

Garfield County Industrial Authority

Enid, Oklahoma

REPORT ON AUDIT OF FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

For the Year Ended June 30, 2011

SAUNDERS & ASSOCIATES, PLLC

Certified Public Accountants

630 East 17th Street

P. O. Box 1406

Ada, Oklahoma 74820

(580) 332-8548

FAX: (580) 332-2272

Website: www.saunderspas.com

GARFIELD COUNTY INDUSTRIAL AUTHORITY
Enid, Oklahoma

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630 East 17th Street * P. O. Box 1406 * Ada, Oklahoma 74820 * (580) 332-8548 * FAX: (580) 332-2272
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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Garfield County Industrial Authority
Enid, Oklahoma

We have audited the accompanying statement of net assets of Garfield County Industrial Authority, a component unit of Garfield County, and the related statements of revenues, expenses and changes in net assets and cash flows for the year ended June 30, 2011. These financial statements are the responsibility of Garfield County Industrial Authority's trustees. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Garfield County Industrial Authority as of June 30, 2010 were audited by other auditors whose report dated February 3, 2011 expressed an unqualified opinion on those statements.

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 of America. 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 the trustees, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

Management has omitted Management's Discussion and Analysis (MD&A) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Garfield County Industrial Authority as of June 30, 2011, and the results of its operations and cash flows 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 our report dated December 15, 2011 on our consideration of Garfield County Industrial Authority'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 assessing the results of our audit.

Saunders & Associates, PLLC
SAUNDERS & ASSOCIATES, PLLC
Certified Public Accountants

December 15, 2011

FINANCIAL STATEMENTS

GARFIELD COUNTY INDUSTRIAL AUTHORITY
Enid, Oklahoma

STATEMENT OF NET ASSETS

June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 10,834	\$ 12,431
Investments	124,180	137,093
Accounts Receivable	29,375	0
Accrued Interest Receivable	12,709	18,140
Notes Receivable	47,000,000	47,000,000
Property Held for Resale	<u>255,744</u>	<u>255,744</u>
TOTAL ASSETS	<u>\$ 47,432,842</u>	<u>\$ 47,423,408</u>
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Accounts Payable	\$ 250	\$ 0
Accrued Interest Payable	12,709	18,140
Revenue Bonds Payable	<u>47,000,000</u>	<u>47,000,000</u>
Total Liabilities	47,012,959	47,018,140
Net Assets	<u>419,883</u>	<u>405,268</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 47,432,842</u>	<u>\$ 47,423,408</u>

* The accompanying notes are an integral part of the financial statements.

GARFIELD COUNTY INDUSTRIAL AUTHORITY
Enid, Oklahoma

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET ASSETS

For the Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<u>REVENUES</u>		
Interest From Bonds	\$ 191,158	\$ 112,459
Administrative Fees	29,375	29,375
Investment Income	2,234	3,724
Rental Income	6,400	3,200
Realized Gain (Loss) on the Sale of Investments	3,343	(374)
Unrealized Gain (Loss) on Investments	11,529	12,939
	<u>244,039</u>	<u>161,323</u>
Total Revenues		
<u>EXPENSES</u>		
Interest Expense - Revenue Bonds	191,158	112,459
General and Administrative	8,266	8,375
Economic Development	30,000	40,000
	<u>229,424</u>	<u>160,834</u>
Total Expenses		
Increase in Net Assets	14,615	489
Net Assets, Beginning of Year	<u>405,268</u>	<u>404,779</u>
Net Assets, End of Year	<u>\$ 419,883</u>	<u>\$ 405,268</u>

* The accompanying notes are an integral part of the financial statements.

GARFIELD COUNTY INDUSTRIAL AUTHORITY
Enid, Oklahoma

STATEMENT OF CASH FLOWS

For the Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<u>Cash Flows From Operating Activities</u>		
Cash From Customers	\$ 6,400	\$ 32,575
Cash Paid to Suppliers	(38,016)	(48,375)
Investment Income	2,234	3,724
Net Cash Provided (Used) by Operating Activities	<u>(29,382)</u>	<u>(12,076)</u>
<u>Cash Flows From Capital and Related Financing Activities</u>		
Interest Paid on Bonds	<u>(196,589)</u>	<u>(160,123)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(196,589)</u>	<u>(160,123)</u>
<u>Cash Flows From Investing Activities</u>		
Purchase of Investments	(4,438)	(4,079)
Proceeds From the Sale of Investments	32,223	20,375
Interest Received on Bonds	196,589	160,122
Net Cash Provided (Used) by Investing Activities	<u>224,374</u>	<u>176,418</u>
Change in Cash	(1,597)	4,219
Cash at Beginning of Year	<u>12,431</u>	<u>8,212</u>
Cash at End of Year	<u>\$ 10,834</u>	<u>\$ 12,431</u>
Reconciliation of Net Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Net Increase (Decrease)	\$ 14,615	\$ 489
Adjustments to Reconcile Net Increase (Decrease) to Net Cash Provided (Used) by Operating Activities:		
Increase in Accounts Receivable	(29,375)	0
Increase in Accounts Payable	250	0
Gain on Sale of Investments	(3,343)	374
Unrealized Gain (Loss)	<u>(11,529)</u>	<u>(12,939)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (29,382)</u>	<u>\$ (12,076)</u>

