

**MUSKOGEE CITY-COUNTY PORT AUTHORITY**

**AUDITED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED**

**JUNE 30, 2012**

MUSKOGEE CITY-COUNTY PORT AUTHORITY  
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For Year Ended June 30, 2012

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# MUSKOGEE CITY-COUNTY PORT AUTHORITY

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## MANAGEMENT DISCUSSION AND ANALYSIS

This discussion and analysis is required supplementary information, presented to the reader as an overview of the Muskogee City-County Port Authority's financial condition and performance, in accordance with Governmental Accounting Standards Board Pronouncement 34 (GASB 34).

One of the objectives of the GASB 34 reporting model is to present "an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions or conditions" in a way "that will be of interest to user groups who historically have not shown much interest in the government's financial reports".

### USING THIS ANNUAL REPORT

In accordance with the GASB 34 reporting model, the financial condition of the Authority is presented in the Statement of Net Assets; the financial performance of the Authority is presented in the Statement of Activities; and the Authority's Fund Balance is divided into pieces in order to provide more information about the contribution of each piece, or activity, to the whole of the financial condition of the Authority.

### Statement of Net Assets and Statement of Activities

Together, the Statement of Net Assets and the Statement of Activities are intended to show the Authority's financial condition and the change in the Authority's financial condition resulting from the current year's financial activities.

### Fund Balances

Unlike many other forms of government, the Authority receives no annual appropriation and has no taxing authority. The Authority operates as a business enterprise, deriving all of its operating revenues from property leases, port fees charged to shippers and industrial development service contracts with the Union Pacific Railroad Company and the City of Muskogee. Operating revenues are used for the general administration of the Authority, maintenance of the Authority's facilities and expenses associated with the Authority's service contracts. Capital improvements are funded with the net of operating revenues after deductions, debt and grants from local, state and federal economic development programs.

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**MANAGEMENT DISCUSSION AND ANALYSIS**  
**PAGE 2**

For the purpose of recognizing the contribution of certain funds and activities to the whole of the Authority's financial condition and performance, the Authority allocates assets, liabilities, net assets, income and expense between its Governmental Fund and its Proprietary Funds. In its Governmental Fund the Authority records its General Administrative Expenses (including expenses associated with certain industrial development activities), Debt Service and Construction in Progress. In its Proprietary Funds, the Authority records its revenues and expenses for Port Operations, Railroad Operations and Grounds Maintenance.

**Summary of activities for the current year and comparison to last year**

For the year ending June 30, 2012, the Authority's Net Operating Income was more than that of the previous year by \$513,552 due primarily to increased revenues from leasing activities, port fees and contract revenues provided by the City of Muskogee for industrial development activities.

After deducting Depreciation Expense and the net of Interest Income and Expense, the Authority's Net Income was \$615,007 compared \$95,165 for the previous year.

The following table illustrates, in summary form, a comparison of financial activities in the current year with those in the previous year.

	<u>06/30/12</u>	<u>06/30/11</u>	<u>Variance</u>
<b>Net Operating Income</b>	<b>\$ 907,108</b>	<b>\$ 393,556</b>	<b>\$ 513,552</b>
Less Depreciation Expense	\$ 209,307	\$ 210,606	\$ 1,299
Less Net of Interest Income and Expense	\$ 82,794	\$ 87,785	\$ 4,991
<b>Net Income</b>	<b>\$ 615,007</b>	<b>\$ 95,165</b>	<b>\$ 519,842</b>

**Analysis of current year's activity on the financial condition of the Port Authority**

As a result of the current year's activities, the net assets of the Authority, recorded in the Audited Financial Statements as Statement of Net Assets (see page 3), totaled \$9,481,972 compared with \$8,882,354 in the previous year.

**Analysis of balances and transactions of individual funds and impact on future resources**

The business activities of the Authority during the current year, recorded in the Audited Financial Statements as Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds (see page 10), generated sufficient net revenues to cover the General Administrative Expenses of the

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**MANAGEMENT DISCUSSION AND ANALYSIS**  
**PAGE 3**

Authority, Capital Outlays and Debt Service, recorded in the Audited Financial Statements as Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds (see page 7).

In addition, revenues from business activities together with debt financing (Muskogee Industrial Trust) were sufficient to purchase real estate and complete substantial infrastructure improvements, resulting in the addition of approximately 100 acres of land to the Port of Muskogee Industrial Park, formerly unsuitable for development, available for lease.

**Analysis of significant budget variances**

For the year ending June 30, 2012, Net Operating Income was \$907,108 compared with \$654,293 budgeted for the year. After deducting Depreciation and the net of Non-Operating Income and Expense, Net Income was \$615,007 compared with \$375,395 budgeted for the year. Budget variances were due primarily to increased lease revenues and reduced expenses from various line items.

	<u>06/30/12</u>	<u>Budget</u>	<u>Variance</u>
Operating Revenues	\$2,234,868	\$1,857,180	\$ 377,688
Operating Expenses	\$1,327,760	\$1,202,887	\$ 124,873
<b>Net Operating Income</b>	<b>\$ 907,108</b>	<b>\$ 654,293</b>	<b>\$ 252,815</b>
Non-Operating Income	\$ 3,651	0	\$ 3,651
Less Non-Operating Expense	\$ 295,752	\$ 278,898	\$ 16,854
<b>Net Income</b>	<b>\$ 615,007</b>	<b>\$ 375,395</b>	<b>\$ 239,612</b>

**HOW TO CONTACT THE AUTHORITY'S FINANCIAL MANAGEMENT**

If you have any questions about this discussion and analysis or about the Audited Financial Statements that follow, please feel free to contact Scott Robinson, Port Director, by telephone at 918.682.7886 or by mail at P. O. Box 2819, Muskogee Oklahoma, 74402.



Scott Robinson  
Port Director  
Muskogee City-County Port Authority

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**INDEPENDENT AUDITOR'S REPORT**

Muskogee City-County Port Authority

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Muskogee City-County Port Authority, (hereinafter referred to as the "Authority") as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. 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 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 opinions.

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, of the Authority as of June 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with generally accepted accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 2, 2012, on our consideration of the 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The budgetary comparison information is presented to supplement the basic financial statements and for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The budgetary comparison information and the schedule of expenditure of federal awards information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.



