

Clarity-Olney Water Co., Inc.
Clarita, Oklahoma

REPORT ON AUDIT OF FINANCIAL STATEMENTS

For the Year Ended June 30, 2012

SAUNDERS & ASSOCIATES, PLLC

Certified Public Accountants

630 East 17th Street

P. O. Box 1406

Ada, Oklahoma 74820

(580) 332-8548

FAX: (580) 332-2272

Website: www.saunderscpas.com

CLARITA-OLNEY WATER CO., INC.
Clarita, Oklahoma

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Clarita-Olney Water Company, Inc.
Clarita, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Clarita-Olney Water Company, Inc., as of and for the year ended June 30, 2012, which collectively comprise the Clarita-Olney Water Company, Inc.'s basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Clarita-Olney Water Company, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Clarita-Olney Water Company, Inc., as of June 30, 2012, and the respective changes in financial position, and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2012 on our consideration of the Clarita-Olney Water Company, Inc.'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 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 our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 6 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 of America, 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.

Saunders + Associates PLLC

SAUNDERS & ASSOCIATES, PLLC
Certified Public Accountants

October 23, 2012

CLARITA-OLNEY WATER CO., INC.
Clarita, Oklahoma

MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2012

Unaudited

Our discussion and analysis of the financial performance of the Clarita-Olney Water Co., Inc. provides an overview of the Corporation's financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with the Corporation's financial statements, which begin on page 6.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets (on pages 6 and 7) provide information about the activities of the Corporation for the year ended June 30, 2012. The statement of cash flows on page 8 provides information related to cash received and expended by the corporation.

Reporting the Corporation as a Whole

Our analysis of the Corporation as a whole begins on page 4. One of the most important questions asked about the Corporation's finances is, "*Is the Corporation as a whole better off or worse off as a result of the year's activities?*" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Corporation as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Corporation's net assets and changes in them. You can think of the Corporation's net assets – the difference between assets and liabilities – as one way to measure the Corporation's financial health, or financial position. Over time, increases or decreases in the Corporation's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Corporation's long-term debt and the condition of the Corporation's water distribution system, to assess the overall health of the Corporation.

In the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets, the Corporation performs one type of activity:

- **Business-Type Activities** – The Corporation charges a fee to customers to help it cover all or most of the cost of the service it provides. The Corporation's water system is reported here.

Reporting the Corporation's Most Significant Funds

Our analysis of the Corporation's major fund begins on page 4. The Corporation utilizes one type of fund.

- **Proprietary Funds** – When the Corporation charges customers for the services it provides, these services are generally reported in proprietary funds. Generally, proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities.

CLARITA-OLNEY WATER CO., INC.
Clarita, Oklahoma

MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2012

Unaudited

THE CORPORATION AS A WHOLE

Net Assets

The Corporation's net assets increased 2.9% from \$650,658 to \$669,745. (See Table 1)

TABLE 1 – NET ASSETS

	<u>Business-Type Activities</u>		Total % Change
	<u>06/30/12</u>	<u>06/30/11</u>	
Capital Assets	\$ 343,925	\$ 293,662	16.7%
Current and Other Assets	<u>395,880</u>	<u>433,677</u>	<u>2.91%</u>
Total Assets	<u>\$ 739,805</u>	<u>\$ 727,339</u>	<u>1.71%</u>
Liabilities	\$ 70,060	\$ 76,683	-8.6%
Total Liabilities	<u>\$ 70,060</u>	<u>\$ 76,683</u>	<u>-8.6%</u>
Net Assets:			
Invested in Capital Assets	\$ 283,509	\$ 266,155	6.5%
Unreserved	<u>386,236</u>	<u>384,503</u>	<u>.4%</u>
Total Net Assets	<u>\$ 669,745</u>	<u>\$ 650,658</u>	<u>2.9%</u>

