

*Independent Auditor's Report*

# ***Grady County Conservation District***

*Grady County, Oklahoma*

*June 30, 2012*

**GRADY COUNTY CONSERVATION DISTRICT**

**Grady County, Oklahoma**

June 30, 2012

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Grady County Conservation District  
Chickasha, Okla. 73018

We have audited the accompanying modified cash basis financial statements of the governmental activities and the business-type activities of the **Grady County Conservation District**, Grady County, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions 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 the 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 opinions.

As discussed in Note 1, the District prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position-modified cash basis of the governmental activities and the business-type activities of the Grady County Conservation District as of June 30, 2012, and the respective changes in financial position-modified cash basis and cash flows, thereof for the year then ended in conformity with the modified cash basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 17, 2012 on our consideration of the District's internal control over financial reporting and 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.

*Angel, Johnston & Blasingame, P.C.*

Angel, Johnston & Blasingame, P.C.  
Certified Public Accountants

Chickasha, Oklahoma  
September 17, 2012

**GRADY COUNTY CONSERVATION DISTRICT**  
**Grady County, Oklahoma**  
**Statement of Net Assets - Modified Cash Basis**  
**June 30, 2012**

	<u>Governmental Activities</u>	<u>Business - Type Activities</u>	<u>Total</u>
<b><u>Assets</u></b>			
Current Assets:			
Cash and Cash Equivalents	\$ 3,596	\$ 19,181	\$ 22,777
Investments	-	17,113	17,113
<i>Total Current Assets</i>	<u>3,596</u>	<u>36,294</u>	<u>39,890</u>
Noncurrent Assets:			
Other capital assets, net	<u>27,526</u>	<u>12,709</u>	<u>40,235</u>
<i>Total Noncurrent Assets</i>	<u>27,526</u>	<u>12,709</u>	<u>40,235</u>
 <i>Total Assets</i>	 <u>31,122</u>	 <u>49,003</u>	 <u>80,125</u>
<b><u>Liabilities</u></b>			
Other Liabilities	-	-	-
 <i>Total Liabilities</i>	 <u>-</u>	 <u>-</u>	 <u>-</u>
<b><u>Net Assets</u></b>			
Invested in Capital Assets, net of related debt	27,526	12,709	40,235
Unrestricted	<u>3,596</u>	<u>36,294</u>	<u>39,890</u>
 <i>Total Net Assets</i>	 <u>\$ 31,122</u>	 <u>\$ 49,003</u>	 <u>\$ 80,125</u>

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

**GRADY COUNTY CONSERVATION DISTRICT**  
**Grady County, Oklahoma**  
**Statement of Activities - Modified Cash Basis**  
**June 30, 2012**

<u>Functions/Programs</u>	<u>Program Revenues</u>				<u>Net (Expenses) Revenue and Changes in Net Assets</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
<b>Primary Government:</b>							
Governmental Activities:							
General Government	\$ 110,064	\$ 5,467	\$ 95,924	\$ -	\$ (8,673)	\$ -	\$ (8,673)
Watershed Maintenance	11,498	-	19,694	-	8,196	-	8,196
<i>Total Governmental Activities</i>	<u>121,562</u>	<u>5,467</u>	<u>115,618</u>	<u>-</u>	<u>(477)</u>	<u>-</u>	<u>(477)</u>
Business-Type Activities:							
Seed and Equipment	\$ 36,134	\$ 28,478	\$ -	\$ -	\$ -	\$ (7,656)	\$ (7,656)
Pump Out	2,388	2,058	-	-	-	(330)	(330)
<i>Total Business-Type Activities</i>	<u>38,522</u>	<u>30,536</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,986)</u>	<u>(7,986)</u>
<i>Total Primary Government</i>	<u>\$ 160,084</u>	<u>\$ 36,003</u>	<u>\$ 115,618</u>	<u>\$ -</u>	<u>\$ (477)</u>	<u>\$ (7,986)</u>	<u>\$ (8,463)</u>
General Revenues:							
Investment Income	-	-	-	-	-	83	83
Gain on Sale of Assets	-	-	-	-	-	18,564	18,564
<i>Total General Revenues and Transfers</i>	-	-	-	-	-	<u>18,647</u>	<u>18,647</u>
<i>Change in Net Assets</i>					(477)	10,661	10,184
<i>Net Assets - Beginning</i>					<u>31,599</u>	<u>38,342</u>	<u>69,941</u>
<i>Net Assets - Ending</i>					<u>\$ 31,122</u>	<u>\$ 49,003</u>	<u>\$ 80,125</u>