KATHY HEWITT, CPA, INC., PC  
Muskogee, Oklahoma  
October 2, 2012

MUSKOGEE CITY-COUNTY PORT AUTHORITY  
STATEMENT OF NET ASSETS  
As of June 30, 2012

	Government Activities	Business Type Activities	Total
<b><u>Assets</u></b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	\$ 702,453	\$ -	\$ 702,453
Investments	\$ 100,462	\$ -	\$ 100,462
Accounts Receivable	\$ 6,420	\$ 205,921	\$ 212,341
Prepays	\$ 33,176	\$ -	\$ 33,176
<b>Total Current Assets</b>	<b>\$ 842,511</b>	<b>\$ 205,921</b>	<b>\$ 1,048,432</b>
<b>Restricted Assets</b>			
Cash-99 Series Bonds	\$ -	\$ 70,459	\$ 70,459
Prepays	\$ -	\$ 23,250	\$ 23,250
<b>Total Restricted Assets</b>	<b>\$ -</b>	<b>\$ 93,709</b>	<b>\$ 93,709</b>
<b>Non-Current Assets</b>			
Land		\$ 5,709,258	\$ 5,709,258
Construction in Progress	\$ 2,401	\$ 398,141	\$ 400,542
Property & Equipment	\$ 4,062,550	\$ 4,566,007	\$ 8,628,557
Accumulated Depreciation	\$ (564,772)	\$ (2,578,038)	\$ (3,142,810)
<b>Total Fixed Assets</b>	<b>\$ 3,500,179</b>	<b>\$ 8,095,368</b>	<b>\$ 11,595,547</b>
<b>Total Assets</b>	<b>\$ 4,342,690</b>	<b>\$ 8,394,998</b>	<b>\$ 12,737,688</b>
<b><u>Liabilities</u></b>			
<b>Current Liabilities</b>			
Current Portion Long Term Debt	\$ 82,615	\$ 101,744	\$ 184,359
Accounts Payable	\$ 500	\$ 1,050	\$ 1,550
<b>Total Current Liabilities</b>	<b>\$ 83,115</b>	<b>\$ 102,794</b>	<b>\$ 185,909</b>
<b>Non-Current Liabilities</b>			
EDIF Loan-Dal Tile Railspur	\$ -	\$ 166,208	\$ 166,208
Beach Group Loan	\$ -	\$ 127,909	\$ 127,909
Klutts Equipment Loan		\$ 79,400	\$ 79,400
99 Series GOLTB-Paragon	\$ -	\$ 70,459	\$ 70,459
05 Series GOLTB-Klutts Equip.	\$ -	\$ 428,098	\$ 428,098
Muskogee Industrial Trust	\$ -	\$ 424,817	\$ 424,817
Accrued Interest - MIT Loan	\$ -	\$ 60,657	\$ 60,657
ODFA Loan-3 Forks Harbor	\$ 1,712,259	\$ -	\$ 1,712,259
<b>Total Long Term Liabilities</b>	<b>\$ 1,712,259</b>	<b>\$ 1,357,548</b>	<b>\$ 3,069,807</b>
<b>Total Liabilities</b>	<b>\$ 1,795,374</b>	<b>\$ 1,460,342</b>	<b>\$ 3,255,716</b>
<b><u>Net Assets</u></b>			
Assigned Fund Balance	\$ -	\$ 10,000	\$ 10,000
Unassigned Fund Balance	\$ 2,547,316	\$ 6,924,656	\$ 9,471,972
<b>Total Net Assets</b>	<b>\$ 2,547,316</b>	<b>\$ 6,934,656</b>	<b>\$ 9,481,972</b>
<b>Total Liabilities &amp; Net Assets</b>	<b>\$ 4,342,690</b>	<b>\$ 8,394,998</b>	<b>\$ 12,737,688</b>

PLEASE SEE NOTES TO ACCOMPANY FINANCIAL STATEMENTS



MUSKOGEE CITY-COUNTY PORT AUTHORITY  
MUSKOGEE, OKLAHOMA  
STATEMENT OF ACTIVITIES  
For The Year Ended  
June 30, 2012

	Program Revenues		
	Expenses	Charges for Services	Net (Expense) Revenue
<b>Governmental Activities</b>			
General Operations	\$ 505,157	\$ -	\$ (505,157)
Industrial Development	\$ 380,643	\$ 414,048	\$ 33,405
Interest on Long Term Debt	\$ 43,053	\$ -	\$ (43,053)
Total Governmental Activities	<u>\$ 928,853</u>	<u>\$ 414,048</u>	<u>\$ (514,805)</u>
<b>Business Type Activities</b>			
Port & Rail Activities	\$ 651,267	\$ 1,818,552	\$ 1,167,285
Interest on Long Term Debt	\$ 43,392	\$ -	\$ (43,392)
Total Business Activities	<u>\$ 694,659</u>	<u>\$ 1,818,552</u>	<u>\$ 1,123,893</u>

<b>Governmental Activities</b>		<b>Business Type Activities</b>	
Net Expenses over Revenues	\$ (514,805)	Net Revenues over Expenses	\$ 1,123,893
Transfer To/From Other Funds	\$ 912,111	Transfer To/From Other Funds	\$ (912,111)
Prior Period Adjustments	\$ -	Prior Period Adjustments	\$ (15,386)
Unrestricted Investment Earnings	\$ 3,651	Unrestricted Investment Earnings	\$ -
Miscellaneous Other Income	\$ 2,268	Miscellaneous Other Income	\$ (3)
Changes in Net Assets	<u>\$ 403,225</u>	Changes in Net Assets	<u>\$ 196,393</u>
Net Assets - Beginning	\$ 2,144,091	Net Assets - Beginning	\$ 6,738,263
Net Assets - Ending	<u>\$ 2,547,316</u>	Net Assets - Ending	<u>\$ 6,934,656</u>

PLEASE SEE NOTES TO ACCOMPANY FINANCIAL STATEMENTS

## ***BASIC FINANCIAL STATEMENTS***

MUSKOGEE CITY-COUNTY PORT AUTHORITY  
STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCE-GOVERNMENTAL FUNDS  
As of June 30, 2012

