

AUDIT REPORT & FINANCIAL STATEMENTS

CHECOTAH CONSERVATION DISTRICT
CHECOTAH, OKLAHOMA

JUNE 30, 2012

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

CHECOTAH CONSERVATION DISTRICT
CHECOTAH, OKLAHOMA
JUNE 30, 2012

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CHECOTAH CONSERVATION DISTRICT
CHECOTAH, OKLAHOMA
JUNE 30, 2012

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>	<u>TERM</u>
Gary Updyke Rt. 1, Box 905 Checotah, OK 74426-9762	Chairman	2010 - Present (Appointed)
Ed Kloeckler RR 3, Box 3035 Checotah, OK 74426-9527	Vice-Chairman	1980 - Present (Appointed)
Bryan Davis Rt. 1, Box 2730 Council Hill, OK 74428-9616	Director	2011 - Present (Elected)
Richard Barton Rt. 3, Box 3985 Checotah, OK 74426-9538	Treasurer	2010 - Present (Elected)
Dana Watson RR 1, Box 890 Council Hill, OK 74428-9706	Director	1987 - Present (Elected)

DISTRICT/NRCS EMPLOYEES

Kathryn Courtwright	District Secretary II
Jacob Worley	District Conservationist
Shane Harjo	Soil Conservation Technician

MEETING DATE

1st Wednesday, 9:00 am

Unaudited

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Checotah Conservation District
Checotah, Oklahoma

We have audited the accompanying financial statements of the Checotah Conservation District, as of and for the fiscal year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Checotah Conservation District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As described in Note 1, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

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

In accordance with Government Auditing Standards, we have also issued our report dated November 1, 2012, on our consideration of the Checotah Conservation 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

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compliance with Government Auditing Standards and should be considered in assessing the results of our audit.

Checotah Conservation District has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34. However the District has not presented the Management's Discussion and Analysis 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 introductory and the other supplementary information sections listed in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the District. Such additional information has not been subjected to the auditing procedures applied in our audit of the basic financial statements, and accordingly, we do not express an opinion thereon.

Kershaw CPA & Associates, P.C.
Kershaw CPA & Associates, PC

November 1, 2012

CHECOTAH CONSERVATION DISTRICT
 CHECOTAH, OKLAHOMA
 STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
 JUNE 30, 2012

	Total 2012	Total (Memo Only) 2011
<u>ASSETS</u>		
<u>Current Assets:</u>		
Cash in Bank - Checking	\$ 4,471	\$ 2,424
Investment - C/D	-	-
Total Current Assets	<u>4,471</u>	<u>2,424</u>
TOTAL ASSETS	<u>\$ 4,471</u>	<u>\$ 2,424</u>
 <u>LIABILITIES</u>		
<u>Current Liabilities:</u>		
Payroll Taxes Payable	\$ 165	\$ 165
Total Current Liabilities	<u>165</u>	<u>165</u>
TOTAL LIABILITIES	165	165
 <u>NET ASSETS</u>		
Invested in capital assets, net of related debt	-	-
Restricted for debt service	-	-
Unrestricted	<u>4,306</u>	<u>2,259</u>
TOTAL NET ASSETS	<u>4,306</u>	<u>2,259</u>
TOTAL LIABILITIES & NET ASSETS	<u>\$ 4,471</u>	<u>\$ 2,424</u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

EXHIBIT B

CHECOTAH CONSERVATION DISTRICT
 CHECOTAH, OKLAHOMA
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 - MODIFIED CASH BASIS -
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Total June 30, 2012	Total (Memo Only) June 30, 2011
<u>Operating Revenues:</u>		
Oklahoma Conservation Commission	\$ 21,427	\$ 22,049
Oklahoma Conservation Commission - Other	-	-
Equipment Rental & Sales	2,967	1,452
Miscellaneous Income	-	390
Total Operating Revenues	24,394	23,891
<u>Operating Expenses:</u>		
District Salaries & Related Costs	14,470	14,400
Payroll Taxes	1,247	1,274
Office Rent	2,400	2,400
Equipment Expense	-	6,642
Mileage	-	-
Directors Meetings	1,225	500
Dues & Seminar Meetings	830	630
Telephone & Utilities	967	903
Professional Fees	375	375
Office Supplies & Postage	676	327
Miscellaneous Expenses	158	782
Total Operating Expenses	22,348	28,232
Operating Income (Loss)	2,047	(4,342)
<u>Non-Operating Revenues (Expenses):</u>		
Interest Income	-	4
Interest Expense	-	-
Total Non-operating Revenues (Expenses)	-	4
Net Income (Loss) Before Contributions	2,047	(4,338)
Capital Contributions	-	-
Change in Net Assets	2,047	(4,338)
Total Net Assets - Beginning	2,259	6,597
Total Net Assets - Prior Year Adjustment	-	-
Total Net Assets - Ending	\$ 4,306	\$ 2,259

