

TALIHINA CONSERVATION DISTRICT

ANNUAL FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

TALIHINA CONSERVATION DISTRICT
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YEAR ENDED JUNE 30, 2017

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Independent Auditor's Report

Board of Directors
Talihina Conservation District

Report on Financial Statements

We have audited the accompanying statements of assets, liabilities and net position – modified cash basis of Talihina Conservation District as of June 30, 2017 and the related statements of revenues and expenses, and changes in net position – modified cash basis and cash flows – modified cash basis for the year then ended and the related notes to the financial statements.

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 as described in Note 1; 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 the 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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 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 judgment, 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 District'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 District's internal control. Accordingly, we express no such an 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

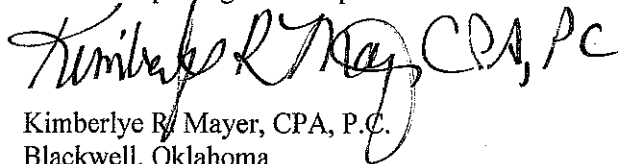
In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position - modified cash basis of Talihina Conservation District as of June 30, 2017; the changes in financial position - modified cash basis; and of cash flows thereof, for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in 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 a report dated October 26, 2017 on our consideration of Talihina Conservation District's internal control over financial reporting and on our tests of its compliance with certain laws, regulations, contracts and grants 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* in considering Talihina Conservation District's internal control over financial reporting and compliance.



Kimberlye R. Mayer, CPA, P.C.
Blackwell, Oklahoma
October 26, 2017

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
Talihina Conservation District

We have audited the financial statements of Talihina Conservation District as of and for the year ended June 30, 2017, and have issued our report thereon dated October 26, 2017. 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. The financial statements were prepared on the modified cash basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Talihina Conservation 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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Talihina Conservation District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Talihina Conservation 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 control deficiencies, in internal control that there is reasonable possibility that a material misstatement of the District'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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Talihina Conservation District's financial statements are free of material misstatement, we performed tests of its compliance with

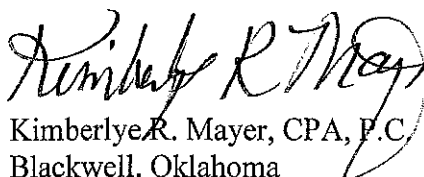
certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we 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*.

Response to Findings

Talihina Conservation District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Talihina Conservation 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

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

 CPA, P.C.
Kimberly R. Mayer, CPA, P.C.
Blackwell, Oklahoma
October 26, 2017

TALIHINA CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2017

Material Weakness Communicated in a Prior Year:

Material Weakness in Internal Control Over Financial Reporting: Inadequate Segregation of Duties:

Criteria:

The segregation of duties and responsibilities between different individuals and the reconciliation of those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

Condition:

Presently, the same individual is responsible for service, rental and sales invoices and receiving payments; making and recording deposits; maintaining accounts receivable; and reconciling the monthly bank statements. Only limited oversight is provided over this individual in the conduct of their daily functions.

Cause:

The entity's limited size has made it difficult for management to fully segregate the duties.

Effect or Potential Effect:

Without sufficient segregation of duties, the risk significantly increases that errors and/or fraud related to the billing and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation:

The board should evaluate the risks associated with the lack of segregation of duties and consider implementing controls that could mitigate these risks.

Board's Response:

The board has concluded that due to the limited number of personnel, an adequate segregation of duties is not achievable and that the cost of correcting the weakness would exceed the benefits that would be derived from it.

FINANCIAL STATEMENTS

AND

NOTES

TALIHINA CONSERVATION DISTRICT
STATEMENT OF ASSETS, LIABILITIES, AND NET POSITION
MODIFIED CASH BASIS
JUNE 30, 2017

ASSETS

Current Assets:	
Cash and cash equivalents	\$ 14,249
Property and equipment	
(Net of accumulated depreciation) (Note 5)	<u>4,219</u>
Total Assets	<u><u>\$ 18,468</u></u>

LIABILITIES AND NET POSITION

Liabilities:	
	\$
Net Position:	
Net investment in capital assets	4,219
Unrestricted	<u>14,249</u>
Total Net Position	<u><u>18,468</u></u>
Total Liabilities and Net Position	<u><u>\$ 18,468</u></u>

The accompanying report and notes are an integral part of these financial statements.

TALIHINA CONSERVATION DISTRICT
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN NET POSITION
MODIFIED CASH BASIS
YEAR ENDED JUNE 30, 2017

Revenues:

OCC reimbursements	\$ 58,753
Cost share received	13,916
Watershed reimbursements	6,691
Tree sales	1,113
Equipment rental	700
Custom work	3,872
Donations	290
Soil tests	152
Other income	277
Total Operating Revenues	<u>85,764</u>

Expenses:

Payroll	48,759
Payroll taxes and employee benefits	4,811
Soil tests	156
Office supplies and postage	875
Insurance	120
Meetings and travel	1,191
Professional fees	550
Tree costs	978
Equipment repairs, fuel and supplies	40
Dues and memberships	50
Utilities and telephone	3,546
Cost share paid out	13,916
Depreciation expense	1,858
Other expenses	94
Total Operating Expenses	<u>76,944</u>

Operating Income (Loss)	8,820
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Nonoperating Revenues (Expenses):

Interest income	2
Interest expense	
Total Nonoperating Revenue (Expenses)	<u>2</u>

Changes in net position	8,822
Net position at beginning of year	9,646
Net position at end of year	<u>\$ 18,468</u>

The accompanying report and notes are an integral part of these financial statements.