<b><u>Assets</u></b>	
Current Assets	
Cash and Cash Equivalents	\$ 702,453
Investments	\$ 100,462
Accounts Receivable	\$ 6,420
Prepays	\$ 33,176
Total Current Assets	<u>\$ 842,511</u>
Restricted Assets	
Cash	\$ -
Total Restricted Assets	<u>\$ -</u>
Total Assets	<u><u>\$ 842,511</u></u>
<b><u>Liabilities</u></b>	
Current Liabilities	
Current Portion Long Term Debt	\$ 82,615
Accounts Payable	\$ -
Refundable Deposits	\$ 500
Liabilities Payable from Restricted Funds	\$ -
Total Current Liabilities	<u>\$ 83,115</u>
Long Term Liabilities	
Long Term Debt	\$ 1,712,259
Total Long Term Liabilities	<u>\$ 1,712,259</u>
Total Liabilities	\$ 1,795,374
<b>Fund Balance</b>	
Assigned Fund Balance	\$ -
Unassigned Fund Balance	<u>\$ (952,863)</u>
Total Fund Balance	\$ (952,863)
Total Liabilities & Fund Balance	<u><u>\$ 842,511</u></u>

PLEASE SEE NOTES TO ACCOMPANY FINANCIAL STATEMENTS

MUSKOGEE CITY-COUNTY PORT AUTHORITY  
Reconciliation of Fund Balance to Net Assets  
Governmental Funds

Total liabilities & fund balance - governmental funds	\$ 842,511
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets net of accumulated depreciation are not financial resources and therefore are not reported in the funds	\$ 3,500,179
Total liabilities & net assets of governmental activities	<u>\$ 4,342,690</u>

PLEASE SEE NOTES TO ACCOMPANY FINANCIAL STATEMENTS

MUSKOGEE CITY-COUNTY PORT AUTHORITY  
MUSKOGEE, OKLAHOMA  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
For The Year Ended  
June 30, 2012

**Revenues**

Charges for Services	\$ -
Industrial Development Income	\$ 414,048
Investment Income	\$ 3,651
Miscellaneous Income	\$ 2,268
Total Revenues	<u>\$ 419,967</u>

**Expenditures**

General Government Expenses	\$ 505,157
Industrial Development Expenses	\$ 380,643
Capital Outlays	\$ 12,109
Capital Outlays-Construction in Progress	\$ -
Debt Service - Interest Expense	\$ 43,053
Debt Service-Principal	\$ 80,720
Total Expenses	<u>\$ 1,021,682</u>

Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ (601,715)</u>
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Other Financing Sources (Uses)	
Transfers From Other Funds	\$ 912,111
Bond Loan Proceeds	\$ -
<b>Total Other Financing Sources</b>	<u>\$ 912,111</u>

Net Change In Fund Balance	\$ 310,396
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**Net Changes in Fund Balances**

Fund Balances - Beginning	\$ 2,144,091
Add Reconciling Items (See page 8)	\$ 403,225
Fund Balances - Ending	<u>\$ 2,547,316</u>

PLEASE SEE NOTES TO ACCOMPANY FINANCIAL STATEMENTS

MUSKOGEE CITY-COUNTY PORT AUTHORITY

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities  
June 30, 2012

**Net Change in Governmental Fund Balances** \$ 310,396

Amounts reported in governmental activities in the statement of net assets are different because:

Prior period adjustments to depreciation of fixed assets

Repayment of bond principal is an expenditure in the governmental funds but the repayment reduces the long term liabilities in the statement of net assets \$ 80,720

Capital Outlays are cash expenditures in the governmental funds but the expenditures increase the fixed assets in the statement of fixed assets \$ 12,109

**Change in Net Assets of Governmental Activities** \$ 403,225

MUSKOGEE CITY-COUNTY PORT AUTHORITY  
STATEMENT OF NET ASSETS  
Proprietary Funds  
As of June 30, 2012

	Port Activity	Rail Activity	Grounds Maintenance	Total
<b><u>Assets</u></b>				
<b>Current Assets</b>				
Cash and Cash Equivalents	\$ -	\$ -	\$ -	\$ -
Investment	\$ -	\$ -	\$ -	\$ -
Accounts Receivable	\$ 64,833	\$ 141,088	\$ -	\$ 205,921
Prepays	\$ -	\$ -	\$ -	\$ -
<b>Total Current Assets</b>	<b>\$ 64,833</b>	<b>\$ 141,088</b>	<b>\$ -</b>	<b>\$ 205,921</b>
<b>Restricted Assets</b>				
Cash	\$ 70,459	\$ -	\$ -	\$ 70,459
Prepays	\$ 23,250	\$ -	\$ -	\$ 23,250
<b>Total Restricted Assets</b>	<b>\$ 93,709</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 93,709</b>
<b>Non-Current Assets</b>				
Land	\$ 5,709,258	\$ -	\$ -	\$ 5,709,258
Construction in Progress	\$ 366,209	\$ 31,932	\$ -	\$ 398,141
Property & Equipment	\$ 3,051,972	\$ 1,376,015	\$ 138,020	\$ 4,566,007
Accumulated Depreciation	\$ (1,593,449)	\$ (874,903)	\$ (109,686)	\$ (2,578,038)
<b>Total Fixed Assets</b>	<b>\$ 7,533,990</b>	<b>\$ 533,044</b>	<b>\$ 28,334</b>	<b>\$ 8,095,368</b>
<b>Total Assets</b>	<b>\$ 7,692,532</b>	<b>\$ 674,132</b>	<b>\$ 28,334</b>	<b>\$ 8,394,998</b>
<b><u>Liabilities</u></b>				
<b>Current Liabilities</b>				
Current Portion Long Term Debt	\$ 86,162	\$ 15,582	\$ -	\$ 101,744
Accounts Payable	\$ 1,050	\$ -	\$ -	\$ 1,050
Refundable Deposits	\$ -	\$ -	\$ -	\$ -
Prepaid Leases	\$ -	\$ -	\$ -	\$ -
<b>Total Current Liabilities</b>	<b>\$ 87,212</b>	<b>\$ 15,582</b>	<b>\$ -</b>	<b>\$ 102,794</b>
<b>Non-Current Liabilities</b>				
Accrued Interest	\$ 60,657	\$ -	\$ -	\$ 60,657
EDIF Loan-Dal Tile Railspur	\$ -	\$ 166,208	\$ -	\$ 166,208
Construction and Equipment Loans	\$ 1,130,683	\$ -	\$ -	\$ 1,130,683
<b>Total Long Term Liabilities</b>	<b>\$ 1,191,340</b>	<b>\$ 166,208</b>	<b>\$ -</b>	<b>\$ 1,357,548</b>
<b>Total Liabilities</b>	<b>\$ 1,278,552</b>	<b>\$ 181,790</b>	<b>\$ -</b>	<b>\$ 1,460,342</b>
<b><u>Net Assets</u></b>				
Assigned Fund Balance	\$ 10,000	\$ -	\$ -	\$ 10,000
Unassigned Fund Balance	\$ 6,403,980	\$ 492,342	\$ 28,334	\$ 6,924,656
<b>Total Net Assets</b>	<b>\$ 6,413,980</b>	<b>\$ 492,342</b>	<b>\$ 28,334</b>	<b>\$ 6,934,656</b>
<b>Total Liabilities &amp; Net Assets</b>	<b>\$ 7,692,532</b>	<b>\$ 674,132</b>	<b>\$ 28,334</b>	<b>\$ 8,394,998</b>

