

ANNUAL FINANCIAL REPORT OF THE
PAYNE COUNTY CONSERVATION DISTRICT AND
PAYNE COUNTY CONSERVATION FOUNDATION, INC.
PAYNE COUNTY, OKLAHOMA
June 30, 2012

* * * * *

Audited by
Steven F. Cundiff, C.P.A., Inc.
Stillwater, Oklahoma
September 13, 2012

PAYNE COUNTY CONSERVATION DISTRICT AND
PAYNE COUNTY CONSERVATION FOUNDATION, INC.
PAYNE COUNTY, OKLAHOMA
YEAR ENDED JUNE 30, 2012

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Steven F. Cundiff

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Independent Auditor's Report

To the Board of Directors
Payne County Conservation District and
The Payne County Conservation Foundation, Inc.
Payne County, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Payne County Conservation District and Payne County Conservation Foundation, Inc., as of and for the year ended June 30, 2012, which collectively comprise the District and Foundation's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Payne County Conservation District and Payne County Conservation Foundation, Inc.'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 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Payne County Conservation District and Payne County Conservation Foundation, Inc., as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, there of, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

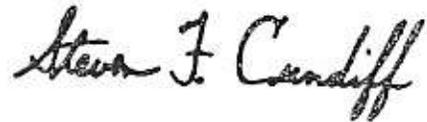
In accordance with *Government Auditing Standards*, we have also issued a report dated September 13, 2012, on our consideration of the Payne County Conservation District and the Payne County Conservation Foundation, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of 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 considered in conjunction with this report in considering the results of our audit.

Payne County Conservation District and the Payne County Conservation Foundation, Inc. has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The Pension Plan Funding Progress Schedules and the Budgetary Comparison Schedule on page 24 and 25, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Payne County Conservation District and the Payne County Conservation Foundation, Inc.'s basic financial statements. The individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

September 13, 2012

A handwritten signature in black ink that reads "Steven F. Cundiff". The signature is written in a cursive style with a large, prominent "S" and "C".

Steven F. Cundiff, CPA, Inc.

Basic Financial Statements

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**PAYNE COUNTY CONSERVATION DISTRICT AND
PAYNE COUNTY CONSERVATION FOUNDATION, INC
STATEMENT OF NET ASSETS
JUNE 30, 2012**

Statement 1

	Government Activities	Business-Type Activities	Totals
Assets			
Current assets			
Cash and cash equivalents (notes 4, 5 and 6)	\$ 8,522.54	\$ 7,150.84	\$ 15,673.38
Investments: bank certificate of deposit (note 4, 5 and 6)	-	12,136.37	\$ 12,136.37
Interest receivable	-	30.23	30.23
Receivables from other governments (note 7)	6,803.65	-	6,803.65
Rental income receivable	-	10,207.87	10,207.87
Prepaid income taxes	-	618.00	618.00
Due from other funds (note 9)	1,524.36	-	1,524.36
Inventories (note 8)	1,332.00	-	1,332.00
Total current assets	18,182.55	30,143.31	48,325.86
Noncurrent assets			
Capital assets:			
Land (note 10)	-	80,000.00	80,000.00
Buildings and infrastructure (note 11)	11,107.23	606,684.61	617,791.84
Less accumulated depreciation	(9,527.50)	(273,616.15)	(283,143.65)
Total noncurrent assets	1,579.73	413,068.46	414,648.19
Total assets	19,762.28	443,211.77	462,974.05
Liabilities			
Current liabilities			
Accounts payable	-	5,840.72	5,840.72
Other payables	272.13	691.61	963.74
Current portion of accrued compensated absences	4,269.80	-	4,269.80
Due to other funds (note 9)	-	4,874.86	4,874.86
Current portion of long term debt	-	21,200.00	21,200.00
Total current liabilities	4,541.93	32,607.19	37,149.12
Noncurrent liabilities			
Lease payable	625.33	-	625.33
Mortgages payable (note 12)	-	328,605.78	328,605.78
Total noncurrent liabilities	625.33	328,605.78	329,231.11
Total liabilities	5,167.26	361,212.97	366,380.23
Net assets			
Invested in capital assets, net of related debt	-	63,262.68	63,262.68
Unassigned	14,595.02	18,736.12	33,331.14
Sub-total	14,595.02	81,998.80	96,593.82
Total net assets	\$ 14,595.02	\$ 81,998.80	\$ 96,593.82

The accompanying notes to the basic financial statements are an integral part of this statement.

