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OKFUSKEE COUNTY CONSERVATION DISTRICT

ANNUAL FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2011

OKFUSKEE COUNTY CONSERVATION DISTRICT
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YEAR ENDED JUNE 30, 2011

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Independent Auditor's Report

Board of Directors
Okfuskee County Conservation District

We have audited the accompanying financial statements of Okfuskee County Conservation District as of June 30, 2011 and for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

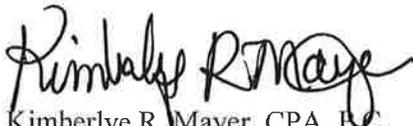
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting and 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 discussed in Note 1, Okfuskee County Conservation District prepares its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the assets, liabilities and net assets – modified cash basis of the Okfuskee County Conservation District as of June 30, 2011 and its revenues and expenses and changes in net assets and cash flows – modified cash basis for the year then ended in conformity with the modified cash basis of accounting.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 18, 2011 on our consideration of Okfuskee County Conservation District's internal control over financial reporting and on our tests of its compliance with certain provisions of 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* and should be read in conjunction with this report in considering the results of our audit.

Okfuskee County Conservation District has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board requires to supplement, although, not be a part of the basic financial statements. The omission of this information does not affect the opinion expressed on the financial statements as a whole.



Kimberlye R. Mayer, CPA, P.C.
Blackwell, Oklahoma
September 18, 2011

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
Okfuskee County Conservation District

We have audited the financial statements Okfuskee County Conservation District as of and for the year ended June 30, 2011 and have issued our report thereon dated September 18, 2011. 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 comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Okfuskee County Conservation District has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Boards requires to supplement, although, not be a part of the basic financial statements.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Okfuskee County Conservation District's 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 Okfuskee County Conservation District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Okfuskee County Conservation 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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Okfuskee County Conservation District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the Okfuskee County Conservation District's financial statements that is more than inconsequential will not be prevented or detected by the Okfuskee County Conservation District's internal control. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Okfuskee County Conservation District's internal control.

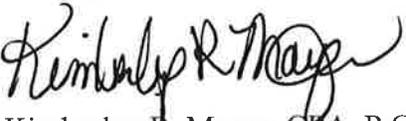
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do consider the significant deficiency described above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Okfuskee County Conservation District's financial statements are free of material misstatements, 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*.

Okfuskee County Conservation 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 management, the board of directors, and others within the District, and is not intended to be and should not be used by anyone other than these specified parties.



Kimberlye R. Mayer, CPA, P.C.
Blackwell, Oklahoma
September 18, 2011

OKFUSKEE COUNTY CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2011

Material Weakness Communicated In 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 preparing invoices and receiving payments; making and recording deposits; maintaining billing registers; reconciling the monthly bank statements and preparing the financial 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 water 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

OKFUSKEE COUNTY CONSERVATION DISTRICT
STATEMENT OF NET ASSETS
MODIFIED CASH BASIS
JUNE 30, 2011

ASSETS

Current Assets:	
Cash and cash equivalents	\$ 33,504
Total Current Assets	<u>33,504</u>
Land, property and equipment (Note 4) (net of accumulated depreciation)	<u>269,864</u>
Total Assets	<u><u>\$ 303,368</u></u>

LIABILITIES AND NET ASSETS

Liabilities:	
Current Liabilities:	
Capital lease, current portion (Note 5)	\$ 10,330
Capital lease, long-term (Note 5)	<u>217,279</u>
Total Liabilities	227,609
Net Assets:	
Invested in capital assets, net of related debt	42,255
Unrestricted	<u>33,504</u>
Total Net Assets	<u>75,759</u>
Total Liabilities and Net Assets	<u><u>\$ 303,368</u></u>

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

OKFUSKEE COUNTY CONSERVATION DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
. MODIFIED CASH BASIS
YEAR ENDED JUNE 30, 2011