PLEASE SEE NOTES TO ACCOMPANY FINANCIAL STATEMENTS

MUSKOGEE CITY-COUNTY PORT AUTHORITY  
MUSKOGEE, OKLAHOMA  
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds  
Year Ended June 30, 2012

	<u>Port Activity</u>	<u>Rail Activity</u>	<u>Grounds Maintenance</u>	<u>TOTAL</u>
<b><u>Revenues</u></b>				
Lease Income	\$ 779,638	\$ -	\$ -	\$ 779,638
Port Fees (Rail & Barge)	\$ 189,077	\$ 825,964	\$ -	\$ 1,015,041
Other Operational Income (Rent, etc.)	\$ 23,873	\$ -	\$ -	\$ 23,873
Total Revenues	<u>\$ 992,588</u>	<u>\$ 825,964</u>	<u>\$ -</u>	<u>\$ 1,818,552</u>
<b><u>Operating Expenses</u></b>				
Abstracting, Engineering & Advisory Services	\$ 1,428	\$ -	\$ -	\$ 1,428
Advertising, Marketing & Port Promotion	\$ -	\$ -	\$ -	\$ -
Employee Training	\$ -	\$ -	\$ -	\$ -
Insurance-Employee & Liability	\$ 16,510	\$ 54,995	\$ 55,814	\$ 127,319
Miscellaneous Expense	\$ -	\$ -	\$ -	\$ -
Office Expense and Telephone	\$ -	\$ 1,284	\$ 1,682	\$ 2,966
Repairs and Maintenance	\$ 15,374	\$ 131,875	\$ 162,672	\$ 309,921
Salaries & Payroll Tax Expense	\$ -	\$ 67,155	\$ 89,136	\$ 156,291
Employee Pension Contribution	\$ -	\$ 6,281	\$ 6,714	\$ 12,995
Total Operating Expenses	<u>\$ 33,312</u>	<u>\$ 261,590</u>	<u>\$ 316,018</u>	<u>\$ 610,920</u>
Net Operating Income	\$ 959,276	\$ 564,374	\$ (316,018)	\$ 1,207,632
<b><u>Non-Operating Income</u></b>				
Interest Income	\$ -	\$ -	\$ -	\$ -
Other Income	\$ -	\$ -	\$ -	\$ -
Total Non-Operating Income	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b><u>Non-Operating Expenses</u></b>				
Depreciation and Amortization	\$ 1,000	\$ 35,975	\$ 3,372	\$ 40,347
Interest Expense	\$ 43,392	\$ -	\$ -	\$ 43,392
Total Non-Operating Expenses	<u>\$ 44,392</u>	<u>\$ 35,975</u>	<u>\$ 3,372</u>	<u>\$ 83,739</u>
Change in Net Assets	\$ 914,884	\$ 528,399	\$ (319,390)	\$ 1,123,893
Total Net Assets - Beginning				\$ 6,738,263
Reserve for Dolphin Repair				\$ 10,000
Prior Period Adjustments				\$ (15,386)
Rounding				\$ (3)
Less Transfers To/From Other Funds				\$ (912,111)
Total Net Assets - Ending				<u>\$ 6,944,656</u>

PLEASE SEE NOTES TO ACCOMPANY FINANCIAL STATEMENTS



MUSKOGEE CITY-COUNTY PORT AUTHORITY  
MUSKOGEE, OKLAHOMA  
Statement of Cash Flows - Proprietary Funds  
For Year Ended June 30, 2012

	Port Activity	Rail Activity	Grounds Maintenance
<b>Cash Flows from Operating Activities</b>			
Cash received from customers	\$ 992,588	\$ 825,964	\$ -
Cash payments to suppliers for goods and services	\$ (33,312)	\$ (188,154)	\$ (220,168)
Cash payments to and for employees		\$ (73,436)	\$ (95,850)
Net cash provided (used) by operating activities	<u>\$ 959,276</u>	<u>\$ 564,374</u>	<u>\$ (316,018)</u>
<b>Cash Flows From Non-Capital Financing Activities</b>			
Transfers from other funds	\$ -	\$ -	\$ 316,517
Transfers to other funds	\$ (614,967)	\$ (529,043)	\$ -
Net cash provided (used) by non-capital financing activities	<u>\$ (614,967)</u>	<u>\$ (529,043)</u>	<u>\$ 316,517</u>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Fixed Asset Purchases	\$ (287,945)	\$ -	\$ (499)
Increase in Accounts Receivable	\$ -	\$ (19,750)	\$ -
Decrease in Accounts Receivable	\$ 34,789	\$ -	\$ -
Prior Period Adjustment	\$ (15,386)	\$ -	\$ -
Decrease in Prepays	\$ 1,001	\$ -	\$ -
Increase in Liabilities	\$ -	\$ -	\$ -
Decrease in Liabilities	\$ (140,527)	\$ (15,581)	\$ -
Interest Expense	\$ (43,392)	\$ -	\$ -
Net cash provided (used) by capital and related financing activities	<u>\$ (451,460)</u>	<u>\$ (35,331)</u>	<u>\$ (499)</u>
<b>Cash Flows from Investing Activities</b>			
	\$ -	\$ -	\$ -
Net increase (decrease) in cash and cash equivalents	\$ (107,151)	\$ -	\$ -
Cash and cash equivalents at July 1, 2011	\$ 177,610	\$ -	\$ -
Cash and cash equivalents at June 30, 2012	<u>\$ 70,459</u>	<u>\$ -</u>	<u>\$ -</u>

