

CUSTER COUNTY CONSERVATION
DISTRICT NO. 88

FINANCIAL STATEMENTS
AND AUDITOR'S REPORT

JUNE 30, 2012

CUSTER COUNTY CONSERVATION
DISTRICT NO. 88

TABLE OF CONTENTS

	<u>Page Number</u>
INDEPENDENT AUDITOR'S REPORT	1 - 2
FINANCIAL STATEMENTS - CASH BASIS	
Statement of Assets, Liabilities and Net Assets	3
Statement of Cash Receipts, Cash Disbursements and Changes in Net Assets	4
Statement of Cash Flows	5
Notes to the Financial Statements	6 - 7
INDEPENDENT AUDITOR'S REPORT on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	8 - 9
Statement of Findings and Responses	10
Update on Prior Year Findings and Responses	11 - 13



Certified Public Accountants

*Glenn L. McCulley
Roselind C. McCulley*

*204 North Caddo
Post Office Box 1626
Weatherford, Oklahoma 73096*

*Voice (580) 772-8820
Fax (580) 772-0672*

*<http://prep.1040.com/mcculleycpas>
email: mmcpas@cebridge.net*

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Custer County Conservation District No. 88
Clinton, Oklahoma

We have audited the accompanying cash basis financial statements of the Custer County Conservation District No. 88 as of June 30, 2012, as listed in the table of contents. These cash basis financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these cash basis financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position - cash basis of Custer County Conservation District No. 88 as of June 30, 2012, and the respective changes in financial position - cash basis and its cash flows 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 a report dated November 13, 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, 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 important for assessing the results of our audit.

The District has not presented the 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.

McCulley + McCulley

Weatherford, Oklahoma

November 13, 2012

CUSTER COUNTY CONSERVATION DISTRICT NO. 88
STATEMENT OF ASSETS, LIABILITIES, AND NET ASSETS
CASH BASIS
JUNE 30, 2012

ASSETS

Cash in Bank	\$ 12,363
Certificate of Deposit	<u>18,429</u>
TOTAL ASSETS	\$ <u><u>30,792</u></u>

LIABILITIES AND NET ASSETS

LIABILITIES	\$
NET ASSETS	<u>30,792</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u><u>30,792</u></u>

The accompanying notes are an integral part of these statements.

**CUSTER COUNTY CONSERVATION DISTRICT NO. 88
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN NET ASSETS - CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2012**

CASH RECEIPTS

State Reimbursement	\$ 61,741
Equipment Rent Income	3,830
Interest Income	175
Seed	33,476
Other Income	<u>2,582</u>

TOTAL CASH RECEIPTS	<u>101,804</u>
----------------------------	----------------

CASH DISBURSEMENTS

Compensation and Benefits	46,027
Retirement and Health Insurance	5,195
Watershed Maintenance	5,914
Utilities, including Telephone	3,042
Meeting Expenses	3,028
Transportation Expenses	2,058
Seed Purchases	55,459
Travel and Registration	
Classroom and Education	375
Mileage	129
Licenses and Dues	424
Insurance	2,719
Office Expenses	568
Repair and Maintenance	358
Professional Fees	605
Equipment Rental - Cancelable Operating Lease	559
Other Cash Disbursements	<u>170</u>

TOTAL CASH DISBURSEMENTS	<u>126,630</u>
---------------------------------	----------------

NET CASH DISBURSEMENTS	(24,826)
-------------------------------	----------

NET ASSETS

Beginning of Year	<u>55,618</u>
-------------------	---------------

End of Year	<u><u>\$ 30,792</u></u>
-------------	-------------------------

The accompanying notes are an integral part of these statements.

**CUSTER COUNTY CONSERVATION DISTRICT NO. 88
STATEMENT OF CASH FLOWS - CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2012**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from State Reimbursements	\$ 61,741
Cash Received in Rent	3,830
Cash Received from Interest	175
Cash Received from Seed	33,476
Cash Received from Other Income	2,582
Cash Paid to Employees and Benefits	(51,222)
Cash Paid for Operations	<u>(75,408)</u>

NET CASH (USED FOR) OPERATING ACTIVITIES (24,826)

NET (DECREASE) IN CASH AND CASH EQUIVALENTS (24,826)

CASH AND CASH EQUIVALENTS

Beginning of Year	<u>55,618</u>
End of Year	<u>\$ 30,792</u>

**RECONCILIATION OF NET CASH DISBURSEMENTS TO NET CASH
(USED FOR) OPERATING ACTIVITIES**

Net Cash Disbursements	\$ <u>(24,826)</u>
------------------------	--------------------

NET CASH (USED FOR) OPERATING ACTIVITIES \$ (24,826)

The accompanying notes are an integral part of these statements.

