

Cleveland County Industrial Authority

Financial Statements

October 31, 2009

Cleveland County Industrial Authority
Financial Statements
For the Fiscal Year Ended October 31, 2009

TABLE OF CONTENTS

	Page
FINANCIAL SECTION	
Independent Auditor's Report	1
Basic Financial Statements:	
Statement of Net Assets	3
Statement of Revenues, Expenses and Changes in Net Assets.....	4
Statement of Cash Flows	5
Notes to the Financial Statements.....	6
REPORT ON COMPLIANCE AND INTERNAL CONTROL	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	12



INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Cleveland County Industrial Authority
Norman, Oklahoma

We have audited the accompanying basic financial statements of Cleveland County Industrial Authority (a public trust and agency of the State of Oklahoma, a component unit of Cleveland County, Oklahoma) as of and for the year ended October 31, 2009 as listed in the table of contents. These financial statements are the responsibility of the Cleveland County Industrial Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Cleveland County Industrial Authority, as of October 31, 2009, and its changes in net assets, and its cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued our report dated May 7, 2018, on our consideration of Cleveland County Industrial Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management has omitted Management's Discussion and Analysis that governmental 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 part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Mary E Johnson & Associates PLLC

Ardmore, Oklahoma
May 7, 2018

Cleveland County Industrial Authority
Statement of Net Assets
October 31, 2009

ASSETS

Current Assets

Cash and cash equivalent	\$ 20,095
Accounts receivable	18,363
Total current assets	38,458

Noncurrent assets

Restricted assets

Investments	956,278
Assessment receivable	4,557,932
Deferred bond issuance costs net of accumulated amortization	161,734

Total restricted assets	5,675,944
-------------------------	-----------

Total assets	\$ 5,714,402
--------------	--------------

LIABILITIES

Current liabilities

Accrued interest payable	\$ 132,664
Current maturities of bonds payable	370,000
Current portion of unearned income	266,803

Total current liabilities	770,907
---------------------------	---------

Noncurrent liabilities

Unearned Income less current portion	1,283,320
Bonds payable less current maturities	3,535,028

Total noncurrent liabilities	4,818,348
------------------------------	-----------

Total liabilities	5,589,255
-------------------	-----------

NET ASSETS

Expendable

Restricted for bond program	87,964
Unrestricted	37,183

Total net assets	125,147
------------------	---------

Total liabilities and net assets	\$ 5,714,402
----------------------------------	--------------

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

Cleveland County Industrial Authority
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended October 31, 2009

Operating revenues		
Participation fees		<u>\$ 305,127</u>
Operating expenses		
Interest expense on bonds	325,502	
Bond issuance costs	10,683	
Professional fees	<u>1,440</u>	
Total operating expenses		<u>337,625</u>
Operating (Loss)		<u>(32,498)</u>
Nonoperating revenues (expenses)		
Investment return	(899)	
Investment fees	<u>(146)</u>	
		<u>(1,045)</u>
Change in Net Assets		(33,543)
Net Assets, Beginning of Year		<u>158,690</u>
Net Assets, End of Year		<u><u>\$ 125,147</u></u>

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

Cleveland County Industrial Authority
Statement of Cash Flows
For the Year Ended October 31, 2009

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts of Fees	\$ -
Payments to Vendors for administrative costs	-
Net Cash Provided by Operating Activities	<u>-</u>
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Principal paid on noncapital debt	(350,000)
Interest paid on noncapital debt	(333,002)
Receipt of Fees	664,940
Net Cash Used by Noncapital Financing Activities	<u>(18,062)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Receipt of interest on investments	293
Payment of trustee fees	(146)
Sale of investments	18,045
Net Cash Provided by Investing Activities	<u>18,192</u>
 Net Increase in Cash and Cash Equivalents	 130
 Cash and Cash Equivalents, Beginning of Year	 <u>19,965</u>
Cash and Cash Equivalents, End of Year	<u>\$ 20,095</u>
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating (Loss)	\$ (32,498)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Bond Program Revenue and Expenses	31,058
Change in amounts accounts payable	<u>1,440</u>
 Net Cash Used by Operating Activities	 <u>\$ -</u>

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

Cleveland County Industrial Authority
Notes to Financial Statements
October 31, 2009

NOTE 1 - NATURE OF OPERATIONS

The Cleveland County Industrial Authority (the Authority) is a public trust and agency of the State of Oklahoma. It was created by a Trust Indenture dated October 20, 1975, (the "Trust Indenture") for the furtherance of public purposes and the benefit of Cleveland County, Oklahoma (Beneficiary), pursuant to the provisions of Title 60, Oklahoma Statutes 2001, Section 176 et seq., as amended (the "Public Trust Act"), Title 60, Oklahoma Statutes 2001, Section 175.1 et seq. as amended (the "Oklahoma Trust Act") and other applicable statutes and laws of the State of Oklahoma.