PLEASE SEE NOTES TO ACCOMPANY FINANCIAL STATEMENTS

## **NOTES TO FINANCIAL STATEMENTS**

# MUSKOGEE CITY-COUNTY PORT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### REPORTING ENTITY

The Muskogee City-County Port Authority (hereinafter known as the "Authority") is an agency of the state of Oklahoma, created by ordinance of the City of Muskogee and by resolution of the Board of County Commissioners for Muskogee County, in accordance with the provisions of Title 82, Chapter 15, Sections 1101-1137 of the Oklahoma Statutes, as amended, for the purpose of exercising certain enumerated powers deemed to be essential governmental functions of the state of Oklahoma. As a public trust, the Authority is exempt from Federal and state income taxes.

The Authority provides for the operation, improvement and expansion of public and private facilities at the Port of Muskogee. Publicly owned facilities are financed from the Authority's operating revenues, grants and loans. Pursuant to a lease agreement between the Authority and Johnston's Port 33, Inc., Johnston performs truck, rail and barge loading and unloading operations at the publicly owned terminal at the Port of Muskogee. The Authority supports the development of privately owned facilities through long term leases and by the issuance of debt, in the form of industrial revenue bonds and notes, to industrial manufacturing and other port related enterprises. Title to facilities acquired remains with the Authority until the related debt is retired and then passes to the lessee at a nominal cost. The constructed facilities are pledged as security for the related obligations and are leased to users for periods of up to twenty-five years.

The Authority is a jointly governed entity administered by a Board of Trustees ("Board") that acts as the authoritative and legislative body of the entity. The Board is comprised of thirteen voting board members. Of the thirteen, seven are appointed by Muskogee County (County Commissioners). These appointees serve four year terms and are eligible to be re-appointed to one additional term. The remaining six board members are appointed by the City of Muskogee (Muskogee City Council). These appointees serve four year terms and are not eligible to be re-appointed. No board members receive compensation for serving on the Board.

The Board of Trustees annually elects the Chair(person), Vice-Chair(person), and Secretary-Treasurer from existing board members. These terms of office are for one year beginning each July 1<sup>st</sup> and the positions are eligible for re-election. The Chair responsibilities are to preside at all meetings of the Board; be the chief officer of the Authority; perform all duties commonly incident to the position of presiding officer of a board, commission or business organization and exercise supervision over the business of the Authority, its officers and employees.

The Board of Trustees appoints a Director of the Authority. The position of the Director is a non voting position on the Board, and the Director receives annual compensation for his duties. The compensation package of the Director is passed by resolution of the Board. The Director's main responsibility is acting as chief executive officer of the Authority as prescribed by the Board of Trustees.

The Authority has a contract with the City of Muskogee to oversee the management and direction of economic development for the city. Under the contract the Authority is reimbursed for its expenses related to this activity and a budget of \$400,000 was established and approved by the City Council. The Authority oversees the economic development from the pre-existing economic development office.

The accompanying general purpose financial statements comply with the provisions of GASB Statement No. 14, "*The Financial Reporting Entity*", in that the financial statements include all organizations, activities, and functions that comprise the Authority. Component units are legally separate entities for which the Authority (the primary entity) is financially accountable. Financial accountability is defined as the ability to appoint a voting majority of the organization's governing body and either (1) the Authority's ability to impose its will over the organization or (2) the potential that the organization will provide a financial benefit to, or impose a financial burden on, the Authority. Using these criteria, the Authority has no component units.

#### GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as *general revenues*. Major individual governmental funds are reported as separate columns in the fund financial statements.

#### MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available as they are collected within thirty-one days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Grants and entitlements and interest associated with the current fiscal period are all considered being susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available only when the Authority receives cash.

#### FUND ACCOUNTING

The Authority uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The Authority only uses governmental funds.

#### GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental funds reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental funds assets and liabilities is reported as fund balance.

The Authority reports the following major governmental funds;

General Fund – The general fund is used to account for all financial resources of the Authority except those required to be accounted for in another fund. The general fund balance is available to the Authority for any purpose provided it is expended or transferred according to the general laws of Oklahoma.

Debt Service Fund – The debt service fund accounts for the servicing of general long-term debt and revenues generated by the Authority that are required to be used in payment of longterm debt.

Construction In Progress – Construction in progress fund accounts for construction projects not completed. These include Three Forks Harbor, Port Place road improvements, and improvements at the Port of Muskogee Riverside Industrial Park.

#### REVENUES – EXCHANGE AND NON-EXCHANGE TRANSACTIONS

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Authority, available means expected to be received within thirty-one days of fiscal year-end. Under the modified accrual basis, only interest is considered to be both measurable and available at fiscal year-end. This interest is not considered to be material to the financial statements taken as a whole and has not been recorded.

Non-exchange transactions, in which the Authority receives value without directly giving value in return, include grants and donations. On an accrual basis, revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year the use is first permitted, matching requirements, in which the Authority must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the Authority on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must be available before it can be recognized.

#### EXPENSES/EXPENDITURES

On an accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable.

#### CASH AND CASH EQUIVALENTS

Cash received by the Authority is pooled for investment purposes. Equity interest in the pool is presented as “Cash and Cash Equivalents” on the statement of net assets and governmental fund balance sheet by activity or fund. The Authority utilizes a financial institution to service bonded debt as principal and interest payments come due. The balance in this account is presented on the financial statements as “Restricted Assets:Cash”

During fiscal year 2011-2012, investments were limited to Certificates of Deposit. Interest revenue is credited to the general fund. For presentation in the financial statements, investments with an original maturity of three months or less at the time they are purchased by the Authority are considered to be cash equivalents. Investments with an original maturity of more than three months that are purchased from the pool are reported as investments.

