

Independent Auditor's Report

Harper County Development Authority

Harper County, Oklahoma

Year Ending June 30, 2012

**Harper County Development Authority
Harper County, Oklahoma
June 30, 2012**

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INDEPENDENT AUDITOR'S REPORT

To the Trustees of
Harper County Development Authority
Lavern, Oklahoma 73848

We have audited the accompanying financial statements of the business-type activities of the **Harper County Development Authority**, a component unit of Harper 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.

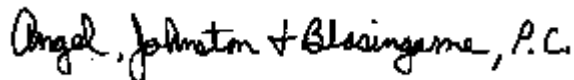
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and 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 **Harper County Development 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.

Harper County Development Authority
September 21, 2012

In accordance with *Government Auditing Standards*, we have also issued a report dated September 21, 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.

A handwritten signature in black ink that reads "Angel, Johnston & Blasingame, P.C." The signature is written in a cursive, flowing style.

Angel, Johnston & Blasingame, P.C.
Chickasha, Oklahoma
September 21, 2012

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

	<u>Enterprise Fund</u>
<u>ASSETS</u>	
Current Assets:	
Checking Account	\$ 1,274.06
Checking Account (Trails Project)	154.44
Savings Account	8,654.15
Savings Account (Trails Project)	5,576.13
Construction Equity Account	<u>11,955.00</u>
<i>Total Current Assets</i>	<i>\$ 27,613.78</i>
Fixed Assets	
Construction in Process	743,998.68
Recreational Trail	217,965.89
Land	<u>25,402.25</u>
<i>Total</i>	<i>\$ 987,366.82</i>
Less Accumulated Depreciation	<u>(18,183.08)</u>
<i>Total Fixed Assets</i>	<i>\$ 969,183.74</i>
<i>Total Assets</i>	<i>\$ <u>996,797.52</u></i>
<u>LIABILITIES</u>	
Current Liabilities:	
Notes Payable	<u>0.00</u>
<i>Total Current Liabilities</i>	<i><u>0.00</u></i>
Non Current Liabilities:	
Notes Payable	<u>581,837.43</u>
<i>Total Non Current Liabilities</i>	<i>\$ <u>581,837.43</u></i>
<i>Total Liabilities</i>	<i>\$ <u>581,837.43</u></i>
<u>NET ASSETS</u>	
Invested in Capital Assets net of Related Debt	387,346.31
Restricted	17,685.57
Unrestricted	<u>9,928.21</u>
<i>Total Net Assets</i>	<i>\$ <u>414,960.09</u></i>

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

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

	<u>Enterprise Fund</u>
Operating Revenue:	
Grants	\$ 7,908.42
Reimbursement	8,500.00
Contributions	<u>1,300.00</u>
Total Operating Revenue	17,708.42
 Cost of Goods Sold:	
Cost of Goods Sold	<u>0.00</u>
Total Gross Income	\$ 17,708.42
 Operating Expenses:	
Professional Fees	3,050.00
Maintenance	1,370.00
Insurance	954.00
Dues and Subscriptions	250.00
Advertising	32.00
Supplies	116.98
Postage	67.80
Training and Conferences	150.00
Depreciation Expense	<u>5,457.40</u>
Total Operating Expenses	\$ <u>11,448.18</u>
 Net Operating Income (Loss)	\$ 6,260.24
 Non-Operating Revenue(Expense)	
Interest Income	55.88
Interest Expense on Loan	<u>(73.42)</u>
Total Non-Operating Revenue (Expense)	\$ (17.54)
 Net Income (Loss)	\$ 6,242.70
 Net Assets-Beginning of Year	\$ <u>408,717.39</u>
 Net Assets-End of Year	\$ <u><u>414,960.09</u></u>

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

HARPER COUNTY DEVELOPMENT 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 grants	\$ 7,908.42
Cash received from contributions	1,300.00
Cash received from reimbursements	8,500.00
Cash paid to vendors	<u>(5,990.78)</u>
Net Cash provided (used) by operating activities	11,717.64

