

Johnston County Industrial Authority

**Financial Statements and Auditor's Report thereon
As of and for the Year Ending June 30, 2013**

Table of Contents

Independent Auditor’s Report	1-2
Government Wide Statement of Net Position and Government Fund Balance Sheet – Modified Cash Basis.....	3
Government-Wide Statement of Activities and Government Fund Statement of Revenues, Expenditures and Changes in Fund Balance – Modified Cash Basis	4
Notes to Financial Statements	5-10
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and other Matters on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	11-12

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Independent Auditor's Report

To the Board of Trustees
Johnston County Industrial Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities – modified cash and each major fund of the Johnston County Industrial Authority (the Authority) as of and for the year ending June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Modified Cash-basis of accounting described in Note 1. This includes determining that the modified cash-basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects the respective modified cash-basis financial position of the governmental activities and each major fund of the Johnston County Industrial Authority as of June 30, 2013, and the respective changes in modified cash –basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Other Matters

Required Supplementary Information

Management has omitted the management’s discussion and analysis and budgetary comparison information 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 Government 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2013, on our consideration of the Johnston 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Johnston County Industrial Authority’s internal control over financial reporting and compliance.

Basis of Accounting

We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash-basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.



Oklahoma City, Oklahoma
November 4, 2013

JOHNSTON COUNTY INDUSTRIAL AUTHORITY
Government-wide Statement of Net Position and
Governmental Fund Balance Sheet - Modified Cash Basis
June 30, 2013

	General Fund	Adjustments (Note 7)	Statement of Net Assets
ASSETS			
Current Assets			
Cash	303,863.22	-	303,863.22
Building Improvements Receivables	-	17,370.00	17,370.00
Total Current Assets	303,863.22	17,370.00	321,233.22
Non Current Assets			
Capital Assets, Net	-	3,214,237.61	3,214,237.61
Note Receivable, Non Current Portion	-	34,863.70	34,863.70
Total Noncurrent Assets	-	3,249,101.31	3,249,101.31
Total Assets	<u>\$ 303,863.22</u>	<u>\$ 3,266,471.31</u>	<u>\$ 3,570,334.53</u>
LIABILITIES			
Current Liabilities			
Long-Term Liabilities			
Notes Payable - Non Current Portion	-	399,889.43	399,889.43
Total Long-Term Liabilities	-	399,889.43	399,889.43
FUND BALANCE/NET Position			
Fund Balance - Unassigned	303,863.22		303,863.22
Net Assets			
Net Investment in Capital Assets	-	2,814,348.18	2,814,348.18
Unrestricted	-	52,233.70	52,233.70
Total Fund Balance/Net Position	303,863.22	2,866,581.88	3,170,445.10
Total Liabilities and Fund Balance/Net Position	<u>\$ 303,863.22</u>	<u>\$ 3,266,471.31</u>	<u>\$ 3,570,334.53</u>

JOHNSTON COUNTY INDUSTRIAL AUTHORITY
Government-Wide Statement of Activities and
Governmental Fund Statement of Revenue, Expenditures and
Changes in Fund Balance - Modified Cash Basis
For the Year Ended June 30, 2013

	General Fund	Adjustments (Note 7)	Statement of Activities
Expenditures/Expenses			
Economic Development	127,898.50	78,292.56	206,191.06
Capital Outlay	619,163.51	(619,163.51)	0.00
Total Expenditures/Expenses	<u>747,062.01</u>	<u>(540,870.95)</u>	<u>206,191.06</u>
Program Revenues			
Charges for Services	210,578.24	(16,268.14)	194,310.10
Grants and Contributions	637,776.09	-	637,776.09
Total Program Revenues	<u>848,354.33</u>	<u>(16,268.14)</u>	<u>832,086.19</u>
General Revenues			
Lodging Tax	13,542.20		13,542.20
Interest Income	2,213.10	-	2,213.10
Total General Revenues	<u>15,755.30</u>	<u>-</u>	<u>15,755.30</u>
Net Changes in Fund Balance/Net Position	117,047.62	524,602.81	641,650.43
Fund Balance/Net Position			
Beginning of Year	<u>186,815.70</u>	<u>2,341,978.97</u>	<u>2,528,794.67</u>
End of Year	<u>\$ 303,863.32</u>	<u>\$ 2,866,581.78</u>	<u>\$ 3,170,445.10</u>