Operating Revenues:	
OCC reimbursements	\$ 85,248
Building rent	49,080
Platbook sales	306
Equipment rentals	540
Total Operating Revenues	135,174
Operating Expenses:	
Salaries and wages	49,629
Payroll taxes and employee benefits	5,109
Utilities and telephone	6,100
Insurance	1,611
Repairs and maintenance	7,796
Watershed maintenance	25,150
Director expenses	945
Professional fees	690
Janitor fees	3,840
Dues and subscriptions	280
Meetings, mileage and travel	2,230
Office supplies and postage	866
Conservation education and awards	256
Platbooks purchased	250
Depreciation	8,630
Miscellaneous expenses	889
Total Operating Expenses	114,271
Operating Income (Loss)	20,903
Nonoperating Revenues (Expenses):	
Gain on sale of assets	2,650
Interest income	28
Interest expense	(18,362)
Total Nonoperating Revenues (Expenses)	(15,684)
Changes in net assets	5,219
Net assets, beginning of year	70,540
Net assets, end of year	\$ 75,759

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

OFUSKEE COUNTY CONSERVATION DISTRICT
STATEMENT OF CASH FLOWS
MODIFIED CASH BASIS
YEAR ENDED JUNE 30, 2011

Cash flows From Operating Activities:	
Cash received from customers	\$ 135,174
Cash payments to suppliers for goods and services	(56,012)
Cash payments to employees	<u>(49,629)</u>
Net cash provided (used) by operating activities	29,533
Cash flows from non-capital financing activities:	
Cash flows from capital and related financing activities:	
New borrowings	14,810
Lease payments	(4,480)
Change in fixed assets	<u>2,477</u>
Net cash provided (used) by financing activities	12,807
Cash flows from investing activities:	
Interest expense	(18,362)
Interest on cash and investments	<u>28</u>
Net cash provided (used) by investing activities	<u>(18,334)</u>
Net increase (decrease) in cash and cash equivalents	24,006
Beginning cash and cash equivalents	<u>9,498</u>
Ending cash and cash equivalents	<u><u>\$ 33,504</u></u>
Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:	
Income (Loss) from operations	\$ 20,903
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:	
Depreciation	8,630
Changes in assets and liabilities:	<u> </u>
Net cash provided (used) by operating activities	<u><u>\$ 29,533</u></u>

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

OKFUSKEE COUNTY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization

The Okfuskee County Conservation District was created under Title 27A, sections 3-1-101 through 3-3-410, of the Oklahoma Statutes, as amended. 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, revenues, and expenses when they result from cash transactions. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of the 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 assets present the difference between assets and liabilities in the statement of net assets. Net assets invested in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are 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 CERTIFICATES OF DEPOSIT:

Bank balances and certificates of deposit are covered by FDIC insurance. All deposits are fully insured.

NOTE 3 – INVESTMENTS:

The State of Oklahoma allows governmental entities to invest in the following: direct obligations of the United State 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.

OKFUSKEE COUNTY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

NOTE 4 – LAND, 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, 2011 was \$8,630. The following is a summary by category of changes in property and equipment:

Category	6/30/10	Additions	Deletions	6/30/11
Land	\$ 3,500	\$	\$	\$ 3,500
Buildings and improvements	329,762			329,762
Machinery and equipment	16,457	1,738	(4,719)	13,476
Totals	349,719	1,738	(4,719)	346,738
Accumulated depreciation	(72,963)	(8,630)	4,719	(76,874)
Net	<u>\$ 276,756</u>	<u>\$ (6,892)</u>	<u>\$</u>	<u>\$ 269,864</u>

NOTE 5 – CAPITAL LEASES:

A lease purchase agreement was entered into on December 27, 2002. The monthly lease payments were \$2,843 with the final payment due in August 2018. This lease agreement was amended on December 27, 2010. The new monthly payments are \$1,932 with the final payment due on November 1, 2025. The following is a detail of the payments due:

Year Ending	Payments
6/30/12	\$ 23,185
6/30/13	23,185
6/30/14	23,185
6/30/15	23,185
6/30/16	23,185
6/30/17 - 6/30/21	115,927
6/30/22 - 6/30/26	96,604
	<u>328,456</u>
Interest	(100,847)
Net	<u>\$ 227,609</u>

OKFUSKEE COUNTY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

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.

NOTE 7 - RETIREMENT PLAN:

Oklahoma public employees who work 1,000 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 15½% share of retirement was paid directly by the Commission. The employees' share of the retirement contribution was 15½% of locally earned wages and 3½% of state reimbursable wages.

NOTE 8 - 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 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 loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchases commercial insurance for these and other risks of loss. Settled claims have not exceeded the commercial coverage in past years.

NOTE 11 – CONTINGENCIES:

As of June 30, 2011, 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.

OKFUSKEE COUNTY CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

NOTE 12 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through September 18, 2011, the date which the financial statements were available to be issued.