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

**GRADY COUNTY CONSERVATION DISTRICT**  
**Grady County, Oklahoma**  
**Balance Sheet - Modified Cash Basis**  
**Governmental Funds**  
**June 30, 2012**

	<b>General</b>
<b>Assets</b>	
Cash and Cash Equivalents	\$ 3,596
<i>Total Assets</i>	3,596
 <b>Liabilities</b>	
Other Liabilities	-
<i>Total Liabilities</i>	-
 <b>Fund Balances</b>	
Unrestricted	3,596
<i>Total Fund Equity</i>	3,596
<i>Total Liabilities and Fund Equity</i>	\$ 3,596

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

**GRADY COUNTY CONSERVATION DISTRICT**  
**Grady County, Oklahoma**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**June 30, 2012**

	<b>General</b>
<b>Revenues</b>	
State Allocation	\$ 95,924
State Allocation - Watershed	19,694
Rental Income	4,500
Miscellaneous Income	2
Book Sales	965
Less: Book Cost	(428)
<i>Total Revenues</i>	120,657
<b>Expenditures</b>	
Personal Service	101,667
Maintenance and Operations	7,636
Watershed Maintenance	11,498
<i>Total Expenditures</i>	120,801
Excess (Deficiency) of Revenues over Expenditures	(144)
Net Change in Fund Balances	(144)
Fund Balances - Beginning	3,740
Prior period adjustment	-
Fund Balances - Ending	\$ 3,596

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



**GRADY COUNTY CONSERVATION DISTRICT**  
**Grady County, Oklahoma**  
**Reconciliation of Governmental Fund and Government-Wide Financial Statements**  
**Governmental Funds**  
**June 30, 2012**

**Reconciliation to Statement of Net Assets:**

Fund balances of governmental funds	\$	3,596
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds:		<u>27,526</u>
Net assets of governmental activities	\$	<u><u>31,122</u></u>

**Reconciliation to Statement of Activities:**

Net change in fund balances of governmental funds	\$	(144)
Amounts reported for governmental activities on the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:		
Capital asset purchases capitalized in governmental funds		-
Depreciation expense		<u>(333)</u>
Change in net assets of governmental activities	\$	<u><u>(477)</u></u>

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

**GRADY COUNTY CONSERVATION DISTRICT**  
**Grady County, Oklahoma**  
**Statement of Net Assets**  
**Proprietary Fund - Modified Cash Basis**  
**June 30, 2012**

	<u>Equipment Account</u>
<b><u>Assets</u></b>	
Current Assets:	
Cash and Cash Equivalents	\$ 19,181
Certificate of Deposit - Pump Out	7,104
Certificate of Deposit - Equipment	<u>10,009</u>
<i>Total Current Assets</i>	<u>36,294</u>
Noncurrent Assets:	
Equipment	54,245
Less: Accumulated Depreciation	<u>(41,536)</u>
<i>Total Noncurrent Assets</i>	<u>12,709</u>
<i>Total Assets</i>	<u>49,003</u>
<b><u>Liabilities</u></b>	
Other Liabilities	-
<i>Total Liabilities</i>	<u>-</u>
<b><u>Net Assets</u></b>	
Invested in Capital Assets, net of related debt	12,709
Unrestricted	<u>36,294</u>
<i>Total Net Assets</i>	<u>\$ 49,003</u>

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

**GRADY COUNTY CONSERVATION DISTRICT**  
**Grady County, Oklahoma**  
**Statement of Revenues, Expenses, and Changes in Fund Balances**  
**Proprietary Fund - Modified Cash Basis**  
**June 30, 2012**

