

**CHECOTAH INDUSTRIAL
DEVELOPMENT AUTHORITY**

Financial Statements

June 30, 2011

With the Report of Independent Certified Public Accountant

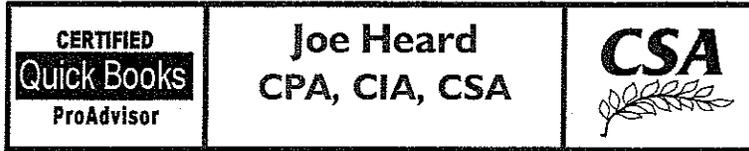
Prepared by Joe Heard

Certified Public Accountant

CHECOTAH INDUSTRIAL DEVELOPMENT AUTHORITY
FINANCIAL STATEMENTS

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Certified Senior Advisor • Certified Public Accountant • Certified Internal Auditor • Master of Business Administration

INDEPENDENT AUDITORS' REPORT

The Honorable Board of Trustees
Checotah Industrial Development Authority

We have audited the statements of net assets of the Checotah Industrial Development Authority (the "Authority") a component of the City of Checotah, Oklahoma, as of June 30, 2011 and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Authority'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 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 statement. 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 financial position of the Authority as of June 30, 2011 and the results of its operations and its 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 a report dated October 25, 2011, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provision of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on 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.

The authority has not presented 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.

Joe Heard
Checotah, OK
October 25, 2011

CHECOTAH INDUSTRIAL DEVELOPMENT AUTHORITY
STATEMENT OF NET ASSETS
June 30, 2011

Assets

Current Assets:	
Cash and cash equivalents	\$ 119,288
Cigarette and Tobacco Taxes Due	5,258
	<u>124,546</u>
Capital Assets:	
Property and equipment, at cost	191,394
Industrial tracts, at cost	436,594
	<u>627,988</u>
Less accumulated depreciation	(81,951)
Capital Assets, net	<u>546,037</u>
Total Assets	<u>\$ 670,583</u>

Liabilities and Net Assets

Accounts Payable	\$ 3,400
Note payable – current portion	106,346
Total Liabilities	<u>109,746</u>
Net Assets:	
Invested in capital assets, net of related debt	439,691
Unrestricted	121,146
Total Net Assets	<u>\$ 560,837</u>

See Independent Auditor's Report.
See accompanying notes to financial statements.

CHECOTAH INDUSTRIAL DEVELOPMENT AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Year Ended June 30, 2011

Operating revenues:	
Rent	\$ <u>28,050</u>
Operating expenses:	
Administrative	14,284
Depreciation	9,927
Professional and legal	8,960
Repairs and maintenance	<u>400</u>
Total operating expenses	<u>33,571</u>
Operating (loss)	<u>(5,521)</u>
Nonoperating revenues (expenses):	
Interest income	524
Gain on sale of industrial tract	7,223
Interest expense	<u>(6,673)</u>
Total nonoperating (expenses) revenues	<u>1,074</u>
(Loss) before transfers	(4,447)
Transfers in from City of Checotah	<u>49,622</u>
Changes in net assets	45,175
Net assets, beginning of year	<u>515,662</u>
Net assets, end of year	<u><u>\$ 560,837</u></u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

CHECOTAH INDUSTRIAL DEVELOPMENT AUTHORITY
STATEMENT OF CASH FLOWS
Increase (Decrease) in Cash and Cash Equivalents
Years Ended June 30, 2011

Cash flows from operating activities:	
Rent and other income	\$ 27,548
Operational costs	<u>(27,757)</u>
Net cash (used in) operating activities	(209)
 Cash flows from noncommittal financing activities:	
Transfers from City of Checotah	<u>49,622</u>
 Cash flows from capital and related financing activities:	
Principal payments on long-term debt	(7,327)
Interest expense	(6,673)
Sale of industrial tract	23,000
Other	<u>(275)</u>
Net cash provided by capital and related financing activities	<u>8,725</u>
 Cash flows from investing activities:	
Interest income	<u>524</u>
 Net increase (decrease) in cash and cash equivalents	 58,622
 Cash and cash equivalents, beginning of year	 <u>60,626</u>
 Cash and cash equivalents, end of year	 <u>\$ 119,288</u>
 Reconciliation of operating (loss) to net cash (used in) operating activities:	
Operating (loss)	\$ (5,521)
Adjustments to reconcile operating (loss) to net cash (used in) operating activities:	
Depreciation expense	9,927
(Increase) in account receivable	(502)
(Decrease) in accounts payable	<u>(4,113)</u>
 Net cash (used in) operating activities	 <u>\$ (209)</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

CHECOTAH INDUSTRIAL DEVELOPMENT AUTHORITY

June 30, 2011

NOTES TO FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Checotah Industrial Development Authority (the "Authority") is a public trust created on December 21, 1973, under the provisions of Title 60, Oklahoma Statutes, 1971, Sections 176 and 180.3, inclusive, as an agency of the State of Oklahoma. The following is a summary of the more significant accounting policies employed by the Authority.

Basis of Accounting and Measurement Focus

The Authority reports on an the accrual basis of accounting and economic resources measurement focus. Financial Accounting Standards Board pronouncements and Accounting Principles Board opinions issued on or before November 30, 1989, have been applied, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case GASB prevails.

For purposes of the statements of revenues, expenses and changes in net assets, operating revenues and expenses are considered those whose cash flows are related to operating activities, while revenues and expenses related to financing, capital and investing activities are reported as nonoperating activities.

Reporting Entity

The financial statements include only the activities of the Authority and are not intended to present the activities of the City of Checotah, Oklahoma. The Authority is a component unit of the City of Checotah, Oklahoma.

