

DEER CREEK CONSERVATION
DISTRICT NO. 68

FINANCIAL STATEMENTS
AND AUDITOR'S REPORT

JUNE 30, 2018

**DEER CREEK CONSERVATION
DISTRICT NO. 68**

TABLE OF CONTENTS

	<u>Page Number</u>
INDEPENDENT AUDITOR'S REPORT	1 - 3
FINANCIAL STATEMENTS - CASH BASIS	
Statement of Assets, Liabilities and Net Position	4
Statement of Cash Receipts, Cash Disbursements and Changes in Net Position	5
Statement of Cash Flows	6
Notes to the Financial Statements	7 - 10
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 <u>Government Auditing Standards</u>	11 - 12
Statement of Findings and Responses	13
Update on June 30, 2015 Audit Finding	14



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

email: mncpas@cebridge.net

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Deer Creek Conservation District No. 68
Weatherford, Oklahoma

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the Deer Creek Conservation District No. 68 (a component unit of the Oklahoma Conservation Commission) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note A; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these modified 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the Deer Creek Conservation District No. 68 as of June 30, 2018, and the respective changes in financial position and its cash flows for the year then ended, in conformity with the modified cash basis of accounting described in Note A.

Basis of Accounting

We draw attention to Note A of the financial statements which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles of the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 9, 2018, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in

considering the District's internal control over financial reporting and on compliance.

McCulley & McCulley

Weatherford, Oklahoma

October 9, 2018

DEER CREEK CONSERVATION DISTRICT NO. 68
STATEMENT OF ASSETS, LIABILITIES, AND NET POSITION
MODIFIED CASH BASIS
JUNE 30, 2018

ASSETS

CURRENT ASSETS

Petty Cash	\$ 182
Cash in Bank	63,857
Certificate of Deposit	<u>57,830</u>
Total Current Assets	<u>121,869</u>

NON-CURRENT ASSETS

Capital Assets	
Land	39,273
Building and Improvements	74,794
Equipment	<u>107,905</u>
Total Capital Assets, Cost	221,972
Less Accumulated Depreciation	<u>(141,014)</u>
Net Capital Assets	<u>80,958</u>

TOTAL ASSETS	\$ <u>202,827</u>
---------------------	--------------------------

LIABILITIES AND NET POSITION

LIABILITIES	\$ _____
--------------------	-----------------

NET POSITION

Net Investment in Capital Assets	80,958
Unrestricted	<u>121,869</u>
Total Net Position	<u>202,827</u>

TOTAL LIABILITIES AND NET POSITION	\$ <u>202,827</u>
---	--------------------------

The accompanying notes are an integral part of these statements.

DEER CREEK CONSERVATION DISTRICT NO. 68
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION - MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2018

OPERATING REVENUES

State Reimbursement	\$ 85,523
Equipment Rent Income	10,474
Storage Rent Income	12,582
Grass Seed Sales	26,364
Vegetable Seed Sales	1,497
Outdoor Classroom	1,490
Other Income	184
TOTAL OPERATING REVENUES	<u>138,114</u>

OPERATING EXPENSES

Gross Salaries and Wages	46,089
Retirement	2,752
Payroll Taxes	3,749
Grass and Vegetable Seed Purchases	25,791
Depreciation	10,284
Telephone	577
Utilities	3,708
Meeting Expenses	7,047
State Funded Cost Share	13,530
Information and Education Supplies	1,679
Advertising	360
Dues	1,175
Insurance	2,992
Postage and Supplies	1,950
Repair and Maintenance	1,088
Sales Taxes	107
Mini Storage Refunds	61
Miscellaneous Expenses	565
Professional Fees	950
TOTAL OPERATING EXPENSES	<u>124,454</u>

NET OPERATING REVENUE (EXPENSE)

13,660

NON-OPERATING REVENUE (EXPENSE)

Interest Income	481
TOTAL NON-OPERATING REVENUE (EXPENSE)	<u>481</u>

CHANGE IN NET POSITION

14,141

NET POSITION

Beginning of Year	<u>188,686</u>
End of Year	<u><u>\$ 202,827</u></u>

The accompanying notes are an integral part of these statements.

DEER CREEK CONSERVATION DISTRICT NO. 68
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from State Reimbursements	\$ 85,523
Cash Received in Rent	23,056
Cash Received from Donations	1,490
Cash Received from Seed Sales	27,861
Cash Received from Other Income	184
Cash Paid to Employees and Benefits	(52,590)
Cash Paid for Operations	(61,580)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>23,944</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest Received on Cash and Certificates of Deposits	481
Interest Added to Certificates of Deposit	(186)
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>295</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS 24,239

CASH AND CASH EQUIVALENTS

Beginning of Year	<u>39,800</u>
End of Year	<u><u>\$ 64,039</u></u>

RECONCILIATION OF NET OPERATING (EXPENSE) TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Net Operating Revenue	\$ 13,660
Depreciation	<u>10,284</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES \$ 23,944

The accompanying notes are an integral part of these statements.

