
**WAURIKA LAKE MASTER
CONSERVANCY DISTRICT**

Annual Financial Report
For the fiscal year ended August 31, 2010

The logo consists of the letters "RHJ" in a bold, serif font, centered within a dark gray rectangular box with a thin black border.

RHJ

Waurika Lake Master Conservancy District
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For the Fiscal Year Ended August 31, 2010

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RAHHAL HENDERSON JOHNSON, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Waurika Lake Master Conservancy District

We have audited the accompanying financial statements of the Waurika Lake Master Conservancy District (District), as of and for the year ended August 31, 2010, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on those 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 that our audit provides 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 Waurika Lake Master Conservancy District, as of August 31, 2010, and its changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 7, to the financial statements the District corrected the reporting of amounts held in trust for participating cities which resulted in a restatement of beginning net assets.

In accordance with *Government Auditing Standards*, we have issued our report dated October 24,

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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 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.

Management has not presented the Management's Discussion and Analysis that the accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Rahhal Henderson Johnson, PLLC

Ardmore, Oklahoma
October 24, 2011

Waurika Lake Master Conservancy District
Statement of Net Assets
August 31, 2010

ASSETS

Current Assets:

Cash and Cash Equivalent	\$ 1,349,300
Investments	2,696,385
Accounts receivable - Power and Operations	192,709
Interest Receivable	77,947
Prepaid Expense	3,595
Total Current Assets	<u>4,319,936</u>

Noncurrent Assets

Restricted:	
Investments	1,966,641
Capital Assets	
Land and other non-depreciable assets	37,704
Other Capital Assets, Net of Depreciation	<u>23,210,074</u>
Total Noncurrent Assets	<u>25,214,419</u>

Total Assets	<u>\$ 29,534,355</u>
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LIABILITIES

Current Liabilities

Accounts payable	35,303
Due to participating cities	71,907
Accrued interest payable	361,279
Current Portion:	
Contract payable	953,295
Compensated absences	<u>49,665</u>
Total Current Liabilities	1,471,449

Noncurrent Liabilities

Contract payable	<u>26,232,401</u>
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Total Liabilities	<u>27,703,850</u>
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Net Assets

Invested in Capital Assets, Net of Related Debt	(3,937,918)
Restricted for:	
Debt Service	1,894,736
Unrestricted	<u>3,873,687</u>

Total Net Assets	<u>\$ 1,830,505</u>
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The notes to the financial statements are an integral part of this statement

Waurika Lake Master Conservancy District
Statement of Revenue, Expenses and Changes in Fund Net Assets
For the Year Ended August 31, 2010

Operating Revenues:	
Charges for maintenance and operations	\$ 909,029
Total Operating Revenue	<u>909,029</u>
 Operating Expenses:	
Maintenance & Operations	
Personnel Expense	242,178
Line, Pump, & Electrical Expense	200,852
Reservoir Maintenance & Operations	68,014
Materials & Supplies	96,731
Total Maintenance & Operations	<u>607,775</u>
 General Administration & Management	
Personnel Expense	196,722
Office Expense	39,739
Liability Expense	24,145
Professional Services	42,926
Director Expense	9,897
Total General Administration & Management	<u>313,429</u>
Depreciation expense	447,718
Total operating expenses	<u>1,368,922</u>
Operating Income (Loss)	<u>(459,893)</u>
 Nonoperating Revenues (Expenses):	
Charges for Debt Service	136,325
Interest Income	118,463
Investment Expense	(9)
Interest Expense	(961,861)
Total Nonoperating Revenues (Expenses)	<u>(707,082)</u>
Change in Assets	(1,166,975)
Total Net Assets - Beginning, as restated	<u>2,997,480</u>
Total Net Assets - Ending	<u><u>\$ 1,830,505</u></u>

The notes to the financial statements are an integral part of this statement

Waurika Lake Master Conservancy District
Statement of Cash Flows
For the Year Ended August 31, 2010