TALIHINA CONSERVATION DISTRICT
STATEMENT OF CASH FLOWS
MODIFIED CASH BASIS
YEAR ENDED JUNE 30, 2017

Cash flows From Operating Activities:

Cash received from customers	\$ 6,404
Other operating cash receipts	79,360
Cash payments to suppliers for goods and services	(26,327)
Cash payments to employees	(48,759)
Net cash provided (used) by operating activities	<u>10,678</u>

Cash flows from non-capital financing activities:

Cash flows from capital and related financing activities:

Loan proceeds	
Principle payments	
Interest payments	
Net cash provided (used) by financing activities	<u> </u>

Cash flows from investing activities:

Sale of equipment	
Interest income	2
Net cash provided (used) by investing activities	<u>2</u>

Net increase (decrease) in cash and cash equivalents	10,680
Beginning cash and cash equivalents	3,569
Ending cash and cash equivalents	<u>\$ 14,249</u>

Reconciliation of income (loss) from operations to
net cash provided (used) by operating activities:

Income (Loss) from operations	8,820
Depreciation	1,858
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:	
Net cash provided (used) by operating activities	<u>\$ 10,678</u>

TALIHINA CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization

The Talihina Conservation District was created under Title 27A, Sections 3-1-101 through 3-3-410, as amended, of the laws of the State of Oklahoma. The purpose of the District is to provide for the conservation of the renewable natural resources in the area for which the District is responsible.

Basis of Accounting

The District prepares its financial statements using the modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions. This basis is a basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use 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 expenses and liabilities) are not recorded in these financial statements.

Net Position

Net position presents the difference between assets and liabilities in the statement of assets, liabilities and net position. Net investments in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are legal limitations imposed on their use by District legislation or external restrictions by creditors, grantors, laws or regulations of other governments.

NOTE 2 – CASH AND DEPOSITS:

Bank balances are covered by the Federal Deposit Insurance Corporation. All deposits at June 30, 2017 were fully insured.

NOTE 3 – INVESTMENTS:

The State of Oklahoma allows government entities to invest in the following: direct obligations of the United States Government, its agencies or instrumentalities, collateralized or insured certificates of deposit, insured savings accounts or savings certificates, or county, municipal or school district direct debt.

TALIHINA CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

NOTE 4 – CASH AND CASH EQUIVALENTS:

The District considers all checking accounts and deposits with a maturity of three months or less to be cash equivalents.

NOTE 5 – PROPERTY AND EQUIPMENT:

Depreciable assets are recorded at cost when purchased or constructed. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are expensed. Depreciation is calculated on a straight-line basis over the estimated useful lives of the depreciable assets. Total depreciation for the year ended June 30, 2017 was 1,858. The following is a summary by category of changes in property and equipment:

Category	6/30/16	Additions	Deletions	6/30/17
Buildings	\$ 35,000	\$	\$	\$ 35,000
Office equipment	1,137			1,137
Machinery and equipment	62,536			62,536
Vehicles				
	98,673			98,673
Accumulated depreciation	(92,596)	(1,858)		(94,454)
Net	<u>\$ 6,077</u>	<u>\$ (1,858)</u>	<u>\$</u>	<u>\$ 4,219</u>

NOTE 6 – OCC REIMBURSEMENTS:

The District is reimbursed by the Oklahoma Conservation Commission for salaries, payroll taxes, mileage, telephone charges, office supplies, and certain other office expenses. When received, such reimbursements are recognized as revenues.

NOTE 7 – RETIREMENT PLAN:

Oklahoma public employees who work 1,599 hours or more per year were enrolled in the Oklahoma Public Employees Retirement System. On salaries paid from reimbursable funds from the Oklahoma Conservation Commission the employers 16½ % share of retirement was paid directly by the Commission. The employees' share of the retirement contribution was 3½% of locally earned wages and 3 ½% of state reimbursable wages.

TALIHINA CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

NOTE 8 – FAIR VALUES OF FINANCIAL INSTRUMENTS:

The definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosure about the use of fair value measurements in an effort to make the measurement of fair value more consistent and comparable.

Level 1: Quoted prices in active markets for identical securities.

Level 2: Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment spread and credit risk).

Level 3: Significant unobservable inputs (including the District's own assumptions in determining the fair value of investments).

The District's financial instruments include cash and cash equivalents. The District's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying statement of net position. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

NOTE 9 – ESTIMATES:

The preparation of financial statements in conformity with the modified cash basis of accounting 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 10 – RISK MANAGEMENT:

The District is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The OCC purchases liability insurance for the District. The District cancelled the insurance on its building and equipment in February 2016.

NOTE 11 – CONTINGENCIES:

As of June 30, 2017 the District did not have any pending litigation or potential non-disclosed liabilities that management believes would have a material effect on the financial statements.

NOTE 12 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through October 26, 2017, the date which the financial statements were available to be issued.