	<b>Equipment Account</b>
<b>Revenues</b>	
Pump Out Revenue	\$ 2,058
Seed Sales	3,605
Less: Seed Purchases	(3,057)
Gopher Machine	1,986
Less: Gopher Machine Expense	(2,826)
Other Income	1,055
Custom Work	21,832
<i>Total Revenues</i>	24,653
<b>Expenditures</b>	
Personal Service	6,409
Maintenance and Operations	22,857
Depreciation Expense	3,373
<i>Total Expenditures</i>	32,639
<i>Operating Income (Loss)</i>	(7,986)
<b>Other Income and Expenses:</b>	
Interest Income	83
Gain on Sale of Capital Assets	18,564
<i>Total Other Income and Expenses</i>	18,647
Net Change in Fund Balances	10,661
Fund Balances - Beginning	38,342
Fund Balances - Ending	\$ 49,003

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

**GRADY COUNTY CONSERVATION DISTRICT**  
**Grady County, Oklahoma**  
**Statement of Cash Flows - Modified Cash Basis**  
**Proprietary Fund**  
**June 30, 2012**

		<u>Equipment Account</u>
<b>Cash flows from operating activities</b>		
Cash received from customers	\$	30,536
Cash paid to suppliers		(28,740)
Cash paid to employees		(6,409)
<i>Net cash provided (used) by operating activities</i>		<u>(4,613)</u>
<b>Cash flows from capital and related financing activities</b>		
Sale of capital assets		28,835
Purchase of capital assets		(7,003)
<i>Net cash provided (used) for capital and related financing activities</i>		<u>21,832</u>
<b>Cash flows from investing activities</b>		
Interest Income-net of fees		83
<i>Net cash provided (used) by investing activities</i>		<u>83</u>
<i>Net increase (decrease) in cash and cash equivalents</i>		17,302
<i>Cash and cash equivalents at beginning of year</i>		18,992
<i>Cash and cash equivalents at end of year</i>	\$	<u><u>36,294</u></u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>		
Operating income (loss)	\$	(7,986)
Adjustment to reconcile operating income to net cash provided		-
Depreciation expenses		3,373
<i>Net cash provided (used) by operating activities</i>	\$	<u><u>(4,613)</u></u>

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

**GRADY COUNTY CONSERVATION DISTRICT**  
**Grady County, Oklahoma**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2012

**Note 1 – Summary of Significant Accounting Policies**

The Grady County Conservation District complies with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units with a change for the modified cash basis. Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent that they are applicable, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this note.

**A. Financial Reporting Entity**

The purpose of the District is to carry out a program of conservation of all renewable natural resources on lands within the District's boundaries. By law, the District is designated as the official unit of state government for cooperating and carrying on conservation operations with the Soil Conservation Service (SCS), a division of the United States Department of Agriculture. The governing board consists of five members with one acting as the Chairman. The District retains title to all assets which are acquired or constructed with District debt or other District generated resources.

The accompanying financial statements include all functions and activities over which the District exercises financial accountability. There are no other entities for which the District is considered to be financially accountable, and as such, no other entities are presented. The District is considered to be a component unit of Oklahoma Conservation Commission.

**B. Basis of Presentation**

Government Wide Financial Statements

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or service.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods,

**GRADY COUNTY CONSERVATION DISTRICT**  
**Grady County, Oklahoma**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2012

**Note 1 – Summary of Significant Accounting Policies, (continued)**

**B. Basis of Presentation, (continued)**

services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

Fund Financial Statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts, which are comprised of each fund's assets, liabilities, fund equity, revenues and expenditures/expenses. The various funds are grouped, in the financial statements in this report, into two major categories: governmental and proprietary. This District presently has no fiduciary funds. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b. Total assets, liabilities, revenues, or expenditures/expenses of individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

**Governmental Fund Types**

1. **General Fund** – This is the only operating fund of the District and is classified as a major fund. It accounts for all activities except those legally and administratively required to be accounted for in other funds.

**Proprietary Fund Types**

1. **Enterprise Fund** – Enterprise funds are used to account for business-type activities provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the following enterprise fund that is reported as a major fund:

**GRADY COUNTY CONSERVATION DISTRICT**  
**Grady County, Oklahoma**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2012

**Note 1 – Summary of Significant Accounting Policies, (continued)**

**B. Basis of Presentation, (continued)**

Equipment Account – Accounts for the activity related to pump out activity, seed sales, equipment rental and tractor driven applications.

