

The McMahon Auditorium Authority

Financial Statements

June 30, 2012

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The McMahon Auditorium Authority
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For the Fiscal Year Ended June 30, 2012

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
The McMahon Auditorium Authority
Lawton, Oklahoma

We have audited the accompanying statement of net assets, The McMahon Auditorium Authority (the Authority), a component unit of the City of Lawton, as of and for the year ended June 30, 2012, and the related statement of revenue, expenses and changes in net assets, and statement of cash flows for the year then ended.. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on those 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 net assets of the The McMahon Auditorium Authority, as of June 30, 2012, and the changes in financial position and 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 issued our report dated January 8, 2013, on our consideration of The McMahon Auditorium Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Rahhal Henderson Johnson, PLLC

Ardmore, Oklahoma
January 8, 2013

The McMahon Auditorium Authority
Management's Discussion and Analysis (Unaudited)
June 30, 2012

Our discussion and analysis of the McMahon Memorial Auditorium Authority's (the Authority) financial position and performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2012.

FINANCIAL HIGHLIGHTS

- For the fiscal year ended June 30, 2012, the Authority's total net assets increased by approximately \$11,483 or 9% from the prior year, as a result of revenue exceeding expenses by \$11,414.
- For the fiscal year ended June 30, 2012, the Authority's operating revenue increased by approximately \$1,599 or 2% from the prior year; and operating expenses decreased by approximately \$2,200 or 3% over the prior year.

USING THIS ANNUAL REPORT

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as amended, as they relate to special purpose governments engaged only in business-type activities.

As a result, the Authority's financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows that provide information about the financial activities of the Authority.

ABOUT THE AUTHORITY

The McMahon Auditorium Authority is a public trust created pursuant to the laws of the State of Oklahoma, by the City of Lawton, the trust beneficiary, to operate the activities of the City related to the use of the McMahon Auditorium for the benefit of the community and surrounding area. The Authority is considered a component unit of the City of Lawton's financial reporting entity, and has also elected to present its own annual financial statements for the component unit itself.

A FINANCIAL ANALYSIS OF THE AUTHORITY

One of the most important questions to ask about the Authority's finances is:

"Has the Authority's net assets increased or decreased as a result of the year's activities?"

Over time, increase or decreases in the Authority's net assets provide one indicator of the financial health of the Authority. The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets include all of the Authority's assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The following tables provide a summary of the changes in net assets over the past year to help answer the above question.

Net Assets and Changes in Net Assets

The McMahon Auditorium Authority
Management's Discussion and Analysis (Unaudited)
June 30, 2012

The following is a condensed summary of the Statement of Net Assets for the year ended June 30, 2012 as compared to the prior year:

	2012	2011	% Change
Current assets	\$ 54,540	\$ 87,395	-38%
Capital assets, net	80,740	35,295	129%
Total assets	135,280	122,690	10%
Current liabilities	1,815	708	156%
Total liabilities	1,815	708	156%
Net assets			
Invested in capital assets	80,740	35,295	129%
Unrestricted	52,725	76,687	-31%
Total net assets	133,465	121,982	9%

The decrease in current assets and unrestricted net assets is the result of purchasing the video projection system resulting in negative cash flow for the year ended June 30, 2012 in the amount of \$32,859. The substantial increase in total net assets is due in part to the \$10,000 final payment of the grant received from the Lawton Fort Sill Chamber to purchase the video projection system. The increase in capital assets of \$45,445 or 129% from the prior year is a result of the addition of the video projection system with depreciation expense of \$8,315 recorded for the year ended June 30, 2012. Liabilities increased by \$1,107 or 156% from the prior year due to the balance payables to the City of Lawton at year end.

