

**BLAINE COUNTY CONSERVATION DISTRICT**

AUDIT REPORT  
FOR THE YEAR ENDED JUNE 30, 2012

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Blaine County Conservation District  
Board of Directors  
221 E. Main  
Watonga, OK 73772

### INDEPENDENT AUDITOR'S REPORT

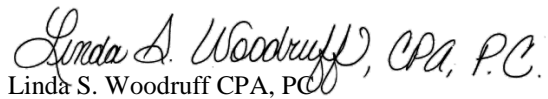
I have audited the accompanying financial statements of the business-type activities of the Blaine County Conservation District, Watonga, Oklahoma, (District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 the 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 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.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Blaine County Conservation District, Watonga, Oklahoma, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with 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.

The Blaine County Conservation District has not presented a Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although, not required to be part of, the basic financial statements.

  
Linda S. Woodruff CPA, P.C.

Oklahoma City, OK 73172  
October 23, 2012



**BLAINE COUNTY CONSERVATION DISTRICT**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2012**

CURRENT LIABILITIES:

Accounts Payable	\$ 480.98
Accrued Payroll Taxes	843.23
Accrued Sales Taxes	.00
Compensated Absences (Note 4)	<u>5,606.40</u>

TOTAL CURRENT LIABILITIES \$ 6,930.61

LONG TERM LIABILITIES:

TOTAL LONG TERM LIABILITIES \$ .00

**TOTAL LIABILITIES \$ 6,930.61**

NET ASSETS:

Invested Capital Assets	\$ 55,523.25
Equity – Unrestricted	<u>28,804.75</u>

**TOTAL NET ASSETS \$ 84,328.00**

SEE INDEPENDENT AUDITOR'S REPORT  
THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE BASIC FINANCIAL STATEMENTS

**BLAINE COUNTY CONSERVATION DISTRICT**  
**STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS**  
**JUNE 30, 2012**

REVENUE:

Reimbursement by State	\$	57,704.36	
Seed		13,007.99	
Equipment Rental		10,126.06	
Rent -- Building		<u>8,250.00</u>	
TOTAL REVENUE			\$ 89,088.41

EXPENSES:

Salaries	\$	42,141.39	
Utilities/Telephone		5,377.05	
Seed		5,196.95	
Payroll Taxes/Benefits		5,059.02	
Building Maintenance		4,741.07	
Education Expense		2,686.74	
Meeting Expense		2,679.39	
Insurance		2,645.52	
Dues/Publications/Registration		2,365.00	
Equipment Maintenance		1,917.82	
Office Expense		1,782.98	
Accounting		750.00	
Vehicle Expense		685.19	
Advertising		<u>275.96</u>	
TOTAL EXPENSES			\$ <u>78,304.08</u>

OPERATING INCOME (LOSS) 10,784.33

OTHER INCOME (EXPENSE):

Donations		1,450.00	
Interest Income		194.20	
Oil & Gas Royalty		.85	
Depreciation		<u>(1,861.53)</u>	

TOTAL OTHER INCOME (EXPENSE) (216.48)

CHANGE IN NET ASSETS \$ 10,567.85

NET ASSETS AT BEGINNING OF YEAR 73,760.15

NET ASSETS AT END OF YEAR \$ 84,328.00

SEE INDEPENDENT AUDITOR'S REPORT  
 THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE BASIC FINANCIAL STATEMENTS

**BLAINE COUNTY CONSERVATION DISTRICT  
STATEMENT OF CASH FLOW  
JUNE 30, 2012**

CASH FLOW FROM OPERATING ACTIVITIES:	
Cash Payments for Services	\$ 86,096.41
Cash Payments to Suppliers for Goods and Contractors and Other Services	<u>(88,464.27)</u>
Net Cash Provided by Operating Activities	(2,367.86)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition & Construction of Capital Assets	<u>.00</u>
Net Cash Used in Capital and Financial Activities	.00
CASH FLOWS FROM INVESTING ACTIVITIES:	
Donations	1,450.00
Interest Income	194.20
Oil & Gas Royalty	<u>.85</u>
Net Cash Provided by Investing Activities	1,645.05
NET INCREASE (DECREASE) IN CASH	(722.81)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>24,680.28</u>
CASH AND EQUIVALENTS AT END OF YEAR	<u><u>\$ 23,957.47</u></u>
RECONCILIATION OF OPERATION INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating Income (Loss)	\$ 8,922.80
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Depreciation	1,861.53
Changes in Assets & Liabilities:	
(Increase) Decrease in Prepaid Expenses	54.62
(Increase) Decrease in State Claims Receivable	(139.83)
(Increase) Decrease in Accounts Receivable	(6,621.16)
Increase (Decrease) in Compensated Absences	(6,225.60)
Increase (Decrease) in Payroll Taxes Payable	(111.00)
Increase (Decrease) in Sales Tax Payable	<u>(109.22)</u>
Total Adjustments	(11,290.66)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b><u><u>\$ (2,367.86)</u></u></b>