## RESTRICTED ASSETS

Restricted assets are cash and cash equivalents whose use is limited by legal requirements. Restricted cash represents amounts required by debt covenant to be segregated for final year debt payment and accrued interest on bonds. Restricted cash and cash equivalents represents special assessment proceeds restricted for the 1999 and 2005 County Bond Fund.

## CAPITAL ASSETS

General capital assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements as needed. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not.

## COMPENSATED ABSENCES

The Authority does not accrue compensatory time on exempt employees. Sick time must be used in the year earned. Vacation time must be used in the year earned however the Authority reserves the right to purchase any unused vacation time on an annual basis.

## RESERVATIONS OF FUND BALANCE

The Authority records reservations for portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and therefore, are not available for appropriations or expenditure in the governmental fund balance sheet. Unreserved fund balance indicates that portion of fund equity, which is available for appropriations, in future periods. Fund equity reserves have been established for encumbrances in the Port and Rail fund.

## NET ASSETS

Net assets present the difference between assets and liabilities in the statement of net assets. Net assets invested in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets (construction in progress). Net assets are reported as restricted when there are legal limitations imposed on their use by Authority legislation or external restrictions by credits, grantor, laws or regulations of other governments.

## USE OF ESTIMATES

The Authority recognizes the use of estimates in determining certain financial statement disclosures such as useful lives of assets, bad debts related to accounts receivable and accounts payable. The Authority has adopted a financial reporting policy of conservatism where it relates to the use of estimates. Actual results may differ from those estimates.

## DEFERRED REVENUES

The Authority reports unearned deferred revenue in the governmental fund balance sheet. Deferred and unearned revenue arises when potential revenue does not meet both the measurable and available criteria for recognition in the current period. In general, monies received within thirty-one days after year-end are considered to have been for prior year services.

## NOTE 2 - DEPOSITS

Cash resources of several individual funds are combined to form a pool of cash and investments. Statutes require the classification of funds held by the Authority into three categories.

Category 1 consists of active funds—those funds required to be kept in cash or near cash status for immediate use by the Authority. Such funds must be maintained either as cash in the Authority treasury or in depository accounts payable or withdraw-able on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of inactive funds—those funds not required for use within the current two year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing no later than the end of the current period of designation of depositories.

Category 3 consists of interim funds—those funds not needed for immediate use, but needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
- Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- Interim deposits in eligible institutions applying for interim funds;
- Bonds or other obligations of the State of Oklahoma;
- No-loan money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
- Certain banker's acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twentyfive percent of the interim monies available for investment at any one time, and,
- Under limited circumstances, corporate debt obligations rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited, the issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited, an investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Authority, and must be purchased with the expectation it will be held to maturity.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, *“Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements.”*

### UNRESTRICTED CASH

The Port maintains an operating checking account and project accounts at Firststar Bank. The project accounts consist of Three Forks Harbor Development and Waterway Development. With the exception of petty cash, the Federal Deposit Insurance Corporation insures all accounts. Account balances over Federal Deposit Insurance Corporation limits are uncollateralized through an agreement with the Authority. The fair value of the balances equals their reported amounts. \$250,000 of the deposits were classified as Category 1, collateralized, as defined by GASB Statement 3. The balance of the deposits and petty cash were reclassified as Category 2, as defined by GASB Statement 3. At year-end the respective balances were as follows:

OPERATIONS ACCOUNT	\$676,341
3 FORKS HARBOR PROJECT	4
WATERWAY DEVELOPMENT	196
PETTY CASH	100
EDA FUND ACCOUNT	22
INDUSTRIAL DEVELOPMENT	<u>25,790</u>
TOTAL	\$702,453

### NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable reflect the current (60 days or less) amounts owed for tommage, lease rents, port fee, rail operations and other reimbursable project expenditures for the period ended June 30, 2012. There is no provision for doubtful accounts or bad debts as there has been no historical evidence of significant problems arising from accounts receivable collection. Account balances over 90 days are approximately \$10,311.

### NOTE 4 - RESTRICTED ASSETS

The organization recognizes the restriction of funds for debt retirement, specific repairs and capital improvements. Please refer to those notes under Restricted Assets for specific details regarding long-term debt and sinking fund retirement requirement. The following accounts are combined under the heading Restricted Assets, Cash:

<u>OWNER</u>	<u>TYPE</u>	<u>INSTITUTION</u>	<u>RATE</u>	<u>AMOUNT</u>
PORT	SINKING FUND	Firststar Bank	VARIABLE	<u>\$70,459</u>
TOTAL				<u>\$70,459</u>

### NOTE 5 - FIXED ASSETS

Property, plant and equipment are recorded at historical cost and depreciation is recognized over the estimated useful life of the assets utilizing the conservative straightline depreciation method. A summary of property, plant and equipment useful lives is as follows:

<u>ASSET</u>	<u>AVERAGE LIFE</u>
PORT FACILITIES	40 YEARS
CONFERENCE ROOM & OFFICE	20 YEARS
RAIL OPERATIONS EQUIPMENT	10 YEARS
THREE FORKS HARBOR	50 YEARS



**NOTE 6 - OTHER ASSETS**

On May 14, 1985, the Authority entered into an agreement with the Cherokee Nation for a fiftyyear river bed lease in the amount of \$50,000 in retrospect to an injunction granted in 1983, with the lease payment to be amortized over the life of the lease. Amortization for the year ended June 30, 2012, was \$1,000.

**NOTE 7 - CURRENT LIABILITIES**

Current liabilities include liabilities due within the current accounting period. These liabilities include trade accounts payable, accrued payroll taxes and short term portion of notes payable.

**NOTE 8 - LONG TERM LIABILITIES**

During a prior fiscal year, the Authority authorized the issuance of a \$1.5 million note to facilitate the construction and equipping of facilities located at the Port of Muskogee. Subsequently the Oklahoma Development Finance Authority purchased the note. The note carries an adjustable interest rate of prime less 1%. This rate is changed annually in December. During the current fiscal year the rate began at 2.25% and was not adjusted as of June 30, 2012. The loan is amortized over twenty five years with monthly payments that are also adjusted annually. The note is secured by revenues generated by the Authority. Amortization of the note began in November 2003.

