

COAL COUNTY CONSERVATION DISTRICT

**ANNUAL FINANCIAL STATEMENTS AND
ACCOMPANYING ACCOUNTANT'S
AUDITOR'S REPORT**

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2012**

COAL COUNTY CONSERVATION DISTRICT
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For the fiscal year ended June 30, 2012

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**COAL COUNTY CONSERVATION DISTRICT
BOARD OF DIRECTORS
June 30, 2012**

CHAIRMAN – DEWARD STRONG

VICE-CHAIRMAN – LARRY COMETTI

SECRETARY/TREASURER – WAYNE BLUE

MEMBER – JOHNNIE BELLETTINI

MEMBER – JIM CARTER

Kristi L. Dobbins

106 East McClure P.O. Box 38 Pauls Valley, OK 73075

Certified Public Accountant

(405) 238-6447

Fax (405) 238-6447

INDEPENDENT AUDITOR'S REPORT

To The Board of Directors
Coal County Conservation District

I have audited the accompanying financial statements of the governmental activities of the Coal County Conservation District (the "District") as of 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. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the basic 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. I believe that my audit provides a reasonable basis for my opinion.

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Coal County Conservation District at June 30, 2012, and the changes in financial position, for the year then ended, on the basis of accounting described in Note 1.C., which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated October 23, 2012 on my consideration of the District's internal control over financial reporting and on my 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 my 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 my audit.

My audit was conducted for the purpose of forming an opinion on the financial statements of the Coal County Conservation District as a whole. The District has not presented the Management's Discussion and Analysis or a Budgetary Comparison Schedule as required by the Governmental Accounting Standards Board (GASB) that the GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements. The omission of this information does not affect the opinion expressed on the financial statements as a whole.



Pauls Valley, Oklahoma
October 23, 2012

COAL COUNTY CONSERVATION DISTRICT
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
June 30, 2012

ASSETS

Cash	\$99,625
Investments	116,246
Other capital assets, net of depreciation	463,713
Total Assets	<u>679,584</u>

LIABILITIES

Lease deposit	500
Payroll withholding liabilities	
Total Liabilities	<u>500</u>

NET ASSETS

Invested in capital assets, net of related debt	463,713
Unrestricted	215,371
Total Net Assets	<u>\$679,084</u>

See accompanying notes to the basic financial statements.

COAL COUNTY CONSERVATION DISTRICT
 STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
 For the fiscal year ended June 30, 2012

Functions/Programs	Expenses	Program Revenues		Net(Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Assets
				Primary Governmental Activities
Primary Government:				
Governmental activities:				
General Government	\$107,280	\$50,320		(\$56,960)
General revenues:				
Intergovernmental revenue restricted to specific programs				57,443
Investment income				436
Miscellaneous income				173,974
Change in net assets				174,893
Net assets as adjusted - beginning				504,191
Net assets - ending				\$679,084

See accompanying notes to the basic financial statements.

COAL CONSERVATION DISTRICT
STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCE - CASH BASIS - GENERAL FUND
June 30, 2012

ASSETS

Current Assets:	
Cash	\$99,625
Investments	116,246
Total Assets	215,871

LIABILITIES

Liabilities:	
Lease deposit	500
	500

FUND BALANCE

Fund Balance	
Unassigned	215,371
Total Fund Balance	215,371

Reconciliation to Statement of Net Assets:

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities of \$517,380, net of accumulated depreciation of \$53,667 are not financial resources and, therefore, are not reported in the funds.

463,713
\$679,084

See accompanying notes to the basic financial statements.

**COAL COUNTY CONSERVATION DISTRICT
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - CASH BASIS
For the year ended June 30, 2012**

Revenues:

Reimbursements from Oklahoma Conservation Commission:	
Salaries and payroll taxes	\$49,905
Audit	800
Supplies	712
Telephone	992
Directors expense	1,000
Operating and maintenance	4,034
Total Reimbursements from Oklahoma Conservation Commission	57,443
Lease income	7,165
Custom work & equipment rental	12,435
Rental income-land, house, building	30,720
Miscellaneous income	127,777
Sale of building	69,010
Interest	436
Total Revenues	304,986

Expenditures:

Salaries and payroll taxes	64,550
Board and meeting expense	2,019
Automobile expenses	2,505
Dues and education	1,583
Insurance and bonds	3,973
Legal and accounting	800
Repairs and maintenance	14,400
Retirement & insurance	883
Office expense	3,618
Telephone	1,372
Building utilities	3,838
Capital outlay-No Till Drill	15,500
Capital outlay-Storage container	2,925
Total Expenditures	117,966

Revenues over expenditures	187,020
Fund Balance - beginning of year	28,351
Fund Balance - end of year	215,371
Net change in fund balance	187,020

Amounts reported for governmental activities in the Statement of Activities are different because:

Depreciation expense	(7,739)
Acquisition of capital assets	18,425
Sale of asset - difference in sales price and gain	(22,813)
Change in Net Assets of Governmental Activities	\$174,893

See accompanying notes to the basic financial statements.

