the District refinanced the Series 2007 note payable with a note payable (Drinking Water SRF note payable) from the Oklahoma Water Resources Board (OWRB) through its "Drinking Water SRF Financing Program." The Drinking Water SRF note payable has an annual interest rate of 2.78%, matures on September 15, 2026, and is secured by the District's revenues. Semi-annual interest and principal payments are due on March 15 and September 15. The note has certain financial, restrictive, and negative covenants that the District must meet. As of June 30, 2011 and 2010, the District was in compliance with such covenants.

See Independent Auditors' Report.

CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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(4) LONG-TERM DEBT, CONTINUED

Future payments of principal and interest of the District's long-term debt for the next 5 years and to maturity are as follows:

<u>Year</u>	<u>Total</u>	<u>Interest</u>	<u>Principal</u>
2012	\$ 634,756	116,797	517,959
2013	634,983	102,421	532,562
2014	635,341	87,747	547,594
2015	635,681	72,658	563,023
2016	635,318	57,226	578,092
2017-2021	1,071,661	126,526	945,135
2022-2026	545,339	46,890	498,449
2027	54,004	756	53,248
	<u>\$ 4,847,083</u>	<u>611,021</u>	<u>4,236,062</u>

(5) ASSESSMENTS RECEIVABLE

The Cities entered into separate contracts with the District for the repayment of their share of the original contract payable with the U.S. Department of the Interior (see Note 4). The original assessments for the City of Norman, the City of Midwest City, and the City of Del City were \$4,083,149, \$4,672,610, and \$2,172,752, respectively, payable annually on September 1 at 2.74% interest over 55 years. The balance of the assessments receivable at June 30, 2011 and 2010, was \$2,846,357 and \$3,275,903, respectively.

In connection with the District's Energy Project, the District entered into contracts with the City of Norman and the City of Del City, in which the two cities agreed to repay their share of the note payable related to the project through an assessment receivable. The assessments mirror the terms of the Series 2007 note payable and the Drinking Water SRF note payable. See Note 4 for the individual terms. The assessments are secured by gross revenues received from the sale of water by the respective cities. The balance of the assessments receivable for the Energy Project at June 30, 2011 and 2010, was \$1,370,794 and \$1,463,633, respectively.

See Independent Auditors' Report.

CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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(6) RETIREMENT PLANS

Defined Benefit Retirement Plan

*Plan Description*

The District participates in the Oklahoma Municipal Retirement Fund (OMRF), an agent multiple public employer retirement system (PERS) defined benefit pension plan. A PERS is a retirement system that provides pension benefits to employees of one or more state or local governmental entities. An agent PERS maintains pooled administrative and investment functions for all participating entities. All full-time employees of the District are eligible to participate in the OMRF. In general, the OMRF provides retirement benefits based on members' final average compensation, age and term of service, plus annual cost-of-living adjustments, if so elected. In addition, the retirement program provides for benefits upon disability and to survivors upon the death of eligible members. The authority to establish and amend the benefit provisions of the plans that participate in the OMRF is assigned to the respective employer entities. The OMRF issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Trust Administrator, Chase, P.O. Box 25848, Oklahoma City, OK 73125.

*Funding Policy*

The District's participating employees are required to contribute 6.0% of their final average annual compensation to the defined benefit retirement plan. The District is required to contribute an actuarially determined rate; the rate for the years ended June 30, 2011 and 2010, was 36.9% and 36.2%, respectively, of covered salary. The contribution requirements of the plan participants and the District are established and may be amended by the District's Board of Directors.

*Actuarial Annual Pension Cost*

For 2011, the District's annual pension cost was \$78,637, and the actual pension contribution was \$87,637, including employee required contributions of \$12,335. The actuarial assumptions included (a) a 7.5% investment rate of return per year and (b) projected salary increases based on age, ranging from 3% to 5% per year. The actuarial value of the District's assets was determined using the actuarial method. The District's unfunded actuarial accrued liability is being amortized over 30 years from the valuation date.

Three-Year Trend Information for the District			
<u>Fiscal Year</u> <u>Ended June 30,</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage of APC</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
2009	\$ 75,414	85%	11,488
2010	81,044	103%	9,109
2011	78,637	111%	109

See Independent Auditors' Report.

**CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(6) RETIREMENT PLANS, CONTINUED**

**Defined Benefit Retirement Plan, Continued**

*Funded Status and Funding Progress*

As of January 1, 2011, the District's funded status of the OMRF was as follows:

Actuarial accrued liability (AAL)	\$	1,340,858
Actuarial value of assets		818,222
Unfunded actuarial accrued liability (UAAL)		522,636
Funded ratio (actuarial value of assets/AAL)		61.0%
Annual covered payroll (active plan members)		183,502
UAAL as a percentage of annual covered payroll		284.8%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

In March 2008, the District created a defined contribution retirement plan and trust, known as the "Employee Retirement System of Central Oklahoma Master Conservancy District in Norman, Oklahoma, Defined Contribution Plan" (the "Contribution Plan"), in the form of The Oklahoma Municipal Retirement System Master Defined Contribution Plan. The Contribution Plan is available only to the District Manager and contains a provision requiring the District to contribute up to 15% of the District Manager's eligible compensation. For the years ended June 30, 2011 and 2010, the District contributed approximately \$18,000 and \$16,000, respectively, to the Contribution Plan. Benefits depend solely on amounts contributed to the Contribution Plan plus investment earnings.

