Independent Auditor's Report

McClain County 911 Trust Authority

McClain County Oklahoma

Year Ending June 30, 2012

McCLAIN COUNTY 911 TRUST AUTHORITY
McClain County, Oklahoma
June 30, 2012

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INDEPENDENT AUDITOR'S REPORT

To the Trustees of
McClain County 911 Trust Authority
Purcell, Oklahoma 73080

We have audited the accompanying financial statements of the business-type activities of the **McClain County 911 Trust Authority**, a component unit of McClain 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 **McClain County 911 Trust Authority** as of June 30, 2012, and the respective changes in financial position-modified cash basis and cash flows-modified cash basis, thereof for the year ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 14, 2012, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Angel, Johnston & Blasingame, P.C.

Angel, Johnston & Blasingame, P.C.
Chickasha, Oklahoma
November 14, 2012

McCLAIN COUNTY 911 TRUST AUTHORITY
STATEMENT OF NET ASSETS
MODIFIED-CASH BASIS
June 30, 2011

		Enterprise Fund
ASSETS		
Current Assets		
Cash and cash equivalents	$	346,699
Total Current Assets		346,699
Noncurrent Assets		
Capital Assets (net of accumulated depreciation)		136,492
Total Noncurrent Assets		136,492
Total Assets		483,191
LIABILITIES		
Current Liabilities		0
Total Current Liabilities		0
Noncurrent Liabilities		0
Total Noncurrent Liabilities		0
NET ASSETS		
Invested in Capital Assets net of Related Debt		136,492
Restricted		0
Unrestricted		346,699
Total Net Assets		483,191
Total liabilities and net assets	$	483,191

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

McCLAIN COUNTY 911 TRUST AUTHORITY
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
MODIFIED CASH BASIS
For the Year Ended June 30, 2012

		Enterprise Fund
Operating Revenues:		
Wireline 911 service fees	$	102,586
Wireless 911 service fees		154,465
Agency Usage fees		9,165
VOIP User fees		259
Map/Audio tape reimbursements		0
Other Miscellaneous		1,080
Total Operating Revenue		267,555
Operating Expenses:		
Salaries		117,699
911 Network Database		42,976
Equipment Maintenance		127,306
Professional Fees		8,885
Dispatch Fees		9,165
Utilities		4,476
Promotion/Education		800
Dues/Memberships		305
Office Supplies		1,750
Street Signs		426
Insurance		502
Vehicle Fuel/Maintenance		5,793
Bank Fees		276
Miscellaneous		2,036
Depreciation		27,422
Total Operating Expenses		349,817
Net Operating Income (Loss)		(82,262)
Non-Operating Revenue(Expense)		
Interest Income		1,264
Interest Expense		(78)
Total Non-Operating Revenue (Expense)		1,186
Net Income (Loss)		(81,076)
Net Assets-Beginning of Year		564,267
Net Assets-End of Year	$	483,191

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

McCLAIN COUNTY 911 TRUST AUTHORITY
STATEMENT OF CASH FLOWS
MODIFIED CASH BASIS
For the Year Ended June 30, 2012

		Enterprise Fund
Cash flows from operating activities:		
Operating receipts	$	267,555
Cash paid for operating expenses		(204,696)
Cash paid to employees for services		(117,699)
Net Cash provided (used) by operating activities		(54,840)
Cash flows from capital and related financing activities:		
Interest Expense		(78)
Acquisition of capital assets		(105,260)
Net Cash provided (used) by capital & related financing activities		(105,338)
Cash flows from investing activities:		
Interest income		1,264
Net Increase (Decrease) in cash and cash equivalents		(158,914)
Cash & Cash equivalents at beginning of year		505,613
Cash & Cash equivalents at end of year	$	346,699

Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:		
Operating Income	$	(82,262)
Adjustment to Reconcile Operating Income to Net Cash Provided (Used)		
Depreciation Expense		27,422
Net Cash Provided (used) by Operating Activities	$	(54,840)

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1.C., 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

McClain County 911 Trust Authority, McClain County, Oklahoma was established September 18, 2000, pursuant to Title 60 of O.S. 1961, Section 176 to 180.3, inclusive. The purpose of this trust is to provide to the residents of McClain County the highest quality emergency services possible with the shortest response time possible

McClain County is the trust beneficiary and will receive all resident trust assets upon termination of the trust. The accompanying financial statements include all functions and activities over which the Authority exercises financial accountability. There are no other entities for which the Authority is considered to be financially accountable, and as such, no other entities are presented. The Authority is considered to be a political subdivision of McClain County.

1.B. Basis of Accounting and Measurement Focus

The Authority's financial statements are presented using a modified cash basis of accounting. 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 fund financial statements 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 with a provision for depreciation. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

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

If the Authority used the basis of accounting required by generally accepted accounting principles, the financial statements would use the accrual basis of accounting and separate fund statements would be presented using the modified accrual basis of accounting. Under the modified 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.C. 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.

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
McClain Co. 911 Trust Authority	The Fund is the general operating fund of the Authority. It is used to account for all financial resources except those required to be accounted for in another fund.

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 Authority had no notes payable during the year

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.

1.F. Capital Assets

All capital assets are capitalized at cost and updated for additions and retirements during the year. The Authority capitalizes assets with an initial cost of $500 or greater and a life in excess of one year. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets life are not capitalized.

1.F. Capital Assets (continued)
Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Asset	Years
Equipment and Vehicles	5
Hardware and Software	5
Furniture	7
Buildings	25

1. G. Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – CASH AND INVESTMENTS

The Authority's investment policies are governed by state statute. The Authority has not established a separate formal investment policy. Permissible investments include direct obligations of the United States Government and Agencies; certificates of deposit of savings and loan associations, banks and credit unions; and savings accounts or savings and loan associations, banks and credit unions. Collateral is required for demand deposits, certificates of deposit, and savings accounts for all amounts not covered by federal deposit insurance.