TABLE 2 – CHANGES IN NET ASSETS

	<u>Business-Type Activities</u>		Total % Change
	<u>06/30/12</u>	<u>06/30/11</u>	
Water Charges	\$ 217,880	\$ 205,136	6.2%
Interest Revenue	<u>3,001</u>	<u>1,865</u>	<u>61.0%</u>
Total Revenues	<u>220,881</u>	<u>207,001</u>	<u>0.9%</u>
Operating Expenses:			
Operating Expense	<u>201,794</u>	<u>177,013</u>	<u>13.9%</u>
Total Expenses	<u>201,794</u>	<u>177,013</u>	<u>13.9%</u>
Changes in Net Assets	<u>\$ 19,087</u>	<u>\$ 29,988</u>	<u>-36.3%</u>

Business-Type Activities

Revenues of the Corporation's business-type activities increased by 0.9% (\$220,881 in 2012 compared to \$207,001 in 2011) and expenses increased by 13.9% (\$201,794 in 2012 compared to \$177,013 in 2011).

CLARITA-OLNEY WATER CO., INC.
Clarita, Oklahoma

MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2012

Unaudited

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2012, the Corporation had \$836,773 invested in capital assets, including water distribution systems and equipment (see table below).

	<u>06/30/12</u>	<u>06/30/11</u>	<u>% Change</u>
Water Distribution System	\$ 803,545	\$ 772,858	4.0%
Building	14,500	14,500	0.0%
Equipment	<u>18,728</u>	<u>18,728</u>	<u>0.0%</u>
Total	\$ <u>836,773</u>	\$ <u>806,086</u>	<u>3.8%</u>

More detailed information about the Corporation's capital assets is presented in Note 1 and Note 2 of the financial statements.

CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers and creditors with a general overview of the Corporation's finances and to show the Corporation's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact the Manager's Office at PO Box 81, Clarita, Oklahoma.

Donna Bolin
Manager

BASIC FINANCIAL STATEMENTS

CLARITA-OLNEY WATER CO., INC.
Clarita, Oklahoma

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

June 30, 2012

	<u>Water</u>
ASSETS	
Current Assets:	
Cash	\$ 160,807
Accounts Receivable	32,382
Investments	100,326
Total Current Assets	<u>293,515</u>
Non-Current Assets:	
Investments	102,365
Water Distribution System	803,545
Building	14,500
Equipment	18,728
Less: Accumulated Depreciation	(492,848)
Total Non-Current Assets	<u>446,290</u>
TOTAL ASSETS	\$ <u>739,805</u>
LIABILITIES AND NET ASSETS	
<u>Liabilities:</u>	
Current Liabilities:	
Accounts Payable	\$ 8,844
Current Portion of Long-Term Debt	6,250
Rental Deposits	800
Total Current Liabilities	<u>15,894</u>
Non-Current Liabilities:	
Long-Term Debt	60,416
Less: Current Portion	(6,250)
Total Non-Current Liabilities	<u>54,166</u>
Total Liabilities	<u>70,060</u>
<u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	283,509
Unrestricted	386,236
Total Net Assets	<u>669,745</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>739,805</u>

* The accompanying notes are an integral part of the financial statements.

CLARITA-OLNEY WATER CO., INC.
Clarita, Oklahoma

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS

PROPRIETARY FUNDS

For the Year Ended June 30, 2012

	<u>Water</u>
<u>Operating Revenues:</u>	
Water Charges	\$ <u>217,880</u>
Total Operating Revenues	<u>217,880</u>
<u>Operating Expenses:</u>	
Personnel Services	44,300
Maintenance and Operations	38,006
Materials and Supplies	99,384
Depreciation	<u>20,104</u>
Total Operating Expenses	<u>201,794</u>
Operating Income (Loss)	<u>16,086</u>
<u>Non-Operating Revenue (Expense):</u>	
Interest Revenue	<u>3,001</u>
Total Non-Operating Revenues (Expense)	<u>3,001</u>
Income (Loss) Before Other Financing Sources and and (Uses)	<u>19,087</u>
<u>Other Financing Sources (Uses):</u>	
Capital Contributions	0
Operating Transfers In (Out)	<u>0</u>
Total Other Financing Sources (Uses)	<u>0</u>
Change in Net Assets	19,087
Net Assets, June 30, 2011	<u>650,658</u>
NET ASSETS, June 30, 2012	<u>\$ <u>669,745</u></u>

* The accompanying notes are an integral part of the financial statements.