The following is a condensed summary of the Statement of Revenues, Expenses and Changes in Net Assets for the year ended June 30, 2012 as compared to the prior year:

	2012	2011	% Change
Operating revenues	95,029	\$ 93,430	2%
Operating expenses	83,615	85,815	-3%
Net Operating income	11,414	7,615	50%
Non-operating revenues, net	69	197	-65%
Change in net assets	11,483	7,812	47%
Net assets-beginning of year	121,982	114,170	7%
Net assets – end of year	133,465	121,982	9%

Revenues exceeded expenses by \$11,414 resulting in a net profit of \$11,483 for the year ended June 30, 2012. Net assets increased by 9% for the year ended June 30, 2012. Again, these increases are mainly due to the

The McMahon Auditorium Authority
Management's Discussion and Analysis (Unaudited)
June 30, 2012

grant received from the Chamber to purchase projection equipment which was accomplished during this fiscal year. The Authority is a Public Trust service organization of the City of Lawton created to oversee the Auditorium to ensure that the facility is utilized to the maximum extent to enrich the cultural life of our community by providing a venue for all citizens to have the opportunity to enjoy the arts versus being a profit driven business.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Due to the nature of the Authority's activities, the Authority has a limited amount of capital assets. Such capital assets consist primarily of furniture, building and improvements. At June 30, 2012, the Authority reported approximately \$80,740 of capital assets, net of accumulated depreciation. Capital additions in the current year consist of a dual video projector system. Depreciation expense on existing capital assets amounted to \$8,315.

Long-Term Debt

The Authority has no long-term debt outstanding at June 30, 2012.

BUDGET

The Authority is a public trust created pursuant to 60 O.S. § 176. Such public trusts are not required to prepare a legally adopted annual budget. Therefore, the Authority does not operate under legal appropriations.

ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES

Effective July 1, 2012 the Authority retains 100% of the rent collected. The additional funds will be used for capital improvements and/or purchase of equipment as designed by the Authority. The internal budget adopted for the Authority for the year ending June 30, 2012 is consistent with the prior year budget.

CONTACTING THE MCMAHON MEMORIAL AUDITORIUM AUTHORITY

This financial report is designed to provide our citizens, customers, taxpayers, and creditors with a general overview of the Authority's finances and to show accountability for the resources it receives. Financial information for the Authority is also presented in the Comprehensive Annual Financial Report of the primary government, the City of Lawton, Oklahoma. If you have questions about this report or need additional financial information, contact the McMahon Auditorium Authority Office by mail at 801 NW Ferris, Lawton, OK 73507 or by telephone at (580)-581-3472.

The McMahon Auditorium Authority
Statement of Net Assets
June 30, 2012

ASSETS

Current Assets

Cash and Cash Equivalent	\$ 52,944
Accounts Receivable	<u>1,596</u>
Total Current Assets	<u>54,540</u>

Capital assets being depreciated	<u>80,740</u>
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Total Assets	<u><u>\$ 135,280</u></u>
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LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	<u>\$ 1,815</u>
Total Current Liabilities	<u>1,815</u>

Net Assets

Unrestricted	
Invested in capital assets	80,740
Undesignated, available for general activities	<u>52,725</u>
Total net assets	<u>\$ 133,465</u>

Total Liabilities and Net Assets	<u><u>\$ 135,280</u></u>
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The notes to the financial statements are an integral part of this statement

The McMahon Auditorium Authority
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2012

OPERATING REVENUES

Auditorium fees	\$ 68,889
Ticket collections, net of promoter reimbursements of \$44,069	11,120
Concession Sales	820
Grant revenue	14,200
Total Operating Revenue	<u>\$ 95,029</u>

OPERATING EXPENSES

Auditorium rent and maintenance	\$ 30,212
Stagehand fees	32,644
Ticket stock	887
Equipment rent and maintenance	475
Depreciation	8,315
Other miscellaneous event costs	530
Professional services	5,750
Office expense	4,702
Other expense	100
Total Operating Expenses	<u>\$ 83,615</u>

OPERATING INCOME	\$ 11,414
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NONOPERATING INCOME

Interest income	<u>69</u>
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CHANGE IN NET ASSETS	\$ 11,483
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NET ASSETS, BEGINNING OF YEAR	<u>121,982</u>
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NET ASSETS, END OF YEAR	<u><u>\$ 133,465</u></u>
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The notes to the financial statements are an integral part of this statement

The McMahon Auditorium Authority
Statement of Cash Flows
For the Year Ended June 30, 2012