COAL COUNTY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the fiscal year ended June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity
- B. Basis of Presentation
- C. Measurement Focus and Basis of Accounting
- D. Assets, Liabilities and Equity
- E. Revenues and Expenditures
- F. Use of Estimates
- G. Differences from GAAP

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

- A. Deposits and Investments Laws and Regulations

NOTE 3. DETAIL NOTES - TRANSACTION CLASSES/ACCOUNTS

- A. Cash
- B. Capital Assets

NOTE 4. OTHER NOTES

- A. Employee Pension and Other Benefits
- B. Commitments and Contingencies
- C. Subsequent Events

**COAL COUNTY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the fiscal year ended June 30, 2012**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Except for the use of a modified cash basis of accounting as discussed in Note 1.C., the District complies with accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles (GAAP) includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied 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.

1.A. FINANCIAL REPORTING ENTITY

Coal County Conservation District was established pursuant to Title 82 of Oklahoma State Law. The purpose of the District is to provide for the conservation of the renewable natural resources of this state, and for the control and prevention of soil erosion, and for the prevention of floodwater and sediment damages, and for furthering the conservation, development, utilization and disposal of water and thereby to preserve and develop natural resources, control floods, conserve and develop water resources and water quality, prevent impairment of dams and reservoirs, preserve wildlife, preserve natural beauty, promote recreational development, protect the tax base, protect public lands and protect and promote the health, safety and general welfare of the people of this state.

The accompanying financial statements include all functions and activities over which the Conservation District exercises financial accountability. The District is considered a primary government as defined by the Governmental Accounting Standards Board (GASB) and has no other component units within its reporting entity.

1.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 services. The Coal County Conservation District has no business-type activities as of June 30, 2012.

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 constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. The District presently has no proprietary funds. The District is considered a governmental entity as defined by the Governmental Accounting Standards Board (GASB). There is only one fund, which is the General Fund.

GOVERNMENTAL FUND TYPES

General Fund

The General Fund is the primary operating fund of the District. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

1.C. 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.

**COAL COUNTY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the fiscal year ended June 30, 2012**

Measurement Focus

In the government-wide Statement of Net Assets and the Statement of Activities the governmental activities are presented using the economic resources measurement focus as defined in item a. below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus 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.

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities and the fund financial statements, governmental 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 depreciation in the government-wide statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

If the District utilized the basis of accounting recognized as generally accepted, the governmental fund types would use the modified accrual basis of accounting.

Modified Accrual Basis - Revenues would be recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough hereafter to pay current liabilities.

Expenditures (including capital outlay) would be recognized when the related fund liability is incurred, except for general obligation bond principal and interest which would be reported when due.

1.D. ASSETS, LIABILITIES AND EQUITY

Cash

For the purpose of the balance sheet, "cash" includes all demand accounts held by the District.

Accounts Receivable

As a result of the modified cash basis of accounting, accounts receivable and other revenue related receivables are not reported in the financial statements.

Capital Assets

Government-Wide Statements

In the government-wide financial statements, capital assets are accounted for as assets in the Statement of Net Assets. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable. The District has determined that all assets with a cost of more than \$1,000 will be capitalized. Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation.

Fund Financial Statements

In the fund financial statements, capital assets acquired for use in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

**COAL COUNTY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the fiscal year ended June 30, 2012**

Net Assets and Fund Balance

In the government-wide financial statement, net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when limitations on their use change the nature of normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws or other governments, or are imposed by law through constitutional provisions or enabling legislation.

In the fund financial statements, governmental funds report the hierarchy of fund balances. The hierarchy is based primarily on the degree of spending constraints placed upon use of resources for specific purposes versus availability of appropriation. An important distinction that is made in reporting fund balance is between amounts that are considered *nonspendable* (i.e., fund balance associated with assets that are *not in spendable form*, such as inventories or prepaid items, long-term portions of loans and notes receivable, or items that are legally required to be maintained intact (such as the corpus of a permanent fund)) and those that are *spendable* (such as fund balance associated with cash, investments or receivables).

Amounts in the spendable fund balance category are further classified as restricted, committed, assigned or unassigned, as appropriate.