CUSTER COUNTY CONSERVATION DISTRICT NO. 88
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

A. Summary of Significant Accounting Policies.

The Custer County Conservation District No. 88, (the District), is a special district of the State of Oklahoma. The District was created to implement soil conservation measures in Custer County, State of Oklahoma, and is financed by user charges and the Oklahoma Conservation Commission.

1. Basis of Accounting.

The District's policy is to prepare its financial statements on the cash basis of accounting; consequently, revenues are recognized when received rather than when earned, and expenses and purchases of assets are recognized when cash is disbursed rather than when the obligation is incurred.

2. Cash in Bank and Certificate of Deposit.

Cash in bank consists of the District's checking and savings accounts. The Market value of the certificate of deposit approximates cost. All deposits are insured by the Federal Deposit Insurance Corporation.

For purposes of the statement of cash flows, the District considers all cash in bank and certificates of deposit to be cash equivalents.

B. Capital Assets.

In accordance with the cash basis of accounting, the District's capital assets are recognized as an expense when cash is disbursed. Sales of capital assets are recognized as revenue when sold.

C. Risk Management.

The District purchases insurance on the equipment and building it owns and uses. Deductibles range from \$500 to \$1,000. Surety bonds are purchased for the employee and Board of Directors. The Oklahoma Conservation Commission purchases workers compensation insurance for the District.

CUSTER COUNTY CONSERVATION DISTRICT NO. 88
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

D. Employee Retirement System.

The District participates in the state-administered Oklahoma Public Employees Retirement System (the "System"), which is a cost-sharing, multiple-employer public employee retirement system (PERS). Under the System, contributions are made by the District, the State of Oklahoma, and the participating employees. Participation is required for all regular employees who work at least 1000 hours per year and are not seasonal or temporary employees. A participant's date of membership is the date the first contribution is made to the System. The System is administered by a Board of Trustees which acts as a fiduciary for investing the funds and governing the administration of the System. The District has no responsibility or authority for the operation and administration of the System nor has it any liability, except for the current contribution requirements.

A participant with 80 age/service points if hired before July 1, 1992 or 90 age/service points if hired after July 1, 1992, may retire with a normal retirement allowance at the age of sixty-two or with reduced benefits as early as age fifty-five with 10 years of service. The normal retirement allowance equals two percent of the members final average compensation multiplied by the number of years of credited service. When a retired participant dies, the beneficiary is entitled to a death benefit.

The contribution rates for the Districts, which are not actuarial determined, and its employees are established by statute and applied to the employee's earnings, plus employer-paid fringe benefits. The District is required by statute to contribute 16.5% of the applicable compensation for the year ended June 30, 2012. This contribution is actually paid by the Oklahoma Conservation Commission. The District is allowed by the Oklahoma Public Employees Retirements System to make the required contributions on behalf of the participating members. Employees contribute 3.5% of earnings for the year ended June 30, 2012.

Ten year historical trend information is presented in the Oklahoma Public Employees' Retirement System Annual Report for the year ended June 30, 2012. This information is useful in assessing the pension plan's accumulation of sufficient assets to pay pension benefits as they become due.



Certified Public Accountants

*Glenn L. McCulley
Roselind C. McCulley*

*204 North Caddo
Post Office Box 1626
Weatherford, Oklahoma 73096*

Voice (580) 772-8820

Fax (580) 772-0672

*<http://prep.1040.com/mcculleycpas>
email: mmcpas@cebridge.net*

**INDEPENDENT AUDITOR'S 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
Custer County Conservation District No. 88
Clinton, Oklahoma

We have audited the accompanying financial statements of the Custer County Conservation District No. 88 for the year ended June 30, 2012, and have issued our report dated November 13, 2012. The District reports on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles of the United States and has omitted the management discussion and analysis, which is required supplementary information under generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the accompanying 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 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. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or 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 accompany schedule of findings and responses to be a material weakness.

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 the 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 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 of Directors and management. It is not intended to be and should not be used by anyone other than these specified parties.

McCulley & McCulley
Weatherford, Oklahoma

November 13, 2012

CUSTER COUNTY CONSERVATION DISTRICT NO. 88
STATEMENT OF FINDINGS AND RESPONSES
JUNE 30, 2012

1. Lack of Segregation of Duties.

CONDITION AND EFFECT - The District does not have adequate segregation of duties since it only has one office employee. Material errors or fraud could occur and not be found in a timely manner.