PAYNE COUNTY CONSERVATION DISTRICT AND
 PAYNE COUNTY CONSERVATION FOUNDATION, INC.
 STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
 YEAR ENDED JUNE 30, 2012

Functions/programs	Program Revenues				Net (Expenses) Revenue and Changes in Net Assets			Statement 2
	Expenses	Charges for Services	Operating		Governmental Activities	Business-type Activities	Totals	Primary Government
			Grants and Contracts	Capital Grants and Contracts				
Governmental activities	\$ 83,382.44	\$ -	\$ 60,992.07	\$ -	\$ (22,390.37)	\$ -	\$ (22,390.37)	
Conservation program	-	3,116.04	-	-	3,116.04	-	3,116.04	
Equipment rental income	2,304.62	3,460.00	-	-	1,155.38	-	1,155.38	
Conservation maps and plot books	1,279.71	-	-	-	(1,279.71)	-	(1,279.71)	
Other outlays	86,966.77	6,576.04	60,992.07	-	(19,398.66)	-	(19,398.66)	
Total government activities								
Business-type activities	99,404.82	116,490.96	-	-	-	17,086.14	17,086.14	
Office building rental	-	-	-	-	-	-	-	
Other conservation activities	99,404.82	116,490.96	-	-	-	17,086.14	17,086.14	
Total business-type activities								
Totals	\$ 186,371.59	\$ 123,067.00	\$ 60,992.07	\$ -	\$ (19,398.66)	\$ 17,086.14	\$ (2,312.52)	
General revenues								
Miscellaneous					16,477.33	-	16,477.33	
Investment earnings					17.17	43.90	61.07	
Total general revenue					16,494.50	43.90	16,538.40	
Change in net assets					(2,904.16)	17,130.04	14,225.88	
Net assets: unassigned, beginning of year					17,499.18	64,868.76	82,367.94	
Net assets: unassigned, end of year					\$ 14,595.02	\$ 81,998.80	\$ 96,593.82	

The accompanying notes to the basic financial statements are an integral part of this statement

FUND FINANCIAL STATEMENTS

PAYNE COUNTY CONSERVATION DISTRICT AND
 THE PAYNE COUNTY CONSERVATION FOUNDATION, INC.
 BALANCE SHEET
 GOVERNMENTAL FUNDS - GENERAL FUND
 JUNE 30, 2012

Statement 3

Total
 Governmental
 Funds

General Fund

ASSETS

Cash and cash equivalents (notes 4, 5 and 6)	\$ 8,522.54
Receivable from Oklahoma Conservation Commission (note 7)	6,803.65
Due from other funds (note 9)	1,524.36
Inventory (note 8)	1,332.00
Total current assets	<u>18,182.55</u>
Noncurrent assets:	
Equipment (note 11)	11,107.23
Accumulated depreciation (note 11)	<u>(9,527.50)</u>
Total noncurrent assets	<u>1,579.73</u>
Total assets	<u>\$ 19,762.28</u>

LIABILITIES

Accounts payable	\$ -
Payroll and sales taxes payable	272.13
Current portion of accrued compensated absences (note 14)	4,269.80
Lease payable	625.33
Total liabilities	<u>5,167.26</u>

FUND BALANCE

Unassigned in General fund	<u>14,595.02</u>
Total fund balance	<u>14,595.02</u>
Total liabilities and fund balance	<u>\$ 19,762.28</u>

The accompanying notes to the basic financial statements are an integral part of this statement

PAYNE COUNTY CONSERVATION DISTRICT AND
 THE PAYNE COUNTY CONSERVATION FOUNDATION, INC.
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES
 GOVERNMENTAL FUNDS - GENERAL FUND
 YEAR ENDED JUNE 30, 2012