CLARITA-OLNEY WATER CO., INC.
Clarita, Oklahoma

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

For the Year Ended June 30, 2012

	Water
<u>Cash Flows From Operating Activities:</u>	
Receipts from customers	\$ 207,015
Payments to suppliers	(137,390)
Payments for labor	(44,300)
Other receipts (payments)	0
Net Cash Provided (Used) by Operating Activities	25,325
<u>Cash Flows From Non-Capital Financing Activities:</u>	
Debt Principal Reduction	(6,771)
Net Cash Provided (Used) by Non-Capital Financing Activities	(6,771)
<u>Cash Flows From Capital and Related Financing Activities:</u>	0
Net Cash Provided (Used) by Capital and Related Financing Activities (Depreciation)	0
<u>Cash Flows Provided by Investing Activities:</u>	
Purchase of Investments	0
Interest	646
Purchase of Capital Assets	(30,687)
Net Cash Provided (Used) by Investing Activities	(30,041)
Net Increase (Decrease) in Cash	(11,487)
Cash, June 30, 2011	172,294
CASH, JUNE 30, 2012	\$ 160,807

* The accompanying notes are an integral part of the financial statements.

CLARITA-OLNEY WATER CO., INC.
Clarita, Oklahoma

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

For the Year Ended June 30, 2012

	<u>Enterprise Funds</u>
<u>Cash Consists of:</u>	
Demand Deposits	\$ <u>160,807</u>
 TOTAL CASH, END OF YEAR	 \$ <u><u>160,807</u></u>
 <u>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</u>	
Operating income (loss)	\$ 16,086
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	20,104
Change in assets and liabilities:	
Customer Deposits	150
Receivables	<u>(11,015)</u>
 Net Cash Provided by Operating Activities	 \$ <u><u>25,325</u></u>

* The accompanying notes are an integral part of the financial statements.

CLARITA-OLNEY WATER CO., INC.
Clarita, Oklahoma

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The Clarita-Olney Water Company, Inc. was incorporated under the laws of the State of Oklahoma in accordance with Title 82 of the Oklahoma Statutes, as a subdivision of the State of Oklahoma. The Clarita-Olney Water Company, Inc. was organized for the purpose of constructing and operating a water supply distribution system serving the members of the Corporation. The Corporation was organized November 14, 1968.

The Corporation's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (*Statements and Interpretations*). Governments are also required to follow the pronouncements of the *Financial Accounting Standards Board (FASB)* issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the Corporation has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the Corporation has chosen not to do so. The more significant accounting policies in GAAP and used by the Corporation are discussed in subsequent sections.

Reporting Entity - For financial reporting purposes, the Corporation complies with *Governmental Accounting Standards Board (GASB) Cod. Sec. 2100*, in defining the Corporation's financial reporting entity. All of the officials and activities described above are included in the Corporation's reporting entity.

Basic Financial Statements - Fund Financial Statements - The financial transactions of the Corporation are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The following fund type is used by the District:

Proprietary Fund – The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the proprietary fund of the District.

Enterprise Funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activity categories. Non-major funds by category are summarized into a single column. *GASB Statement No. 34* sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The non-major funds are combined in a column in the fund financial statements.

CLARITA-OLNEY WATER CO., INC.
Clarita, Oklahoma

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Basis of Accounting - Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Accrual - Business-type activities in the governmental-wide financial statements and the proprietary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

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

Financial Statement Amounts:

Cash - For purposes of the Statement of Cash Flows, cash consists of demand deposits maintained at financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). Deposits are carried at cost.