Restricted fund balance represents amounts that are constrained either externally by creditors (such as debt covenants), grantors, contributors or laws or regulations of other governments; or by law, through constitutional provisions or enabling legislation.

Committed fund balance represents amounts that are useable only for specific purposes by formal action of the government's highest level of decision-making authority. Such amounts are not subject to legal enforceability (like restricted amounts), but cannot be used for any other purpose unless the government removes or changes the limitation by taking action similar to that which imposed the commitment.

Assigned fund balance represents amounts that are intended to be used specific purposes, but are neither restricted nor committed. Intent is expressed by the governing body itself, or a subordinated high-level body or official who the governing body has delegated the authority to assign amounts to be used for specific purposes. Assigned fund balances includes all remaining spendable amounts (except negative balances) that are reported in governmental funds other than the general fund, that are neither restricted nor committed, and amounts in the general fund that intended to be used for specific purpose in accordance with the provisions of the standard.

Unassigned fund balance is the residual classification for the general fund. It represents the amounts that have not been assigned to other funds, and that have not been restricted, committed, or assigned to specific purposes within the general fund.

1.E. REVENUE AND EXPENDITURES

Reimbursements

The District receives reimbursements from the Oklahoma Conservation Commission (OCC). The funds for operation of the OCC and the conservation districts are appropriated annually by the legislature for the Commission to allocate to each district on a reimbursable basis. The funding is broken down into the following program areas:

- Administration
- Watershed Planning and Archeology
- Field Services
- Small Watersheds Flood Control Fund
- Abandoned Mine Land (AML) Reclamation Program
- Water Quality Management

Program Revenues

In the Statement of Activities, revenues that are derived directly from each activity or from parties outside the District's reimbursements are reported as program revenues. The District has the following program revenues in each activity:

General Government: Rental of equipment and water sales.

All other governmental revenues are reported as general.

**COAL COUNTY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the fiscal year ended June 30, 2012**

Expenditures/Expenses

In the government-wide financial statements, expenses are reported on the modified cash basis and are classified by function or activity for governmental activities.

In the fund financial statements, expenditures are classified by category.

1.F. USE OF ESTIMATES

The preparation of financial statements in conformity with the other comprehensive basis of accounting used by the District requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

1.G. DIFFERENCES FROM GAAP

Basis of Accounting

As discussed in Note 1.C., the District reports both the government-wide financial statements and the fund financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

2.A. DEPOSITS AND INVESTMENTS LAWS AND REGULATIONS

In accordance with O.S. Title 62, Section 516.3, all uninsured deposits of municipal funds and other political subdivisions in financial institutions must be secured with acceptable collateral valued at the lower of market or par. The District's deposits were properly insured by FDIC Insurance carried by depository banks.

NOTE 3 - DETAIL NOTES - TRANSACTION CLASSES/ACCOUNTS

3.A. CASH

Custodial Credit Risk

At June 30, 2012, the District held deposits of approximately \$215,871 at financial institutions. The District's cash deposits, including the interest-bearing certificates of deposit, are entirely covered by the Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name.

Investment Interest Rate Risk

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

Investment Credit Risk

The District has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations.

**COAL COUNTY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the fiscal year ended June 30, 2012**

- d. County, municipal or school district tax supported debt obligations, bonds or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality, or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligation of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

The investments held at June 30, 2012 are as follows:

Type	Weighted Average Maturity (Months)	Credit Rating	Market Value	Cost
Investments				
Certificates of deposit	7.00	N/A	\$116,246	\$116,246
Total Investments			<u>\$116,246</u>	<u>\$116,246</u>

3.B. CAPITAL ASSETS

Capital asset activity resulting from modified cash basis transactions for the fiscal year ended June 30, 2012 was as follows:

	Balance at July 1, 2011	Additions	Deductions	Balance at June 30, 2012
Governmental activities:				
Capital assets not being depreciated:				
Land	245,694	-	-	245,694
Capital assets being depreciated:				
Buildings	249,338	2,925	50,000	202,263
Machinery and Equipment	53,925	15,500	-	69,425
Total capital assets at historical cost:	<u>548,957</u>	<u>18,425</u>	<u>50,000</u>	<u>517,382</u>
Less accumulated depreciation for:				
Buildings	27,083	5,380	27,188	5,275
Machinery and Equipment	46,035	2,359	-	48,394
Total accumulated depreciation:	<u>73,118</u>	<u>7,739</u>	<u>27,188</u>	<u>53,669</u>
Governmental activities capital assets, net	<u>\$475,839</u>	<u>10,686</u>	<u>22,812</u>	<u>\$463,713</u>