	Statement 4
	Governmental Fund Types
	General Fund
Revenues	
Oklahoma Conservation Commission	\$ 60,992.07
Advertising sales	350.00
Map and plot book sales	3,110.00
Equipment rental income	3,116.04
Interest income	17.17
Miscellaneous reimbursements	16,477.33
	84,062.61
Expenditures	
Conservation program	83,382.44
Cost of map and plot books sold	1,988.00
Sales tax expense on map and book sales	316.62
Depreciation expense	1,279.71
	86,966.77
Excess of revenue over (under) expenditures	(2,904.16)
Other financing sources (uses)	
Operating transfers in	-
Operating transfers out	-
	-
Excess of revenues and other sources (uses) over (under) expenditures and other uses	(2,904.16)
Fund balance: unassigned - beginning of year	17,499.18
Fund balance: unassigned - end of year	\$ 14,595.02

The accompanying notes to the basic financial statements are an integral part of this statement

PAYNE COUNTY CONSERVATION DISTRICT AND
 THE PAYNE COUNTY CONSERVATION FOUNDATION, INC.
 STATEMENT OF NET ASSETS
 PROPRIETARY FUND - ENTERPRISE FUND
 JUNE 30, 2012

Statement 5

		Total Proprietary Funds
		Enterprise Fund
ASSETS		
Current assets:		
Cash and cash equivalents (notes 4, 5 and 6)	\$	7,150.84
Investments: bank certificate of deposit (notes 4, 5 and 6)		12,136.37
Rent receivable		10,207.87
Accrued interest receivable		30.23
Prepaid Federal income tax		618.00
Total current assets		30,143.31
Noncurrent assets:		
Land (note 10)		80,000.00
Building and improvements (note 11)		606,684.61
Accumulated depreciation (note 11)		(273,616.15)
Total noncurrent assets		413,068.46
Total assets		\$ 443,211.77
LIABILITIES		
Current liabilities:		
Accounts payable	\$	5,840.72
Accrued interest payable		691.61
Due to other funds (note 9)		4,874.86
Current portion of long-term debt		21,200.00
Total current liabilities		32,607.19
Noncurrent liabilities:		
Mortgage payable (note 12)		328,605.78
Total noncurrent liabilities		328,605.78
Total liabilities		361,212.97
NET ASSETS		
Invested in capital assets, net of related debt		63,262.68
Unassigned		18,736.12
Total net assets		81,998.80
Total liabilities and net assets		\$ 443,211.77

The accompanying notes to the basic financial statements are an integral part of this statement

PAYNE COUNTY CONSERVATION DISTRICT AND
THE PAYNE COUNTY CONSERVATION FOUNDATION, INC.
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND - ENTERPRISE FUND
YEAR ENDED JUNE 30, 2012

	Statement 6
	<u>Proprietary</u>
	<u>Fund Type</u>
	<u>Enterprise Fund</u>
Operating revenue	
Rental income	\$ 116,490.96
Reimbursements	-
Total operating revenues	<u>116,490.96</u>
Operating expenses	
Insurance expense	3,967.00
Repairs and maintenance	3,440.06
Mowing expense	2,068.04
Supplies expense	4,002.17
Janitorial expense	14,600.00
Waste disposal expense	564.48
Utilities expense	13,126.66
Miscellaneous expense	166.10
Professional expense	900.00
Management fees	13,496.64
Bank fees and charges	546.43
Federal income tax expense	-
State income tax expense	-
Depreciation expense	19,867.00
Total operating expense	<u>76,744.58</u>
Net operating income	39,746.38
Nonoperating revenue (expense)	
Investment income	43.90
Interest expense	(22,660.24)
Total nonoperating revenue (expense)	<u>(22,616.34)</u>
Net income	17,130.04
Net assets - beginning of year	<u>64,868.76</u>
Net assets - end of year	<u>\$ 81,998.80</u>

The accompanying notes to the basic financial statements are an integral part of this statement

**PAYNE COUNTY CONSERVATION DISTRICT AND
THE PAYNE COUNTY CONSERVATION FOUNDATION, INC.
STATEMENT OF CASH FLOWS
PROPRIETARY FUND - ENTERPRISE FUND
YEAR ENDED JUNE 30, 2012**