During a prior fiscal year the Authority entered into a grant/loan program with the Department of Housing and Urban Development-EDIF program to aid in the construction of the new railspur at Dal Tile Company. In accordance with the terms of the program, the Authority borrowed \$311,638.50 for the construction project. The loan is non-interest bearing. Monthly re-payments began in February 2004, and will continue for 240 months until the loan is retired. The balance of economic payback number 10312 at June 30, 2012 is \$181,789.50.

During a prior fiscal year the organization secured county bonds funds for Paragon Industries. Under the terms of the agreement, the Authority acts as an agent for Paragon in the repayment of the debt. Paragon makes its monthly debt obligation payment to the Authority. Subsequently the Authority remits the sinking fund obligation amount to the county. The balance at June 30, 2011, represents monies held by the Authority pending payment to the county.

During the fiscal year ended June 30, 2006, the Authority authorized and was issued a General Obligation Long Term Bond from the County of Muskogee in the amount of \$985,000 to construct improvements and to purchase machinery and equipment for the benefit of Klutts Equipment. Unlike the Paragon Industries bonds, the indebtedness was a limited and special obligation of the Authority payable solely from the receipts and revenues received from the Lessor, under the Lease dated October 1, 2005. In consideration of the Authority's future expansion, Klutts deeded its property to the Authority and subsequently entered into a long term lease, the terms of which were to assure the re-payment of the debt. The loan is amortized over 15 years which is the same length as the lease agreement. The company closed its doors during the fiscal year 2010-11 and on June 6, 2011, the Authority was awarded a judgment against Klutts Equipments in the amount of \$783,708.64. The Authority considers this judgment worthless in that there are no assets which could be liquidated in order to satisfy it.

The Authority borrowed \$119,093.41 from the Oklahoma Department of Commerce, Community Development Block Grant Fund for road improvements that benefit Klutts Equipment and the future development of the Port of Muskogee Riverside Industrial Park. This is a non-interest bearing note with monthly re-payment beginning in November, 2006 and continuing for 240 months. The balance of economic payback number 11990 at June 30, 2012 is \$85,354.45.

During the fiscal year ended June 30, 2006, the Authority borrowed \$196,783.02 to facilitate road improvements to Beach Equipment. These funds were secured from the Oklahoma Department of Commerce Community Development Grant Fund. This is a non-interest bearing note with monthly payments beginning in July, 2006 and continuing for 240 months. The balance of economic payback number 11616 at June 30, 2012 is \$137,748.06.

In March, 2008, the Authority borrowed \$750,000 from the Oklahoma Industrial Finance Authority. The purpose of the loan was to escrow the possible loss claim from the original contractor on the Three Forks Harbor project. The initial interest rate of this loan was 4.25% and monthly installment payments began May 1, 2008. The interest rate is subject to change annually. The interest rate effective June 1, 2012 was 2.5%.

During the fiscal year ended June 30, 2008, the Authority entered into an agreement with the Muskogee Industrial Trust wherein the Authority was granted a credit line loan of up to \$500,000 for the purpose of purchasing real estate within the Port site. Advances on the note have totaled \$424,816.76 to date. This note accrues interest at the rate of 4% and both interest and principle are due and payable April 17, 2017.

#### **NOTE 9 - FUND BALANCE**

The trustees of the organization have established a reserve for dock face repairs in the amount of \$10,000.

#### **NOTE 10 - LEASE INCOME-PORT FEES-MISCELLANEOUS INCOME**

Lease income is derived from lease contracts of Port facilities. Port fees consist of tonnage assessments and contract switching fees from the Union Pacific Railroad. Other operational income consists of recurring rentals from pasture and residence.

#### **NOTE 11 - OTHER ITEMS**

- During the latter months of calendar year 1993, the Port authorized the purchase of life insurance policies on the Port director with premiums to be paid by the Port. This is not considered a qualified pension plan.
- No provision for accrued vacation or sick leave have been recorded in these financial statements as the amounts are not material to the financial statements taken as a whole.
- During the fiscal year ended June 30, 1998, the Port Authority entered into aggressive planning for Three Forks Harbor along the Arkansas River. The property site is located on federally owned property and leased to the Authority by the U. S. Army Corps of Engineers. Construction improvements are permitted by the U. S. Army Corps of Engineers. The project is progressing in phases. Total first phase project costs were initially estimated to be \$5,386,015. Funding for the project has been secured through local, state and federal grants. Construction began on Phase I on March 11, 2003. Phase I was completed April 19, 2006. Phase II construction commenced during the fiscal year ending June 30, 2006, and were completed in the first quarter of 2009.
- During a prior fiscal year, the City of Muskogee committed to financially aid in the construction of the Dal Tile Railspur. The commitment consisted of a one-time payment to the Authority in the amount of \$214,286.68, which represents the discounted value of the Department of Housing and Urban Development-EDIF loan over 240 periods at 4% interest. The City did not specify restrictions or conditions related to the funding and it was recorded as Aid to Construction-Dal Tile Railspur.

**NOTE 12 - RISK POOL**

The Port Authority utilizes workman's compensation insurance through the state of Oklahoma workman's compensation fund. This is a public entity risk pool. Participants share in the cost of maintaining the fund and claims against the fund. As such, the Port Authority could be at risk should the fund incur adverse conditions. Presently there is no reason to believe the risk pool will create a contingency beyond premium costs to the Port Authority and therefore no contingency has been recorded

**NOTE 13 - POSTEMPLOYMENT BENEFITS PLANS**

The Authority maintains a qualified profit sharing plan for eligible employees. Annually the board of trustees determines the percentage of each key employee's wages that the Authority will contribute to the plan. During fiscal year ended June 30, 2012, the board authorized a contribution of twelve percent of all eligible employee's wages.

**NOTE 14 - RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to torts, damage to, and theft or destruction of assets; errors and omissions; injuries to employees and natural disaster. The Authority carries insurance for liability, property, and crime damage. Coverages provided are as follows:

- Business Auto Coverage Liability
- Umbrella Liability
- Commercial General Liability
- Public Officials and Employment Practices Liability
- Employee Dishonesty
- Commercial Property
- Equipment Floaters
- Rail Insurance
- Marine Package

The Authority has had no significant reduction in insurance coverage from prior years. The Authority has had no settlements that exceed insurance coverage for the past five years.