NOTE 4 - OTHER NOTES

4.A. EMPLOYEE PENSION AND OTHER BENEFITS

The District participates in one employee pension system as follows:

<u>Name of Plan/System</u>	<u>Type of Plan</u>
Oklahoma Public Employees Retirement Plan	Cost Sharing Multiple Employer - Defined Benefit Plan

**COAL COUNTY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the fiscal year ended June 30, 2012**

Oklahoma Public Employees' Pension and Retirement System

The Oklahoma Conservation Commission, as the employer, participates in one statewide cost-sharing multi-employer defined benefit plan on behalf of the employees working at least 1,000 hours per month. The system is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary.

The following is a summary of eligibility factors, contribution methods, and benefit provisions.

Obtaining separately issued financial statements	Oklahoma Public Employees Retirement System 6601 N. Broadway, Suite 129 Oklahoma City, OK 73116
Eligibility to participate	All full-time permanent employees of a participating local government
Authority establishing contribution obligations and benefits	State Statute
Employee's contribution rate (percent of covered payroll)	3.5%
Commission's Contribution rate (percent of covered payroll)	16.5%
State obligation	State appropriation to fund the unfunded actuarial accrued liability
Period required to vest	7½ years, of which 6 must be fulltime service
Eligibility and benefits for distribution (full-time)	2% of the average highest 3 years' annual covered compensation received during the last 10 years of participating service multiplied by the number of years of credited service.
Deferred retirement option	No
Provisions for:	
Cost of living adjustments (normal retirement)	Yes
Death (duty, non-duty, post retirement)	Yes
Disability (duty, non-duty)	Yes
Cost of living allowances	No

Trend Information

Contributions required by State Statute and paid to the System for fiscal years 2010, 2011 and 2012 were \$9,153, \$8,230 and \$9,399 respectively. These contributions represent 100% of the required contribution in each fiscal year.

Related Party Investments

As of June 30, 2012, the System held no related-party investments of the District.

**COAL COUNTY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the fiscal year ended June 30, 2012**

4.B. COMMITMENTS AND CONTINGENCIES

Commitments

The District's commitment for accrued compensated absences at June 30, 2012 was \$5,421.

The District owns 715 acres of land purchased with Oklahoma Conservation Commission (OCC) Revolving Fund monies in the early 1970's for approximately \$200,000. In the event the land is sold, the District has a commitment to reimburse the OCC Revolving Fund.

Contingencies:

The District is not involved with any legal proceedings, which normally occur in the course of governmental operations at this time. Therefore, the financial statements do not include accruals or provisions for loss contingencies.

While legal proceedings cannot be foreseen, the District feels that any settlement or judgment not covered by insurance carried by the Commission would not have a material effect on the financial condition of the District.

4.C. SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 23, 2012.

**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**

October 23, 2012

The Board of Directors
Coal County Conservation District

I have audited the financial statements of the governmental activities of the Coal County Conservation District, as of and for the year ended June 30, 2012, and have issued my report thereon dated October 23, 2012, which 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. Except as noted in my report dated October 23, 2012, I conducted my 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. The District did not present the Management's Discussion and Analysis or the Budgetary Comparison Schedule as required by the Governmental Accounting Standards Board.

Internal Control over Financial Reporting

In planning and performing my audit, I considered the District's internal control over financial reporting as a basis for designing my audit procedures for the purpose of expressing my opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the District's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified.

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. I consider the following to be a material weakness.

An adequate internal control structure does not exist because of the small size of the entity, nor is there adequate segregation of duties. A good internal control system would provide for separation of duties and responsibilities in financial matters between various employees. The individual writing checks would not be the same as the individual recording those checks and reconciling bank accounts. In this District, the individual submitting claims for reimbursement is also responsible for remitting bill payments and depositing reimbursements. Also, there is a lack of oversight in other income collected by the District. However, because of the very limited number of administrative employees and the small size of the District budget, it is generally not financially efficient to have enough employees for proper segregation of duties. Therefore, the Board has agreed to work with management to provide additional oversight by examining bank reconciliations, cancelled checks and OCC claim reimbursement forms. Also, the Board will more closely monitor the billing and collection of other income through a monthly reconciliation.

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. I did not identify any deficiencies in internal control over financial reporting that I consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The District's response to the findings identified in my audit is described above. I did not audit the District's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of management, all applicable federal and state agencies, and those other Governments from which federal financial assistance was received and is not intended to be and should not be used by anyone other than these specified parties.



Kristi Dobbins, CPA