	Statement 7
	<u>Proprietary</u>
	<u>Fund Type</u>
	<u>Enterprise Fund</u>
Cash flows from operating activities:	
Receipts from renters	\$ 106,283.09
Receipts from reimbursements	-
Payments to suppliers	(53,636.86)
Payments for Federal and state taxes	-
Net cash provided (used) by operating activities	<u>52,646.23</u>
Cash flows from capital and related financing activities:	
Proceeds from sale of assets	-
Purchase of capital assets	(36,969.25)
Loan proceeds from other funds	-
Borrowed additional funds on mortgage payable	35,431.43
Payments on mortgage payable	(27,394.59)
Net cash provided (used) by capital and related financing activities	<u>(28,932.41)</u>
Cash flows from investing activities:	
Interest income received	96.70
Investments purchased: bank certificate of deposit	(96.70)
Interest expense paid	(21,968.63)
Net cash provided (used) from financing activities	<u>(21,968.63)</u>
Net increase (decrease) in cash and cash equivalents	1,745.19
Cash and cash equivalents at beginning of year	<u>5,405.65</u>
Cash and cash equivalents at end of year	<u>\$ 7,150.84</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Cash flows from operating activities:	
Operating income (loss) from office building rental	\$ 39,746.38
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Cash flows reported in other categories:	
Depreciation expense	<u>19,867.00</u>
Net cash provided (used) by operating activities	<u>\$ 59,613.38</u>

The accompanying notes to the basic financial statements are an integral part of this statement

PAYNE COUNTY CONSERVATION DISTRICT AND
 THE PAYNE COUNTY CONSERVATION FOUNDATION, INC.
 STATEMENT OF NET ASSETS - FIDUCIARY FUNDS - EXPENDABLE TRUST FUND
 JUNE 30, 2012

Statement 8

Fiduciary
 Fund Type
Trust and
 Agency
 Expendable
 Trust Fund

ASSETS

Current assets:

Cash and cash equivalents (notes 4, 5 and 6)

\$ 5,780.60

Due from other funds (note 9)

3,350.50

Total current assets

9,131.10

Total assets

\$ 9,131.10

LIABILITIES

Current liabilities:

Accounts payable

-

Total current liabilities

-

Total liabilities

-

NET ASSETS

Unrestricted

-

Reserved for Foundation

9,131.10

Total net assets

9,131.10

Total liabilities and net assets

\$ 9,131.10

The accompanying notes to the basic financial statements are an integral part of this statement

NOTES TO BASIC FINANCIAL STATEMENTS

PAYNE COUNTY CONSERVATION DISTRICT AND
PAYNE COUNTY CONSERVATION FOUNDATION, INC.
PAYNE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

Note 1: GENERAL STATEMENT AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Nature of Reporting Entity

The Payne County Conservation District was incorporated on May 14, 1941. The District was subsequently legislated and became a political subdivision of the State of Oklahoma, under the enabling legislation Title 82, Oklahoma Statutes, Sections 1501-101 through 1501-808 (1981) under the Conservation District Act. The basic operations of the District are financed through donations and financial assistance provided by the State of Oklahoma through the Oklahoma Conservation Commission. The District also operates an expendable trust fund known as the Payne County Conservation District Foundation, Inc. (Foundation). The District's operations provide training and educational service for conservation measures. The District's Foundation owns and operates an office building and provides grant assistance for conservation education. The governing body of the District is the Board of Directors composed of elected members.

In evaluating how to define the district, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board (GASB). The basic--but not the only--criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility included, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operation, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service.

Application of this criterion involves considering whether the activity benefits the District and/or its citizens, or whether the activity is conducted within the geographic boundaries of the District and is generally available to its patrons. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no potential component units included in the District's reporting entity.

B. Basis of Presentation

Government-wide Financial Statements:

The Statements of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues.

Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

PAYNE COUNTY CONSERVATION DISTRICT AND
PAYNE COUNTY CONSERVATION FOUNDATION, INC.
PAYNE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (continued)

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Authority or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

Fund Accounting

The District uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain district functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

Funds are classified into three categories: governmental, proprietary, and fiduciary. Each category, in turn, is divided into separate "fund types."

Governmental Fund Types

Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds), the acquisition or construction of general fixed assets (capital projects funds), and the servicing of general long-term debt (debt service funds).