SEE INDEPENDENT AUDITOR'S REPORT  
THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE BASIC FINANCIAL STATEMENTS

**BLAINE COUNTY CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

ORGANIZATION

The Blaine County Conservation District is a statutory district of the State of Oklahoma operating under the Oklahoma Conservation Commission. The District was created to implement soil conservation measures, and is financed by user charges and state governmental reimbursements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPALS

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with Generally Accepted Accounting Principles (GAAP) promulgated in the United States of America. The accounting and financial reporting treatment is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation are included on the statement of net assets. The operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Depreciation expense provides for capital assets based upon estimated useful lives.

**Fund Accounting**

The operations of the District constitute an enterprise fund, a proprietary fund type. Enterprise funds are used to account for operations that are financed and operated in a manner similar to a private business enterprise – where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis is being financed or recovered primarily through user charges. The District's fund is accounted for on the flow of economic resources measurement focus and uses the accrual method of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The remaining costs are reimbursed by the State Conservation group.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.



NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES – CONTINUED

**Cash Equivalents and Investments**

*1. Deposits and Investments*

Oklahoma Statutes authorize the District to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the District can invest in direct debt securities of the United States unless law expressly prohibits such an investment.

For financial statement presentation and for purposes of the statement of cash flows, the District's cash and cash equivalents are considered to be cash on hand, demand deposits and certificates of deposit with a maturity date of three months or less. Debt instruments with a maturity date of more than three months are considered to be investments. Investments are stated at cost.

*2. Fair Value of Financial Instruments*

The District's financial instruments include cash and cash equivalents, investments, and accounts receivable. The District's estimates of the fair value of all financial instruments do not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of net assets. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

NOTE 2 – INCOME TAX

As a special district of a state government, the district is exempt from State and Federal income taxes.

NOTE 3 – EMPLOYEE BENEFITS

**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.

Based on state statute, employees covered by the pension plan must contribute 3.5% of their gross earnings to the pension fund. The state is required to contribute 16.5% of gross earnings to the plan.

**Post-Employment Healthcare Benefits**

The District does not provide post-employment healthcare benefits except those mandated by the Consolidated Omnibus Budget Reconciliation Act (COBRA). The requirements established by COBRA are fully funded by employees who elect coverage under the Act, and the District incurs no direct costs.

NOTE 4 – COMPENSATED ABSENCES

District employees are entitled to vacation and sick leave benefits in varying amounts based on their length of employment. It is the District's policy to permit employees to accumulate earned but unused absences to specified maximums. With minor exceptions, compensated absences either vest or accumulate and are accrued when they are earned. Generally, employees are entitled to all accrued vacation leave upon termination. Employees are not compensated for unused sick leave upon termination. At the option of the employee, compensatory time off may be taken in lieu of cash payment for overtime worked. The expense and related liability for vested vacation benefits and compensatory time are recorded in the District's financial statements.

NOTE 5 – PROPERTY AND EQUIPMENT

The District owns various equipment that is rented to individuals on an as needed basis. Additions to equipment are recorded at cost or, if contributed property, at their estimated fair value at time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. The District does not maintain a capitalization threshold.

NOTE 5 – PROPERTY AND EQUIPMENT – CONTINUED

Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Computer Equipment.....5 years  
Equipment.....7 years  
Building & Improvements .....25 years

Capital asset activity for the year is as follows:

	Balance 06/30/2011	Addition	Disposals	Balance 06/30/2012
<b>Depreciable Assets:</b>				
Equipment	\$ 63,027.74	\$ .00	\$ .00	\$ 63,027.74
Building	65,708.10	.00	.00	65,708.10
Total	\$ 128,735.84	\$ .00	\$ .00	\$ 128,735.84
<b>Accumulated Depreciation:</b>				
Equipment	\$ 52,691.73	\$ 281.79	\$ .00	\$ 52,973.52
Building	18,659.33	1,579.74	.00	20,239.07
Total	\$ 71,351.06	\$ 1,861.53	\$ .00	\$ 73,212.59
Net Depreciable Assets:	\$ 57,384.78	\$ (1,861.53)	\$ .00	\$ 55,523.25

Blaine County Conservation District  
Board of Directors  
221 E. Main  
Watonga, OK 73772

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

I have audited the accompanying financial statements of the business-type actives of the Blaine County Conservation District, Watonga, Oklahoma, (District) as of and for the year ended June 30, 2012, which collectively comprises the District's basic financial statements and have issued my report thereon dated October 23, 2012. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the District's internal control over financial reporting as a basis of 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in normal course of performing their assigned function, 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 statement will not be prevented, or detected and corrected on a timely basis.