**Johnston County Industrial Authority
Notes to the Financial Statements
June 30, 2013**

Note 1 – General Statements and Summary of Significant Accounting Policies

The Reporting Entity

The Johnston County Industrial Authority (Authority) is a public trust created under and pursuant to the laws of the State of Oklahoma now in force and effect (generally, but not exclusively, Sections 176 to 180, inclusive, of the Title 60, Oklahoma Statutes 1961, and the Oklahoma Trust Act.)

The Authority is a component unit of Johnston County, Oklahoma. The Trust Indenture was signed in 1968 by the County giving the Johnston County Industrial Authority its authority. The County Commissioners of the County have the ability to dissolve the Authority and transfer all assets and liabilities to Johnston County. The County Commissioners approve all Board members of the Authority.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements of the Authority are prepared on the modified cash basis of accounting which is a method of accounting other than generally accepted accounting principles (GAAP). The Authority's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Authority's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

Fund Equity

Government-Wide Statements

Equity is classified as net position and displayed in three components:

Net Investment in Capital Assets – consists of capital assets net of accumulated depreciation.

Restricted net position – consists of net position with constraints on the use either by (1) external groups or (2) law through constitutional provision or enabling legislation.

Unrestricted net position – All other net position that do not meet the definition of “restricted” or “invested in capital assets”.

Fund Statements

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Authority is bound to honor constraints on specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.

Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors,

contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Trustees. These amounts cannot be used for any other purpose unless the Board of Trustees removes or changes the specified use by taking the same type of action (resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements..

Assigned: This classification includes amounts that are constrained by the Authority's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board or through the Board delegating this responsibility to the Director.

Unassigned: This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting or Assigned fund balance amounts.

The Authority would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that could affect certain reported amounts and disclosures. Accordingly, actual results may vary from estimated amounts.

Assets, Liabilities, and Net position or Equity

Deposits and investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less.

Public trusts created under O.S. Title 60, are not subject to investment limitations and are primarily governed by any restrictions in their trust or note indenture.

Accounts Receivable

Accounts receivable at June 30, 2013 consist of unpaid business improvement loans which are all considered to be collectable.

Capital assets

Capital assets, which include property, plant, and equipment, are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Equipment	10

Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

Note 2 – Cash

Custodial Credit Risk – Custodial credit risk for deposits is the risk that in the event of a bank failure, the Authority’s deposits may not be returned or the Authority will not be able to recover collateral securities in the possession of an outside party. The Authority’s policy requires collateral for demand deposits and certificates of deposit for all amounts not covered by federal deposit insurance. Custodial credit risk for deposits not formally addressed by bond indentures require that deposits be maintained by the trustee bank specified in the indenture. As of June 30, 2013, cash deposits were fully insured or collateralized by FDIC insurance.

Note 3 – Capital Assets

Capital assets as of June 30, 2013, consist of the following:

	Beginnig Balance	Increases	Decreases	Ending Balance
Construction in Progress	36,408	619,164	-	655,572
Land	133,206	-	-	133,206
Buildings	3,486,169	-	-	3,486,169
Total Capital Assets	3,655,783	619,164	-	4,274,947
Accumulated Depreciation	(942,314)	(118,395)	-	(1,060,709)
Net Capital Assets	<u>\$ 2,713,469</u>			<u>\$ 3,214,238</u>

Depreciation expense for the year ending June 30, 2013 was \$118,395.

Note 4 – Note Receivable

In June 2003, the Authority entered into a note receivable in the amount of \$145,000 with a local business. The note is receivable over ten years at 5% interest. The balance of the note receivable at June 30, 2013 is \$34,864.