**C. Measurement Focus and Basis of Accounting**

Measurement Focus

Measurement focus refers to how transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied.

In the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, as defined in item b. below.

In the fund financial statement, the “current financial resources” measurement focus or the “economic resources” measurement focus, as applied to the modified cash basis of accounting, is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or non-current, financial or non-financial) associated with their activities are reported. Proprietary fund equity is classified as net assets.

Basis of Accounting

In the government-wide financial statements and the fund financial statements, governmental and business-type activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for

**GRADY COUNTY CONSERVATION DISTRICT**  
**Grady County, Oklahoma**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

**Note 1 – Summary of Significant Accounting Policies, (continued)**

**C. Measurement Focus and Basis of Accounting, (continued)**

depreciation in the government-wide statements and proprietary fund statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities except as noted above) *are not recorded* in these financial statements.

If the District utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

**D. Assets, Liabilities and Equity**

Cash & Cash Equivalents

The District considers all cash on hand, demand deposits, interest bearing checking accounts, time deposit accounts and highly liquid investments, with an original maturity of three months or less when purchased, to be cash and cash equivalents.

Investments

Investments classified in the financial statements consist entirely of certificates of deposit whose original maturity term exceeds three months. Investments are carried at cost which approximates fair value.

Capital Assets

Fixed assets acquired by governmental type funds are reported as capital assets within the General Fund. Fixed assets acquired by business-type funds are reported as capital assets within the Equipment Fund. Capital assets are stated at cost. Capital assets used in governmental funds are not financial resources and, therefore are not reported in the funds. Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets.



**GRADY COUNTY CONSERVATION DISTRICT**  
**Grady County, Oklahoma**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

**Note 1 – Summary of Significant Accounting Policies, (continued)**

**D. Assets, Liabilities and Equity, (continued)**

Depreciation has been provided over the estimated useful lives using the straight-line method of depreciation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. The District uses a capitalization threshold of \$1,000. The range of estimated useful lives by type of asset is as follows:

Buildings	30 – 35 years
Equipment	5 – 10 years

Depreciation expense recorded for the fiscal year ended June 30, 2012 equaled \$333.33 for governmental type funds and \$3,373.34 for business-type funds.

Equity Classifications

In the government-wide and fund financial statements, net assets represent the difference between assets and liabilities. Net Assets/fund balances are classified as follows:

- a. **Nonspendable** – Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.
- b. **Restricted** – Amounts that can be spent only for specific purposes because of the by-laws, state or federal laws, or externally imposed conditions by grantors or creditors.
- c. **Committed** – Amounts that can be used only for specific purposes determined by a formal action by Board resolution.
- d. **Assigned** – Amounts that are designated by the Chairman of the Board for a particular purpose but are not spendable until there is a majority vote approval (for capital projects or debt service) by the Board.
- e. **Unrestricted** – All amounts not included in other spendable classifications.
- f. **Invested in Capital Assets, net of related debt** – Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets.

**GRADY COUNTY CONSERVATION DISTRICT**  
**Grady County, Oklahoma**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2012

**Note 1 – Summary of Significant Accounting Policies, (continued)**

**D. Assets, Liabilities and Equity, (continued)**

Use of Restricted Resources

When an expense is incurred that can be paid using either restricted or unrestricted resources (net assets), the Board's policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In governmental funds, the District's policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications – committed and then assigned fund balances before using unassigned fund balances.

**E. Revenues, Expenditures and Expenses**

In the Statement of Activities, modified cash basis revenues that are derived directly from each activity or from parties outside the District are reported as program revenues. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on program revenues are presented as general revenues of the District, with certain limited exceptions.

The expenses of the governmental fund are those that result from charges for services and the expenses of management of the District. These can include expenses that are related to capital and noncapital related financing, or investing activities.

Operating and Non-Operating Revenues - Operating revenues are considered those whose cash flows are related to operating activities, while revenue related to both restricted and unrestricted activities are reported as non-operating.

Expenditures/Expenses - Expenditures/expenses are reported by object or activity.

