

Chelsea Municipal Authority

Financial Statements
and
Independent Auditor's Reports

For the Fiscal Year Ended December 31, 2011

Chelsea Municipal Authority
Rogers County, Oklahoma
Authority Officials
December 31, 2011

BOARD OF TRUSTEES

Dennis Hoskins

Chairman

Tim Ramsey

Vice Chairman

Robert Bacon

Secretary

Norman Shaw

Member

Dale Clark

Member

Chelsea Municipal Authority
Rogers County, Oklahoma
December 31, 2011

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Kirkendall & Swindell CPAs, PLLC

Certified Public Accountants

405 W. Claremore St.

Claremore, OK 74017

(918) 342-5474

Independent Auditor's Report

Board of Trustees
Chelsea Municipal Authority

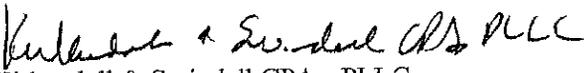
We have audited the accompanying Statement of Fund Net Assets of *Chelsea Municipal Authority* as of December 31, 2011, and the related statements of revenues, expenses and changes in fund net assets and cash flows for the year then ended. The financial statements are the responsibility of *Chelsea Municipal 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 *Chelsea Municipal Authority* as of December 31, 2011, and the changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2011 on our consideration of the *Chelsea Municipal Authority* internal control over financial reporting and my tests of 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 my testing of 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 conjunction with this report in considering the results of my audit.

Our audit was performed for the purpose of forming an opinion on the financial statements that comprise the *Chelsea Municipal Authority* basic financial statements. The accompanying supplemental information listed in the table of contents is presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements taken as a whole.


Kirkendall & Swindell CPAs, PLLC
Certified Public Accountant

June 4, 2011

Kirkendall & Swindell CPAs, PLLC

Certified Public Accountants

405 W. Claremore St.

Claremore, OK 74017

(918) 342-5474

*Report on Internal Control Over Financial Reporting and on Compliance Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards*

Board of Directors
Chelsea Municipal Authority

We have audited the financial statements of *Chelsea Municipal Authority* as of and for the year ended December 31, 2011, and have issued our report thereon dated June 4, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

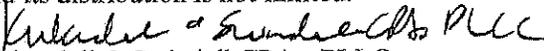
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the *Chelsea Municipal Authority* internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing our opinion on the financial statements and to not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the *Chelsea Municipal Authority* financial statements are free of material misstatement, we performed tests of the 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 my audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the governing body, management and other audit agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.


Kirkendall & Swindell CPAs, PLLC
Certified Public Accountant

June 4, 2011

Chelsea Municipal Authority
Statement of Fund Net Assets
December 31, 2011

Assets

Current Assets:	
Cash and cash equivalents - Unrestricted	\$ 2,131.22
Investments	534,000.00
Prepaid insurance	<u>1,230.55</u>
Total Current Assets	537,361.77
Non-current Assets:	145.00
Utility deposits	
Capital Assets:	
Property and Equipment, net of accumulated depreciation	<u>196,111.54</u>
Total Assets	<u>733,618.31</u>

Liabilities and Fund Net Assets

Current Liabilities:	
Rent deposits payable	500.00
Current portion of long-term debt	<u>12,941.51</u>
Total Current Liabilities	13,441.51
Non-Current Liabilities:	
Long term debt, net of current portion	<u>44,369.13</u>
Total Liabilities	<u>57,810.64</u>
Net Assets:	
Invested in Capital Assets, net of related debt	138,800.90
Unrestricted	<u>537,006.77</u>
Total Net Assets	<u>\$ 675,807.67</u>

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

Chelsea Municipal Authority
Statement of Revenue, Expenditures & Changes in Fund Net Assets
For the Year Ended December 31, 2011