DEER CREEK CONSERVATION DISTRICT NO. 68
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

A. Summary of Significant Accounting Policies.

The Deer Creek Conservation District No. 68, (the District), is a component unit of the Oklahoma Conservation Commission as established by the Oklahoma State Conservation District Act (Title 27A-3). The Conservation District Act defines the District as a governmental subdivision of the State of Oklahoma. The District was created to implement soil conservation measures in Custer and Washita 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 modified 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. The District has elected to capitalize and depreciate its capital assets. This method of accounting is a generally accepted modification of the cash basis of accounting.

2. Cash in Bank and Certificate of Deposit.

Cash in bank consists of the District's checking accounts. Certificate of deposits are authorized investments for the District. 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 petty cash to be cash equivalents.

3. Capital Assets.

The District's capital assets are recognized as an asset when cash is disbursed. These capital assets are recorded at historical cost. Depreciation expense has been computed using straight-line method over the estimated useful lives of the related assets. A summary of capital assets and service lives by type of asset follows:

Buildings and Improvements	10 - 40 years
Equipment	5 - 10 years

DEER CREEK CONSERVATION DISTRICT NO. 68
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

A. Summary of Significant Accounting Policies (continued).

4. Net Position.

Net position is classified into three components:

A. Net investment in capital assets - Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any liabilities attributable to these assets.

B. Restricted - Consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Restricted assets have constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional revisions or enabling legislation.

C. Unrestricted - Net amount of the assets, deferred outflows or resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

The District uses restricted resources and then unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

B. Risk Management.

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchases commercial insurance to manage its risk of loss. The District does not have insurance coverage on the equipment it owns. Deductibles range from \$250 to \$1,000, depending upon the coverage. Surety Bonds are purchased for certain employees and Board of Directors. The Oklahoma Conservation Commission purchases workers compensation insurance for the District.

DEER CREEK CONSERVATION DISTRICT NO. 68
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

C. Capital Assets.

Capital assets consist of the following:

	June 30, 2017	Additions	Deletions	June 30, 2018
Land **	\$ 39,273	\$	\$	\$ 39,273
Equipment	107,905			107,905
Building & Improve.	74,794			74,794
 Total Capital Assets	 221,972			 221,972
 Less Accumulated Depreciation for:				
Equipment	78,587	6,137		84,724
Building & Improve.	52,143	4,147		56,290
 Total Accumulated Depreciation	 130,730	 10,284		 141,014
 Net Capital Assets	 \$ 91,242	 \$ (10,284)	 \$ -0-	 \$ 80,958

** non-depreciable asset

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. The actuarial valuation report as of July 1, 2017 does not give pension information down to the District level of participation. The required disclosure information is not presented since it is not available at the District level. Participation in the System 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.

DEER CREEK CONSERVATION DISTRICT NO. 68
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

D. Employee Retirement System (continued).

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 actuarially determined, and its employees are established by Oklahoma 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, 2018. This contribution is actually paid by the Oklahoma Conservation Commission. These on behalf payments are not reflected in these modified cash basis financial statements. The retirement expense amount shown on the financial statements is the actual expense paid by the District for compensation actually paid from local funds. The District is allowed by the Oklahoma Public Employees Retirement System to make the required contributions on behalf of the participating members. Employees contribute 3.5% of earnings for the year ended June 30, 2018.

Ten year historical trend information is presented in the Oklahoma Public Employees' Retirement System Annual Report for the year ended June 30, 2017(latest available). This information is useful in assessing the pension plan's accumulation of sufficient assets to pay pension benefits as they become due. A publicly available financial report and required supplementary information for the System can be obtained by writing to the Oklahoma Public Employees Retirement System, P. O. Box 53007, Oklahoma City, OK 73152-3007 or it can be obtained online at <http://www.opers.ok.gov/>.



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

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
Deer Creek Conservation District No. 68
Weatherford, Oklahoma

We have audited, in accordance with the 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 accompanying modified cash basis financial statements of the Deer Creek Conservation District No. 68, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's financial statements and have issued our report dated October 6, 2018. The District reports on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider 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 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. 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.

District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying report "Statement of Findings and Responses". The District's response was not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on it.

Purpose of this Report

This purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing. It is not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Weatherford, Oklahoma

October 9, 2018

DEER CREEK CONSERVATION DISTRICT NO. 68
STATEMENT OF FINDINGS AND RESPONSES
JUNE 30, 2018

1. Lack of Segregation of Duties.

CONDITION AND EFFECT - The District does not have adequate segregation of duties since it has limited office employees. 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.

**DEER CREEK CONSERVATION DISTRICT NO. 68
UPDATE ON JUNE 30, 2015, AUDIT FINDING
JUNE 30, 2018**

1. Lack of Segregation of Duties.

CONDITION AND EFFECT - The District does not have adequate segregation of duties since it has limited office employees. 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.