

Independent Auditor's Report

Harper County Development Authority

Harper County, Oklahoma
Year Ending June 30, 2011

FILED

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**Harper County Development Authority
Harper County, Oklahoma
June 30, 2011**

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CERTIFIED PUBLIC ACCOUNTANTS

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, 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.

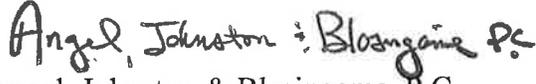
As described in Note 1, the Authority prepares its financial statements on a modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted accounting principles.

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 **Harper County Development 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.

Harper County Development Authority
October 28, 2011

In accordance with *Government Auditing Standards*, we have also issued a report dated October 28, 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 Harper County Development Authority has not presented the Management's Discussion and Analysis and budgetary information for the year ended June 30, 2011. Those are not a required part of the basic financial statements but are supplementary information required to accompany those financial statements.


Angel, Johnston & Blasingame, P.C.
Chickasha, Oklahoma
October 28, 2011

HARPER COUNTY DEVELOPMENT AUTHORITY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
PROPRIETARY FUND
June 30, 2011

		Enterprise Fund
<u>ASSETS</u>		
Current Assets:		
Checking Account	\$	3,305.09
Checking Account (Trails Project)		760.44
Savings Account		2,326.66
Savings Account (Trails Project)		8,047.74
Construction Equity Account		150,000.00
<i>Total Current Assets</i>		164,439.93
Fixed Assets		
Construction in Process		69,223.21
Recreational Trail		217,965.89
Land		25,402.25
<i>Total</i>		312,591.35
Less Accumulated Depreciation		(12,725.68)
<i>Total Fixed Assets</i>		299,865.67
<i>Total Assets</i>		464,305.60
<u>LIABILITIES</u>		
Current Liabilities:		
Notes Payable		55,588.21
<i>Total Current Liabilities</i>		55,588.21
<i>Total Liabilities</i>		55,588.21
<u>NET ASSETS</u>		
Invested in Capital Assets net of Related Debt		244,277.46
Restricted		158,808.18
Unrestricted		5,631.75
<i>Total Net Assets</i>	\$	408,717.39

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, 2011

		Enterprise Fund
Operating Revenue:		
Grants	\$	3,017.36
Contributions		148,060.00
Total Operating Revenue		151,077.36
 Cost of Goods Sold:		
Cost of Goods Sold		0.00
Total Gross Income		151,077.36
 Operating Expenses:		
Professional Fees		2,050.00
Insurance		893.00
Advertising		36.00
Ad Valorem Taxes		13.00
Postage		19.77
Licenses & Permits		25.00
Depreciation Expense		5,457.40
Total Operating Expenses		8,494.17
Net Operating Income (Loss)		142,583.19
 Non-Operating Revenue(Expense)		
Interest Income		505.77
Interest Expense on Loan		(692.04)
Total Non-Operating Revenue (Expense)		(186.27)
Net Income (Loss)		142,396.92
Net Assets-Beginning of Year		266,320.47
Net Assets-End of Year	\$	408,717.39

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, 2011

Cash flows from operating activities:	
Cash received from grants	\$ 3,017.36
Cash received from contributions	148,060.00
Cash paid to vendors	<u>(3,036.77)</u>
Net Cash provided (used) by operating activities	148,040.59
 Cash flows from capital and related financing activities:	
Interest Expense	(692.04)
Purchase of capital assets	(48,423.21)
Principal paid on capital debt	(5,000.00)
Loan Proceeds	<u>45,588.21</u>
Net Cash provided (used) by capital & related financing activities	(8,527.04)
 Cash flows from investing activities:	
Interest income	505.77
Net Increase (Decrease) in cash and cash equivalents	<u>140,019.32</u>
Cash & Cash equivalents at beginning of year	<u>24,420.61</u>
Cash & Cash equivalents at end of year	164,439.93
 Reconciliation of Operating Income to Net Cash Provided	
(used) by Operating Activities	
Operating Income	142,583.19
Adjustment to Reconcile Operating Income to Net Cash Provided	
Depreciation Expense	<u>5,457.40</u>
Net Cash Provided (used) by Operating Activities	<u>\$ 148,040.59</u>

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

HARPER COUNTY DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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, 2011

Note 1 – Summary of Significant Accounting Policies (continued)

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:

Enterprise Fund

Enterprise 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.

