Independent Auditor's Report

GARVIN COUNTY FINANCE AUTHORITY

Year Ending June 30, 2012

GARVIN COUNTY FINANCE AUTHORITY
PAULS VALLEY, OKLAHOMA
June 30, 2012

TABLE OF CONTENTS

BASIC FINANCIAL STATEMENTS

Independent Auditor's Report	A - 1
Statement of Net Assets - Modified Cash Basis	B - 1
Statement of Revenues, Expenses and Changes in Net Assets - Modified Cash Basis	C - 1
Statement of Cash Flows - Modified Cash Basis	D-1
Notes to Basic Financial Statements	E - 1

REPORT ON INTERNAL CONTROL AND COMPLIANCE

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	F - 1
Schedule of Findings	G - 1

ANGEL, JOHNSTON & BLASINGAME, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

P.O. BOX 706 • 2700 SOUTH FOURTH
CHICKASHA, OKLAHOMA 73023
PHONE (405) 224-6363 • FAX (405) 224-6364
ajb-cpas.com

INDEPENDENT AUDITOR'S REPORT

To the Trustees of
Garvin County Finance Authority
Pauls Valley, Oklahoma 73075

We have audited the accompanying financial statements of the business-type activities of the **Garvin County Finance Authority**, a component unit of Garvin County, as of and for the year ended June 30, 2012, 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 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.

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

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position-modified cash basis of the business-type activities of **Garvin County Finance Authority** as of June 30, 2012, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 10, 2012, 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.

Angel, Johnston & Blasingame, P.C.

Angel, Johnston & Blasingame, P.C.
Chickasha, Oklahoma
December 10, 2012

GARVIN COUNTY FINANCE AUTHORITY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
PROPRIETARY FUND
June 30, 2012

		Enterprise Fund
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	59,453.89
Current Portion of Loan Receivables		35,406.02
Total Current Assets	$	94,859.91
Noncurrent Assets:		
Land		69,783.46
Loan Receivables		
AMBI		14,645.65
Reserve for Loan Loss-AMBI		(14,645.65)
B&D Farms Candy Co.		12,222.12
Stratford Industrial Authority		113,953.67
Clinco Manufacturing		185,633.95
Total Noncurrent Assets	$	381,593.20
Total Assets	$	476,453.11
LIABILITIES		
Current Liabilities:		
Notes Payable		0.00
Total Current Liabilities		0.00
Non Current Liabilities:		
Notes Payable		0.00
Total Non Current Liabilities	$	0.00
Total Liabilities	$	0.00
NET ASSETS		
Invested in Capital Assets net of Related Debt		69,783.00
Restricted		0.00
Unrestricted		406,670.11
Total Net Assets	$	476,453.11

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

GARVIN COUNTY FINANCE AUTHORITY
STATEMENT OF REVENUE AND EXPENSES AND CHANGES IN NET ASSETS
MODIFIED CASH BASIS - PROPRIETARY FUND
Year Ended June 30, 2012

		Enterprise Fund
Operating Revenue:		
Loan Interest	$	9,140.67
Land Lease		1,560.00
Other Revenue		0.00
Total Operating Revenue		10,700.67
Cost of Goods Sold:		
Cost of Goods Sold		0.00
Total Gross Income	$	10,700.67
Operating Expenses:		
Professional Fees		1,780.00
Insurance		3,300.00
Depreciation Expense		0.00
Total Operating Expenses	$	5,080.00
Net Operating Income (Loss)	$	5,620.67
Non-Operating Revenue(Expense)		
Interest Income		415.36
Total Non-Operating Revenue (Expense)	$	415.36
Net Income (Loss)	$	6,036.03
Net Assets-Beginning of Year	$	470,417.08
Net Assets-End of Year	$	476,453.11

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

GARVIN COUNTY FINANCE AUTHORITY
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
PROPRIETARY FUND TYPES
For the Year Ended June 30, 2012

Cash flows from operating activities:		
Cash received from loan interest	$	9,140.67
Cash received from land lease		1,560.00
Cash received from loan repayments		25,783.72
Cash dispersed for financing		(200,000.00)
Cash paid to vendors		(5,080.00)
Net Cash provided (used) by operating activities		(168,595.61)
Cash flows from capital and related financing activities:		
Interest Expense		0.00
Purchase of capital assets		0.00
Net Cash provided (used) by capital & related financing activities		0.00
Cash flows from investing activities:		
Interest income		415.36
Net Increase (Decrease) in cash and cash equivalents		(168,180.25)
Cash & Cash equivalents at beginning of year		227,634.14
Cash & Cash equivalents at end of year		59,453.89
Reconciliation of Operating Income to Net Cash Provided (used) by Operating Activities		
Operating Income		5,620.67
Adjustment to Reconcile Operating Income to Net Cash Provided		
Change in loan receivables, net		(174,216.28)
Net Cash Provided (used) by Operating Activities	$	(168,595.61)