Cash Flow Information

For "Statements of Cash Flows" reporting, the Authority considers cash and cash equivalents to include amounts on deposit with a local bank.

Cigarette and Tobacco Tax Revenues

The City of Checotah allocates all of the cigarette and tobacco tax monies it receives to the Authority.

See Independent Auditors' Report

CHECOTAH INDUSTRIAL DEVELOPMENT AUTHORITY

June 30, 2011

NOTES TO FINANCIAL STATEMENTS (Continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Capital Assets and Depreciation

Depreciation is provided on the straight-line method over the estimated useful lives of the related assets. Expenditures for repairs and maintenance are charged to expense when incurred, whereas major improvements are capitalized. Upon disposition, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is included in income.

The estimated useful lives for computing depreciation are as follows:

Building	30 years
Equipment	7 years
Building improvements	5 years
Land improvements	3 years

Income Taxes

The Authority, as a component unit of the City of Checotah, Oklahoma, is exempt from federal and state income taxes.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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. Actual results could differ from those situations.

Advertising Costs

All costs associated with advertising are expensed as incurred.

CASH AND CASH EQUIVALENTS

The Authority maintains an interest-bearing money market checking account at the Peoples National Bank in Checotah, Oklahoma. Interest is compounded monthly at the market rate.

See independent Auditors' Report

CHECOTAH INDUSTRIAL DEVELOPMENT AUTHORITY

June 30, 2011

NOTES TO FINANCIAL STATEMENTS (Continued)**(2) CAPITAL ASSETS**

Capital assets and the changes in capital assets for the year are as follows:

Description	Balance June 30 2010	Additions	Deletions	Balance June 30, 2011
First Natural Gas Building	\$ 115,033	-	-	\$ 115,033
Equipment	6,967	-	-	6,967
First Natural Gas Building paving	16,864	-	-	16,864
Industrial land improvements	26,364	-	2,517	23,847
Whitmas property improvements	28,683	-	-	28,683
Industrial Land:				
Whitmas property	64,500	-	-	64,500
North tract	156,517	-	15,777	140,740
South Tract	231,354	-	-	231,354
	<u>646,282</u>		<u>18,294</u>	<u>627,988</u>
Accumulated depreciation:				
First National Gas Building	11,503	3,834	-	15,337
First Natural Gas Building paving	6,745	3,373	-	10,118
Equipment	6,967	-	-	6,967
Industrial Land improvements	26,403	-	2,517	23,886
Whitmas property improvements	22,923	2,720	-	25,643
	<u>74,541</u>	<u>9,927</u>	<u>2,517</u>	<u>81,951</u>
Capital assets, net	\$ <u>571,741</u>	<u>9,927</u>	<u>15,777</u>	\$ <u>546,037</u>

(3) NOTE PAYABLE

On June 11, 2007, the Authority financed a building (First National Gas Building) through a local bank. The cost of the building and land was \$133,033. The Authority has a note payable to Peoples National Bank in the amount of \$133,033, at 6.375% interest, dated June 11, 2007, with monthly payments of \$1,200, and one final payment due on June 11, 2012, consisting of the full amount of principal and accrued interest remaining.

CHECOTAH INDUSTRIAL DEVELOPMENT AUTHORITY

June 30, 2011

NOTES TO FINANCIAL STATEMENTS (Continued)

(4) LEASE TRANSACTIONS

Contingent Lease Rental

On June 9, 2010 the Authority and a tenant (Wholesale Granite Countertops and Cabinets, Inc.) signed a 5-year lease agreement combining two leases into a single lease. The term of the lease is from March 1, 2010 through March 1, 2015 and is for a payment of \$2,700 per month.

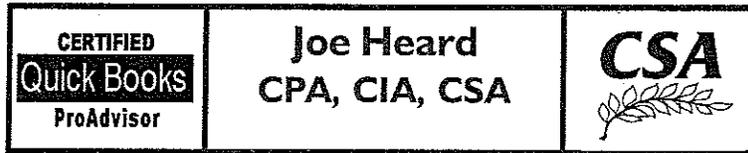
(5) SALE OF LAND

On March 25, 2011, the Authority entered into a contract to sell 20.02 acres of its 198.68 North Industrial Tract acreage for \$24,000. The Authority received \$1,000 earnest money with the contract. Closing on the real estate sale occurred November 16, 2011.

(6) ECONOMIC DEVELOPMENT FUND

On September 13, 2010, the City of Checotah passed Resolution 2011-09-13 authorizing ten percent (10%) of new Sales Tax Revenue above the 2008 baseline and beginning January 1, 2011 to be put in a specific fund to be used for "...economic development projects that need cash to make them work." The resolution requires that all such expenditures recommended by CIDA must be approved by the City Council. At December 1, 2011 the balance in this account was \$150,456.49.

See Independent Auditors' Report



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Certified Quickbooks ProAdvisor

**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**

The Honorable Board of Trustees
Checotah Industrial Development Authority

We have audited the financial statements of the Checotah Industrial Development Authority (the "Authority") a component unit of the City of Checotah, Oklahoma, as of and for the year ended June 30, 2011, and have issued our report thereon dated October 25, 2011. Our report included an explanatory paragraph noting that management's discussion and analysis was not presented. We conducted our audit in accordance with auditing standards generally accepted in the United States 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

In planning and performing our audit, we considered the 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 the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation on 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 entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with accounting principles generally accepted in the United States such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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 entity's internal control.

**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 – CONTINUED**

Our consideration of 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 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 whether the 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 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 Board of Trustees, management and the State of Oklahoma, and is not intended to be and should not be used by anyone other than these specified parties.

Joe Heard

Joe Heard, CPA
Checotah, OK
October 25, 2011