The Authority by virtue of common control and dependence is a component unit of Cleveland County, Oklahoma. The Trustees of this Trust shall be duly elected Commissioners of Cleveland County and their successors in office. Each successor in office shall without any further act, deed or conveyance, automatically becomes a Trustee of this trust, as set forth in the Trust Indenture. The financial activities of Cleveland County and its other component units are not included in the financial statements of the Authority.

This Trust shall have duration for the term of duration of the beneficiary and until such time as its purposes shall have been fully fulfilled or until it shall be terminated as provided by the Trust Indenture.

Purposes of the Trust

To promote, develop and finance projects or facilities relating to the development of public works and industry and to provide community facilities which will benefit the County, including but not limited to medical and housing projects.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Government Accounting Standards Board (GASB). Pursuant to the Authority's bond obligation resolutions, separate funds are established by each trustee bank to record all transactions relating to the Authority's programs financed under each resolution. Within each fund, there is a group of accounts required by the respective resolutions.

Basis of Accounting

As a financing authority for Cleveland County, the Authority may use enterprise fund accounting and financial reporting as allowed by GASB 34. Thus the Authority uses the proprietary fund type to account for its activities.

Cleveland County Industrial Authority
Notes to Financial Statements
October 31, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The proprietary fund type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the statement of net assets. Proprietary fund operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in total net assets. The accrual basis of accounting is utilized by the proprietary fund. Under this basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Use of Estimates

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

Cash and Cash Equivalents

The Authority has defined cash and cash equivalents to include demand deposits, and highly liquid investments with original maturities of three months or less. Cash held with trustees is treated as investments.

Investments

The investments within the bond programs are generally restricted by the various bond resolutions as to authorized investments. Authorized investments include cash, obligations of the U.S. government, agency or instrumentality that are backed by the full faith and credit of the U.S., Certificates of deposit of any bank whose short-term debt obligations are rated A-1 by S&P or P-1 by Moody's and mature no more than 360 days after purchase, money market funds rated AAAM or AAM-G by S&P. Short-term investments are held in guaranteed investment contracts or money market accounts collateralized by government securities. These short-term investments are reported at cost, which approximates market values as allowed by GASB Statement 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools."

Fixed income investments are reported at fair value as determined by trustee bank based on published market data for publicly traded securities. Security transactions and any resulting gains or losses are accounted for by the specific identification method on a trade date basis.

Cleveland County Industrial Authority
Notes to Financial Statements
October 31, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Bond Premium, Discount and Issuance Costs

Bond premiums, and discounts are deferred and amortized over the life of the bonds using the effective interest method. Issuance costs associated with bond issues are being amortized over the life of the bonds using the straight-line method.

Restrictions of Net Assets

The use of assets of each bond program fund is restricted by the related bond resolution. Certain amounts in the program funds are considered subject to the restriction that they may be applied to the financing of the specific project or to the retirement of obligations issued for such purposes. When the Authority incurs an expense for which it may use either restricted or unrestricted net assets, it uses restricted net assets first.

Operating and Non-operating Revenues

Proprietary fund operating revenues result from exchange transactions related to the operations. Exchange transactions are those in which each party receives and gives up essentially equal values. The Authority also reports pledged sales tax revenues from Cleveland County, Oklahoma as operating revenues. Operating expenses includes costs of operations of the project, contractual services and depreciation expense. Non-operating revenue and expenses are investment income, interest paid on debt, and amortization of debt issuance costs.

NOTE 3 - CASH AND INVESTMENTS

Custodial Credit Risk

For deposits, custodial credit risk is the risk that in the event of a bank failure, The Authority's deposits may not be returned to it. The Authority does not have a policy for custodial credit risk but follows state and local laws. The Authority was not exposed to custodial credit risk as of October 31, 2009.

As of October 31, 2009, \$956,278 cash restricted for bonds consists of money market mutual funds held at trustee banks. These funds are classified as investments for purposes of GASB Statement 40 Deposit and Investment Risk Disclosure requirements and therefore are not subject to custodial credit risk. For presentation on the statement of net assets, these funds are classified as investments. Additionally, these amounts are not insured by the FDIC and are not obligations of or guaranteed by the trustee bank.

Cleveland County Industrial Authority
Notes to Financial Statements
October 31, 2009

NOTE 3 - CASH AND INVESTMENTS

For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The Authority's investments are concentrated in money market mutual funds and guarantee investment contracts held by trustee banks that are not evidenced by securities; therefore they are not subject to custodial credit risk.

Investment Credit Risk

The credit quality rating for the money market mutual funds was AAAM by S&P and Aaa by Moody's

Concentration of Investment Credit Risk

The Authority places no limit on the amount that may be invested in one issuer. The Authority's investment are concentrated in money market mutual funds and guarantee investment contracts held by trustee banks that are not evidenced by securities; therefore they are not subject to custodial credit risk..

