

*Independent Auditor's Report*

# *Continental Gateway Authority*

*Purcell, Oklahoma*

*Year Ending June 30, 2011*

**CONTINENTAL GATEWAY AUTHORITY**

Purcell, Oklahoma

June 30, 2011

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Continental Gateway Authority  
Purcell, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Continental Gateway Authority, a component unit of McClain County, Oklahoma, as of and for the year ended June 30, 2011, 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 an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the 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.

As described in Note 1, the Authority prepares its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position – modified cash basis of the business-type activities of the Continental Gateway Authority, as of June 30, 2011, and the respective changes in financial position – modified cash basis, and cash flows – modified cash basis, thereof for the year ended in conformity with the basis of accounting described in Note 1.

Continental Gateway Authority  
December 5, 2011

In accordance with *Government Auditing Standards*, we have also issued a report dated December 5, 2011, on our consideration of the Authority's internal control over financial reporting and 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.

The Continental Gateway Authority has not presented the Management's Discussion and Analysis and budgetary information for the year ended June 30, 2011. Those are not a required part of the basic financial statements but are supplementary information required to accompany those financial statements.

Angel, Johnston & Blasingame, P.C.  
Certified Public Accountants  
Chickasha, Oklahoma  
December 5, 2011

**CONTINENTAL GATEWAY AUTHORITY**  
**STATEMENT OF NET ASSETS- MODIFIED CASH BASIS**  
**PROPRIETARY FUND**  
**June 30, 2011**

	<u>Enterprise Fund</u>
<b><u>ASSETS</u></b>	
<i>Current Assets</i>	
Cash - Unrestricted	\$ 25,623.84
Cash - Restricted	0.00
<i>Total Current Assets</i>	<u>25,623.84</u>
<i>Capital Assets</i>	
Land	1,982,708.80
Equipment and Furniture	5,363.01
Less Accumulated Depreciation	<u>(4,277.02)</u>
<i>Total Capital Assets</i>	<u>1,983,794.79</u>
Total Assets	<u>2,009,418.63</u>
<b><u>LIABILITIES</u></b>	
<i>Total Current Liabilities</i>	<u>0.00</u>
<i>Total Liabilities</i>	<u>0.00</u>
<b><u>NET ASSETS</u></b>	
Invested in Capital Assets net of Related Debt	1,983,794.79
Restricted	0.00
Unrestricted	<u>25,623.84</u>
<i>Total Net Assets</i>	<u><u>\$ 2,009,418.63</u></u>

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

**CONTINENTAL GATEWAY AUTHORITY**  
**STATEMENT OF REVENUE AND EXPENSES AND CHANGES IN NET ASSETS**  
**MODIFIED CASH BASIS - PROPRIETARY FUND**  
**Year Ended June 30, 2011**

	<u>Enterprise Fund</u>
OPERATING INCOME:	
Land Leases	\$ 13,150.00
Other Miscellaneous	16.56
<i>Total Operating Income</i>	<u>13,166.56</u>
 OPERATING EXPENSES	
Professional Services	1,475.00
Insurance	2,000.00
Utilities	177.20
Contract Labor	650.00
Office Supplies	225.47
Depreciation Expense	<u>406.76</u>
<i>Total Operating Expenses</i>	<u>4,934.43</u>
 <i>Net Income (Loss) Before Transfers</i>	 8,232.13
Transfers	<u>0.00</u>
 <i>Changes in Net Assets</i>	 <u>8,232.13</u>
 Net Assets-Beginning of Year	 <u>2,001,186.50</u>
Net Assets-End of Year	\$ <u><u>2,009,418.63</u></u>

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

**CONTINENTAL GATEWAY AUTHORITY**  
**STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS**  
**PROPRIETARY FUND TYPES**  
**For the Year Ended June 30, 2011**

**Cash flows from operating activities:**

Cash received from leases	\$ 13,150.00
Cash received from other sources	16.56
Cash dispersed for professional services	(1,475.00)
Cash dispersed for suppliers	(3,052.67)
<i>Net Cash provided (used) by operating activities</i>	<u>8,638.89</u>

**Cash flows from noncapital financing activities:**

Transfers to other funds	0.00
Transfers from other funds	0.00
<i>Net Cash provided (used) by noncapital &amp; related financing activities</i>	<u>0.00</u>

**Cash flows from capital and related financing activities:**

Purchase of capital assets	0.00
<i>Net Cash provided (used) by capital &amp; related financing activities</i>	<u>0.00</u>

**Cash flows from investing activities:**

Interest income	0.00
<i>Net Cash provided (used) by investing activities</i>	<u>0.00</u>