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from participating cities	\$ 884,259
Payments to suppliers	(623,114)
Payments to employees	<u>(295,817)</u>
Net Cash Used in Operating Activities	<u>(34,672)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Payments from Trust Funds	<u>(806,571)</u>
Net Cash Used by Noncapital Financing Activities	<u>(806,571)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	(79,623)
Debt service payments received from participating cities	136,325
Principal paid on capital debt	(921,388)
Interest and fiscal charges paid on capital debt	<u>(973,348)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(1,838,034)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(5,922,031)
Proceeds from sale and maturities of investments	5,915,555
Interest and dividends	<u>174,521</u>
Net Cash Provided by Investing Activities	<u>168,045</u>
Net Decrease in Cash and Cash Equivalents	(2,511,232)
Cash and Cash Equivalents - beginning of year	3,860,532
Cash and Cash Equivalents - end of year	<u><u>\$ 1,349,300</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income (loss)	\$ (459,893)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation expense	447,718
(Increase) Decrease	
Receivables	(24,770)
Prepaid Expense	13,633
Increase (Decrease)	
Accounts Payable	<u>(11,360)</u>
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ (34,672)</u></u>

The notes to the financial statements are an integral part of this statement

Waurika Lake Master Conservancy District
Notes to Financial Statements
For the Year Ended August 31, 2010

NOTE 1: ORGANIZATION

The Waurika Lake Master Conservancy District (the “District”) formerly the Waurika Project Master Conservancy District was established in 1962 under Title 82, Section 541 et seq of the Oklahoma Statutes. The District is not a political corporation or subdivision of the state, but is designated as a separate legal entity, “a master conservancy district.” The District provides municipal and industrial water to cities of Temple, Waurika, Walters, Lawton, Duncan, and Comanche, Oklahoma.

This incorporation allowed the District to enter into a contract with the United States Army Corps of Engineers (“Corps”) on August 12, 1970, for the construction of a dam and conveyance facilities. Public Law 88-253m 88th Congress 1st Session approved December 30, 1968, authorized the construction of the Waurika Dam and Reservoir on Beaver Creek, Oklahoma. The construction culminated into the existing facilities and infrastructure known as Waurika Lake, which became operational on August 31, 1977.

All member cities are governed by the contract with the District and the Corps and are responsible for three (3) costs each year:

1. The city’s share of its pipeline debt;
2. The city’s share of its water storage debt; and
3. The city’s share of operations and maintenance of the District.

The member cities participate at the following rates: Lawton 59.483%, Duncan 33.333%, Waurika 3.161%, Comanche 1.724%, Walters 1.437%, and Temple 0.862%.

The District’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 does not conflict with or contradict GASB pronouncements. Although the District has the option to apply FASB pronouncements issued after that date to its business-type activities, the District has chosen not to do so.

NOTE 2: FINANCIAL REPORTING ENTITY

These financial statements include the primary government of the District. The District has evaluated whether there are any potential component units for which the District may be financially accountable, and as such should be included within the District’s financial statements. No component units have been identified.

Waurika Lake Master Conservancy District
Notes to Financial Statements
For the Year Ended August 31, 2010

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A: Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “how” transactions are recorded within each fund type. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

The District’s financial statements are presented using “economic resources” measurement focus and the accrual basis of accounting. Accordingly all assets and liabilities (whether current or noncurrent) are included within the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets presents increases (revenues) and decreases (expenses) in total net assets.

Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

Operating revenues are those revenues that are generated from the primary operations of the District. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the District. All other expenses are reported as non-operating expenses.

B. Cash and Cash Equivalents

Cash and cash equivalents include all demand accounts, saving accounts, money market investment in trust accounts, certificates of deposit and short-term investments with an original maturity of three months or less.

C. Investments

The District’s authorized eligible investments are governed by policy which in general, allows investment in obligations of the U.S. Government, its agencies or instrumentalities, collateralized or insured certificates of deposit and money market funds. Investments are recorded at fair value using selected bases. Securities traded on a national or international exchange are valued at the last reported sales price at current exchanges rates. Investments that do not have an established market are reported at estimated fair value as estimated by a broker/dealer. All non-negotiable long-term certificates of deposit are carried at cost.

Waurika Lake Master Conservancy District
Notes to Financial Statements
For the Year Ended August 31, 2010

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Receivables

Material receivables consist of revenues earned at year-end and not yet received. Billed power and operations to the member cities comprise the majority of these receivables. The District is economically dependent upon the financial participation and support of its member cities.