PAYNE COUNTY CONSERVATION DISTRICT AND
PAYNE COUNTY CONSERVATION FOUNDATION, INC.
PAYNE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (continued)

General Fund - The General Fund is used to account for all financial transactions except those required to be accounted for in another fund.

Proprietary Fund Types

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the District (internal service funds). The District does not maintain an internal service fund.

Enterprise Fund - The Enterprise Fund is used to account for the operations of a commercial rental office building.

Fiduciary Fund Types

Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the District. When these assets are held under the terms of a formal trust agreement, either a nonexpendable trust fund or an expendable trust fund is used. The terms "nonexpendable" and "expendable" refer to whether or not the District is under an obligation to maintain the trust principal. Agency funds generally are used to account for assets that the District holds on behalf of others as their agent and do not involve measurement of results of operations.

Expendable Trust Fund - The Expendable Trust Fund is the District's Foundation which is used to account for monies collected principally through fund raising efforts of the membership and District-sponsored groups. The District's Board is responsible for collecting, disbursing and accounting for these Foundation Funds.

C. Measurement Focus and Basis of Accounting

Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b. below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

PAYNE COUNTY CONSERVATION DISTRICT AND
PAYNE COUNTY CONSERVATION FOUNDATION, INC.
PAYNE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus (continued)

- a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for note principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

Note 2: BUDGETS AND BUDGETARY ACCOUNTING

The board does adopt a budget for the general fund for each fiscal year.

PAYNE COUNTY CONSERVATION DISTRICT AND
PAYNE COUNTY CONSERVATION FOUNDATION, INC.
PAYNE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

Note 3: INCOME TAXES

The Payne County Conservation District is a political subdivision of the State of Oklahoma and therefore is exempt from federal and state income taxes.

The Payne County Conservation Foundation, Inc. is a public organization qualifying as tax exempt under 501 (c) (3). As a result, the Foundation is exempt from federal and state income taxes. However, income taxes will be paid on any unrelated business income. The Organization files information tax return Form 990 and tax return Form 990T for the unrelated business income on the office building rental activity. The tax years that remain subject to examination by tax jurisdictions are June 30, 2009, 2010, and 2011.

Note 4: CASH AND CASH EQUIVALENTS

The District considers all cash on hand, demand deposits and highly liquid investments, with an original maturity of three months or less when purchased, to be cash and cash equivalents.

Note 5: INVESTMENTS

The District has one bank certificate of deposit in the amount of \$12,136.37. It will mature on December 8, 2012. It earns interest at a rate of .45%. All investments are presented at market value.

Note 6: CASH AND INVESTMENTS

Deposits and Investments - The District's cash deposits and investments at June 30, 2012 were completely insured or collateralized by federal deposit insurance.

Note 7: ACCOUNTS RECEIVABLE

Accounts receivable represent claims for reimbursements from the Oklahoma Conservation Commission that have not been received as of June 30, 2012.

Note 8: INVENTORIES

Inventories are recorded at the lower of cost or market. Inventory consisted of conservation maps and plat books held for resale.

Note 9: INTERFUND RECEIVABLES AND PAYABLES

	Enterprise Fund	General Fund	Expendable Trust Fund	Total
Due from Enterprise Fund	\$ 0.00	\$ 1,524.36	\$ 3,350.50	\$ 4,874.86
Due to General Fund	(1,524.36)	0.00	0.00	(1,524.36)
Due to Expendable Trust Fund	(3,350.50)	0.00	0.00	(3,350.50)
Total	<u>\$ (4,874.86)</u>	<u>\$ 1,524.36</u>	<u>\$ 3,350.50</u>	<u>\$ 0.00</u>

PAYNE COUNTY CONSERVATION DISTRICT AND
PAYNE COUNTY CONSERVATION FOUNDATION, INC.
PAYNE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

Note 10: LAND

During 1997, the Payne County Conservation Foundation received a contribution of five acres of land south of Stillwater, Oklahoma. The land was appraised at \$80,000.00 and was recorded as revenue in the expendable trust fund. During 1998 the land was transferred into the enterprise fund and an office building was constructed on the land.