**Note 2 – Detailed Notes on Transactions, Classes/Accounts**

**A. Investments, Deposits and Collateral**

Deposits

*Deposits and Investments* – Collateral is required for all uninsured deposits of funds in financial institutions.

**GRADY COUNTY CONSERVATION DISTRICT**  
**Grady County, Oklahoma**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

**Note 2 – Detailed Notes on Transactions, Classes/Accounts, (continued)**

**A. Investments, Deposits and Collateral, (continued)**

*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 does not have a written deposit policy for custodial credit risk, but *Oklahoma Statutes* requires collateral for all uninsured deposits of public trust funds in financial institutions. As of June 30, 2012, the District’s bank balances of \$39,889.35 were not exposed to custodial credit risk.

The District’s cash deposits at June 30, 2012 are categorized to give an indication of the level of risk assumed by the District at year-end as follows:

- (A) Insured or collateralized with securities held by the District or by its agent in the District’s name.
- (B) Uninsured but collateralized with securities held by the pledging financial institution’s trust department or agent in the District’s name.
- (C) Uninsured and uncollateralized.

	Category (A)	Category (B)	Category (C)
Cash – General Fund	3,596	0	0
Cash – Equipment Fund	19,181	0	0
Investments – Equipment Fund	17,112	0	0
Total	39,889	0	0

**B. Income Taxes**

The District as a governmental entity is exempt for income taxes under Section 501(C)(12) of the Internal Revenue Code.

**C. Compensated Absences**

It is the District’s policy to permit employees to accumulate earned but unused vacation time. We estimate accrued vacation time at June 30, 2012 to be \$9,318.61

**D. Inventories**

The District has chosen to record inventory items as expenditures/expenses at the time of purchase. Thus, and inventory amount has not been presented.

**GRADY COUNTY CONSERVATION DISTRICT**  
**Grady County, Oklahoma**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

**Note 2 – Detailed Notes on Transactions, Classes/Accounts, (continued)**

**E. Estimates**

In preparing the District’s financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statement, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**F. Capital Assets**

Capital assets purchased or acquired are recorded at historical cost or estimated historical cost. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. The following is a summary of the capital assets as of June 30, 2012:

	Beginning Balance June 30, 2011	Additions	Deductions	Ending Balance June 30, 2012
<b>Governmental Activities:</b>				
Land and Other Non-depreciated Assets	\$ 14,160	\$ -	\$ -	\$ 14,160
Other Capital Assets:				
Buildings	22,199	-	-	22,199
Equipment	604	-	-	604
Total Capital Assets	36,963	-	-	36,963
Less: Accumulated Depreciation				
Building	(8,500)	(333)	-	(8,833)
Equipment	(604)	-	-	(604)
Total Accumulated Depreciation	(9,104)	(333)	-	(9,437)
<b>Governmental Activities - Capital Assets, net</b>	<b>\$ 27,859</b>	<b>\$ (333)</b>	<b>\$ -</b>	<b>\$ 27,526</b>
<b>Business-Type Activities:</b>				
Equipment	\$ 124,546	\$ 7,003	\$ (77,304)	\$ 54,245
Total Capital Assets	124,546	7,003	(77,304)	54,245
Less: Accumulated Depreciation				
Equipment	(105,196)	(3,373)	67,034	(41,535)
Total Accumulated Depreciation	(105,196)	(3,373)	67,034	(41,535)
<b>Business-Type Activities – Capital Assets, net</b>	<b>\$ 19,350</b>	<b>\$ 3,630</b>	<b>\$ 10,270</b>	<b>\$ 12,710</b>

**Note 3 – Stewardship, Compliance and Accountability**

**A. State Contracts**

The District derives the majority of its revenues from service contracts with the State of Oklahoma. These contracts are subject to audits by the State and could result in repayments of monies if certain conditions are not met. They have been approved for funding for the 2012-2013 year.

**GRADY COUNTY CONSERVATION DISTRICT**  
**Grady County, Oklahoma**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2012

**Note 3 – Stewardship, Compliance and Accountability, (continued)**

**B. Employee Retirement System**

Plan Description – The District participates in the Oklahoma Public Employees Retirement System, a cost-sharing multiple-employer defined benefit public employee retirement system, which is administered by the board of trustees of the Oklahoma Public Employees Retirement System (the “System”). The System provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries.