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**CHECOTAH CONSERVATION DISTRICT
CHECOTAH, OKLAHOMA
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>June 30, 2012</u>	<u>Memorandum Only June 30, 2011</u>
<u>Net Cash Flows from Operating Activities:</u>		
Cash Receipts from OCC	\$ 21,427	\$ 22,049
Other Cash Receipts	2,967	1,842
Payments to Suppliers for Goods & Services	(7,878)	(13,832)
Payments to Employees & Laborers	(14,470)	(14,400)
Net Cash Provided (Used) by Operating Activities	2,047	(4,342)
<u>Net Cash Flows from Capital & Related Financing Activities:</u>		
Principal paid on Debt	-	-
Interest paid on Debt	-	-
Net Cash Provided (Used) by Capital & Related Financing Activities	-	-
<u>Net Cash Flows from Investing Activities:</u>		
Interest Income	-	4
Net Cash Provided (Used) by Investing Activities	-	4
Net Increase (Decrease) in Cash and Cash Equivalents	2,047	(4,338)
Cash & Cash Equivalents, Beginning of Year	2,424	6,762
Cash & Cash Equivalents, Prior Year Adjustment	-	-
Cash & Cash Equivalents, End of Year	\$ 4,471	\$ 2,424
<u>Reconciliation of operating income (loss) to net cash provided operating activities:</u>		
Operating Income (Loss)	\$ 2,047	\$ (4,342)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	-	-
Increase(Decrease) in Accounts Payable	-	-
Increase(Decrease) in Payroll Taxes Payable	-	-
Net Cash Provided (Used) by Operating Activities	\$ 2,047	\$ (4,342)

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

CHECOTAH CONSERVATION DISTRICT
CHECOTAH, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Checotah Conservation District #20 (the District) is a local subdivision of state government charged with conservation of renewable natural resources. The District receives funds from state appropriations to the Oklahoma Conservation Commission and local revenues from contributions, map sales and equipment rental. As a political subdivision of the State of Oklahoma, the District is exempt from income taxes, and its employees are exempt from federal unemployment taxes.

B. Basis of Presentation

The accounts of the District are organized on the basis of proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net assets, revenues and expenses. Enterprise Funds account for activities (1) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (2) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (3) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

C. Basis of Accounting

The District has elected to present its financial statements on a modified cash basis of accounting. This modified cash basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and their related assets and liabilities. Under the District's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from cash transactions, except for the recording of depreciation expense on capital assets.

As a result of the used 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 expense and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this financial report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

CHECOTAH CONSERVATION DISTRICT
CHECOTAH, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

D. Budgetary Data

The District does not prepare an annual budget.

E. Assets, Liabilities, & Equity

Cash & Cash Equivalents

For the purpose of financial reporting, "cash & cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less. All accounts are fully insured by the Federal Deposit Insurance Corporation.

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. As of June 30, 2012, the District has no investments.

Capital Assets

The District expenses the purchase of capital assets in the period purchased and does not depreciate those assets.

Long-Term Debt

Long-term debt is reported at face value, net of applicable discounts and deferred loss on refunding. Costs related to the issuance of debt are deferred and amortized over the lives of various debt issues.

Equity Classification

Equity is classified as net assets and displayed in three components:

1. 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 of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
2. Restricted net assets—Consists of net assets with constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.

CHECOTAH CONSERVATION DISTRICT
CHECOTAH, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

3. Unrestricted net assets—All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

F. Revenues, expenditures & expenses

Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

G. Memorandum Only

The “Memorandum Only” captions above the total columns mean that totals are presented for overview information purposes only.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

As a local government unit, the District is subject to various federal, state, and local laws and contractual regulations.

Finance-related Legal & Contractual Provisions

Because the District has no long-term debt, there are no reserve requirements.

Deficit Fund Balance or Retained Earnings

As indicated in the financial statements, there are no fund balance or retained earnings deficits for the District for this fiscal year.

NOTE 3 - DEPOSITS AND INVESTMENTS

Custodial Credit Risk

At June 30, 2012, the District held deposits of approximately \$4,470.74 at financial institutions. The District’s cash deposits, including interest-bearing certificates of deposit are covered by 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 investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

CHECOTAH CONSERVATION DISTRICT
 CHECOTAH, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2012

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.
- d. County, municipal or school district tax supported debt obligations, bond 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 obligations 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.).

NOTE 4 - RESTRICTED ASSETS

The District currently has no restricted assets.

NOTE 5 - CAPITAL ASSETS

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

	Balance at June 30, 2011	Additions	Deductions	Balance at June 30, 2012
Capital Assets	\$ -	\$ -	\$ -	\$ -
Subtotal	-	-	-	-
Less: Accum. Depr.	-	-	-	-
Total Capital Assets (Net of Depreciation)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 6 - LONG-TERM DEBT

The District currently has no long-term debt.

CHECOTAH CONSERVATION DISTRICT
 CHECOTAH, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2012

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2012:

	Balance at June 30, 2011	Additions	Deductions	Balance at June 30, 2012
Notes Payable	\$ -	\$ -	\$ -	\$ -
Total Long-Term Debt	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 7 - FUND EQUITY

As described in Note 1 above, equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt
2. Restricted net assets
3. Unrestricted net assets

The District does not have any restricted net assets.