**(7) AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009 AWARD**

The American Recovery and Reinvestment Act of 2009 (ARRA) was passed by Congress in February 2009 to provide a stimulus to the U.S. economy in the wake of an economic downturn. In January 2010, the District was approved to receive \$1,501,285 from the Clean Water State Revolving Fund—American Recovery and Reinvestment Act of 2009 program from the OWRB (the contracting agency) through the U.S. Environmental Protection Agency. The funds from the award will be used to construct, install, and operate a supersaturated dissolved oxygen injection system at Lake Thunderbird (the "ARRA—Green Project").

See Independent Auditors' Report.

# CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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### (7) AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009 AWARD, CONTINUED

Under the terms of the funding agreement, the District is obligated to operate the project for two years after the system is constructed and installed. The funding is through the OWRB's Clean Water State Revolving Fund Loan Account and is structured as a loan that will be forgiven upon the completion of the project if the District has complied, in all material respects, with the terms of the funding agreement. The District believes it is currently in material compliance with the terms of the funding agreement, and it is the District's intention to materially comply with such terms through the end of the project. Therefore, the District is treating the funding agreement as a grant rather than a loan, whereby, the funds received under the agreement are treated as grant revenue, rather than as borrowings under a debt obligation. In 2011 and 2010, the District incurred \$232,939 and \$980,829, respectively, of costs under the program. The District recognized \$232,939 and \$980,829 in 2011 and 2010, respectively in grant revenues related to the program. As of June 30, 2011, the District had incurred total costs of \$1,213,768 related to the program, leaving \$287,517 of funds available at June 30, 2011.

The District completed the construction and installation of the Green Project's equipment in October 2010 and began operating the Green Project at that time.

The funding agreement is subject to audit by the OWRB, the U.S. Environmental Protection Agency, or their representatives. Such audits could lead to request for reimbursement to the OWRB or the U.S. Environmental Protection Agency for costs disallowed under the terms of the funding agreement. Presently, the District has no such requests pending.

### (8) OTHER FEDERAL FUNDING

In December 2009, the District was approved to receive a \$120,000 grant from the U.S. Department of the Interior's Bureau of Reclamation (BOR). The grant is a 50% matching grant to cover costs associated with an augmentation water supply study being performed by the District for the periods beginning in February 2009 through September 2014. The District received \$17,511 and \$98,964 of funds from the grant in 2011 and 2010, respectively.

In prior years, the District received advance funding under two grants from the BOR. The grants were restricted for fencing and security projects. In 2010, the District incurred approximately \$112,000 in costs for fencing and security projects under the grant programs, which fully expended the funds under both grant programs.

The federal grants are subject to audit by the BOR or their representatives. Such audits could lead to request for reimbursement to the BOR for costs disallowed under the terms of the grant. Presently, the District has no such requests pending.

See Independent Auditors' Report.

**CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(9) LEGAL**

As of June 30, 2011, the District was a plaintiff in a case against the City of Norman and the Norman Utilities Authority for excess water taken by the City of Norman and billed by the District in the amount of \$59,604. Any amounts received from the City of Norman are to be credited to the Cities of Del City and Midwest City. The outcome of this litigation will not have a material effect on the District's financial position or changes in its financial position.

See Independent Auditors' Report.

**CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT**

**REQUIRED SUPPLEMENTARY  
INFORMATION**

**CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT**

**OMRF AGENT MULTIPLE PUBLIC EMPLOYER DEFINED BENEFIT PENSION PLAN—  
SCHEDULE OF FUNDING PROGRESS**

*June 30, 2011*

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Annual Covered Payroll (c)	UAAL as a Percentage of Annual Covered Payroll [(b)-(a)]/(c)
<b>1/1/2011</b>	<b>\$ 818,222</b>	<b>1,340,858</b>	<b>522,636</b>	<b>61.0%</b>	<b>183,502</b>	<b>284.8%</b>
1/1/2010	758,261	1,278,782	520,521	59.3%	190,107	273.8%
1/1/2009	742,924	1,231,611	488,687	60.3%	178,695	273.5%

See Independent Auditors' Report.

**CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT**

**CONDITION RATING AND ESTIMATE-TO-ACTUAL COMPARISON OF  
MAINTENANCE OF INFRASTRUCTURE ASSETS**

*June 30, 2011*

**Condition Rating of Infrastructure Assets**

	<u>Years Ended June 30,</u>		
	<u>2011</u>	<u>2009</u>	<u>2008</u>
Infrastructure assets (dam and reservoir)	89	95	81

Condition assessments of the infrastructure assets are made by the U.S. Department of the Interior's Bureau of Reclamation (BOR). The BOR typically performs a comprehensive assessment every 3 years and a limited condition assessment for other annual periods. The ratings are based on the BOR's "Facility Reliability Rating System for High and Significant Hazard Dams." The ratings are as follows: Good (rating of 80 or greater); Fair (rating of 60 to 79); and Poor (rating of 59 or less).

