

**WAURIKA LAKE MASTER
CONSERVANCY DISTRICT**

Annual Financial Report
For the fiscal year ended August 31, 2011

RHJ

Waurika Lake Master Conservancy District
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For the Fiscal Year Ended August 31, 2011

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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, 2011, 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, 2011, 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 8, to the financial statements the District corrected the reporting of assessment receivable which resulted in a restatement of beginning net assets.

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In accordance with *Government Auditing Standards*, we have issued our report dated November 26, 2012, 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
November 26, 2012

Waurika Lake Master Conservancy District
Statement of Net Assets
August 31, 2011

ASSETS

Current Assets:

| | |
|--|------------------|
| Cash and cash equivalent | \$ 2,178,357 |
| Investments | 489,055 |
| Accounts receivable - power and operations | 267,487 |
| Assessments receivable - current portion | 2,316,308 |
| Interest receivable | 66,837 |
| Prepaid expense | 3,595 |
| Total Current Assets | 5,321,639 |

Noncurrent Assets

| | |
|---|--------------------|
| Restricted: | |
| Cash and cash equivalents | 4,447,969 |
| Investments | 4,240,945 |
| Assessments receivable | 51,871,091 |
| Deferred charges | 350,625 |
| Capital Assets | |
| Land and other non-depreciable assets | 37,704 |
| Other capital assets, net of depreciation | 48,432,203 |
| Total Noncurrent Assets | 109,380,537 |

| | |
|---------------------|-----------------------|
| Total Assets | \$ 114,702,176 |
|---------------------|-----------------------|

LIABILITIES

Current Liabilities

| | |
|----------------------------------|------------------|
| Accounts payable | 22,043 |
| Deferred assessment payments | 4,240,946 |
| Accrued interest payable | 368,402 |
| Current Portion: | |
| Contract and note payable | 1,686,308 |
| Compensated absences | 49,665 |
| Total Current Liabilities | 6,367,364 |

Noncurrent Liabilities

| | |
|-------------------------------------|-------------------|
| Note payable | 28,425,755 |
| Contract payable | 25,246,093 |
| Total Noncurrent Liabilities | 53,671,848 |

| | |
|--------------------------|-------------------|
| Total Liabilities | 60,039,212 |
|--------------------------|-------------------|

Net Assets

| | |
|---|----------------------|
| Invested in Capital Assets, Net of Related Debt | (6,537,625) |
| Restricted for: | |
| Debt Service | 4,079,567 |
| Unrestricted | 57,121,022 |
| Total Net Assets | \$ 54,662,964 |

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, 2011

| | |
|--|----------------------|
| Operating Revenues: | |
| Charges for maintenance and operations | \$ 1,023,022 |
| Total Operating Revenue | <u>1,023,022</u> |
| Operating Expenses: | |
| Maintenance & Operations | |
| Personnel Expense | 249,233 |
| Line, Pump, & Electrical Expense | 135,130 |
| Reservoir Maintenance & Operations | 52,278 |
| Materials & Supplies | 311,870 |
| Total Maintenance & Operations | <u>748,511</u> |
| General Administration & Management | |
| Personnel Expense | 198,591 |
| Office Expense | 24,587 |
| Liability Expense | 21,990 |
| Professional Services | 52,504 |
| Director Expense | 10,570 |
| Total General Administration & Management | <u>308,242</u> |
| Depreciation expense | 463,388 |
| Total Operating Expenses | <u>1,520,141</u> |
| Operating Income (Loss) | <u>(497,119)</u> |
| Nonoperating Revenues (Expenses): | |
| Charges for Debt Service | 1,388,577 |
| Interest Income | 102,740 |
| Investment Expense | (31) |
| Interest Expense | (1,407,673) |
| Total Nonoperating Revenues (Expenses) | <u>83,613</u> |
| Income (Loss) before contributions | (413,506) |
| Capital Contributions | <u>27,955,000</u> |
| Change in Assets | 27,541,494 |
| Total Net Assets - Beginning, as restated | <u>27,121,470</u> |
| Total Net Assets - Ending | <u>\$ 54,662,964</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, 2011