* The accompanying notes are an integral part of the financial statements.

GARFIELD COUNTY INDUSTRIAL AUTHORITY
Enid, Oklahoma

NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2011 and 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – The Garfield County Industrial Authority (the Authority), a component unit of Garfield County, was created as a public trust under applicable Oklahoma statutes on April 29, 1969, with Garfield County, Oklahoma named as the beneficiary thereof.

The Authority provides capital financing to industrial concerns located in and around the county of Garfield, Oklahoma for the purpose of purchasing or constructing facilities.

Capital for these activities is obtained through the issuance of bonds and by arranging additional financing through third party creditors. Bonds issued, and other capital raised, are collateralized by the assets acquired or constructed with the proceeds of such issues.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fund Accounting – In order to insure observance of restrictions placed on the use of resources available to the Authority, the accounts of the Authority are maintained in accordance with the principles of fund accounting. The assets, liabilities, fund equity, revenues and expenses of the Authority are accounted for in two self-balancing funds which are combined for financial reporting purposes as follows:

Operating Fund includes unrestricted resources available for the support of the Authority's operations.

Bond and Debt Service Fund accumulates funds for the retirement of debt owed by the Authority.

Basis of Accounting – The Authority consists of proprietary type (enterprise) funds and uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the related liability is incurred.

Property Held for Resale – Property held for resale is stated at the lower of cost or estimated net receivable value. The Authority purchased land to resale to prospective businesses in an effort to stimulate and enhance the economic growth and development of the County of Garfield, Oklahoma.

Investments – Investments are carried at fair value. Investment income, gains and losses are reflected in the statement of revenues, expenses and changes in net assets.

The Authority includes investment income, realized gains and losses and unrealized gains and losses in other income and expenses

GARFIELD COUNTY INDUSTRIAL AUTHORITY
Enid, Oklahoma

NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2011 and 2010

NOTE 2: CASH AND CASH EQUIVALENTS

The Authority considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2011 and 2010, all of the Authority's deposits, which had a bank and carrying value of \$10,834 and \$12,431 respectively, were held in the trust department at a local bank. These deposits were in the form of money market funds.

NOTE 3: INVESTMENTS

The Authority's investment policy permits investment of funds in the following investments and investment conduits upon approval of two-thirds (2/3) of the Board of Trustees:

1. U. S. Treasury Obligations
2. Equities listed on the NYSE, AMEX, and NASDAQ
3. Mutual Funds rated 3 stars and above by Morningstar Rating Service and reviewed annually
4. Money Managers meeting certain specified qualification standards set by the Authority

The Authority's Budget/Investment Committee or Advisor are not currently authorized to purchase individual stocks outside a Mutual Fund or Money Manager.

Custodial Credit Risk – Custodial credit risk for investments is the risk that, in the event of failure of the counterparty, the Authority will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The Authority manages custodial risk by only investing funds with well known, reputable financial institutions and limiting investments in any single financial institution to amounts which are covered by FDIC insurance, where applicable.

Interest Rate Risk – The Authority manages its exposure to declines in fair value by diversifying its investments to include a variety of debt and equity securities which are managed by an experienced financial manager.

Concentrations – It is the Authority's policy to maintain a diversified portfolio to minimize the risk of loss resulting from over concentration of assets in a specific maturity.

At June 30, the Authority had the following investments:

	<u>2011</u>	<u>2010</u>
Mutual Funds	\$ 75,488	\$ 79,240
Bond Funds	<u>48,692</u>	<u>57,853</u>
Total	<u>\$ 124,180</u>	<u>\$ 137,093</u>

Realized Gains and Losses – During 2011, the Authority realized a net gain of \$3,343 from the sale of investments. The calculation of realized gains is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. The net increase in the fair value of investments during 2011 was \$9,730. This amount takes into account all changes in fair value (including purchases and sales) that occurred since acquisition of the investments. The unrealized gain on investments for the year 2011 was \$11,529.

