

WOODS COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY

ANNUAL FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2015

WOODS COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY
TABLE OF CONTENTS
YEAR ENDED AUGUST 31, 2015

| | Page |
|---|-------|
| INTRODUCTORY SECTION: | |
| Table of Contents | i |
| FINANCIAL SECTION: | |
| Independent Auditor's Report | 1-2 |
| Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 3-5 |
| Financial Statements: | 6 |
| Statement of Net Position | 7 |
| Statement of Revenues and Expenses and Changes in Net Position | 8 |
| Statement of Cash Flows | 9 |
| Notes to Financial Statements | 10-14 |

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Independent Auditor's Report

Board of Directors
Woods County Industrial Development Authority

Report on the Financial Statements

We have audited the accompanying financial statements of Woods County Industrial Development Authority which comprise the statement of net position, as of August 31, 2015 and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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 whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of Woods County Industrial Development Authority as of August 31, 2015; the changes in financial position; and of cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Woods County Industrial Development Authority has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basis financial statements. Such missing 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 basis financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required By Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated June 29, 2016 on our consideration of Woods County Industrial Development Authority's internal control over financial reporting and on our tests of its compliance with certain laws, regulations, contracts and grants 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* in considering Woods County Industrial Development Authority's internal control over financial reporting and compliance.



Kimberlye R. Mayer, CPA, P.C.
Blackwell, Oklahoma
June 29, 2016

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

Board of Directors
Woods County Industrial Development Authority

We have audited the financial statements of Woods County Industrial Development Authority as of and for the year ended August 31, 2015 and have issued our report thereon dated June 29, 2016. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of control deficiencies, in internal control that there is reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

Compliance and Other Matters

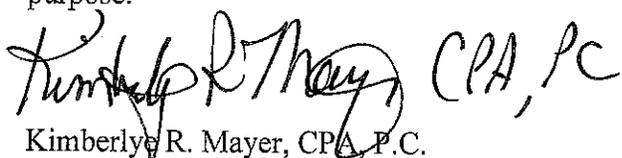
As part of obtaining reasonable assurance about whether Woods County Industrial Development Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have 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*.

Response to Findings

Woods County Industrial Development Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Woods County Industrial Development Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Kimberly R. Mayer, CPA, P.C.
Blackwell, Oklahoma
June 29, 2016

WOODS COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED AUGUST 31, 2015

Material Weakness Communicated In Prior Year:

Material Weakness in Internal Control Over Financial Reporting: Inadequate Segregation of Duties:

Criteria:

The segregation of duties and responsibilities between different individuals and the reconciliation of those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

Condition:

Presently, the same individual is responsible for receiving all revenues; making and recording deposits; and maintaining notes receivable schedules. Only limited oversight is provided over this individual in the conduct of their daily functions.

Cause:

The entity's limited size has made it difficult for management to fully segregate the duties.

Effect or Potential Effect:

Without sufficient segregation of duties, the risk significantly increases that errors and/or fraud related to the water billing and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation:

The board should evaluate the risks associated with the lack of segregation of duties and consider implementing controls that could mitigate these risks.

Board's Response:

The board has concluded that due to the limited number of personnel, an adequate segregation of duties is not achievable and that the cost of correcting the weakness would exceed the benefits that would be derived from it.

FINANCIAL STATEMENTS

AND

NOTES

WOODS COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY
STATEMENT OF NET POSITION
AUGUST 31, 2015

ASSETS

Current Assets:

| | |
|---|--------------|
| Cash and cash equivalents (Note 2) | \$ 141,229 |
| Certificates of deposit | 34,249 |
| Interest receivable | 1,080 |
| Prepaid insurance | 2,702 |
| Notes receivable, current portion (Note 4) | 59,001 |
| Total Current Assets | 238,261 |
| Notes receivable (Note 4) | 772,728 |
| Trust funds | 552,398 |
| Property and equipment (net of accumulated depreciation) (Note 3) | 378,632 |
| Total Assets | \$ 1,942,019 |

LIABILITIES AND NET POSITION

Current Liabilities:

| | |
|--|--------------|
| Accounts payable | \$ 6,744 |
| Prepaid rent | 2,500 |
| Notes payable (current portion) (Note 5) | 47,001 |
| Total Current Liabilities | 56,245 |
| Notes payable, long term (Note 5) | 752,728 |
| Total Non-current Liabilities | 752,728 |
| Total Liabilities | 808,973 |
| Net investment in capital assets | 378,632 |
| Restricted for endowment fund | 450,000 |
| Unrestricted | 304,414 |
| Total Net Position | 1,133,046 |
| Total Liabilities and Net Position | \$ 1,942,019 |

The accompanying report and notes are an integral part of these financial statements.