| | |
|---|----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Receipts from participating cities | \$ 948,245 |
| Payments to suppliers | (779,240) |
| Payments to employees | <u>(290,773)</u> |
| Net Cash Used in Operating Activities | <u>(121,768)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| Cash received from participating cities | <u>2,273,633</u> |
| Net Cash Provided by Noncapital Financing | <u>2,273,633</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Purchases of capital assets | 2,022,546 |
| Proceeds from capital debt | 1,417,692 |
| Cash paid for financing fees | (362,595) |
| Debt service payments received from participating cities | 2,341,872 |
| Principal paid on capital debt | (953,295) |
| Interest and fiscal charges paid on capital debt | <u>(1,388,580)</u> |
| Net Cash Provided by Capital and Related Financing Activities | <u>3,077,640</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Purchase of investments | (2,580,000) |
| Proceeds from sale and maturities of investments | 2,487,005 |
| Interest and dividends | <u>140,513</u> |
| Net Cash Provided by Investing Activities | <u>47,518</u> |
| Net Increase in Cash and Cash Equivalents | 5,277,023 |
| Cash and Cash Equivalents - beginning of year | <u>1,349,303</u> |
| Cash and Cash Equivalents - end of year | <u><u>\$ 6,626,326</u></u> |
| As shown on the Statement of Net Assets | |
| Current cash and cash equivalent | 2,178,357 |
| Non-current restricted cash and cash equivalent | <u>4,447,969</u> |
| | <u><u>\$ 6,626,326</u></u> |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities | |
| Operating income (loss) | \$ (497,119) |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities: | |
| Depreciation expense | 463,388 |
| (Increase) Decrease | |
| Receivables | (74,777) |
| Increase (Decrease) | |
| Accounts Payable | <u>(13,260)</u> |
| Net Cash Provided by (Used in) Operating Activities | <u><u>\$ (121,768)</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, 2011

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, 2011

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, 2011

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 and assessments to fund capital debt 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 funds required to be held by debt indenture, 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, 2011

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, 2011

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, 2011, the District is not exposed to custodial credit risk.

Investments As of August 31, 2011, the District had the following investments:

| <u>Investment</u> | <u>Maturity</u> | <u>Fair Value</u> |
|--|-----------------|---------------------|
| Non-negotiable certificates of deposit | | |
| | September, 2011 | 1,400,000 |
| | October, 2011 | 750,000 |
| | December, 2011 | 1,700,000 |
| | January, 2015 | 400,000 |
| | October, 2014 | 480,000 |
| | | <u>\$ 4,730,000</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.

Concentration of Credit risk The District places no limit on the amount the District may invest in one issuer.

Waurika Lake Master Conservancy District
Notes to Financial Statements
For the Year Ended August 31, 2011

NOTE 5: CAPITAL ASSETS

Capital asset activity for the fiscal year ended August 31, 2011, 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 | 48,013 | 17,833 | 378,795 |
| Office equipment | 43,799 | 7,285 | - | 51,084 |
| Site Improvements | 287,627 | - | - | 287,627 |
| Machinery and Equipment | 390,651 | 102,759 | - | 493,410 |
| Water Storage Facility | 4,616,084 | 25,366,553 | - | 29,982,637 |
| Pipelines | 27,094,070 | 160,907 | - | 27,254,977 |
| Total capital assets, being depreciated | <u>33,014,333</u> | <u>25,685,517</u> | <u>17,833</u> | <u>58,682,017</u> |
| Less Accumulated Depreciation | <u>9,804,259</u> | <u>463,388</u> | <u>17,833</u> | <u>10,249,814</u> |
| Total capital assets, being depreciated, net | <u>23,210,074</u> | <u>25,222,129</u> | <u>-</u> | <u>48,432,203</u> |
| Business activities capital assets, net | <u>\$ 23,247,778</u> | <u>\$ 25,222,129</u> | <u>\$ -</u> | <u>\$ 48,469,907</u> |

NOTE 6: LONG TERM DEBT

The following is a summary of long-term debt activity as of August 31, 2011:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due within One Year |
|-------------------|----------------------|----------------------|-------------------|----------------------|------------------------|
| Contracts Payable | \$ 27,185,696 | \$ - | \$ 953,295 | \$ 26,232,401 | \$ 986,308 |
| Note Payable | - | 27,955,000 | - | 27,955,000 | 700,000 |
| | <u>27,185,696</u> | <u>27,955,000</u> | <u>953,295</u> | <u>54,187,401</u> | <u>1,686,308</u> |
| Premium | - | 1,170,755 | - | 1,170,755 | - |
| | <u>\$ 27,185,696</u> | <u>\$ 29,125,755</u> | <u>\$ 953,295</u> | <u>\$ 55,358,156</u> | <u>\$ 1,686,308</u> |