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

Note 1 – Summary of Significant Accounting Policies

As discussed further in Note 1.C., these financial statements are presented on the modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). 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 with they are applicable to the modified cash basis or accounting, 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

Garvin County Finance Authority, Garvin County, Oklahoma was established pursuant to Title 60 of Oklahoma State Law. The purpose of this trust is to assist Garvin County, the State of Oklahoma, Governmental Agencies municipalities and private entities, agencies and citizens in making the most efficient use of all of their economic resources and powers in accord with the needs and benefit of the State of Oklahoma and Garvin County in order to lessen the burdens on government and to stimulate economic growth and development of the Garvin County. The Authority accomplishes its mission through various economic development loans and grants.

Related Organizations

Garvin County The Authority, organized in March 1989, is a public trust created and established pursuant to the term of Title 60, Oklahoma Statutes 1991, Section 176 et seq.; as amended and supplemented, the Oklahoma Trust Act and other applicable statutes and laws of the State of Oklahoma and Garvin County is the beneficiary of this public trust. The elected Garvin County commissioners are the Authority's trustees in addition to six appointed trustees. Therefore, the Authority is considered to be a component unit of Garvin County.

The accompanying financial statements include all functions and activities over which the Authority exercises financial accountability. Garvin County Finance Authority is a component unit of the governmental entity of Garvin County, Oklahoma. Garvin County's financial information is not presented in these financial statements. Garvin County financial audits are readily obtainable at, www.sai.ok.gov, the State Auditor's website.

1.B. 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. These statements generally distinguish between governmental and business-type activities. However, 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, net assets, 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:

Proprietary Fund Types - Proprietary funds are 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.

Proprietary Fund	Brief Description
Finance Authority	Accounts for low interest loans to local businesses, and other projects which are selected to promote the development of industry, culture, industrial manufacturing, and cultural and educational activities within Garvin County, Oklahoma.

1.C. Measurement Focus and Basis of Accounting

Measurement focus refers to how transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied.

In the financial statement, the business-type activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, as defined below:

a. The business-type activity utilizes 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, financial or nonfinancial) associated with their activities are reported. Proprietary fund equity is classified as net assets.

1.C. Measurement Focus and Basis of Accounting (continued)

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

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities except as noted above) are not recorded in these financial statements.

If the Authority utilized the basis of accounting recognized as generally accepted, the financial statements would use the accrual basis of accounting.

1.D. Assets, Liabilities and Equity

Cash & Cash Equivalents
For the purposes of the statement of cash flows, the Authority considers all cash on hand, demand deposit accounts, interest bearing checking accounts and time deposit accounts including certificates of deposit with maturities of three months or less to be cash and cash equivalents.

Land - The Authority currently owns 90.17 acres of land, valued at $69,783.46, located by the Wal-Mart Distribution Center in Pauls Valley, Oklahoma.

Notes Receivable – The Authority issued loans to the following:

1. $160,000 to B & D Farms Candy Company on February 1, 2004 for the purpose of improving operating efficiencies in the manufacture of the companies products. The terms of the agreement state that the interest rate is 3% and payable within 10 years. The authority will hold the first mortgage on the land and equipment and life insurance must be provided on the owners in the full amount of the loan. Outstanding balance is $30,103.22

2. $125,000 to Stratford Industrial Authority, which will loan the money to CoreTech Tools for the purpose of leasing a building and manufacturing an industrial tool. The terms of the agreement state that the interest rate is 3% and payable within 20 years. $300 per month will be paid the first 6 months, $600 per month for the next 6 months and $1200 per month thereafter. If the building becomes vacant Stratford Industrial Authority will pay only interest until a new tenant can be found. There is a 2-year limit on this stipulation. The Stratford Industrial Authority also received an additional $28,635 for

Notes Receivable – The Authority issued loans to the following: (continued)

partial financing of a bid awarded to Collins Metal Building. Outstanding balance is $120,650.45

3. $200,000 to CLINCO Manufacturing, LLC on September 1, 2011 for the purpose of acquiring land and construct improvements to house the manufacture of the company's products. The terms of this agreement state that the interest rate is 3% and payable within 15 years. Outstanding balance is $196,462.11

4. $26,535 to ABMI, Inc on August 18, 2006 for the purpose of improving a building leased by ABMI from Washita Valley Business, LLC, and to manufacture disposable cups treated with adherents and to pay certain operating costs. The terms of this agreement state that the interest rate is 3% and payable within 5 years. AMBI has defaulted on the note for nonpayment. Last payment received was January 21, 2010. Outstanding balance is $14,645.65.