OPERATING REVENUES:	
Rental Income	\$ 41,692.00
Other Income	<u>3,050.00</u>
	44,742.00
OPERATING EXPENSES:	
Bank charges	199.08
Bookkeeping/auditing	6,700.00
Depreciation	11,340.40
Donations	12,700.00
Insurance	5,166.48
Miscellaneous	7,387.00
Outside labor	10,644.71
Repairs	320.37
Supplies	12.00
Travel and meetings	304.65
Utilities	<u>1,098.93</u>
Total Operating Expenses	<u>55,873.62</u>
Operating Income (Loss)	<u>(11,131.62)</u>
Non-Operating Revenues (Expenses)	
Interest income	52.38
Interest expense	<u>(1,279.75)</u>
Total Non-Operating Revenues(Expenses)	<u>(1,227.37)</u>
Change in Net Assets	(12,358.99)
Net Assets at beginning of the year	<u>688,166.66</u>
Net Assets at end of the year	<u>\$ 675,807.67</u>

The accompanying notes are an integral part of the financial statement.

Chelsea Municipal Authority
Statement of Cash Flows
For the Year Ended December 31, 2011

Cash Flows from Operating Activities

Cash inflows:	
Payments received from tenants	\$ 44,742.00
Cash outflows:	
Payments for donations	(12,700.00)
Payments to supplies for goods and services	<u>(29,987.06)</u>
Net Cash Provided (Used) by Operating Activities	<u>2,054.94</u>

Cash Flows from Non-Capital Financing Activities

0.00

Cash Flows from Capital and Related Financing Activities

Purchase of fixed assets	0.00
Reduction in long-term debt	(16,336.93)
Interest expense	<u>(1,279.75)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(17,616.68)</u>

Cash Flows from Investing Activities

Proceeds from Annuity	11,000.00
Interest income received	52.38
	<u>11,052.38</u>

Net Cash Provided (used) by Investing Activity

Increase (decrease) in cash & cash equivalents	(4,509.36)
Cash and cash equivalents, beginning of year	6,640.58
Cash and cash equivalents, end of year	<u>\$ 2,131.22</u>

Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:

Operating Income (Loss)	\$ (12,358.99)
Depreciation	11,340.40
(Increase) Decrease in:	
Prepaid Insurance	2,829.48
Other	<u>244.05</u>
Net cash provided (used) by operating activities	<u>\$ 2,054.94</u>

The accompanying notes are an integral part of the financial statement.

Chelsea Municipal Authority
Notes to Financial Statements
For the Year Ended December 31, 2011

The following notes to the financial statements are an integral part of Chelsea Municipal Authority's financial statements.

I. Summary of Significant Accounting Policies

Chelsea Municipal Authority, (the "Authority") is a public trust created under the laws of the State of Oklahoma.

The purpose of the Authority is to promote the development of industry within the territorial limits of the beneficiary, Rogers County, and to provide additional employment, which will benefit the economy of the beneficiary.

The accounting policies of the Authority conform to generally accepted accounting principles applicable to governmental units. The Authority complies with generally accepted accounting principles and applies all relevant Government Accounting Standards Board (GASB) pronouncements. In addition, the Authority applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The Authority has elected not to follow FASB pronouncements issued since that date.

A. Financial Reporting Entity

The Authority complies with GASB Statement No. 14, "*The Financial Reporting Entity*." This statement establishes standards for defining and reporting on the financial reporting entity. It defines component units as legally separate organizations for which the elected officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The Authority considered all potential component units in determining what organizations should be included in the financial statements. Based on these criteria, there are no component units to include in the Authority's financial statements.

B. Basis of Presentation

The Authority's fund is an enterprise fund. Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

Chelsea Municipal Authority
Notes to Financial Statements
For the Year Ended December 31, 2011

I. Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe *which* transactions are recorded within the various financial statements. Basis of accounting refers to *when* transactions are recorded regardless of the measurement focus applied.

The proprietary funds utilize an “*economic resources*” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

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. The principal operating revenues of the Authority’s enterprise fund is charges to customers for sales and services. The Authority also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Assets, Liabilities and Net Assets

1. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Authority considers all cash on hand, demand deposits, and highly liquid investments, with an original maturity of three months or less when purchased, to be cash and cash equivalents.