Note 11: ASSETS AND DEPRECIATION

The Oklahoma Conservation Commission holds title to all assets purchased using state monies. During prior years, the General Fund purchased a John Deere mower and a commercial sprayer.

	<u>Beginning Assets</u>	<u>Additions</u>	<u>Ending Assets</u>	<u>Accumulated Depreciation</u>
Equipment	\$ 11,107.23	\$ 0.00	\$ 11,107.23	\$ 9,827.50

The equipment is being depreciated over a five or six year life utilizing the straight line method. The current year depreciation was \$ 1,279.71.

The enterprise fund has constructed an office building and placed it in service August 15, 1997.

Real estate and improvements are pledged as collateral on the note to Bancfirst of Stillwater.

The enterprise fund (Foundation rental activity) had the following classes of assets:

	<u>Beginning Assets</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Assets</u>	<u>Accumulated Depreciation</u>
Land	\$ 80,000.00	\$ 0.00	\$ 0.00	\$ 80,000.00	\$ 0.00
Site improvements	33,065.00	0.00	0.00	33,065.00	0.00
Office building	464,000.10	36,969.25	0.00	500,969.35	231,639.00
Storage building	19,807.73	0.00	0.00	19,807.73	9,846.00
Fences & equipment	12,050.75	0.00	0.00	12,050.75	10,995.00
Parking lot	40,791.78	0.00	0.00	40,791.78	21,136.00
Total	<u>\$ 649,715.36</u>	<u>\$ 36,969.25</u>	<u>\$ 0.00</u>	<u>\$ 686,684.61</u>	<u>\$ 273,616.00</u>

The depreciation method utilized the straight line method with lives on the buildings of 30 years, parking lot of 20 years, fences of 7 years, equipment of 5 years, and computers of 5 years. The current year depreciation was \$19,867.00.

Note 12: MORTGAGE PAYABLE: ENTERPRISE FUND

June 20, 2002, the Payne County Conservation Foundation, Inc. refinanced their real estate loan from a commercial bank. On July 8, 2002 an additional principal advance was made for \$34,000.00 on the note for the construction of a parking lot. The terms of the mortgage are as follows:

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MORTGAGE PAYABLE (CONTINUED)

Original loan amount, July 8, 2002	\$ 508,313.65
Monthly installment	\$ 3,559.46
Interest rate	6.0% variable
First payment due	July 20, 2002
Loan is amortized over 20 years	

The annual debt service requirements for principal and interest are as follows:

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	24,200.10	18,513.42	42,713.52
2014	25,692.71	17,020.81	42,713.52
2015	27,277.38	15,436.14	42,713.52
2016	28,959.79	13,753.73	42,713.52
2017	30,745.97	11,967.55	42,713.52
2018	32,642.31	10,071.21	42,713.52
2019	34,655.62	8,057.90	42,713.52
2020	36,793.10	5,920.42	42,713.52
2021	39,062.42	3,651.10	42,713.52
2022	39,499.44	1,241.83	40,741.27
Total	<u>\$ 319,528.84</u>	<u>\$ 105,634.11</u>	<u>\$ 425,162.95</u>

Real estate is pledged as collateral for this note.

August 11, 2011, the Payne County Conservation Foundation, Inc. secured a second mortgage on the office building complex from a commercial bank. On August 11, 2011, the principal advance was made for \$35,000.00 on the note for the remodeling of one of the building suites for a new tenant. The terms of the mortgage are as follows:

Original loan amount, August 11, 2011	\$ 35,431.43
Monthly installment	\$ 684.97
Interest rate	6.0% variable
First payment due	September 27, 2011
Loan is amortized over 5 years	

The annual debt service requirements for principal and interest are as follows:

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	6,582.07	1,637.57	8,219.64
2014	6,988.04	1,231.60	8,219.64
2015	7,419.05	800.59	8,219.64
2016	7,876.64	343.00	8,219.64

PAYNE COUNTY CONSERVATION DISTRICT AND
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 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2012

MORTGAGE PAYABLE (CONTINUED)

	2017	<u>1,411.14</u>	<u>10.97</u>	<u>1,422.11</u>
	Total	\$ <u>30,276.94</u>	\$ <u>4,023.73</u>	\$ <u>34,300.67</u>

Real estate is pledged as collateral for this note.