E. Inventories

The District records materials and supplies inventory as expenditures at the time the inventory is purchased and at year-end such inventories are not considered material in amount. Therefore, no inventory balances for materials and supplies, not yet consumed, are reported in the basic financial statements.

F. Restricted Assets

Restricted assets include current assets that are legally restricted as to their use. The primary restricted assets are related to amounts held for the member cities' debt service payments and expense overpayment amounts held in trust for the member cities.

G. Capital Assets and Depreciation

The District's assets are capitalized at historical cost or estimated historical cost. The District has set the capitalization threshold for reporting capital assets at \$800. Depreciation is recorded on the straight-line basis over the useful lives of the assets. The range of estimated useful lives by type of assets is as follow:

Water Storage And Conveyance Facilities.....	100 – years
Private Waterline from Rural Water District	20 - years
Buildings	10 – 31.5 years
Other Improvements.....	10 – 25 years
Equipment and vehicles.....	5 – 10 years

H. Compensated Absences

Under the terms of District personnel policies, District employees are granted 160 hours of annual leave each year. In 2009, the board changed the policy to allow employees to accrue up to 160 hours of vacation to hold in a bank. District employees are granted sick leave with a limit of 480 hours that can be accumulated. In the event of termination, an employee is not paid for accrued sick leave.

Waurika Lake Master Conservancy District
Notes to Financial Statements
For the Year Ended August 31, 2010

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Net Assets

Net assets are displayed in three components:

- a. Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances on any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets—Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets—All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

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

J. Operation Revenues

Revenues consist of charges for the maintenance and operations of each member city’s share of costs to operate and maintain the facilities in accordance with regulations prescribed by the Secretary of the Army, payment of all costs incurred in pumping water for water supply and water quality control purposes, operating and maintaining the waterlines and pumping plants, replacing items which make up waterlines and pumping plants as needed to keep them in satisfactory working condition.

K. Use of Estimates

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

L. Budgetary Comparisons

The District is not legally required to adopt a budget therefore budgetary comparison information is not included in the District’s financial statements.

Waurika Lake Master Conservancy District
Notes to Financial Statements
For the Year Ended August 31, 2010

NOTE 4: DEPOSITS AND INVESTMENT

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 follows state law in requiring collateral for deposits in excess of Federal Deposit Insurance. As of August 31, 2010, the District is not exposed to custodial credit risk.

Investments As of August 31, 2010, the District had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>
Federal Home Loan Bank bonds	June, 2017	\$ 607,854
Non-negotiable certificates of deposit		
	April, 2011	1,000,000
	May, 2011	505,172
	July, 2011	400,000
	September, 2011	1,400,000
	October, 2011	750,000
		<u>\$ 4,663,026</u>

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.

Credit risk The District has an investment policy that would limit its investment choices based on safety of principal, liquidity and return. As of August 31, 2010, the District’s investment in the Federal Home Loan Bank bond was rated AAA by Standard & Poor’s and AAA by Moody’s Investor Service.

Concentration of Credit risk The District places no limit on the amount the District may invest in one issuer. More than 5 percent of the District’s investments are in Federal Home Loan Bank bonds.

Waurika Lake Master Conservancy District
Notes to Financial Statements
For the Year Ended August 31, 2010

NOTE 5: CAPITAL ASSETS

Capital asset activity for the fiscal year ended August 31, 2010, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Capital assets, not being depreciated</i>				
Land	\$ 37,704	\$ -	\$ -	\$ 37,704
Total capital assets, not being depreciated	<u>37,704</u>	<u>-</u>	<u>-</u>	<u>37,704</u>
<i>Capital assets, being depreciated</i>				
Buildings	233,487	-	-	233,487
Vehicles	348,615	-	-	348,615
Office equipment	29,903	13,896	-	43,799
Site Improvements	235,471	52,156	-	287,627
Machinery and Equipment	377,082	13,569	-	390,651
Water Storage Facility	4,616,084	-	-	4,616,084
Pipelines	27,094,070	-	-	27,094,070
Total capital assets, being depreciated	<u>32,934,712</u>	<u>79,621</u>	<u>-</u>	<u>33,014,333</u>
Less Accumulated Depreciation	<u>9,356,541</u>	<u>447,718</u>	<u>-</u>	<u>9,804,259</u>
Total capital assets, being depreciated, net	<u>23,578,171</u>	<u>(368,097)</u>	<u>-</u>	<u>23,210,074</u>
Business activities capital assets, net	<u>\$ 23,615,875</u>	<u>\$ (368,097)</u>	<u>\$ -</u>	<u>\$ 23,247,778</u>