Waurika Lake Master Conservancy District
Notes to Financial Statements
For the Year Ended August 31, 2011

NOTE 6: LONG TERM DEBT (continued)

As of August 31, 2011, 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 | \$ 2,375,926 |
| 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 | 14,930,274 |
| United States of America Corps of Engineers (financed costs of Eastern Segment water conveyance facilities) | September, 2030 | 3.46% | 627,811 | 8,399,472 | 8,634,878 |
| United States of America Corps of Engineers (financed costs of Southern Segment water conveyance facilities) | July, 2027 | 3.46% | 24,022 | 429,810 | 291,323 |
| Oklahoma Water Resources Board (financed costs of right to utilize additional storage space in Waurika Reservoir) | September, 2035 | Vary | Vary | 27,955,000 | 27,955,000 |
| | | | | | <u>\$ 54,187,401</u> |

As of August 31, 2011, annual debt service requirements are as follows:

| Year Ending June 30 | U.S. Corps of Engineers | | OWRB | | Total | |
|------------------------|-------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2012 | \$ 986,308 | \$ 908,428 | \$ 700,000 | \$ 1,085,727 | \$ 1,686,308 | \$ 1,994,155 |
| 2013 | 1,020,464 | 874,272 | 770,000 | 1,075,562 | 1,790,464 | 1,949,834 |
| 2014 | 1,055,802 | 838,934 | 785,000 | 1,054,959 | 1,840,802 | 1,893,893 |
| 2015 | 1,092,365 | 802,371 | 810,000 | 1,029,928 | 1,902,365 | 1,832,299 |
| 2016 | 1,130,193 | 764,543 | 830,000 | 1,008,339 | 1,960,193 | 1,772,882 |
| 2017-2021 | 6,265,863 | 3,206,812 | 4,480,000 | 4,677,712 | 10,745,863 | 7,884,524 |
| 2022-2026 | 7,428,593 | 2,045,087 | 5,325,000 | 3,755,324 | 12,753,593 | 5,800,411 |
| 2027-2031 | 7,252,813 | 713,365 | 6,410,000 | 2,618,093 | 13,662,813 | 3,331,458 |
| 2032-2035 | - | - | 7,845,000 | 1,048,422 | 7,845,000 | 1,048,422 |
| | <u>\$ 26,232,401</u> | <u>\$ 10,153,812</u> | <u>\$ 27,955,000</u> | <u>\$ 17,354,066</u> | <u>\$ 54,187,401</u> | <u>\$ 27,507,878</u> |

NOTE 7: ASSESSMENTS RECEIVABLE

The participating cities entered into separate contracts with the District for the repayment of their share of the debt payable. The assessments are structured on the same terms as the debt payable split between the participating cities as follows: City of Lawton 59.483%, City of Duncan 33.333%, City of Waurika 3.161%, City of Comanche 1.724%, Town of Temple 0.862%, and

Waurika Lake Master Conservancy District
Notes to Financial Statements
For the Year Ended August 31, 2011

City of Walters 1.437%.

NOTE 8: RESTATEMENT

The District determined the assessments receivable from the participating cities for the original contracts payable, had been not recorded in prior years as contributed capital. To correct this error as of September 1, 2010, assessment receivables were recorded in the amount of \$27,185,696, deferred assessments payable increased \$1,894,730, beginning net assets of \$1,830,504, as originally report, has been increased to \$27,121,470.

NOTE 9: 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, 2011, the District contributed \$20,031 to the Trust for the employees.

NOTE 10: 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, 2011, the District's share of operation and maintenance expense was \$52,278.

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



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, 2011, and have issued our report thereon dated November 26, 2012. 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

Management of Waurika Lake Master Conservancy District is responsible for establishing and maintaining effective 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

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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 deficiency 2011-1 described in the accompanying schedule of findings and responses to be a material weakness.

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
November 26, 2012

Waurika Lake Master Conservancy District
Schedule of Findings and Responses
August 31, 2011

2011-1 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 now are receiving training for the software and plan to implement setting up the software using our staff with assistance and guidance from the auditors. We, however, understand that we are responsible for the management decisions required to set up the software.