Note 13: LEASE PAYABLE:GENERAL FUND

On November 20, 2007, the Payne County Conservation General Fund purchased a John Deere mower. It was financed through a lease purchase agreement with Deere Credit, Inc. The terms of the lease payable are as follows:

Original loan amount, November 20, 2007	\$ 7,678.28
Monthly installment	\$ 159.08
Interest rate	9.25% fixed
First payment due	11-20-07
Lease is payable over	60 months

The District owns the mower at the end of the lease.

The annual debt service requirements for retirements of bond principal and payment of interest are as follows:

<u>Year ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	<u>625.33</u>	<u>11.99</u>	<u>637.32</u>
Total	\$ <u>625.33</u>	\$ <u>11.99</u>	\$ <u>637.32</u>

The mower is pledged as collateral for this lease.

Note 14: COMPENSATED ABSENCES

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. There are no amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources.

Note 15: FUND BALANCES

Fund balances have been presented noting the amount of undesignated for the general fund and designated for the expendable trust - Foundation and the enterprise fund. The foundation fund administers a conservation education project and a commercial rental office building.

Note 16: USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 17: PENSION PLAN

The organization participates in the Oklahoma Public Employees Retirement System. All eligible employees contribute 3.5% of gross wages. The Oklahoma Conservation Commission contributes 14.5% of gross wages on reimbursable salaries for all eligible participants. For the Schedule of Funding Progress (dollars in millions) (unaudited), see Exhibit 1.

Note 18: SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 13, 2012, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

PAYNE COUNTY CONSERVATION DISTRICT AND
 THE PAYNE COUNTY CONSERVATION FOUNDATION, INC.
 PENSION PLAN FUNDING PROGRESS
 YEAR ENDED JUNE 30, 2012
 UNAUDITED

Exhibit 1

Schedule of Funding Progress (dollars in millions) (unaudited)

Actuarial Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Actuarial Accrued Liability (UAAL) (b-a)	Funder Ratio (a/b)	Annual Covered Payroll (c)	UAAL as % of Covered Payroll (a-b)/(c)
June 30, 2002	5,299.8	6,639.7	1,339.9	79.8%	1,450.3	92.4%
June 30, 2003	5,354.8	6,974.6	1,619.8	76.8%	1,411.7	114.7%
June 30, 2004	5,412.2	7,114.8	1,702.6	76.1%	1,383.9	123.0%
June 30, 2005	5,450.7	7,575.4	2,124.7	72.0%	1,454.2	146.1%
June 30, 2006	5,654.3	7,914.7	2,260.4	71.4%	1,568.4	144.1%
June 30, 2007	6,110.2	8,413.2	2,303.0	72.6%	1,626.7	141.6%
June 30, 2008	6,491.9	8,894.3	2,402.4	73.0%	1,682.7	142.8%
June 30, 2009	6,208.2	9,291.4	3,083.2	66.8%	1,733.0	177.9%
June 30, 2010	6,348.4	9,622.6	3,274.2	66.0%	1,683.7	194.5%
June 30, 2011	6,598.6	8,179.8	1,581.1	80.7%	1,570.5	100.7%

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. Under the system, contributions are made by the District, the State of Oklahoma, and the participating employees. Participation is required for all eligible 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.

PAYNE COUNTY CONSERVATION DISTRICT AND
 THE PAYNE COUNTY CONSERVATION FOUNDATION, INC.
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL GENERAL FUND
 YEAR ENDED JUNE 30, 2012
 UNAUDITED