GARFIELD COUNTY INDUSTRIAL AUTHORITY
Enid, Oklahoma

NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2011 and 2010

NOTE 4: ACCOUNTS RECEIVABLE

Accounts receivable consist of administrative fees due from OG&E.

NOTE 5: NOTES RECEIVABLE

Notes in the amount of \$47,000,000 are receivable from OG&E in consideration of the lease agreement between the Authority and OG&E, dated January 15, 1995.

NOTE 6: FAIR VALUE MEASUREMENTS

Effective January 1, 2008, the Authority adopted provisions of FASB ASC 820-10 (formerly Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*), which provides a framework for measuring fair value under GAAP. FASB ASC 820-10 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC 820-10 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. FASB ASC 820-10 also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels.

This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs are unobservable inputs and have the lowest priority. The Authority uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Authority measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are used only when Level 1 and Level 2 inputs were not available.

Assets itemized below were measured at fair value during the years ended June 30, 2011 and 2010 using the market approach. The market approach was used for Level 1 assets. No Level 2 or Level 3 assets were used by the Authority.

Fair value measurements at reporting date using:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>
<u>June 30, 2011</u>		
Mutual Funds	\$ 75,488	\$ 75,488
Bond Funds	<u>48,692</u>	<u>48,692</u>
Total	<u>\$ 124,180</u>	<u>\$ 124,180</u>

GARFIELD COUNTY INDUSTRIAL AUTHORITY
Enid, Oklahoma

NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2011 and 2010

NOTE 6: FAIR VALUE MEASUREMENTS, CONTINUED

<u>June 30, 2010</u>	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>
Mutual Funds	\$ 79,240	\$ 79,240
Bond Funds	<u>57,853</u>	<u>57,853</u>
Total	<u>\$ 137,093</u>	<u>\$ 137,093</u>

Level 1 Fair Value Measurements – The fair values of mutual funds and bond funds are available based on quoted market prices, when available.

Gains and losses (realized and unrealized) included in net income for the year ended June 30, 2011 and 2010 are reported in the fair value of investments.

NOTE 7: REVENUE REFUNDING BONDS

On December 6, 1977, the Authority issued and sold the 1977 Series A Pollution Control Revenue Bonds for \$47,000,000 for the purpose of paying the cost of constructing, acquiring and installing certain pollution control facilities for use by OG&E in connection with the Sooner Generating Station. The 1995 Series A Revenue Refunding bonds were issued to provide a means of refinancing the prior bonds.

On January 15, 1995, the Authority and OG&E entered into a Leasehold Purchase Contract where the Authority purchased a leasehold interest in the facility. The purchase price being the proceeds and earnings on the outstanding bonds. The Authority and OG&E then entered into a capital lease contract where OG&E leased the facility from the Authority for rental payments sufficient to pay the principal and interest on the outstanding bonds. OG&E also guaranteed the payoff of the outstanding bonds at maturity. The 1995 OG&E revenue refunding bonds are at a variable rate with interest due monthly and remaining interest and principal due at January 1, 2025. Details of the bonds are as follows:

Year Ended:	<u>Bonds Payable</u>			<u>Ending Balance</u>
	<u>Beginning Balance</u>	<u>Bonds Issued</u>	<u>Bonds Paid</u>	
2011	<u>\$ 47,000,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 47,000,000</u>
2010	<u>\$ 47,000,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 47,000,000</u>

GARFIELD COUNTY INDUSTRIAL AUTHORITY
Enid, Oklahoma

NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2011 and 2010

NOTE 7: REVENUE REFUNDING BONDS, CONTINUED

Aggregate annual maturities of long-term debt at June 30, 2011 are as follows:

<u>Maturity</u>	<u>Amount</u>
2011	\$ 0
2012	0
2013	0
2014	0
2015	0
Thereafter	<u>47,000,000</u>
Total	<u>\$ 47,000,000</u>

NOTE 8: SUBSEQUENT EVENTS

Management of the Authority has evaluated subsequent events through December 15, 2011, which is the date the financial statements were available to be issued.

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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 Trustees
Garfield County Industrial Authority
Enid, Oklahoma

We have audited the financial statements of Garfield County Industrial Authority as of and for the year ended June 30, 2011, and have issued our report thereon dated December 15, 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 of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Garfield County Industrial Authority'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 Garfield County Industrial Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Garfield County Industrial Authority'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 a 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 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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses as 11-01 that we consider to be a significant deficiency in internal control over financial reporting. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Garfield County Industrial Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 11-01.