2. Fair Value of Financial Instruments

The Authority’s financial statements include cash and investments. The Authority’s estimates of the fair value of all financial instruments do not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Chelsea Municipal Authority
Notes to Financial Statements
For the Year Ended December 31, 2011

I. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Assets (continued)

3. Capital Assets

The fixed assets are recorded at cost. Donated capital assets are reported at estimated fair market value at the date of donation.

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

All reported capital assets are depreciated on the straight-line basis over the estimated useful lives ranging from five to fifty years.

4. Restricted Cash

Restricted assets include cash and investments of the proprietary fund that are legally restricted as to their use.

5. Equity Classifications

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

- a. Invested in capital assets, net of related debt --- Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- b. Restricted net assets --- Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets --- All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Chelsea Municipal Authority
Notes to Financial Statements
For the Year Ended December 31, 2011

I. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Assets (continued)

6. Use of Estimates

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

II. Detailed Notes Concerning the Funds

A. Deposits and Investments

State statutes govern the Authority's investment policy. Permissible investments include direct obligations of the United States Government and Agencies; certificates of deposit of savings and loan associations, and bank and trust companies; and savings accounts or savings certificates of savings and loan associations and trust companies. Collateral is required for demand deposits and certificates of deposit for all amounts not covered by federal deposit insurance. Investments are stated at cost. The District invests entirely in certificates of deposit.

Custodial Credit Risk – 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's cash deposits, including interest-bearing certificates of deposits, are maintained in financial institutions. The District does not have a deposit policy for custodial credit risk. As of December 31, 2010, none of the Authority's investments were exposed to custodial credit risk because there were uninsured or uncollateralized.

B. Changes in Capital Assets

Capital asset activity for the year was as follows:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Capital Assets				
Buildings/Improvements	\$ 371,682.86	\$ -	\$ -	\$ 371,682.86
Equipment	17,713.94	-	-	17,713.94
Land	17,313.15	-	-	17,313.15
Total Capital Assets	<u>406,709.95</u>	<u>\$ -</u>	<u>\$ -</u>	<u>406,709.95</u>
Less: Accumulated Depreciation	<u>\$ 199,258.01</u>	<u>\$ (11,340.40)</u>	<u>\$ -</u>	<u>\$ (210,598.41)</u>
Net Book Value	<u>\$ 207,451.94</u>			<u>\$ 196,111.54</u>

Chelsea Municipal Authority
Notes to Financial Statements
For the Year Ended December 31, 2011

II. Detailed Notes Concerning the Funds (continued)

C. Note Payable

The Authority has a note agreement with the Bank of Commerce for the purchase of the building at 417 W. 6th St., Chelsea, Oklahoma. The note bears an interest rate of 6.25% and monthly payments of \$1,398.58 with a maturity date of October 15, 2016.

The note matures as follows:

Year Ending December 31,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 12,941.51	\$ 3,841.45	\$ 16,782.96
2013	13,773.93	3,009.03	16,782.96
2014	14,459.89	2,123.07	18,582.96
2015	15,602.85	1,180.11	16,782.96
2016	532.46	233.09	765.55
	-	-	-
	<u>\$ 57,310.64</u>	<u>\$ 10,386.75</u>	<u>\$ 67,697.39</u>

The following is a schedule of the changes in long term debt for the current year:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Note Payable - BOC	<u>\$ 73,647.57</u>	<u>\$ -</u>	<u>\$ 16,336.93</u>	<u>\$ 57,310.64</u>

III. Other Information

A. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Authority purchases commercial insurance to cover these risks, including general and auto liability, property damage, and public officials liability. There were no significant reductions in insurance coverage from the prior year. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Chelsea Municipal Authority
Schedule of Audit Findings
December 31, 2011

A. Audit Findings – Prior Year

NONE

B. Audit Findings – Current Year

Compliance

NONE

Internal Control Over Financial Reporting

NONE

C. Questioned Costs

NONE