Enterprise Fund

Brief Description

General Fund Account

Account to defray the administrative and audit costs associated or attributable to the Beneficiary's development projects and other projects which are selected to promote the development of industry, cultural and educational activities within Harper County, Oklahoma.

1.C. Basis of Accounting and Measurement Focus

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

The accompanying statement of net assets and statement of revenue, expense, and changes in net assets are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues and expenditures when they result from cash transactions. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

If the Authority used the basis of accounting required by generally accepted accounting principles, the financial statements would use the accrual basis of accounting. Under the

HARPER COUNTY DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 1 – Summary of Significant Accounting Policies (continued)

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

accrual basis of accounting, revenues would be recognized when susceptible to accrual (i.e. both measurable and available) and expenditures would be recorded when the current liability is incurred. 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 & 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.

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.

Notes Payable

Notes Payable are to be repaid from the authority resources are reported as liabilities in the balance sheet. The Notes Payable is comprised of three notes. See Note 3-C.

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.

HARPER COUNTY DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 1 – Summary of Significant Accounting Policies (continued)

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 including depreciation.

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 - 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 3 – Detail Notes – Transaction Classes/Accounts

3.A. Restricted Assets

The Authority has the following restricted assets:

Laverne Recreational Trail - \$8,808.18

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

Senior Assisted Living Housing Project - \$150,000

These funds are to be used for the development and debt service escrow of the Parkview Pointe Assisted Living Housing Project.

The Authority will first apply restricted resources when an expense is incurred for which both restricted and unrestricted net assets are available, if their use complies with restrictions.

HARPER COUNTY DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 4 – Other Notes

4.A. Risk Management (continued)

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, 2010 to September 2, 2011 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.

The Authority was approved for a loan of \$2.5 million, secured by a loan guarantee from the United States Department of Agriculture Rural Development, for the construction of a 26 unit assisted living facility. The loan is with Northstar Bank of Texas. See note 3.C. for loan details.

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 \$3,017.36, to assist with the operating costs of the Harper County Development Authority. As of June 30, 2011, all funds from the grant have been spent on operating costs.

Supplemental Information

**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 Finance Authority
Laverne, Oklahoma 73848

We have audited the accompanying 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, 2011, which comprise the Authority's basic financial statements and have issued our report thereon dated October 28, 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 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 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

Harper County Development Authority
October 28, 2011

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.

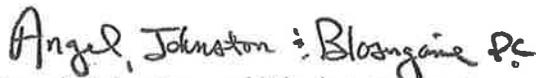
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose 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
October 28, 2011

Harper County Development Authority
Schedule of Awards
June 30, 2011

<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. Operating Expenses	N/A	N/A	\$ 3017.36	3017.36	3017.36
Sub-total			<u>3017.36</u>	<u>3017.36</u>	<u>3017.36</u>
TOTAL AWARDS:			<u>\$ 3017.36</u>	<u>3017.36</u>	<u>3017.36</u>
TOTAL AWARDS ENDING BALANCE:			<u>\$ 0.00</u>		

Harper County Development Authority
Schedule of Findings
For the Year Ended June 30, 2011

11-1. 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.

11-2. Criteria – Public Competitive Bidding Act of 1974 requires contracts for construction, labor, equipment, materials or repairs in excess of \$50,000 to be awarded to the lowest and best competitive bidder, pursuant to a public invitation to bid. The invitation to bid shall be published in a county wide newspaper at least 20 days prior to bid opening.

Condition – The Authority awarded a \$2.5 million construction contract for a 26 unit senior assisted living building, without following requirements of the Public Competitive Bidding Act.

Cause and Effect – The research and work to initiate the construction spanned over several years. When the project progressed to awarding the contract, the requirements were overlooked. The Authority is not in compliance with Oklahoma Statutes.

Recommendation – We recommend the Authority follow Oklahoma Statutes on all projects under the scope of the Public Competitive Bidding Act.

Management response – Management agrees.