NOTE 6: LONG TERM DEBT

The following is a summary of long-term debt activity as of August 31, 2010:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Contracts Payable	\$ 28,107,084	\$ -	\$ 921,388	\$ 27,185,696	\$ 953,295
	<u>\$ 28,107,084</u>	<u>\$ -</u>	<u>\$ 921,388</u>	<u>\$ 27,185,696</u>	<u>\$ 953,295</u>

Waurika Lake Master Conservancy District
Notes to Financial Statements
For the Year Ended August 31, 2010

NOTE 6: LONG TERM DEBT (continued)

As of August 31, 2010, the long-term debt consisted of the following:

Type of Indebtedness(purpose)	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at August 31, 2010
United States of America Corps of Engineers (financed costs of right to utilize 24.559 percent of the storage space in Waurika Reservoir)	October, 2027	3.46%	\$ 195,907	\$ 4,256,242	\$ 2,485,752
United States of America Corps of Engineers (financed costs of Western Segment water conveyance facilities)	March, 2031	3.46%	1,046,996	17,850,397	15,442,496
United States of America Corps of Engineers (financed costs of Eastern Segment water conveyance facilities)	September, 2030	3.46%	627,811	8,399,472	8,952,658
United States of America Corps of Engineers (financed costs of Southern Segment water conveyance facilities)	July, 2027	3.46%	24,022	429,810	304,790
					<u><u>\$ 27,185,696</u></u>

As of August 31, 2010, annual debt service requirements are as follows:

Year Ending	Principal	Interest
June 30		
2011	\$ 953,295	\$ 941,441
2012	986,308	908,428
2013	1,020,464	874,272
2014	1,055,802	838,934
2015	1,092,365	802,371
2016-2020	6,056,138	3,416,537
2021-2025	7,179,951	2,293,729
2026-2030	7,829,409	984,498
2031	1,011,964	35,044
	<u><u>\$ 27,185,696</u></u>	<u><u>\$ 11,095,254</u></u>

NOTE 7: RESTATEMENT

The District determined that trust funds held for participating cities in the amount of \$871,481, had been recorded incorrectly in a prior year as revenue rather than as liabilities. To correct this error, beginning net assets of \$3,868,961, as originally report, has been decreased to \$2,997,479.

Waurika Lake Master Conservancy District
Notes to Financial Statements
For the Year Ended August 31, 2010

NOTE 8: EMPLOYEE PENSION AND OTHER BENEFIT PLANS

Deferred Compensation Plan:

In prior years, the Board of Directors of the District adopted a deferred compensation plan for employees of the District. Under the plan the District contributes, for each eligible employee, eight (8) percent of the employee's salary to the Waurika Lake Master Conservancy District Trust for Deferred Compensation Plan, which maintains a plan designed to meet Internal Revenue Code Section 403 (B) requirements. During the year ended August 31, 2010, the District contributed \$19,339 to the Trust for the employees.

NOTE 9: COMMITMENTS AND CONTINGENCIES

Other Obligations and Commitments:

In addition to the obligations under the long term debt contracts, the District is obligated to share in the Corps of Engineers cost of annual operations and maintenance expense and major capital replacements of the project. During the year ended August 31, 2010, the District's share of operation and maintenance expense was \$68,014.