My 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. I consider the deficiencies number 12-01; 12-02; 12-03 described in the accompanying schedule of findings to be a significant deficiency in the internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the basic financial statements will not be prevented or detected by the organization's internal control. My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered material weakness. My tests disclosed no material weaknesses.

#### 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, contract 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 *Governmental Auditing Standards*.

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.



Linda S. Woodruff CPA, PC

Oklahoma City, OK 73172  
October 23, 2012

**BLAINE COUNTY CONSERVATION DISTRICT**  
WATONGA, OKLAHOMA

SCHEDULE OF FINDINGS

12-01. Internal Control

Condition: An adequate internal control structure does not exist because of the small size of the entity nor is there adequate segregation of duties.

Criteria: Internal controls should be in place that provide reasonable assurance that any one individual does not have control over several of the financial functions of the District.

Effect: Because of the inadequate segregation of duties, an opportunity exists for an employee to alter record keeping.

Recommendation: I recommend that the District strive to implement more segregation of duties where possible and utilize compensating procedures where applicable.

Response: Management agrees with the recommendation. The economic benefits received from segregation of duties may be less than the cost of the implementation.

12-02. Internal Control

Condition: Bank accounts are not reconciled to the general ledger for the last three months.

Criteria: Recordkeeping controls should be in place to provide assurance that all transactions can be traced and cleared through the bank statements.

Effect: An opportunity exists for the District to lose funds from the bank accounts without realizing a problem exists and misstate revenue or expenditures.

Recommendation: Reconcile each account using the software provided rather than manually preparing the report. Trace and correct any discrepancies within thirty (30) days so that the financial institution can follow up in cases of bank error or correct in the general ledger if it was an error by the District.

Response: Management agrees with the recommendation and will prepare reconciliations monthly using QuickBooks software.

**BLAINE COUNTY CONSERVATION DISTRICT**  
WATONGA, OKLAHOMA

SCHEDULE OF FINDINGS

12-03. Internal Control – Material Adjusting Journal Entries

Criteria: The District's management is responsible for internal controls over accounting and financial reporting. This responsibility include the design and implementation of controls over the fair and complete presentation of the District's annual financial statements in accordance with generally accepted accounting principles (GAAP) from trial balances derived from the District's accounting records. For trial balances to be both complete and accurate, the District must have effective internal controls over recording, processing, summarizing, and adjusting accounting data. As evidence of effective internal controls over accounting and financial reporting, there should generally be few, if any, material adjustments to the trial balances required that are detected and corrected solely as a result of the financial statement audit. In other words, District management should not rely on the external auditor to detect and correct material misstatements in the books and records as part of its internal controls, but rather should have its own procedures designed and in place that are independent of the external auditor to provide reasonable, although not absolute, assurance that material misstatements will be detected and corrected in its trial balances prior to audit.

Condition: The District's trial balances for the year ended June 30, 2012, required a number of material adjusting journal entries in order for the financial statements to be prepared in accordance with GAAP.

Cause: The District's accounting and financial reporting staff lacks the necessary knowledge, expertise and education, relative to the complex nature of applying GAAP applicable to state and local governments, sufficient to provide reasonable assurance that the trial balances used for preparing the GAAP financial statements are complete and accurate prior to audit. As a result, management has had to rely on the external auditor to identify and correct a number of material misstatements in the trial balance.

Effect of Potential Effect: As a result of this condition, without reliance on its external auditor, the District lacks the necessary internal controls over the completeness and accuracy of the trial balances that are used in the preparation of its financial statement in accordance with GAAP. This condition can result in undetected and uncorrected material misstatements in the financial statements that are not detected by management and may also not be detected by the financial statement audit. In addition, if management's intentions are to continue to rely on the external auditor to detect and correct material misstatements, this condition could place the auditor in a questionable position regarding auditor independence as a result of the auditor performing part of management's functions in regard to the trial balance.

Recommendation: The District should consider designing and implementing sufficient internal controls over the completeness and accuracy of trial balances by obtaining the necessary knowledge, expertise and continuing education to apply GAAP in the development of working trial balances that will be used to prepare the District's annual financial statements. This could be achieved through employment of qualified accounting staff or the outsourcing of these control activities to a qualified accounting firm other than the external auditor.

Response: Management concurs with the recommendation and is in the process of hiring a new District secretary to handle the accounting function(s).