We noted certain other matters that we reported to the trustees of Garfield County Industrial Authority in a separate letter dated December 15, 2011.

Garfield County Industrial Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Garfield County Industrial Authority'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 trustees, and others within the organization, and is not intended to be, and should not be used by anyone other than these specified parties.

Saunders & Associates, PLLC

SAUNDERS & ASSOCIATES, PLLC
Certified Public Accountants

December 15, 2011

GARFIELD COUNTY INDUSTRIAL AUTHORITY
Enid, Oklahoma

STATUS OF PRIOR AUDIT FINDINGS

June 30, 2011

AUDITOR INVOLVEMENT WITH FINANCIAL STATEMENTS

Condition: A system of internal control over financial reporting does not stop with relying on the internal controls of the trust department of the trustee bank. It includes controls over financial statement preparation, including footnote disclosures. A lack of competencies to prepare disclosures is considered to be a weakness in controls over financial reporting. Although as your external auditor, we assist you in the preparation of financial statements and the disclosures; it does not eliminate the control deficiency. As external auditors, we cannot be considered a part of the Authority's system of internal control

Current Status: See current audit finding 11-01.

* The accompanying notes are an integral part of the financial statements.

GARFIELD COUNTY INDUSTRIAL AUTHORITY
Enid, Oklahoma

SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended June 30, 2011

11-01 AUDITOR INVOLVEMENT WITH FINANCIAL STATEMENTS

Condition: A system of internal control over financial reporting does not stop with relying on the internal controls of the trust department of the trustee bank. It includes controls over financial statement preparation, including footnote disclosures. A lack of competencies to prepare disclosures is considered to be a weakness in controls over financial reporting. Although as your external auditor, we assist you in the preparation of financial statements and the disclosures; it does not eliminate the control deficiency. As external auditors, we cannot be considered a part of the Authority's system of internal control

Recommendation: The Authority should consider obtaining outside support from an individual or group that might provide the expertise to management regarding the preparation of the financial statements and the disclosures in the financial statements.

Response: We concur with the finding as noted above. However, we feel it would not be cost effective to contract with someone with the required skill set at this time.

* The accompanying notes are an integral part of the financial statements.

***Memorandum of Suggestions on Accounting
Procedures and System of Internal Controls
Garfield County Industrial Authority***

For the Year Ended June 30, 2011

***Contact Person
Jeannie Chace, CPA, CFE***

December 15, 2011

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Board of Directors
Garfield County Industrial Authority
Enid, Oklahoma

The accompanying Management Letter includes suggestions for improvement of accounting procedures and internal accounting controls that came to our attention as a result of our examination of the financial statements of the Garfield County Industrial Authority, Enid, Oklahoma, for the year ended June 30, 2011. The matters discussed herein were considered by us during our examination and do not modify the opinion expressed in our auditor's report dated December 15, 2011 on such financial statements.

In accordance with auditing standards generally accepted in the United States of America, we made a review of Garfield County Industrial Authority's system of internal accounting controls for the purpose of providing a basis for reliance thereon, in determining the nature, timing and extent of substantive testing of the June 30, 2011 financial statements. While certain matters that came to our attention during the review are presented in the accompanying Management Letter for the consideration of the Board, our review did not encompass all control procedures and techniques and was not designed for the purpose of making detailed recommendations.

The accompanying Management Letter includes comments and suggestions with respect to other financial and administrative matters that came to our attention during the course of our examination. These matters are offered as constructive suggestions for the consideration of management as part of the ongoing process of modifying and improving accounting control and other financial and administrative practices and procedures.

This Management Letter is intended solely for the benefit of management and the board of directors, and is not to be used for any other purpose.

We wish to express our appreciation for the courtesies and cooperation extended to our representatives during the course of their work. We would be pleased to discuss these suggestions and comments in greater detail or otherwise assist in their implementation.

Sincerely,

Saunders & Associates, PLLC
SAUNDERS & ASSOCIATES, PLLC
Certified Public Accountants

December 15, 2011

GARFIELD COUNTY INDUSTRIAL AUTHORITY
Enid, Oklahoma

MANAGEMENT LETTER

June 30, 2011

1. INADEQUATE INSURANCE COVERAGE

As a part of our regular audit procedures, we review insurance policies and as a result, noted that insurance coverage was not in place for directors and officer's liability or fidelity bonding. These areas should be insured at all times.

SAUNDERS & ASSOCIATES, PLLC strongly recommends that the Board meet with your insurance professional to review your insurance coverage, and that insurance coverage in these areas be obtained as soon as possible.