Insurance and Bond Coverage Contingencies:

The District carries the following insurance coverage as protection against possible loss contingencies:

- Workers Compensation and Employer Liability
- Commercial Property Fire and Extended Coverage
- Comprehensive Automobile Liability
- Automobile Physical Damage
- Commercial Contractors Equipment Coverage
- Boiler and Machinery Coverage
- Commercial Umbrella Coverage
- Directors and Officers Liability
- Public Employee Dishonesty Bond

Waurika Lake Master Conservancy District
Notes to Financial Statements
For the Year Ended August 31, 2010

NOTE 10: SUBSEQUENT EVENTS

The District has obtained for a note from the Oklahoma Water Resources Board to purchase the remainder of the Municipal and Industrial (M&I) storage feature of Waurika Lake, finance certain improvements to water storage and transmission facilities, fund a debt service reserve fund and pay costs of issuance. The total amount of the note is \$27,955,000 and it matures October 1, 2035. The note is secured by a pledge of revenue derived from the operation of Waurika Lake including specifically the revenues derived from the contracts with the participating municipalities.



RAHHAH HENDERSON JOHNSON, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

**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
Waurika Lake Master Conservancy District

We have audited the financial statements of Waurika Lake Master Conservancy District as of and for the year ended August 31, 2010, and have issued our report thereon dated October 24, 2011. Our report included an explanatory paragraph regarding a restatement and the omission of management discussion and analysis section of required supplementary information. 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 Waurika Lake Master Conservancy District's internal control over financial reporting in order to determine 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 Waurika Lake Master Conservancy District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Waurika Lake Master Conservancy 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 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.

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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 deficiency 2010-1 described 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 deficiency 2010-2 described in the accompanying schedule of findings and responses to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Waurika Lake Master Conservancy 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 response to findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Directors, management, others within the entity and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Rahhal Henderson Johnson, PLLC

Ardmore, Oklahoma
October 24, 2011

Waurika Lake Master Conservancy District
Schedule of Findings and Responses
August 31, 2010

2010-1 Preparation of financial statement with disclosures in accordance with Generally Accepted Account Procedures

Condition – Management has engaged the auditors to assist in the preparation of the financial statements. However, there were not controls in place to prevent, detect and correct misstatements in the financial statements or for determining that the appropriate financial statement disclosures have been made in accordance with generally accepted accounting principles. Consequently, material adjusting entries and disclosures were necessary.

Criteria – Effective internal control over financial reporting includes the identification and analysis of the risk of material misstatements in the financial statements. Management of the District is responsible for designing a system to manage the risks over preparation of the financial statements. The responsibility for the financial statements remains with management even when the preparation of the financial statements is transferred to a service provider. A skilled and competent employee or consultant with sufficient awareness of or experience in accounting principles and disclosure requirements should be designated to oversee the preparation of the financial statements.

Effect – Significant audit adjustments to the general ledger and disclosures were necessary to present financial statements in accordance with generally accepted accounting principles.

Cause – The internal control structure has primarily focused on operations. The District has not developed a formal year-end financial reporting control process.

Recommendation – The District should implement use of a computerized accounting software to aid in record keeping and inclusion of necessary year-end journal entries required to present financial statements in accordance with generally accepted accounting principles. We also recommend that the District consider engaging an outside consultant with experience in governmental accounting to assist in year-end financial reporting.

Management Response – Management has purchased and will implement the use of new accounting software. We are still searching for an appropriate consultant to assist with the implementation and ongoing reporting issues.

2010-2 Segregation of Duties

Condition The office manager performs several duties that are incompatible duties in the areas of receiving payments, recording revenue, adjusting receivables, and reconciling bank statements.

Waurika Lake Master Conservancy District
Schedule of Findings and Responses
August 31, 2010

Criteria – Effective internal controls over financial record keeping should segregate key accounting duties between more than one individual and/or establish monitoring procedures to prevent material misstatements before they occur.

Effect – A significant amount of control is placed with the office manager, which increases risks of errors or omissions occurring and not being identified in a timely manner.

Cause – Small staff size.

Recommendation – The District should implement mitigating monitoring controls by the District manager or a member of the board to review the reconciliations, general ledger, and journal entries. This review should be evidenced by some form of initial, signature or other documentation..

Management Response – Based on input from the board, we will include documents to be reviewed in the general board minutes or will send the information to the board treasurer for review. Some of these processes may be delegated by the board to the District manager, if they so choose.