Investments - Investments consist of certificates of deposits maintained at financial institutions insured by the Federal deposit Insurance Corporation (FDIC). Deposits are carried at cost, which approximates fair market value.

	<u>Matures</u>	<u>Cost</u>
6 Month CD	12/27/12	\$ 100,326
36 Month CD	05/06/14	\$102,365

Concentration of Credit Risk - Bank balances at year end are categorized as follows to give an indication of the level of risk assumed by the organization.

Unreconciled

<u>Category</u>	<u>Carrying Amount</u>
1) Insured or collateralized with securities held by the organization or by its agent in the organization's name.	\$ 364,019
2) Collateralized with securities held by the pledging financial institution's trust department.	0
3) Uncollateralized	0
TOTAL	<u>\$ 364,019</u>

Receivables - Accounts receivable consist of June customer water billings which were received in July.

Accounts Payable - Accounts payable consist of June water supply usage which was paid in July.

CLARITA-OLNEY WATER CO., INC.
Clarita, Oklahoma

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Revenues – Substantially all revenues are accrued. Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as non-operating revenue based on GASB 33. In applying GASB Statement No. 33 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as advances by the provider and deferred revenue by the recipient.

Expenditures – Expenditures are recognized when the related fund liability is incurred.

Capital Assets – Capital assets purchased or acquired with a useful life in excess of one year are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlay that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives.

Water Distribution Systems	50 years
Building	15 years
Equipment	3 to 7 years

Compensated Absences – The Corporation has no employees. All personnel services are provided in the capacity of contract labor.

NOTE 2: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 was as follows:

Business-Type Activities:

	<u>Balance</u> <u>06/30/11</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance</u> <u>06/30/12</u>
Water Distribution System	\$ 772,858	\$ 30,687	\$ 0	\$ 803,545
Equipment	18,728	0	0	18,728
Building	14,500	0	0	14,500
Total	806,086	30,687	0	836,773
Accumulated Depreciation	(472,744)	(20,104)	0	(492,848)
Net Business-Type Capital Assets	\$ <u>333,342</u>	\$ <u>10,583</u>	\$ <u>0</u>	\$ <u>343,925</u>

NOTE 3: LITIGATION

At June 30, 2012 the Corporation was not involved in any pending or threatened litigation, which would have a material impact on these financial statements.

CLARITA-OLNEY WATER CO., INC.
Clarita, Oklahoma

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 4: WATER CONTRACT

The Corporation and the City of Coalgate have jointly negotiated a contract whereby the Corporation agrees to purchase its water needs from the City of Coalgate. The current price is \$2.30 per 1,000 gallons used.

NOTE 5: LONG-TERM DEBT

On February 1, 2002 the Corporation entered into a CDBG-CD promissory note agreement with the Coal County Public Facilities Authority for the purpose of water system improvements. The original amount of the note was \$125,000. The note carries a 0% fixed interest rate and matures on February 1, 2022. Scheduled principal payments for the note total \$6,250 annually.

	<u>Principal Balance 06/30/11</u>	<u>Additions</u>	<u>Retirements</u>	<u>Principal Balance 06/30/12</u>
Note Payable CDBG – CD	\$ <u>67,187</u>	\$ <u>0</u>	\$(<u>6,771</u>)	\$ <u>60,416</u>

Future Debt Service Requirement – Debt service requirements for the remainder of the note are as follows:

<u>June 30</u>	
2013	\$ 6,250
2014	6,250
2015	6,250
2016	6,250
2017	6,250
Thereafter	<u>29,166</u>
 TOTAL	 \$ <u>60,416</u>

NOTE 6: RISK MANAGEMENT

The District 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. During the year ended June 30, 2012, the District carried insurance through various commercial carriers to cover all risks of losses. The District has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

NOTE 7: SUBSEQUENT EVENTS

Date of Management Evaluation – Management of the Corporation has evaluated subsequent events through October 23, 2012, which is the date the financial statements were available to be issued.