**Estimate-to-Actual Comparison of Maintenance of Infrastructure Assets**

	<u>Years Ended June 30,</u>				
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Estimate	\$ 77,000	76,844	75,503	75,454	89,475
Actual	118,752	83,213	68,935	63,949	59,960

See Independent Auditors' Report.

**CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT**

**REPORT AND SCHEDULES REQUIRED BY  
*GOVERNMENT AUDITING STANDARDS***

**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**

Board of Directors  
Central Oklahoma Master Conservancy District

We have audited the financial statements of the Central Oklahoma Master Conservancy District (the "District") as of and for the year ended June 30, 2011, and have issued our report thereon dated November 30, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 a 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. We consider the deficiency described in Finding 2011-01 in the accompanying schedule of findings and responses to be a material weakness.

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. We consider the deficiency described in Finding 2011-02 in the accompanying schedule of findings and responses to be a significant deficiency.

(Continued)

**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, CONTINUED**

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we 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 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*.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the responses and, accordingly, we express no opinion on them.

This report is intended solely for the use of the Board of Directors, management, and federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Finley & Cook, PLLC*

Shawnee, Oklahoma  
November 30, 2011

# CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT

## SCHEDULE OF FINDINGS AND RESPONSES

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*Year Ended June 30, 2011*

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### MATERIAL WEAKNESS

#### **FINDING 2011-01**

*Finding:*

Management has not fully implemented a year-end financial statement closing process to address all nonroutine transactions of the Central Oklahoma Master Conservancy District (the "District"), such as:

- recording federally funded program costs as either capital assets or expense,
- accruing for receivables and related revenues at year-end for costs incurred and reported, but not received from the awarding agency,
- recording depreciation expense for certain assets,
- classifying assessments receivable as current and noncurrent, and
- accruing for expenses incurred but not funded at year end.

Due to not fully implementing such a closing process, several adjusting entries were required to be made to the District's trial balance in order for the financial statements to be presented in accordance with accounting principles generally accepted in the United States.

*District Response:*

The District does not have the expertise to fully implement a year-end closing process and does not anticipate hiring such expertise as it is not considered to be financially feasible at this time.

**CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT**

**SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED**

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*Year Ended June 30, 2011*

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**SIGNIFICANT DEFICIENCY**

**FINDING 2011-02**

*Finding:*

Management's accounting focus is on the accurate processing of routine transactions and the preparation of internal financial statements for management reporting purposes and not for external reporting in accordance with accounting principles generally accepted in the United States. The District does not have the expertise to recognize and implement new or existing accounting principles generally accepted in the United States.

*District Response:*

The District does not have the expertise to provide external reporting in accordance with accounting principles generally accepted in the United States and does not anticipate hiring such expertise as it is not considered to be financially feasible at this time.

# CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT

## SCHEDULE OF PRIOR YEAR FINDINGS

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*Year Ended June 30, 2011*

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### FINDING 2010-01

*Finding:*

Management has not fully implemented a year-end financial statement closing process to address all nonroutine transactions of the Central Oklahoma Master Conservancy District (the "District"), such as:

- recording federal grant funding as non-operating income rather than an increase directly to net assets,
- recording federally funded program costs as either capital assets or expense,
- accruing for receivables and related revenues at year-end for costs incurred and reported, but not received from the awarding agency,
- recording depreciation expense,
- classifying assessments receivable and long-term debt as current and noncurrent, and
- recording insurance reimbursement receivables.

*District Response:*

The District does not have the expertise to fully implement a year-end closing process and does not anticipate hiring such expertise as it is not considered to be financially feasible at this time.

*2011 Follow-up:*

During the 2011 audit, we noted certain year-end adjusting journal entries related to accruing certain expenses, classifying long-term debt as current, recording federal grant funding as non-operating income, and recording the effect of prior period adjustments were made to the District's trial balance by the District's outside accountant. However, additional year-end adjusting journal entries were required to be made to the District's trial balance in order for the financial statements to be presented in accordance with accounting principles generally accepted in the United States. This is a repeat finding in 2011.

**CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT**

**SCHEDULE OF PRIOR YEAR FINDINGS, CONTINUED**

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*Year Ended June 30, 2011*

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**FINDING 2010-02**

*Finding:*

Management's accounting focus is on the accurate processing of routine transactions and the preparation of internal financial statements for management reporting purposes and not for external reporting in accordance with accounting principles generally accepted in the United States. The District does not have the expertise to recognize and implement new or existing accounting principles generally accepted in the United States.

*District Response:*

The District does not have the expertise to provide external reporting in accordance with accounting principles generally accepted in the United States and does not anticipate hiring such expertise as it is not considered to be financially feasible at this time.

*2011 Follow-up:*

This is a repeat finding in 2011.