OPERATING ACTIVITIES	
Receipts from customers	\$ 96,131
Payments to stagehands and vendors	(48,377)
Payments to City of Lawton	<u>(26,922)</u>
NET CASH FROM OPERATING ACTIVITIES	<u>\$ 20,832</u>
CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	<u>(53,760)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCIAL ACTIVITIES	<u>\$ (53,760)</u>
INVESTING ACTIVITY	
Interest income	<u>69</u>
NET CASH FROM INVESTING ACTIVITIES	<u>\$ 69</u>
NET CHANGE IN CASH	\$ (32,859)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>85,803</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 52,944</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 11,413
Charges and credit to change in net asset not affecting cash	
Depreciation	8,315
Changes in assets and liabilities	
Accounts Receivable	(5)
Accounts Payable	<u>1,109</u>
NET CASH FROM OPERATING ACTIVITIES	<u><u>\$ 20,832</u></u>

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

The McMahon Auditorium Authority
Notes to Financial Statements
June 30, 2012

NOTE 1 - PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The McMahon Auditorium Authority (the Authority) is a public trust authority established under the laws of the State of Oklahoma in December 1963 to provide operation, supervision, and management for the McMahon Memorial Auditorium in Lawton, Oklahoma, for the benefit of the community and the surrounding area.

The Authority operates out of a facility owned and maintained by the City of Lawton (the City). All significant costs of operating and managing the facility are paid for by the City. Such costs are not included in these financial statements. Therefore, these financial statements are not intended to represent a complete presentation of the cost of operations of the auditorium.

Management has applied the criteria set forth in Government Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and has determined that the Authority is a component unit of the City. The Authority is financially dependent upon the City and the governing board of the City appoints the board of trustees to the Authority.

Basis of Accounting

The Authority accounts for its activities within a proprietary fund type. The Authority's activities meet the definition of an enterprise fund because it is the intent of the Authority to recover, primarily through user charges, the cost of providing goods or services to the general public.

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 net total 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.

As required by the GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless FASB and/or APB pronouncements conflict with or contradict GASB pronouncements. In addition, the Authority applies all applicable FASB statements and interpretations issued after November 30, 1989 except those that conflict or contradict GASB.

The McMahon Auditorium Authority
Notes to Financial Statements
June 30, 2012

**NOTE 1 - PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES
(continued)**

Proprietary funds distinguish operating revenues and expenses from non-operating 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 non-operating revenues and expenses.

Accounts Receivable

Accounts receivable includes amounts due from promoters for events held at the auditorium. The Authority uses the direct write-off method based upon a review of outstanding receivable, historical collections information and existing economic conditions. Generally, an agreement for use of the auditorium is not made with any promoter with whom the Authority has had collection problems in the past. Normal receivables are due 30 days or less from the date of the event. Receivables past due more than 120 days are considered delinquent. Delinquent receivables are forwarded to the city attorney for collection.

Cash and Cash Equivalents

Interest bearing checking accounts and certificates of deposit with maturities of less than three months are included in cash on the Authority's financial statements.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from those estimates.

Capital Assets

The cost of capital assets greater than \$1,000 is capitalized and depreciated over the estimated useful life of the related asset. These assets are depreciated using the straight-line method over the useful lives ranging from five to fifteen years.

Restricted Net Assets

Grant proceeds are classified as restricted assets on the balance sheet because their use is limited to donor restrictions.

The McMahon Auditorium Authority
Notes to Financial Statements
June 30, 2012

**NOTE 1 - PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES
(continued)**

Income Taxes

The Authority does not pay income taxes due to its exemption as a municipal entity.

Budgetary Comparison

The Authority is not legally required to adopt a budget. Therefore, budget comparison information is not included in the Authority's financial statements.

Subsequent Events

The Authority has evaluated subsequent events through January 8, 2013, the date which the financial statements were available to be issued.

NOTE 2 - RELATED PARTY TRANSACTIONS

The Authority remits 80% of the rent collected and 100% of the maintenance fees collected on the auditorium to the City of Lawton. Total payments to the City for rent and maintenance totaled \$26,880 which is included in auditorium rent and maintenance expense. Rent and maintenance due to the City as of June 30, 2012 was \$1,360 and is included in accounts payable.

NOTE 3 - RECEIPTS AND EXPENDITURES

Rent and maintenance fees collected are included with auditorium fee income. Also included with auditorium fee income is the amount collected for the stagehand company and for security. The Authority remits all of the amounts collected to the stagehand company, which is shown separately as stagehand fee expense. A significant amount of ticket sales collected is reimbursed to various promoters when ticket sales exceed event costs.