Investment Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will reduce the fair value of a government's investments. The longer the period until an investment matures, the greater the negative impact that changes in interest rates can have on fair value. The Authority does not have a policy to manage exposure. The Authority's investment in short-term money market mutual funds, and guaranteed investment contracts is structured to meet cash requirements for construction, thereby avoiding the need to sell securities on the open market prior to maturity.

The fair value of investments as of October 31, 2009 is as follows:

	Maturity	Fair Market Value
Money Market Mutual Funds	<12 Months	\$ 956,278
		<u>\$ 956,278</u>

NOTE 4 - BONDS PAYABLE

The bonds are special limited obligation of the Authority, payable solely from and secured by (a) pledge of certain rights of the Issuer under and pursuant to the Mortgage and Loan Agreement dated as of December 1, 2004, between the Authority and Vaughan Foods, Inc. (the Company); (b) a pledge of the funds and pledged revenues other than the Rebate Fund, as defined in the Indenture; (c) an assignment of the Authority's mortgage on the property of the Company including personal property and equipment and the Authority's security interest in the pledged revenues of the

Cleveland County Industrial Authority
Notes to Financial Statements
October 31, 2009

Company, the personal guaranty of Mark Vaughan, as an individual; and benefits payable under a key-man life insurance policy in the amount of \$1,000,000 on the life of Mark Vaughan.

The total interest paid for the year ended October 31, 2009 was \$325,502 . Bonds and notes payable as of October 31, 2009, and changes for the fiscal year then ended are as follows:

Revenue Bonds	Issued	Interest Rate	Maturity	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due in One Year
Vaughan Foods Inc.	12/1/2004	6.75%	12/1/2012	\$ 2,000,000	\$ -	\$ 350,000	\$ 1,650,000	\$ 370,000
Vaughan Foods Inc.	12/1/2004	7.10%	12/1/2024	2,365,000	-	-	2,365,000	-
				4,365,000	-	350,000	4,015,000	\$ 370,000
less deferred bond discount and premium				(113,737)	-	(3,765)	(109,972)	
				<u>\$ 4,251,263</u>	<u>\$ -</u>	<u>\$ 346,235</u>	<u>\$ 3,905,028</u>	

Debt requirements on bonds payable as of October 31, 2009 are as follows:

	Principal and Interest	less Interest	Principal
2010	636,803	(266,803)	\$ 370,000
2011	640,815	(240,815)	400,000
2012	637,971	(212,971)	425,000
2013	638,271	(183,271)	455,000
2014	635,698	(150,698)	485,000
2015-2019	1,393,395	(443,395)	950,000
2020-2024	954,125	(204,125)	750,000
2025-2026	186,390	(6,390)	180,000
	<u>\$ 5,723,468</u>	<u>\$ (1,708,468)</u>	<u>\$ 4,015,000</u>

Accrued interest payable and bond debt is payable from restricted assets.

NOTE 5 – NOTES RECEIVABLE

The following summarizes the estimated minimum debt service payments to be received from the borrower under the bond program:

	Vaughan Foods
2010	\$ 636,803
2011	640,815
2012	637,971
2013	638,271
2014	635,698
Thereafter	1,368,374
Total Minimum Lease Payment Receivable	\$ 4,557,932
Less Unearned Income	(1,550,123)
Net Investment	<u>\$ 3,007,809</u>

Cleveland County Industrial Authority
Notes to Financial Statements
October 31, 2009

Payments on the note are intended to cover debt service on the related debt. The property transfers to the borrower at the end of the bond term. Unearned income is amortized to revenue using a constant periodic rate over the bond term.

The mortgage and loan agreement includes specific financial covenants that must be met or the interest rates on the bonds will increase by 1% until the borrower is in compliance with the required ratios. The Company was not in compliance with the financial covenants. The increase in interest is reflected in the minimum lease payment schedule.

NOTE 6 – SUBSEQUENT EVENT

In 2010, the Authority authorized the issuance of \$15,000,000 in tax exempt bonds for Hitachi Computer Products.



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

Board of Trustees
Cleveland County Industrial Authority
Norman, Oklahoma

We have audited the financial statements of Cleveland County Industrial Authority as of and for the year ended October 31, 2009, and have issued our report thereon dated May 7, 2018. Our report on the financial statements disclosed that management did not include Management's Discussion and Analysis. 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

In planning and performing our audit, we considered Cleveland County Industrial Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Cleveland County Industrial Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Cleveland County Industrial Authority's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect 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 preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cleveland County Industrial Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of trustees, management and the State of Oklahoma auditor and inspector, Cleveland County and bond holders and is not intended to be and should not be used by anyone other than these specified parties.

Mary E Johnson & Associates PLLC

Ardmore, Oklahoma
May 7, 2018