Repayment of principal and interest is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2014	17,100	1,355
2015	17,764	475
	<u>\$ 34,864</u>	<u>\$ 1,830</u>

Note 5 – Long-Term Debt

The Authority had the following notes payable outstanding as June 30, 2013:

Oklahoma Department of Commerce - Dated December 2001, payable at 0% interest, matures January 2023. Monthly payments of \$833. Secured by a lease paid to the Authority on the property. 93,217

Landmark Bank - Dated December 2008 with an interest rate based upon New York Prime Rate plus 1.25% with a minimum of 4.5%. Monthly payments of \$2,535, maturing February 2027. Secured by commercial real estate. 306,672
\$ 399,889

Principal and interest requirements are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2014	26,963	13,453
2015	27,742	12,674
2016	28,558	11,858
2017	29,410	11,006
2018	30,302	10,114
2019-2023	159,648	35,689
2024-2029	97,266	7,944
	<u>\$ 399,889</u>	<u>\$ 102,738</u>

Changes in Long-term Liabilities

Long term liability activity for the year ending June 30, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Notes Payable	\$ 428,320	\$ -	\$ 28,431	\$ 399,889	\$ 26,963

Note 6 – Adjustment from Fund Financial Statements to Government-Wide Financial Statements

The fund balances in the government fund balance sheet differs from the net position reported in the government-wide statement of net position. The total difference is \$2,869,592.10. The detail of this difference is as follows:

General Fund - Fund Balance	303,863
Building Improvements Receivables are treated as revenues in the general fund, but are capitalized in the government wide financial statements.	17,370
Capital Assets, Net are treated as expenses in the general fund but are capitalized in the government wide financial statements.	3,214,238
Notes Receivable are treated as revenues in the general fund but capitalized in the government wide financial statements.	34,864
Notes Payable are treated expenses in the general fund but are capitalized in the government wide financial statements.	(399,889)
Government Wide Net Position	<u>\$ 3,170,446</u>

The excess revenues over expenditures in governmental fund statement of revenues, expenditures and changes in fund balance differs from the change in net position as reported in the government-wide statement of activities. The total difference is \$508,499. The detail of the difference is as follows:

General Fund Change in Fund Balance	117,048
Capital Outlay is treated as an expense in the general fund but capitalized in the government wide financial statements.	619,163
The writing off of loans fees is an expense on the government wid financial statements	(3,198)
Depreciation in not recorded in the general fund but recorded in the government wide financial statements.	(118,395)
Monies received on notes receivable are consider revenue in the general fund financial statements	(16,268)
Principal Paid on Long Term Debt is treated as an expense in the general fund but is treated as a reduction of the debt in the government wide financial statements.	28,430
Loans Advanced are treated as an expense in the general fund but are capitalized in the government wide financial statements.	14,870
Government Wide Change in Net Position	<u>\$ 641,650</u>

Note 7 – Hotel Resolution Income

The Johnston County Hotel Ordinance was created and placed into service in July 2005. The Ordinance levies an excise tax on hotel, motel and lodging rooms for the purpose of funding economic development

in Johnston County. Proceeds from this tax are remitted to by the State of Oklahoma to Johnston County, and then from the County to the Authority.

Note 8 – Risk Assessment

The Authority is exposed to various forms of risk, including risk of property loss. Insurance for such losses is provided by Johnston Count, Oklahoma through ACCO-SIG (Association of County commissioners of Oklahoma – Self Insured Group).

Note 9 – Operating Leases

The Authority has three leases in place with local businesses which are classified as operating leases.

Leased property includes land and buildings with a total cost of \$3,619,375. The carrying value of such assets is \$3,214,268, which is net of \$1,060,709 accumulated depreciation.

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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*

To the Board of Trustees
Johnston County Industrial Authority

We have audited, in accordance with the 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 of the governmental activities and each major fund, of the Johnston County Industrial Authority, (the Authority) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Johnston County Industrial Authority's basic financial statements, and have issued our report thereon dated November 4, 2013

The report was a special report on the Authority's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Johnston County Industrial Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Johnston County Industrial Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Johnston County Industrial Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Johnston County Industrial Authority's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Oklahoma City, Oklahoma
November 4, 2013