Net Increase (Decrease) in cash and cash equivalents	8,638.89
Cash & Cash equivalents at beginning of year	<u>16,984.95</u>
Cash & Cash equivalents at end of year	<u><u>\$ 25,623.84</u></u>

**Reconciliation of Operating Income (Loss) to Net Cash**

**Provided by Operating Activities:**

Operating Income	\$ 8,232.13
Adjustment to Reconcile Operating Income (Loss) to Net Cash Provided	
Depreciation Expense	406.76
Net Cash Provided (used) by Operating Activities	<u><u>\$ 8,638.89</u></u>

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

**CONTINENTAL GATEWAY AUTHORITY**  
**PURCELL, OKLAHOMA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2011**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

As discussed further in Note 1.C., the Authority complies with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units with a change for the modified cash basis. Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent that they are applicable, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this note.

**1.A. Financial Reporting Entity**

Continental Gateway Authority, McClain County, Oklahoma was established in April 21, 1997, pursuant to Title 60 of O.S. 1961, Section 176 to 180.3, inclusive. The purpose of this trust is to assist the Beneficiary, governmental agencies and private enterprises in the development of McClain County, Oklahoma, by participating to the greatest degree possible in promoting and encouraging the general economic and social development within McClain County. In accomplishing said purpose, the Trust may make financial inducements or take any other necessary action to attract and retain business and industry to the McClain County so long as such actions are consistent with state and federal statutes and constitutional limitations.

McClain County is the trust beneficiary and will receive all resident trust assets upon termination of the trust. The McClain County Commissioners are the Authority's Trustees. Therefore the Authority is considered to be a component unit of McClain County.

The accompanying financial statements include all functions and activities over which the Authority exercises financial accountability. The Authority is considered a primary government as defined by the Governmental Accounting Standards Board (GASB) and has no other component units within its reporting entity.

**1.B. Basis of Accounting and Measurement Focus**

The Authority's financial statements are presented using a modified cash basis of accounting. Basis of accounting refers to when revenues and expenditures/expenses are recognized and reported in the financial statements. This relates to the timing of the revenues, expenditures/expenses regardless of the measurement focus applied. Measurement focus identifies which transactions and events should be recorded.



**CONTINENTAL GATEWAY AUTHORITY**  
**PURCELL, OKLAHOMA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2011**

**1.B. Basis of Accounting and Measurement Focus (continued)**

The government-wide financial statements and the fund financial statements are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues and expenditures when they result from cash transactions with a provision for depreciation. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

If the Authority used the basis of accounting required by generally accepted accounting principles, the financial statements would use the accrual basis of accounting and separate fund statements would be presented using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues would be recognized when susceptible to accrual (i.e. both measurable and available) and expenditures would be recorded when the current liability is incurred. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred.

**1.C. Basis of Presentation**

Government Wide Financial Statements

The Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. All the activities of the Authority are business-type activities. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund Financial Statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts, which are comprised of each fund's assets, liabilities, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The only fund of the financial reporting entity is described below:

*General Fund*- The General Fund is the general operating fund of the Authority. It is used to account for all financial resources except those required to be accounted for in another fund.

**CONTINENTAL GATEWAY AUTHORITY**  
**PURCELL, OKLAHOMA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2011**

**1.D. Assets, Liabilities and Equity**

Cash & Cash Equivalents

The Authority considers all cash on hand, demand deposits, interest bearing checking accounts, time deposit accounts and highly liquid investments, with an original maturity of three months or less when purchased, to be cash and cash equivalents. The Authority has no policy for first applying restricted or unrestricted resources first for expenses since all resources of the Authority are unrestricted.

Capital Assets

All capital assets are capitalized at cost and updated for additions and retirements during the year. The Authority does not possess any infrastructure nor does it have a capitalized threshold. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets life are not. Assets are depreciated using the straight-line method over the assets useful lives. The estimated useful lives for depreciation purposes is as follows:

Equipment and Furniture	5 to 10 years
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**1. E. 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. Net assets are reported as restricted when there are legal limitations imposed on their use by legislation or restrictions by creditors, grantors, laws or regulations of other governments.

**1. F. Estimates**

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets, 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.

**1. G. Differences from GAAP**

The Authority has not presented the Management's Discussion and Analysis which the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be a part of the basic financial statements. As described in Note 1.C., the Authority reports its financial information on the modified cash basis of accounting rather than the GAAP prescribed accrual basis.