WOODS COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED AUGUST 31, 2015

| | |
|---------------------------------------|--------------|
| Operating Revenue: | |
| Donations | \$ 74,776 |
| Administration fees | 1,500 |
| Rental income | 41,400 |
| Interest on notes | 29,239 |
| Total Operating Revenue | 146,915 |
| | |
| Operating Expense: | |
| Payroll contract | 62,621 |
| Development fees | 9,079 |
| Grants expense | 20,000 |
| Office and postage | 881 |
| Insurance | 3,210 |
| Land lease | 778 |
| Professional fees | 2,795 |
| Travel expenses | 10,743 |
| Telephone | 3,416 |
| Tourism center | 99 |
| Depreciation | 15,506 |
| Interest expense | 27,594 |
| Other expense | 589 |
| Total Operating Expense | 157,311 |
| Income (Loss) From Operations | (10,396) |
| | |
| Non-Operating Revenue (Expense): | |
| Interest on investments | 4,043 |
| Total Non-Operating Revenue (Expense) | 4,043 |
| Change in Net Position | (6,353) |
| Net Position, beginning of year | 1,139,399 |
| Net Position, end of year | \$ 1,133,046 |

The accompanying report and notes are an integral part of these financial statements.

WOODS COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY
STATEMENT OF CASH FLOWS
YEAR ENDED AUGUST 31, 2015

| | |
|---|-------------------|
| Cash Flows From Operating Activities: | |
| Cash receipts from customers | \$ 72,139 |
| Other operating cash receipts | 74,776 |
| Cash payments to suppliers for goods and services | (126,919) |
| Net cash provided (used) by operating activities | <u>19,996</u> |
| Cash flows from non-capital financing activities: | |
| Cash flows from capital and related financing activities: | |
| Acquisition and construction of capital assets | |
| New loans to others | (276,084) |
| Principal received on notes | 70,806 |
| New borrowings | 276,084 |
| Principal paid on notes | (70,806) |
| Net cash provided (used) by financing activities | <u> </u> |
| Cash flows from investing activities: | |
| Interest income | 4,043 |
| (Increase) decrease in certificates of deposit | (205) |
| (Increase) decrease in trust funds | (3,672) |
| Net cash provided (used) by investing activities | <u>166</u> |
| Net increase (decrease) in cash and cash equivalents | 20,162 |
| Beginning cash and cash equivalents | 121,067 |
| Ending cash and cash equivalents | <u>\$ 141,229</u> |
| Reconciliation of income (loss) from operations to net cash provided (used) by operating activities: | |
| Income (Loss) from operations | \$ (10,396) |
| Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities: | |
| Depreciation | 15,506 |
| Changes in assets and liabilities: | |
| (Increase) decrease in receivables | (205,007) |
| (Increase) decrease in prepaids | (275) |
| Increase (decrease) in payables | 220,168 |
| Net cash provided (used) by operating activities | <u>\$ 19,996</u> |

The accompanying report and notes are an integral part of these financial statements.

WOODS COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

Woods County Industrial Development Authority was created under the provisions of Title 60 of the Oklahoma Statutes, 1981, the Oklahoma Trust Act, and the laws of the State of Oklahoma. The purpose of this trust is to promote the development of industrial, manufacturing, cultural, and educational activities within and without the territorial limits of Woods County, Oklahoma, and to provide industrial and cultural facilities and additional employment and activities which will benefit and strengthen the culture and economy of Woods County, Oklahoma.

The Authority is governed by an elected Board of Trustees that acts as the authoritative and legislative body of the entity.