Title 74 Section 901 et seq., as amended of the Oklahoma statutes established benefit provisions and may be amended only through legislative action. The Oklahoma Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to Oklahoma Public Employees Retirement System, P.O. Box 53007, Oklahoma City, OK 73152 or by calling (405) 943-8701.

Funding Policy – The contribution rates for the District and its employees are established by and may be amended by Oklahoma statute. The rates are applied to employee’s earnings plus employer-paid fringe benefits. The required contribution for the participating members is 3.5%. The state pays contributions for the District as the employer. The state is required to contribute up to 16.5% of applicable compensation. In addition, the District is required to match the retirement paid on salaries paid with federal funds. All required payments were made. Total contributions by the District are:

<u>Fiscal Year</u>	<u>Contributions</u>
2011-12	\$3,157
2010-11	\$4,344
2009-10	\$4,277
2008-09	\$4,030
2007-08	\$3,748
2006-07	\$3,872
2005-06	\$2,962
2004-05	\$2,609

**C. Risk Management**

The District is exposed to various risks of loss related to torts, errors and omissions, damage or destruction of assets, business interruptions, job-related illnesses or injuries to employees, and acts of God. The District has established a risk management strategy that attempts to minimize losses and the carrying cost of insurance. There have been no significant reductions in insurance coverage from the prior year and settlements have not exceeded coverage in the past three years.

**GRADY COUNTY CONSERVATION DISTRICT**  
**Grady County, Oklahoma**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2012

**Note 3 – Stewardship, Compliance and Accountability, (continued)**

**C. Risk Management, (continued)**

General liability and automobile injury/physical damage are insured. Deductibles range from \$0 to \$1,000. Risks of loss retained is limited to the excess of various losses provided in the policy.

All physical properties are insured through commercial insurance. No risk of loss is retained for the commercial insurance coverage.

Worker's compensation is covered through participation in the State Insurance Fund.

**D. Cash Investments**

The District's investment policies are governed by state statute. Permissible investments include direct obligation of the U.S. Government and Agencies, certificates of deposits of savings and loan associations, banks and credit unions, and savings accounts or savings certificates of savings and loan associations, banks and credit unions.

**E. Commitments and Contingencies.**

The governing Board of the District is not aware of any pending or threatened legal actions against it.

Amount received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of the expenditures which may be disallowed by the grantor cannot be determined at this time, although, the District expects such amounts, if any, to be immaterial.

## *Supplemental Information*

**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  
Grady County Conservation District  
Chickasha, Okla. 73018

We have audited the accompanying modified cash basis financial statements of the governmental activities and the business-type activities of the Grady County Conservation District, Grady County, Oklahoma as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 17, 2012. The report was a special report on the District's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. 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**

The management of Grady County Conservation District, Grady County, Oklahoma, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Grady County Conservation District, Grady County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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



A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. 12-01.

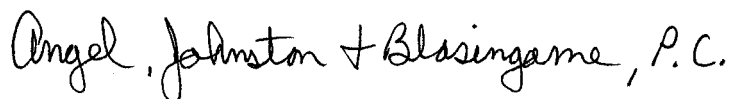
A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting: 12-01.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Grady County Conservation District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the District's response and, accordingly, we express no opinion on it.

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



Angel, Johnston & Blasingame, P.C.  
Certified Public Accountants

Chickasha, Oklahoma  
September 17, 2012

**Grady County Conservation District  
Grady County, Oklahoma  
Schedule of Findings and Responses  
For the Year Ended June 30, 2012**

12-01 *Criteria* – A good system of internal control provides for a proper segregation of the accounting functions.

*Condition* – The District has a small number of employees that perform the duties that would normally be divided among a large number of personnel.

*Cause* – Lack of internal control surrounding the accounting functions segregation of duties.

*Effect or Potential Effect* – Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to the accounting functions, including misappropriation of assets, could occur and not be detected within a timely basis.

*Recommendation* – While it may not be cost effective to hire the additional administrative staff that would be necessary in order to adequately segregate the responsibilities, the Board should consider a formal evaluation of their risks associated with this lack of segregation of duties. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with lack of segregation of duties.

*Management response* – Management agrees.