**CONTINENTAL GATEWAY AUTHORITY**  
**PURCELL, OKLAHOMA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
June 30, 2011

**NOTE 2 – CASH AND INVESTMENTS**

The Authority's investment policies are governed by state statute. The Authority has not established a separate formal investment policy. Permissible investments include direct obligations of the United States Government and Agencies; certificates of deposit of savings and loan associations, banks and credit unions; and savings accounts or savings and loan associations, banks and credit unions. Collateral is required for demand deposits, certificates of deposit, and savings accounts for all amounts not covered by federal deposit insurance.

At the end of the year the carrying amount and the bank balance of the Authority's deposits was \$25,623.84, all of which was covered by federal depository insurance.

**NOTE 3 – CAPITAL ASSETS**

The following is a summary by category of changes in capital assets:

	June 30, 2010	Current Deletions	Current Additions	June 30, 2011
Real Property	\$ 1,982,709	0	0	\$ 1,982,709
Equipment & Furniture	5,319	0	0	5,319
Total	1,988,028	0	0	1,988,028
Less: Depreciation	(3,870)	0	(407)	(4,277)
Net Capital Assets	<u>\$ 1,984,158</u>	<u>\$ 0</u>	<u>\$ (407)</u>	<u>\$ 1,983,751</u>

**NOTE 4 – CONCENTRATIONS AND CONTINGENCIES**

The Authority is dependent upon grants and land leases to function for its intended purpose of economic and social promotion. The Authority must comply with the grant provisions or it will be responsible to refund the grant if unable to comply.

The Authority is not involved with any legal proceedings, which normally occur in the course of governmental operations. Therefore, the financial statements do not include accruals or provisions for loss contingencies. While legal proceedings cannot be foreseen, the Authority feels that any settlement or judgment would not have a material effect on the financial condition of the Authority.

**NOTE 5 – RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to torts, errors and omissions. At this time the Authority carries no surety bonds. They are covered by liability insurance. As the Authority has minimal assets subject to loss, it carries no property insurance on the assets.

**CONTINENTAL GATEWAY AUTHORITY**  
**PURCELL, OKLAHOMA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2011**

**NOTE 6 – RELATED PARTY TRANSACTIONS**

The Authority has a five-year land lease contract for \$2,800 per annum with an annual renewal option. The land is leased to a board member's direct descendant. The contract was awarded to the high bidder in a closed bid process, and represents an arms length transaction. The lease payment is current for the year ended, June 30, 2011. This was the final year for the lease.

**NOTE 7 – GROUND LEASE AGREEMENT**

The Authority has a ninety-nine year ground lease agreement with American Gateway, LLC. The lease commenced on May 15, 2009, and will end on May 14, 2108. The leased property contains approximately 271 acres. Rent payments to the Authority are contingent on American Gateway LLC's gross revenue and net profit. Each quarter American Gateway LLC will pay the Authority one-half of one percent of gross revenue they receive. Additional rent will be paid annually, on April 30<sup>th</sup>, calculated as six and one-half percent of American Gateway LLC's net profit. Net profit being determined from annual Federal Income Tax returns. There is no estimate as to when American Gateway operations on the property will begin. No rent has been received by the Authority as of June 30, 2011.

## *Supplemental Information*

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

To the Board of Directors  
Continental Gateway Authority  
Purcell, Oklahoma

We have audited the accompanying modified cash basis financial statements of the business-type activities of the Continental Gateway Authority, a component unit of McClain County, Oklahoma, as of and for the year ended June 30, 2011, which comprise the Authority's basic financial statements and have issued our report thereon dated December 5, 2011. The Authority did not prepare a Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of the basic financial statements. 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 Continental Gateway 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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weakness. However, as discussed below we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as item 11-01 to be significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, the significant deficiency described above, 11-01, we consider to be a material weakness.

### **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*.

The Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and response. We did not audit the Authority's response and accordingly, we express no opinion on it.

This report is intended solely for the information of the governing board, management, all applicable state agencies, 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.

Angel, Johnston and Blasingame, P.C.  
Chickasha, Oklahoma  
December 5, 2011

**Continental Gateway Authority**  
**Schedule of Findings and Responses**  
**For the Year Ended June 30, 2011**

11-01 Criteria - A good system of internal control provides for a proper segregation of the accounting functions.

Condition - The Authority has no employees and a small number of volunteers that perform the duties that would normally be divided among a large number of employees.

Cause and Effect – The lack of internal control surrounding the accounting functions could result in more than a low risk that errors or irregularities may occur and not be detected within a timely period.

Recommendation – The Board of Directors should assess the advantages of segregating the accounting functions in order to determine whether hiring personnel would be cost effective.

Management response – At this time it is not cost effective to hire administrative staff that would be necessary in order to adequately segregate duties.