Equity Classifications – In the proprietary fund financial statements, 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 bonds, mortgages, notes, or other borrowings that are attributed to the acquisition, construction, or improvements 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 and 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."

It is the Authority's policy to first use restricted net assets prior to the use of unrestricted net assets when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Notes Payable - Notes Payable to be repaid from the authority resources are reported as liabilities in the balance sheet. The Authority had no notes payable as of the balance sheet date.

1.E. Revenues, Expenditures and Expenses

Operating and Nonoperating Revenues - Operating revenues are considered those whose cash flows are related to operating activities, while revenues related to financing, capital and investing activities are reported as non-operating.

1.E. Revenues, Expenditures and Expenses (continued)

Expenditures/Expenses - Expenditures/expenses are reported by object or activity. The Authority reports expenses relating to the use of economic resources.

Note 2 – Detailed Notes on Transaction Classes/Accounts

2.A. Cash and Investments

Deposits and Investments - The Authority does not have a written investment policy that limits its investment choices.

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. The Authority does not have a written policy for custodial risk. However, the Authority's balances did not exceed the $250,000 FDIC insurance level during the fiscal year.

2.B. Restricted Assets

The Authority does not have any restricted assets.

2.C. Capital Assets Activity

The following is a summary of capital assets and accumulated depreciation:

	Beginning	Net Additions	Ending	Accum. Deprec.	Net
Land	$ 69,783	$ 0	$ 69,783	$ 0	$ 69,783
Total Capital Assets	$ 69,783	$ 0	$ 69,783	$ 0	$ 69,783

Land is not depreciated so there is no depreciation expense.

Note 3 - Risk Management

The Authority is exposed to various risks of loss related to torts, errors and omissions. The Authority carries surety bonds and property insurance to mitigate the risk of loss associated with torts, errors and omissions.

Note 3 - Risk Management (continued)

They have a policy with the Association of County Commissioners of Oklahoma Self-Insurance Group (ACCO-SIG) consisting of the following coverage:

Blanket Bond Coverage -	$100,000
Casualty (General Liability) -	$1,000,000
Public Officials Wrongful Act -	$2,000,000

Coverage is subject to a $10,000 deductible.

Note 4 - Commitments and Contingencies.

The Authority is not involved with any legal proceedings, which normally occur in the course of governmental operations at this time. 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 not covered by insurance would not have a material effect on the financial condition of the Authority.

Note 5 - Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

Note 6 – Related Party Transactions

The Authority has a loan agreement with AMBI. One of the owners of AMBI is related to a board member. The board member abstained during decisions associated with AMBI. The terms of the agreement with AMBI, as stated in Note 1 D, constitute an arms length transaction. AMBI did not receive any preferential consideration. AMBI has defaulted on its loan payments.

Report on Internal Control and Compliance

ANGEL, JOHNSTON & BLASINGAME, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

P.O. BOX 706 • 2700 SOUTH FOURTH
CHICKASHA, OKLAHOMA 73023
PHONE (405) 224-6363 • FAX (405) 224-6364
ajb-cpas.com

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 Trustees
Garvin County Finance Authority
Pauls Valley, Oklahoma 73075

We have audited the modified cash basis financial statements of the business-type activities of the Garvin County Finance Authority, a component unit of Garvin County, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated December 10, 2012. 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 Garvin County Finance Authority, Garvin County, Oklahoma, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Garvin County Finance 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 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 that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the schedule of findings, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 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 as item 12-01 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. 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 management, the governing board, 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 + Blasingame, P.C.

Angel, Johnston and Blasingame, P.C.
Certified Public Accountants
Chickasha, Oklahoma
December 10, 2012

Garvin County Finance Authority
Schedule of Findings
For the Year Ended June 30, 2012

12-01 *Criteria* – The segregation of duties and responsibilities between different individuals for custody of assets, record keeping for those assets, and 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 performs all accounting functions; receives cash, makes bank deposits, writes checks, reconciles the monthly bank statements and prepares financial summaries.

Cause – The entity's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

Effect or Potential Effect – Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to the accounting functions, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation – While it may not be cost effective to hire the additional administrative staff that would be necessary in order to adequately segregate the responsibilities, the Board should consider a formal evaluation of their risks associated with this lack of segregation of duties. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with lack of segregation of duties.

Management response – Management agrees.