Basis of Accounting

The accounting policies of Woods County Industrial Development Authority conform to the basic principles of governmental accounting and financial reporting set forth by the Governmental Accounting Standards Board.

The Authority is classified as an Enterprise Fund. The costs of providing services to the public are financed mainly through user charges. The financial statements of the Authority have been prepared using the accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred.

Cash and Deposits

Cash is maintained in financial institutions, which provide coverage to depositors through the Federal Deposit Insurance Corporation.

The State of Oklahoma allows government entities to invest in the following: direct obligations of the United States Government, its agencies or instrumentalities; collateralized or insured certificates of deposit; insured savings accounts or savings certificates; or county, municipal or school district direct debt.

Income Taxes

As provided in Title 60, Oklahoma Statutes, Woods County Industrial Development Authority is a tax-exempt public trust; consequently, no provision as been made for income taxes.

Restricted Assets

Restricted funds are monies, whose use is limited by legal requirements, or restricted by grantor.

WOODS COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2015

Net Position

Net position presents the difference between assets and liabilities in the statement of net position. Net investments in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are legal limitations imposed on their use by Authority legislation or external restrictions by creditors, grantors, laws or regulations of other governments.

NOTE 2 – CASH AND CASH EQUIVALENTS:

The Authority considers all checking and certificates of deposit with a maturity of three months or less to be cash equivalents.

NOTE 3 – PROPERTY AND EQUIPMENT:

Depreciable assets are recorded at cost when purchased or constructed. 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. Depreciation is calculated on a straight-line basis over the estimated useful lives of the depreciable assets. Total depreciation for the year ended August 31, 2015 was \$15,506. The following is a summary by category of changes in property and equipment:

| <u>Category</u> | <u>8/31/14</u> | <u>Additions</u> | <u>Deletions</u> | <u>8/31/15</u> |
|----------------------------|-------------------|--------------------|------------------|-------------------|
| Land and easements | \$ | \$ | \$ | \$ |
| Buildings and improvements | 477,481 | | | 477,481 |
| Equipment | 3,118 | | | 3,118 |
| Website development | 7,025 | | | 7,025 |
| Accumulated depreciation | (93,486) | (15,506) | | (108,992) |
| Net | <u>\$ 394,138</u> | <u>\$ (15,506)</u> | <u>\$</u> | <u>\$ 378,632</u> |

NOTE 4 – NOTES RECEIVABLE:

The Authority has extended a line of credit to Barton Investment Group Manufacturing, LLC for \$100,000. This line of credit carries an interest rate of 3½% and matured December 12, 2009. This line of credit was transferred to a promissory note dated November 16, 2009 and matured December 12, 2010. The promissory note was amended on March 2, 2012, to allow the borrower to make monthly principal payments of \$1,000 and annual interest payments until the note is paid off. The balance of this note receivable was \$32,000 at August 31, 2015.

WOODS COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2015

NOTE 4 – NOTES RECEIVABLE (continued):

The Authority has a promissory note with Value Added Products. This promissory note corresponds with a note payable to Alva State Bank (see Note 5). The note carried an interest rate of 7½% and matured 11/01/12. The monthly payments were \$9,475. This note was rewritten on November 1, 2009 with an interest rate of 3¼%, monthly payments of \$7,260 and a maturity date of 11/01/21. On August 24, 2015, this note was rewritten with an additional \$276,084 borrowed. The new interest rate is 5% and the monthly payments are \$7,200. The note matures on March 1, 2028. The balance of this note receivable was \$799,729 at August 31, 2015.

NOTE 5 – NOTES PAYABLE:

The Authority entered into a note agreement with Alva State Bank and used real estate as collateral. Through a promissory note, the Authority loaned this money to Value Added Products (see Note 4). This note carries an interest rate of 7½% and matures 11/01/12. The monthly payments are \$9,475. This note was rewritten on November 1, 2009 with an interest rate of 3¼%, monthly payments of \$7,260 and a maturity date of 11/01/21. Principle payments made during the year ended August 31, 2015 were \$58,806. On 8/24/15, this note was rewritten and an additional \$276,084 was borrowed. The new interest rate is 5% and the monthly payments are \$7,200. The note matures 3/1/28. The balance of this note at August 31, 2015 was \$799,729.