RECOMMENDATION - The District should segregate the duties to the extent possible should new employees be hired.

RESPONSE - The District has surety bond insurance to reduce any risk of loss. The District believes the cost of hiring additional employees is not economically feasible.

CUSTER COUNTY CONSERVATION DISTRICT NO. 88
UPDATE ON JUNE 30, 2009, AUDIT'S STATEMENT
OF FINDINGS AND RESPONSES
JUNE 30, 2012

1. Lack of Segregation of Duties.

CONDITION AND EFFECT - The District does not have adequate segregation of duties since it only has one office employee. Material errors or fraud could occur and not be found in a timely manner.

RECOMMENDATION - The District should segregate the duties to the extent possible should new employees be hired.

RESPONSE - The District has surety bond insurance to reduce any risk of loss. The District believes the cost of hiring additional employees is not economically feasible.

UPDATED COMMENT - Situation is the same. Comment repeated and revised.

2. Travel Claims and Reimbursement.

CONDITION AND EFFECT - At its December 10, 2008, Board of Directors Meeting, the Directors approved sending members to the National Association of Conservation Districts (NACD) meeting in New Orleans, LA. The District did not maintain adequate records and obtain adequate receipts for those attending the meeting. Airline tickets were purchased for 10 people, registration fees were paid for only 5 people, and hotel and meals records were inconclusive or unavailable. Airline tickets were paid by the District for 2 Board members and 2 employees and their spouses and 2 Board members without spouses. The District only had partial receipts on the hotel and meals paid. The effect of these transactions is that the District may have paid for illegal travel expenses that are not authorized by the State Travel Reimbursement Act.

CRITERIA - As a subdivision of the State of Oklahoma, the District is required to comply with the State Travel Reimbursement Act (Ok. Statute Sec. 74-500.1). This act requires persons who are not state employees who travel at state expense should have claim forms that indicate the person is not a state employee, a description of the services performed for the state, and approval by the agency head certifying such services were substantial and necessary and germane to the duties and functions of the reimbursing agency. Claims for commercial airline tickets should have the airline identifying ticket number, name of the

CUSTER COUNTY CONSERVATION DISTRICT NO. 88
UPDATE ON JUNE 30, 2009, AUDIT'S STATEMENT
OF FINDINGS AND RESPONSES
JUNE 30, 2012

2. Travel Claims and Reimbursement (continued).

airline, total cost of each ticket purchased, class of accommodation, social security number, and name of the employee for whom the ticket was purchased. The employee shall sign an affidavit stating the employee did use any direct purchase commercial airline ticket received for his or her approved out-of-state travel. The cost of food and lodging for each employee shall not exceed the total daily rate as provided in the State Travel Reimbursement Act. Receipts issued by the hotel shall accompany claims for reimbursement. Section 74-500.10 states that no agency head nor his designee shall approve out of state travel except for personnel performing policy making, professional, technical, supervisory or administrative duties. No reimbursement for registration fees for attendance at meetings, workshops, or conferences shall be made, except upon written receipt for such expenditures (Sec. 74-500.13). All claims for reimbursement of travel expenses shall be submitted on the regular authorized form of travel expense claim, and shall be signed by the official or employee performing the travel, and approved by the designated official for the agency in which the employee works.

RECOMMENDATION - The District should not approve or pay travel expenses for people not state employees or directors of the agency. If such payment is necessary, then the District should produce all the documentation required by the State Travel Reimbursement Act as noted above. Travel expenses for employees and directors should also be documented in accordance with the State Travel and Reimbursement Act and appropriate receipts retained with the claim for payment. Recommend the District obtain the documentation needed for the past travel claims and seek reimbursement from the affected parties for the non-employee and non-director expenses.

RESPONSE - The District will acquire better knowledge of travel practice and procedures. We did not have any knowledge of the current travel regulations and have only past experience to guide us which has never been an issue in prior cases. We will acquire the receipts needed and have put in such requests for further documentation from the travel sources and lodging. We are just waiting for their timely responses.

CUSTER COUNTY CONSERVATION DISTRICT NO. 88
UPDATE ON JUNE 30, 2009, AUDIT'S STATEMENT
OF FINDINGS AND RESPONSES
JUNE 30, 2012

2. Travel Claims and Reimbursement (continued).

UPDATED COMMENT - The affected parties reimbursed the District for their portion of the travel that had occurred. The District has implemented procedures to document travel claims that are signed by the official or employee performing the travel and are approved by the board chairman. Comment removed from the current audit report.