

Independent Auditor's Report

GARVIN COUNTY FINANCE AUTHORITY

Year Ending June 30, 2013

GARVIN COUNTY FINANCE AUTHORITY

PAULS VALLEY, OKLAHOMA

June 30, 2013

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the Garvin County Finance Authority, Garvin County, Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 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 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 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 opinions.

Opinions

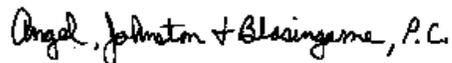
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position-modified cash basis of the Garvin County Finance Authority as of June 30, 2013, and the respective changes in financial position-modified cash basis and cash flows-modified cash basis, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 6, 2013, on our consideration of the 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 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 the Authority's internal control over financial reporting and compliance.



Angel, Johnston & Blasingame, P.C.
Chickasha, Oklahoma
September 6, 2013

GARVIN COUNTY FINANCE AUTHORITY
STATEMENT OF NET POSITION
MODIFIED CASH BASIS
For the Year Ended June 30, 2013

ASSETS

Current Assets:	
Cash and Cash Equivalents	\$ 99,830.95
Current Portion of Loan Receivables	26,485.87
<i>Total Current Assets</i>	<u>\$ 126,316.82</u>
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.	0.00
Stratford Industrial Authority	107,053.17
Clinco Manufacturing	179,781.34
<i>Total Noncurrent Assets</i>	<u>\$ 356,617.97</u>
 <i>Total Assets</i>	 <u><u>\$ 482,934.79</u></u>

LIABILITIES

Current Liabilities:	
Notes Payable	0.00
<i>Total Current Liabilities</i>	<u>0.00</u>
Non Current Liabilities:	
Notes Payable	0.00
<i>Total Non Current Liabilities</i>	<u>\$ 0.00</u>
 <i>Total Liabilities</i>	 <u><u>\$ 0.00</u></u>

NET POSITION

Net Investment in Capital Assets	69,783.46
Restricted	0.00
Unrestricted	<u>413,151.33</u>
 <i>Total Net Position</i>	 <u><u>\$ 482,934.79</u></u>

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

GARVIN COUNTY FINANCE AUTHORITY
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN NET POSITION
MODIFIED CASH BASIS
For the Year Ended June 30, 2013

Operating Revenues:	
Loan Interest	\$ 9,897.93
Land Lease	<u>1,560.00</u>
Total Operating Revenues	11,457.93
Operating Expenses:	
Professional Fees	1,850.00
Insurance	<u>3,300.00</u>
Total Operating Expenses	\$ <u>5,150.00</u>
Net Operating Income (Loss)	\$ 6,307.93
Non-Operating Revenues (Expenses)	
Interest Income	<u>173.75</u>
Total Non-Operating Revenues (Expenses)	\$ <u>173.75</u>
Change in Net Position	\$ 6,481.68
Net Position-Beginning of Year	\$ <u>476,453.11</u>
Net Position-End of Year	\$ <u><u>482,934.79</u></u>

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

GARVIN COUNTY FINANCE AUTHORITY
STATEMENT OF CASH FLOWS
MODIFIED CASH BASIS
For the Year Ended June 30, 2013

Cash flows from operating activities:	
Cash received from loan interest	\$ 9,897.93
Cash received from land lease	1,560.00
Cash received from loan repayments	33,895.38
Cash dispersed for financing	-
Cash paid to vendors	<u>(5,150.00)</u>
Net Cash provided (used) by operating activities	40,203.31
 Cash flows from capital and related financing activities:	
Interest Expense	0.00
Purchase of capital assets	<u>0.00</u>
Net Cash provided (used) by capital & related financing activities	0.00
 Cash flows from investing activities:	
Interest income	<u>173.75</u>
Net Cash provided (used) by investing activities	173.75
 Net Increase (Decrease) in cash and cash equivalents	 <u>40,377.06</u>
 Cash & Cash equivalents at beginning of year	 <u>59,453.89</u>
Cash & Cash equivalents at end of year	<u>99,830.95</u>
 Reconciliation of Operating Income to Net Cash Provided (used) by Operating Activities	
Operating Income	6,307.93
Adjustment to Reconcile Operating Income to Net Cash Provided	
Change in loan receivables, net	<u>33,895.38</u>
Net Cash Provided (used) by Operating Activities	<u>\$ 40,203.31</u>

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

GARVIN COUNTY FINANCE AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

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. 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. The Authority's financials are material to Garvin County. 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

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

GARVIN COUNTY FINANCE AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

1.B. Basis of Presentation (continued)

The 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.

The Authority's financial statements use the economic resources measurement focus and the modified cash basis of accounting. Revenues are recognized when they are received and expenses are recorded when paid with the following modifications:

- Capital assets are recorded when purchased and related depreciation is recorded.
- Amounts paid out for loans are recorded as assets.

If the Authority utilized the basis of accounting recognized as generally accepted, the financial statements would use the accrual basis of accounting. In other words, revenue would be recognized when earned and expenses would be recorded when the liability is incurred or economic asset used.

1.D. Assets, Liabilities and Net Position

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.

Loan Receivables – 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 \$13,732.78.

GARVIN COUNTY FINANCE AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

1.D. Assets, Liabilities and Net Position (continued)

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. If the building becomes vacant Stratford Industrial Authority will pay only interest until a new tenant can be found. The Stratford Industrial Authority also received an additional \$28,635 for partial financing of a bid awarded to Collins Metal Building. Outstanding balance is \$113,953.67

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 \$185,633.93.

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.

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.

Net Position – Net Position is divided into three components:

- a. *Net Investment in Capital Assets* – 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 position* – 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 position* – All other net assets that do not meet the definition of “restricted” or “net investment in capital assets.”

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

**GARVIN COUNTY FINANCE AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

1.E. Revenues 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.

Expenses - The Authority reports expenses relating to the use of economic resources.

1.F Estimates

Certain estimates are made in the preparation of the financial statements, such as estimated lives for capital assets depreciation. Estimates are based on management's best judgments and may vary from actual results.

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. Investments are in compliance with Oklahoma statutes.

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

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

	<u>Beginning</u>	<u>Net Additions</u>	<u>Ending</u>	<u>Accum. Deprec.</u>	<u>Net</u>
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.

**GARVIN COUNTY FINANCE AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

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. 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. There have been no significant reductions in coverage from the prior year.

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. 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 – 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. The related party board member resigned from the Board, December 12, 2012.

*Report on Internal Control
and Compliance*

**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**

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

We have audited, in accordance with the 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, the accompanying modified cash basis financial statements of the Garvin County Finance Authority, a component unit of Garvin County, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated, September 6, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Garvin County Finance 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of the 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 responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control

that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness. 13-01.

Compliance and Other Matters

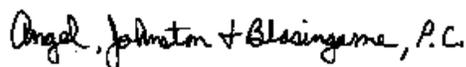
As part of obtaining reasonable assurance about whether Garvin County Finance Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct 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*.

Garvin County Finance Authority's Response to Findings

Garvin County Finance Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with the *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Angel, Johnston & Blasingame, P.C.
Chickasha, Oklahoma
September 6, 2013

Garvin County Finance Authority
Schedule of Findings and Responses
For the Year Ended June 30, 2013

13-01 *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 and has implemented changes to their procedures to reduce, but not eliminate risks associated with segregation of incompatible duties.