The following is a summary of future debt payments:

| <u>Year Ending</u> | <u>Payments</u> | <u>Principal</u> | <u>Interest</u> |
|--------------------|---------------------|-------------------|-------------------|
| 8/31/16 | \$ 86,400 | \$ 47,001 | \$ 39,399 |
| 8/31/17 | 86,400 | 49,691 | 36,709 |
| 8/31/18 | 86,400 | 52,234 | 34,166 |
| 8/31/19 | 86,400 | 54,905 | 31,495 |
| 8/31/20 | 86,400 | 57,715 | 28,685 |
| 8-31/21-8/31/25 | 432,000 | 336,005 | 95,995 |
| 08/31/26-3/1/28 | 223,200 | 202,178 | 21,022 |
| Net | <u>\$ 1,087,200</u> | <u>\$ 799,729</u> | <u>\$ 287,471</u> |

WOODS COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2015

NOTE 5 - NOTES PAYABLE (continued):

Conduit Debt

Woods County Industrial Development Authority has the following conduit debt outstanding at August 31, 2015:

| | <u>Original Issue</u> | <u>Outstanding 8/31/15</u> |
|-----------------------------|---------------------------|--------------------------------|
| Lease Financing: | | |
| Northwest Technology Center | \$4,000,000 | \$3,460,977 |
| Alva Golf & Country Club | \$ 42,266 | \$ 39,132 |

Conduit debt is debt that is considered non-commitment debt to the Authority since debt payments are made solely by the Northwest Technology Center School and the Alva Golf & Country Club. Payments are made directly by these entities to the banks. In the event of default by either of these entities, the Authority has no obligation in substance to make any payments on the debt since the lease receivable and the financing agreements on the properties with these entities are the only security for the debt. As a result of the non-commitment determination, the Authority's indebtedness and related receivable from these entities is not recorded in the financial statements.

NOTE 6 – ESTIMATES:

The preparation of financial statements in conformity generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Accordingly, actual results could differ from those estimates.

NOTE 7 – RISK MANAGEMENT:

The Authority is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Authority manages this risk through the purchase of commercial insurance policies. Claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. The Authority has had no claims that exceeded its insurance coverage.

WOODS COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2015

NOTE 8 – CONTINGENCIES:

As of August 31, 2015, the Authority did not have any pending litigation or potential non-disclosed liabilities that management believes would have a material effect on the financial statements.

The Authority adopted a plan for an Industrial Rail Park in Avard, Oklahoma. The total cost of this project is \$6,880,000. To fund this project, the Authority has obtained a loan commitment of \$2,250,000, a grant commitment from a Trust of \$600,000, and an in-kind commitment from the county of \$250,000. The Authority has submitted other federal and state grant applications for additional funds. On February 21, 2012 the Authority entered into four promissory notes for the purchase of land for the Industrial Rail Park. The funds borrowed totaled \$1,040,000. On June 11, 2012 the Authority transferred this land by fee simple title to the Avard Regional Rail Park Authority (ARRPA), and entered into an agreement whereby the ARRPA agrees to make all payments and to comply with all requirements in accordance with the above promissory notes on behalf of the Authority. In this agreement, the ARRPA shall also be responsible for payment of all taxes and assessments and shall maintain the property in good repair and condition. Because this land and the related debt were transferred to ARRPA, these assets and liabilities have not been recorded in the Authority's financial statements.

NOTE 9 – FAIR VALUES OF FINANCIAL INSTRUMENTS:

The definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosure about the use of fair value measurements in an effort to make the measurement of fair value more consistent and comparable.

Level 1: Quoted prices in active markets for identical securities.

Level 2: Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment spread and credit risk).

Level 3: Significant unobservable inputs (including the District's own assumptions in determining the fair value of investments).

The District's financial statements include cash and cash equivalents, certificates of deposit, notes receivable, accounts payable and notes payable. The District's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying statement of net position. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

NOTE 10 – EVALUATION OF SUBSEQUENT EVENTS:

The Authority has evaluated subsequent events through June 29, 2016, the date which the financial statements were available to be issued.