The Authority provides group health insurance for its employees. Each electing employee must pay ten percent of the first \$800 of monthly premium and 100% of any premium amount that exceeds \$800. Employees must also pay 100% of any premium for dependents.

## **OTHER REPORTS**

**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**

Muskogee City-County Port Authority

We have audited the financial statements of the governmental activities and the business-type activities of Muskogee City-County Port Authority, (hereinafter referred to as the "Authority"), as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated October 2, 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 Authority is responsible for establishing and maintaining effective 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 opinions 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.

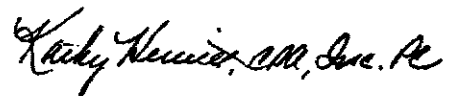
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, 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 would not necessarily 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 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 management, the appointed board members within the entity, regulatory bodies within the state of Oklahoma, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Kathy Hewitt, CPA, Inc. PC". The signature is written in a cursive style.

Kathy Hewitt CPA, Inc., PC  
October 2, 2012

**KATHY HEWITT, CPA, INC., P.C.**

Certified Public Accountant

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web: kathyhewittcpa.com • email: khewitt@hewittcpainc.com

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Muskogee City-County Port Authority

**Compliance**

We have audited the Muskogee City-County Port Authority's (hereinafter referred to as the "Authority") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2012. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

**Internal Control Over Compliance**

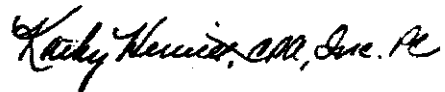
Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent

or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the appointed board members, others within the entity, regulatory bodies within the state of Oklahoma, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Kathy Hewitt, CPA, Inc., PC  
Muskogee, OK  
October 2, 2012



## **SUPPLEMENTARY INFORMATION**

Muskogee City-County Port Authority  
 Schedule of Federal Awards  
 For the Year Ended June 30, 2012

<u>U. S. DEPARTMENT OF COMMERCE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
Direct Programs:		
ECONOMIC DEVELOPMENT ADMINISTRATION		
Economic Adjustment/Disaster Appropriation	11.307	\$ 867,994.64
Program - Construction of Port improvements		

**Note 1 - Basis of Presentation**

The accompanying schedule of expenditures of federal awards included the federal grant activity of the Muskogee City-County Port Authority and is presented on the modified cash basis of accounting. (Expenditures are recognized when the liability is incurred, if payable out of current available financial resources.) the information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

**Note 2 - Recovery Act Awards**

The Catalogue of Federal Domestic Assistance (CFDA) website indicates CFDA # 11.307 includes Recovery Act funds however the Economic Development Administration has provided written notice to the grant administrator that this specific grant does not include Recovery Act funds.

MUSKOGEE CITY-COUNTY PORT AUTHORITY  
MUSKOGEE, OKLAHOMA  
STATEMENT OF REVENUES AND EXPENSES TO BUDGET  
Year End June 30, 2012

	<u>June 30, 2012</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>VARIANCE</u>
<b><u>Revenues</u></b>				
Lease Income	\$ 779,638	\$ 515,822	\$ 515,822	\$ 263,816
Port Fees (Rail and Barge)	\$ 1,015,041	\$ 938,358	\$ 938,358	\$ 76,683
Industrial Development	\$ 414,048	\$ 400,000	\$ 400,000	\$ 14,048
Other Operational Income (Rent, etc)	\$ 26,141	\$ 3,000	\$ 3,000	\$ 23,141
Total Revenues	<u>\$ 2,234,868</u>	<u>\$ 1,857,180</u>	<u>\$ 1,857,180</u>	<u>\$ 377,688</u>
<b><u>Operating Expenses</u></b>				
Abstracting, Engineering & Advisory services	\$ 1,428	\$ 2,500	\$ 2,500	\$ 1,072
Accounting, Auditing & Legal	\$ 21,987	\$ 17,000	\$ 17,000	\$ (4,987)
Marketing & Business Development	\$ 123,574	\$ 103,000	\$ 103,000	\$ (20,574)
Employee Training	\$ 2,723	\$ 2,500	\$ 2,500	\$ (223)
Dues & Subscriptions	\$ 8,389	\$ 5,346	\$ 5,346	\$ (3,043)
Insurance-Employee & Liability	\$ 188,382	\$ 173,569	\$ 173,569	\$ (14,813)
Miscellaneous Expense	\$ 108	\$ 500	\$ 500	\$ 392
Office Expense & Telephone	\$ 49,978	\$ 89,896	\$ 89,896	\$ 39,918
Repairs & Maintenance	\$ 329,097	\$ 232,500	\$ 232,500	\$ (96,597)
Salaries & Payroll Tax Expense	\$ 501,923	\$ 523,400	\$ 523,400	\$ 21,477
Staffing & Recruitment	\$ 10,383	\$ -	\$ -	\$ (10,383)
Travel	\$ 24,379	\$ 10,000	\$ 10,000	\$ (14,379)
Employee Pension Contribution	\$ 65,409	\$ 42,676	\$ 42,676	\$ (22,733)
Total Operating Expenses	<u>\$ 1,327,760</u>	<u>\$ 1,202,887</u>	<u>\$ 1,202,887</u>	<u>\$ (124,873)</u>
Net Operating Income Before Non-Operating Items	\$ 907,108	\$ 654,293	\$ 654,293	\$ 252,815
<b><u>Non-Operating Income</u></b>				
Interest Income	\$ 3,651	\$ -	\$ -	\$ 3,651
Total Non-Operating Income	<u>\$ 3,651</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,651</u>
<b><u>Non-Operating Expenses</u></b>				
Depreciation & Amortization	\$ 209,307	\$ 209,307	\$ 209,307	\$ -
Interest on Bonds and Notes Payable	\$ 86,445	\$ 69,591	\$ 69,591	\$ (16,854)
Total Non-Operating Expenses	<u>\$ 295,752</u>	<u>\$ 278,898</u>	<u>\$ 278,898</u>	<u>\$ (16,854)</u>
Net Income After Non-Operating Items	<u>\$ 615,007</u>	<u>\$ 375,395</u>	<u>\$ 375,395</u>	<u>\$ 239,612</u>

PLEASE SEE NOTES TO ACCOMPANY FINANCIAL STATEMENTS