NOTE 8 - CONTINGENCIES

Litigation

The District currently has no pending litigation.

Federally Assisted Programs

In the normal course of operations, the District participates in various federal or state/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

NOTE 9 - PENSION PLAN

All full-time employees are covered by and must participate in the Oklahoma Public Employees Retirement Plan (OPERS). The District is not legally required to contribute to the OPERS, which is fully funded by the state and by contributions from covered employees. During the year ended June 30, 2012, the covered employees made contributions of \$506.40 to the OPERS. Under the pension plan, benefits vest after 6 years of full-time employment. An employee with 10 years of service may retire at age 55 and receive reduced retirement benefits.

Based on Oklahoma statute, employees covered by the pension plan must contribute 3% of their gross earnings to the pension fund. The state is required to contribute 10% of gross earnings

CHECOTAH CONSERVATION DISTRICT
CHECOTAH, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

to the plan. The District's total current year payroll for all its employees amounted to \$14,469.72, the same amount as the payroll covered by the plan.

NOTE 10 - COMPENSATED ABSENCES

The District's policy for accumulated annual leave is based on years of continuous service. Full-time employees with less than five years of service can accumulate up to 240 hours; employees with over five years of service can accumulate up to 480 hours. The accrual of compensated absences is not reflected in the cash basis statements. The District records vacation and sick leave at the time the claim is paid.

The District currently employs one employee on a part-time basis. The District splits a benefit and retirement package with a neighbor District, McIntosh County Conservation District #1. The employee's full-time basis and vacation and sick leave expense is split between the two districts.

At June 30, 2012, the District had an unrecorded commitment for earned but unused vacation benefits that would require payment upon employee termination of service in the amount of \$2,411.62.

NOTE 11 - SUBSEQUENT EVENTS

The District did not have any subsequent events through November 1, 2012, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending June 30, 2012.

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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

To the Board of Directors
Checotah Conservation District
Checotah, Oklahoma

We have audited the financial statements of the Checotah Conservation District, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles, as of June 30, 2012 and have issued our report thereon dated November 1, 2012. The Checotah Conservation District has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, except that the District did not present the required MD&A. We conducted our audit in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes.

Internal Control Over Financial Reporting

Management of Checotah Conservation District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Checotah Conservation District 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 Checotah Conservation District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Checotah Conservation District's internal control over financial reporting.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be

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material weakness, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings that we consider to be significant deficiencies in internal control over financial reporting. Those deficiencies are listed as Item 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Checotah Conservation District's financial statements are free of material misstatement, we performed tests of 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 the findings identified in our audit is described in the accompanying Schedule of Findings. 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 of Directors and management of the Checotah Conservation District and is not intended to be and should not be used by anyone other than these specified parties.

Kershaw CPA & Associates, P.C.

Kershaw CPA & Associates, PC

November 1, 2012

CHECOTAH CONSERVATION DISTRICT
SCHEDULE OF FINDINGS
JUNE 30, 2012

Internal Control Findings:

Item 12-01: Segregation of Duties

Criteria: A good system of internal control requires a proper segregation of duties to prevent one person from being in a position to authorize, execute, and record the same transaction.

Condition: Due to the size of the District's major areas of internal control, that would be prevalent in a larger District, such segregation of duties is not available for this size operation. Duties are concentrated in the hands of a few individuals, who are responsible for all phases of the accounting functions. Because of this lack of division of responsibility, internal control is determined to be weak, and in some instances, non-existent.

Cause/Effect: Due to the limited number of personnel, a breach of internal controls could occur and not be detected in the normal course of operations.

Recommendation: The Board should continue to be actively involved in the operations of the organization.

Response: The Board continues to be actively involved in the operations of the organization.

Conservation District	CHECOTAH CONSERVATION DISTRICT	
Address	323-B WEST LAFAYETTE AVE., CHECOTAH, OK 74426-3815	
FOR THE PERIOD JULY 1, 2011, TO JUNE 30, 2012 FOR FISCAL YEAR 2012		
1. LIQUID ASSETS (Checking Account, Savings Account, Certificate of Deposit, Petty Cash, Etc.)		TOTAL \$ <u>4,471</u>
2. WORKING ASSETS		
Building	\$ <u>0</u>	
Equipment	\$ <u>0</u>	TOTAL WORKING
Other (Seed, Etc.)	\$ <u>0</u>	ASSETS \$ <u>0</u>
3. RECEIPTS (from Annual Audit)	\$ <u>24,394</u>	
4. DISBURSEMENTS	\$ <u>22,348</u>	
5. NET WORTH OF DISTRICT (Lines 1+2)		TOTAL \$ <u>4,471</u>

I, _____, the undersigned hereby certify the above to be true and correct.

Signature (Chair, Board of Directors) _____

Subscribed and sworn to before me this _____ day of _____ 2012.

Notary Public _____

My Commission Expires _____

DUE IN OCC OFFICE BY NOVEMBER 1 OF EACH YEAR