Cash flows from capital and related financing activities:

Interest Expense	(73.42)
Purchase of capital assets	(674,775.47)
Principal paid on capital debt	(10,000.00)
Loan Proceeds	<u>536,249.22</u>
Net Cash provided (used) by capital & related financing activities	(148,599.67)

Cash flows from investing activities:

Interest income	55.88
Net Increase (Decrease) in cash and cash equivalents	<u>(136,826.15)</u>

Cash & Cash equivalents at beginning of year	<u>164,439.93</u>
Cash & Cash equivalents at end of year	27,613.78

**Reconciliation of Operating Income to Net Cash Provided
(used) by Operating Activities**

Operating Income	6,260.24
Adjustment to Reconcile Operating Income to Net Cash Provided	
Depreciation Expense	<u>5,457.40</u>
Net Cash Provided (used) by Operating Activities	<u>\$ 11,717.64</u>

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

HARPER COUNTY DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 1 – Summary of Significant Accounting Policies

As discussed further in Note 1.C., the Authority complies with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units with a change for the modified cash basis. 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 that they are applicable, 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

Harper County Development Authority, Harper County, Oklahoma was established pursuant to Title 60 of Oklahoma State Law in November 2002. The purpose of this trust is to promote the economic development of the Harper County, Oklahoma (hereinafter referred to as the “Harper County”), by participating to the greatest degree possible in promoting and attracting new business and industry to Harper County and assisting existing business and industry to expand employment, payroll and benefits. In accomplishing said purpose, the Trust may make financial inducements or take any other necessary action to attract and retain business and industry to the Harper County so long as such actions are consistent with state and federal statutes and constitutional limitations.

The accompanying financial statements include all functions and activities over which the Authority exercises financial accountability. Harper County Development Authority is a component unit of the governmental entity of Harper County, Oklahoma. Harper County’s financial information is not presented in these financial statements.

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. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. 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.

HARPER COUNTY DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

1.B. Basis of Presentation (continued)

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, fund equity, 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

Enterprise Funds – These funds are established to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

1.C. Basis of Accounting and Measurement Focus

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.
- 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.

HARPER COUNTY DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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

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.

Note Receivable

The Authority has not issued any loans. As a result of the modified cash basis of accounting, accounts receivable and other revenue related receivables are not reported on the financial statements.

Capital Assets - The cost of capital assets has been accumulated since inception. The assets are recorded at cost and are depreciated over the estimated useful lives using the straight-line depreciation method. The Authority has no policy on capitalization; assets are capitalized based on Board judgement. The range of estimated useful lives by type of asset is as follows:

	<u>Years</u>
Concrete Pathways	40
Buildings	40
Signage	20

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.

HARPER COUNTY DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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

- 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 Notes Payable is comprised of one note. See Note 3-D.

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. The Authority reports expenses relating to the use of economic resources including depreciation.

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 - Deposits

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 do not exceed the \$250,000 FDIC insurance level.

Note 2 – Detail Notes – Transaction Classes/Accounts (continued)

3.B. Restricted Assets

The amounts reported as restricted assets on the Statement of Net Assets are comprised of cash the Authority has restricted for the following uses:

Laverne Recreational Trail - \$5,730.57

These funds are to be used for the care and maintenance of the Laverne Recreational Trail.

HARPER COUNTY DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

3.B. Restricted Assets (continued)

Senior Assisted Living Housing Project - \$11,955.00
These funds are to be used for the development and debt service escrow of the Parkview Pointe Assisted Living Housing Project.