NOTE 4 - COMMITMENTS AND CONTINGENCIES

The Authority receives its resources primarily from sources within Comanche County. Consequently, the Authority's ability to operate as a going concern is dependent on the economic conditions of this area. In addition, Ft. Sill graduations are held at the McMahon Memorial Auditorium and revenue from Ft. Sill comprises 25% of total revenue of the Authority.

The McMahon Auditorium Authority
Notes to Financial Statements
June 30, 2012

NOTE 5 - CUSTODIAL CREDIT RISK

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. State law requires collateral for all deposits not covered by Federal Deposit Insurance Corporation insurance. At June 30, 2012, the Authority was not exposed to custodial credit risk

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciated:				
Furniture and fixtures	\$ 24,628	\$ -	\$ -	\$ 24,628
Building improvements	68,295	-	-	68,295
Machinery and equipment	10,279	53,760	-	64,039
Total capital assets being depreciated:	103,202	53,760	-	156,962
Less accumulated depreciation for:				
Furniture and fixtures	\$ (24,628)	\$ -	\$ -	\$ (24,628)
Building improvements	(36,733)	(5,855)	-	(42,589)
Machinery and equipment	(6,545)	(2,460)	-	(9,005)
Total accumulated depreciation	(67,907)	(8,315)	-	(76,222)
Total capital assets being depreciated	<u>\$ 35,295</u>	<u>\$ 45,445</u>	<u>\$ -</u>	<u>\$ 80,740</u>



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 Trustees of
Lawton Arts and Humanities Authority
Lawton, Oklahoma

We have audited the financial statements of The McMahon Auditorium Authority as of and for the year ended June 30, 2012, and have issued our report thereon dated January 8, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of The McMahon Auditorium Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered The McMahon Auditorium Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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 significant deficiencies or material weaknesses and therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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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 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. We consider the deficiency described in the accompanying schedule of findings and responses as 2012-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The McMahon Auditorium 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and responses as item 2012-2.

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

This report is intended solely for the information and use of the board of trustees, management, and other within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Rahhal Henderson Johnson, PLLC

Ardmore, Oklahoma
January 8, 2013

The McMahon Auditorium Authority
Schedule of Findings and Responses
June 30, 2012

2012-1 Preparation of financial statements and related material adjustments

Condition – The trial balance provided for the year-end financial reporting did not include all final journal entries.

Criteria – The development and implementation of a year-end financial reporting control system is the responsibility of management. Management should have a process in place to ensure that the trial balance used in the financial statement preparation process is final, contains all valid journal entries made, and is in balance

Cause – Current procedures do not incorporate all the necessary controls to ensure the trial balance is complete.

Effect – Material adjusting entries were necessary to record and adjust assets, accumulated depreciation, depreciation expense, accruals, and fund balance.

Recommendation – We recommend the Authority's members to evaluate and weigh the cost against the benefits of enhancing the year-end financial reporting process through the hiring of an external consultant to assist in the process of ensuring the trial balance is complete and that the disclosures are accurate.

Management Response – Management will thoroughly review the financial statements, notes, and supporting schedules and compare to a current disclosure checklist prior to issuance of financial statements.

2012-2 Receipt and deposit compliance

Condition – Cash receipts are not being deposited within 1 business day.

Criteria – Title 62 Section 517.3 of Oklahoma state statutes require the treasurer of every public entity shall deposit daily not later than the immediately next banking day, all funds, in either state or county depositories within Oklahoma.

Context – 18 of 25 cash receipts tested were not deposited within 1 business day of receipt

Cause – Historically receipts for events were deposited within the time constraints of the Authority's staff. New procedures were implement midyear during fiscal year 2011 to be in compliance with state laws. However, the procedures were not consistently applied.

Effect – Deposits were not made within state statute requirements.

Recommendation – We recommend the Authority continue to develop and enforce policies and procedures for deposits so that they are in compliance with state laws. In addition, a

The McMahon Auditorium Authority
Schedule of Findings and Responses
June 30, 2012

procedure should be implemented to document the receipt of invoice payments such as a check log.

Management Response – Management will continue to improve internal procedures to be in compliance with state laws.