Exhibit 2

	General Fund		Variance Favorable (Unfavorable)
	Budget	Actual	
Revenues			
Oklahoma Conservation Commission	\$ 52,001.63	\$ 60,992.07	\$ 8,990.44
Map and plot book sales	-	3,110.00	3,110.00
Advertising sales	-	350.00	350.00
Equipment rental income	-	3,116.04	3,116.04
Interest income	-	17.17	17.17
Miscellaneous reimbursements	-	16,477.33	16,477.33
Total revenues	<u>52,001.63</u>	<u>84,062.61</u>	<u>32,060.98</u>
Expenditures			
Conservation program	52,001.63	83,382.44	(31,380.81)
Maps and plot book program	-	1,988.00	(1,988.00)
Sales tax expense on map and plot book sales	-	316.62	(316.62)
Depreciation expense	-	1,279.71	(1,279.71)
Total expenditures	<u>52,001.63</u>	<u>86,966.77</u>	<u>(34,965.14)</u>
Excess of revenues over (under) expenditures	<u>-</u>	<u>(2,904.16)</u>	<u>(2,904.16)</u>
Other financing sources (uses) :			
Operating transfers in	-	-	-
Operating transfers out	-	-	-
Excess of revenues and other sources (uses) over (under) expenditures and other uses	-	(2,904.16)	(2,904.16)
Fund balance: unassigned - beginning of year	<u>17,499.18</u>	<u>17,499.18</u>	<u>-</u>
Fund balance: unassigned - end of year	<u>\$ 17,499.18</u>	<u>\$ 14,595.02</u>	<u>\$ (2,904.16)</u>

OTHER SUPPLEMENTARY INFORMATION

PAYNE COUNTY CONSERVATION DISTRICT AND
PAYNE COUNTY CONSERVATION FOUNDATION, INC.
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - FIDUCIARY FUND - EXPENDABLE TRUST FUND
JUNE 30, 2012

Schedule 1

Revenues	
Contributions and reimbursements	200.00
Interest income	11.82
	211.82
Total revenues	211.82
Expenditures	
Conservation education projects	-
	-
Total expenditures	-
Excess of revenue over (under) expenditures	211.82
Other financing sources (uses) :	
Operating transfers in	-
Operating transfers out	-
	-
Excess of revenue and other sources (uses) over (under) expenditures and other uses	211.82
Fund Balance: temporarily restricted - beginning of year	8,919.28
Fund Balance: temporarily restricted - end of year	\$ 9,131.10

**PAYNE COUNTY CONSERVATION DISTRICT AND
 PAYNE COUNTY CONSERVATION FOUNDATION, INC.
 STATEMENT OF CHANGES IN ASSETS, LIABILITIES, AND FUND BALANCE
 FIDUCIARY FUND - EXPENDABLE TRUST FUND
 JUNE 30, 2012**

Schedule 2

	Balance July 1, 2011	Changes	Changes	Balance June 30, 2012
ASSETS				
Cash	\$ 8,919.28	\$ 211.82	\$ -	\$ 9,131.10
Investments	-	-	-	-
Total assets	\$ 8,919.28	\$ 211.82	\$ -	\$ 9,131.10
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Total liabilities	-	-	-	-
Fund Balance:				
Temporarily restricted for conservation	8,919.28	-	211.82	9,131.10
Total liabilities and fund balance	\$ 8,919.28	\$ -	\$ 211.82	\$ 9,131.10

Steven F. Cundiff

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF COMBINED FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors
Payne County Conservation District and the Payne County Conservation Foundation, Inc.
Payne County, Oklahoma

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Payne County Conservation District and the Payne County Conservation Foundation, Inc., as of and for the year ended June 30, 2012, which collectively comprise the Payne County Conservation District and the Payne County Conservation Foundation, Inc.'s basic financial statements, and have issued our report thereon dated September 13, 2012. 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 Payne County Conservation District and the Payne County Conservation Foundation, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Payne County Conservation District and the Payne County Conservation Foundation, Inc.'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 Payne County Conservation District and the Payne County Conservation Foundation, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Payne County Conservation District and the Payne County Conservation Foundation, Inc.'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 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.

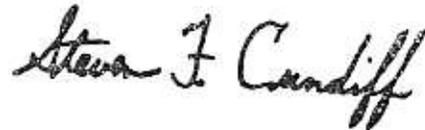
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Payne County Conservation District and the Payne County Conservation Foundation, Inc.'s financial statements are free of material misstatement, we performed tests of it 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 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*.

This report is intended solely for the information and use of the Payne County Conservation District and the Payne County Conservation Foundation, Inc., management, and all applicable federal and state agencies and is not intended to be and should not be used by anyone other than these specific parties.

September 13, 2012

A handwritten signature in black ink that reads "Steven F. Cundiff". The signature is written in a cursive, flowing style.

Steven F. Cundiff, CPA, Inc.