3.C. Capital Assets Activity

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>
Laverne Recreational Trail	\$217,966	\$ 0	\$217,966	\$18,183	\$199,783
Land	25,402	0	25,402	0	25,402
Construction in Progress	<u>69,223</u>	<u>674,775</u>	<u>743,998</u>	<u>0</u>	<u>743,998</u>
Total Capital Assets	<u>\$312,591</u>	<u>\$674,775</u>	<u>\$987,366</u>	<u>\$18,183</u>	<u>\$969,183</u>

Depreciation expense for the year was \$5,457 and was all charged against the Laverne Recreational Trail. Construction in Progress will not start depreciating until complete and Land is not depreciated.

3.D. Notes Payable/ Construction Line of Credit

The Authority had the following Line of Credit outstanding:

Construction Line of Credit to the Northstar Bank of Texas for \$2,500,000. This line of credit is effective from June 12, 2011 until May 12, 2013, (the "Conversion Date") Until the Conversion Date, the interest rate is variable and is the greater of 6.5% or 1% per annum above the minimum prime lending rate, adjusted on the first day of each calendar quarter. The interest rate was 6.5% during the fiscal year. On the Conversion Date, the interest rate becomes a fixed rate equal to the Federal Agricultural Mortgage Corporation 30 year fixed rate plus one half percent, and will remain at that rate until maturity, May 12, 2043. The note is secured by a loan guarantee from the United States Department of Agriculture Rural Development, for the construction of a 26 unit assisted living facility. As of June 30, 2012 draws for construction were \$581,837 of which \$8,169 is interest that has been capitalized.

Two Notes Payable of \$5,000, (\$10,000 total) with the Bank of Laverne were paid off. Interest paid on the notes was \$56. One loan was for land purchase and one was for a feasibility study for the assisted living facility.

HARPER COUNTY DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 4 – Other Notes

4.A. Risk Management

The Authority is exposed to various risks of loss related to torts, errors and omissions. At this time the Authority carries liability insurance for the Laverne Recreational Trail. The Authority has a Fidelity Bond with Western Surety Company bond number 69539585, which is for the term September 2, 2011 to September 2, 2012 and covers the Secretary/Treasurer for the penal amount of \$50,000.

4.B. 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.

4.C. 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.

4.D. Grants

The Authority received an Operational Grant from the Harper County Development Council, in the amount of \$7,908.42, to assist with the operating costs and land purchase of the Harper County Development Authority. As of June 30, 2012, all funds from the grant have been spent on approved costs.

*Other Information Required for
Governmental Audits*

**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
Harper County Development Authority
Laverne, Oklahoma 73848

We have audited the modified cash basis financial statements of the business-type activities of the Harper County Development Authority, a component unit of Harper 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 September 21, 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 Harper County Development Authority, Harper County, Oklahoma, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Harper County Development 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

Harper County Development Authority
September 21, 2012

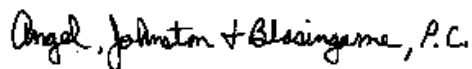
possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings as item 12-01 to be a material weakness.

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 and Blasingame, P.C.
Certified Public Accountants
Chickasha, Oklahoma
September 21, 2012

Harper County Development Authority
Schedule of Awards
June 30, 2012

<u>Grantor/Program Title</u>	<u>Federal Project #</u>	<u>State Project #</u>	<u>Award Amount</u>	<u>Award Beg. Bal.</u>	<u>Current Year Awards Expended</u>
County Awards:					
Harper County Rural Development Council.					
Land and interest	N/A	N/A	\$ 5,073.42	5,073.42	5,073.42
Attorney fees	N/A	N/A	2,835.00	2,835.00	2,835.00
Sub-total			<u>7,908.42</u>	<u>7,908.42</u>	<u>7,908.42</u>
TOTAL AWARDS:			<u>\$ 7,908.42</u>	<u>7,908.42</u>	<u>7,908.42</u>
TOTAL AWARDS ENDING BALANCE:			<u>\$ 0.00</u>		

Harper County Development 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 donations, makes bank deposits, writes checks, reconciles the monthly bank statements and prepares monthly 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.