Saunders & Associates, PLLC

Certified Public Accountants

630 East 17th Street * P. O. Box 1406 * Ada, Oklahoma 74820 * (580) 332-8548 * FAX: (580) 332-2272
Website: www.saunderscpas.com

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Clarita-Olney Water Company, Inc.
Clarita, Oklahoma

We have audited the financial statements of Clarita-Olney Water Company, Inc. as of and for the year ended June 30, 2012, and have issued our report thereon dated October 23, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Clarita-Olney Water Company, Inc.'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 Clarita-Olney Water Company, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Clarita-Olney Water Company, Inc.'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.

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 deficiencies 06-1 and 07-1 described in the accompanying schedule of findings and responses to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Clarita-Olney Water Company, Inc.'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*.

Clarita-Olney Water Company, Inc.'s response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Clarita-Olney Water Company, Inc.'s response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, board of trustees, and others within the entity and is not intended to be, and should not be, used by anyone other than these specified parties.

Saunders & Associates PLLC

SAUNDERS & ASSOCIATES, PLLC
Certified Public Accountants

October 23, 2012

CLARITA-OLNEY WATER CO., INC.
Clarita, Oklahoma

STATUS OF PRIOR AUDIT FINDINGS

June 30, 2012

06-1 SEGREGATION OF DUTIES

Condition: Due to the limited number of personnel involved in the operating of the fiscal office, most of those aspects of internal accounting control, which rely upon an adequate segregation of duties are, for all practical purposes, missing in the organization. However, we recognize that the organization's administration is not large enough to make the employment of additional persons, for the purpose of segregating duties, practical from a cost-benefit standpoint.

Current Status: See current audit finding 06-1.

07-1 INEFFECTIVE CONTROLS OVER SELECTION AND APPLICATION OF GENERALLY ACCEPTED ACCOUNTING PRINCIPALS

Condition: Significant control deficiencies exist which adversely affect the organization's ability to initiate, authorize, record, process and report financial data reliably in accordance with accounting principles generally accepted in the United States of America. Recurring adjustments are required to be made to the financial statements which are compiled by auditors. Cash receipts and cash disbursements journals are not maintained by the organization. In addition, financial statements are not originated and maintained by the organization.

Current Status: The organization now maintains a cash receipts/disbursements ledger, however, ineffective controls still exist. See current audit finding 07-1.

SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended June 30, 2012

06-1 SEGREGATION OF DUTIES

Condition: Due to the limited number of personnel involved in the operating of the fiscal office, most of those aspects of internal accounting control, which rely upon an adequate segregation of duties are, for all practical purposes, missing in the organization. However, we recognize that the organization's administration is not large enough to make the employment of additional persons, for the purpose of segregating duties, practical from a cost-benefit standpoint.

Recommendation: SAUNDERS & ASSOCIATES, PLLC recommends increased oversight by the Board over all financial activities.

Response: Due to the size of the water district, it is not feasible to hire additional personnel for the purpose of segregation of duties.

07-1 INEFFECTIVE CONTROLS OVER SELECTION AND APPLICATION OF GENERALLY ACCEPTED ACCOUNTING PRINCIPALS

Condition: Significant control deficiencies exist which adversely affect the organization's ability to initiate, authorize, record, process and report financial data reliably in accordance with accounting principles generally accepted in the United States of America. Recurring adjustments are required to be made to the financial statements which are compiled by auditors. In addition, financial statements are not originated and maintained by the organization.

Recommendation: SAUNDERS & ASSOCIATES, PLLC recommends a compilation of the financial statements by an outside fee accountant. This process will enhance internal control over financial reporting within the organization.

Response: District has purchased additional software to help with accounting reports. Also, all the payments for water sold is collected at Shamrock Bank.