

Independent Auditor's Report

GARVIN COUNTY FINANCE AUTHORITY

June 30, 2011

GARVIN COUNTY FINANCE AUTHORITY
PAULS VALLEY, OKLAHOMA
June 30, 2011

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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, 2011, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with 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-cash basis of the business-type activities of **Garvin County Finance Authority** as of June 30, 2011, and the respective changes in financial position-cash basis and cash flows-cash basis, thereof for the year ended in conformity with the basis of accounting described in Note 1.

Garvin County Finance Authority
December 20, 2011

In accordance with *Government Auditing Standards*, we have also issued a report dated December 20, 2011 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Garvin County Finance Authority has not presented the Management's Discussion and Analysis and budgetary information, which the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of the basic financial statements, for the year ended June 30, 2011.

Angel, Johnston & Blasingame, P.C.
Chickasha, Oklahoma
December 20, 2011

Garvin County Finance Authority
Statement of Net Assets - Modified Cash Basis
Proprietary Fund
June 30, 2011

	<u>Enterprise Fund</u>
<u>ASSETS</u>	
Current Assets:	
Cash and Cash Equivalents	\$ 227,634
Current Portion Loan Receivables	<u>23,901</u>
<i>Total Current Assets</i>	<u>251,535</u>
Noncurrent Assets:	
Land	69,783
Loan Receivables	
AMBI	14,646
Reserve for Loan Loss-AMBI	(14,646)
B & D Farms Candy Co.	30,103
Stratford Industrial Authority	<u>118,995</u>
<i>Total Noncurrent Assets</i>	<u>218,882</u>
<i>Total Assets</i>	<u>470,417</u>
 <u>LIABILITIES</u>	
Current Liabilities:	
Accounts Payable	<u>0</u>
<i>Total Current Liabilities</i>	<u>0</u>
<i>Total Liabilities</i>	<u>0</u>
 <u>NET ASSETS</u>	
Invested in Capital Assets, net of related debt	69,783
Restricted	0
Unrestricted	<u>400,633</u>
<i>Total Net Assets</i>	<u>\$ 470,417</u>

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

Garvin County Finance Authority
Statement of Revenues, Expenses, and Changes in Net Assets
Modified Cash Basis - Proprietary Fund
Year Ended June 30, 2011

	<u>Enterprise Fund</u>
Operating Revenues	
Loan Interest	\$ 5,216
Other Revenue	<u>1,560</u>
<i>Total Operating Revenues</i>	<u>6,776</u>
Operating Expenses	
Insurance	3,300
Professional Services	1,545
<i>Total Operating Expenses</i>	<u>4,845</u>
<i>Operating Income (Loss)</i>	<u>1,931</u>
Non-Operating Revenues (Expenses)	
Interest and Investment Revenue	<u>1,069</u>
<i>Total Non-Operating Revenues (Expenses)</i>	<u>1,069</u>
<i>Income (Loss) Before Transfers</i>	3,001
Transfers In (Out)	<u>0</u>
<i>Net Income (Loss)</i>	3,001
<i>Net Assets - Beginning of Year</i>	<u>467,416</u>
 <i>Net Assets - End of Year</i>	 \$ <u><u>470,417</u></u>

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

Garvin County Finance Authority
Statement of Cash Flows - Modified Cash Basis
Proprietary Fund
For the Year Ended June 30, 2011

	Enterprise Fund
Cash Flows from Operating Activities:	
Receipts from Loan Interest	\$ 5,216
Receipts from Other Income	1,560
Payments to suppliers	(4,845)
Loan repayments	21,099
<i>Net Cash Provided by (used for) Operating Activities</i>	<u>23,030</u>
Cash Flows from Noncapital Financing Activities:	
Transfers from County	0
<i>Net Cash Provided by (used for) Noncapital Financing Activities</i>	<u>0</u>
Cash Flows from Investing Activities:	
Interest Received	1,069
<i>Net Cash Provided by (used for) Investing Activities</i>	<u>1,069</u>
<i>Net Increase (Decrease) in Cash and Investments</i>	24,099
<i>Cash and Investments - Beginning of Year</i>	<u>203,535</u>
<i>Cash and Investments - End of Year</i>	<u>\$ 227,634</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:	
Operating income (loss)	\$ 1,931
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Change in loan receivables, net	<u>21,099</u>
<i>Net Cash Provided by (used for) Operating Activities</i>	<u>\$ 23,030</u>

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

Garvin County Finance Authority

Notes to Basic Financial Statements

For the Year Ended June 30, 2011

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 was organized 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 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.

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 major fund category at the Authority is described below:

Garvin County Finance Authority

Notes to Basic Financial Statements

For the Year Ended June 30, 2011

1.B. Basis of Presentation (continued)

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

General Fund

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

Basis of accounting refers to when revenue and expenditures are recognized in the accounts and reported in the financial statements. This relates to the timing of revenues, expenditures/expenses regardless of the measurement focus applied. Measurement focus identifies which transactions and events should be recorded.

The Authority prepares its financial statements using the modified cash basis of accounting. Under this basis, revenues and expenditures are recognized when they result from cash transactions. This method of accounting does not conform to generally accepted accounting principles. If the books of the Authority were maintained on the basis of accounting required by generally accepted accounting principles, the proprietary fund type would utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred.

1.D. Assets, Liabilities and Equity

Cash and Cash Equivalents - For the purpose of the statement of cash flows, the Authority considers all cash in 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.

Garvin County Finance Authority

Notes to Basic Financial Statements

For the Year Ended June 30, 2011

1.D. Assets, Liabilities, and Equity (continued)

Notes Receivable – The Authority issued loans to the following: (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. \$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 partial financing of a bid awarded to Collins Metal Building.
3. \$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. 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.

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

1.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.

Expenditures/Expenses – Expenditures/expenses are reported by object or activity.

1.F. Differences from GAAP

Management Discussion and Analysis

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

Note 2 – 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 Organization's deposits may not be returned to it. FDIC insurance coverage is \$250,000. The Authority's deposits were fully covered by FDIC insurance at June 30, 2010.

Garvin County Finance Authority

Notes to Basic Financial Statements

For the Year Ended June 30, 2011

Note 3 – Concentrations and Contingencies

The Authority is dependent upon repayment of loans from only three entities, if any one of the entities defaulted on the loans it would have a significant impact on the Authority's financial condition. As of June 30, 2011 AMBI defaulted on its loan payments. The remaining balance on the loan on that date was \$14,645.65. Management believes it is likely that the loan will **not** be repaid. The receivable balance is considered non-current and a provision for loan loss has been accounted for on the financial statements.

The Authority entered into a fifteen year, \$200,000 loan with Clinco Manufacturing, LLC, on September 1, 2011. Disbursement on the loan is three phased based on benchmarks as stated in the promissory note. The annual interest rate is 3%. Loan repayment is to begin March 2012.

Note 4 – 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 coverages:

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 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.

**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 accompanying 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, 2011, which comprise the Authority's basic financial statements and have issued our report thereon dated December 20, 2011. The Authority did not prepare a Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of the basic financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weakness. However, as discussed below we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

This report is intended solely for the information of the governing board, management, all applicable state agencies, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Angel, Johnston and Blasingame, P.C.
Chickasha, Oklahoma
December 20, 2011

Garvin County Finance Authority
Schedule of Findings
For the Year Ended June 30, 2011

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

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

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

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

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