At the end of the year the carrying amount and the bank balance of the Authority's deposits was $354,719, $250,000 was covered by federal depository insurance. The Authority's bank has pledged securities with a market value of $301,065, removing custodial credit risk for the uninsured balance at year-end.

NOTE 3 – CAPITAL ASSETS

The following is a summary by category of changes in capital assets:

	June 30, 2011	Current Deletions	Current Additions	June 30, 2012
Mapping and Addressing	$ 155,313	$ 0	$ 23,180	$ 178,493
Vehicles	47,356	0	0	47,356
Equipment & Furniture	171,941	0	82,080	254,021
Total	374,610	0	105,260	479,870
Less: Depreciation	(315,956)	0	(27,422) #	(343,378)
Net Capital Assets	$ 58,654	$ 0	$ 77,838	$ 136,492

NOTE 4 – CONCENTRATIONS AND CONTINGENCIES

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

NOTE 5- EMPLOYEE RETIREMENT SYSTEM

Plan Description – The Authority participates in the Oklahoma Public Employees Retirement System, a cost sharing multiple employer defined benefit public employee retirement system, which is administered by the board of trustees of the Oklahoma Public Employees Retirement System (the "System"). The System provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries.

Title 74 Section 901 et seq., as amended of the Oklahoma statures established benefit provisions and may be amended only through legislative action. The System issues a publicly available financial report that includes financial statements and required supplementary information for the System. The report may be obtained by writing to OPERS, P.O. Box 53007, Oklahoma City, OK 73152-3007, or by calling (405) 943-8701 or 1-800-733-9008.

At June 30, 2011 (the most recent data available), the Plan's membership consisted of:

	2011	2010
Retirees and beneficiaries currently receiving benefits	29,418	28,009
Terminated vested participants	5,522	5,560
Active participants	40,551	43,934
Total	75,491	77,503

Benefits- Members qualify for full retirement benefits at their specified normal retirement age or, for any person who became a member prior to July 1, 1992, when the sum of the members age and years of credited service equals or exceeds 80 (Rule of 80), and for any person who became a member after June 30, 1992, when the member's age and years of credited service equals or exceeds 90 (Rule of 90).

Normal retirement date is further qualified to require that all members employed on or after January 1, 1983, must have six or more years of full-time equivalent employment with a participating employer before being eligible to receive benefits. Credited service is the sum of participating and prior service. Prior service includes nonparticipating service before January 1, 1975, or the entry date of the employer and active wartime military service.

NOTE 5- EMPLOYEE RETIREMENT SYSTEM (continued)

A member with a minimum of ten years of participating service may elect early retirement with reduced benefits beginning at age 55.

Disability retirement benefits are available for members having eight years of credited service whose disability status has been certified as being within one year of the last day on the job by the Social Security Administration. Disability retirement benefits are determined in the same manner as retirement benefits, but payable immediately without an actuarial reduction.

State, County and Local Agency Employees- Benefits are determined at 2% of the average annual salary received during the highest thirty-six months of the last ten years of participating service, but not to exceed the applicable annual salary cap, multiplied by the number of years of credited service. Normal retirement age under the Plan is 62 or Rule of 80/90.

Members who elect to pay the additional contribution rate, which became available in January 2004, will receive benefits using a 2.5% computation factor for each full year the additional contributions are made. In 2004 legislation was enacted to provide an increased benefit to retiring members who were not yet eligible for Medicare.

The Medicare Gap benefit option became available to members under age 65 who retired on or after May 1, 2006. Members may elect to receive a temporary increased benefit to cover the cost of health insurance premiums until the member is eligible to receive Medicare. After the member becomes eligible for Medicare, the retirement benefit will be permanently reduced by an actuarially determined amount. The option is irrevocable, must be chosen prior to retirement, and is structured to have a neutral actuarial cost to the Plan.

Members become eligible to vest fully upon termination of employment after attaining eight years of credited service, or the members' contributions may be withdrawn upon termination of employment.

Contributions- The contribution rates for each member category of the Plan are established by the Oklahoma Legislature after recommendation by the Board based on an actuarial calculation, which is performed to determine the adequacy of such contribution rates.

Each member participates based on their qualifying gross salary earned excluding overtime. There is no cap on the qualifying gross salary earned subject to Internal Revenue Service (IRS) limitations on compensation.

The contribution rates for the Authority and its employees are established by and may be amended by Oklahoma statute. The rates are applied to the employee's earnings plus employer paid fringe benefits. The required contribution for participating members is 3.5%. There is an optional contribution step-up of an additional 2.5% for participating members.

NOTE 5- EMPLOYEE RETIREMENT SYSTEM (continued)

The state agency employer contribution rate will increase to 16.5% for the year ended June 30, 2012 and each year thereafter. The Authority pays contributions as the employer. The Authority is required to contribute up to 16.5% of applicable compensation. Total contributions by the Authority are:

Year	Percent	Amount
2012	16.5	$14,161.48
2011	15.5	$12,198.84
2010	15.5	$ 9,916.28

Participating Employers- At June 30, 2011 (the most recent data available), the number of participating employers was as follows:

	2011	2010
State agencies	126	124
County Governments	75	75
Local government towns and cities	28	28
Other local governmental units	57	52
Total	286	279

Funding Status – At July 1, 2011 (the most recent data available), the actuarial value of total assets in the plan was $6,598,628, with a total actuarial accrued liability of $8,179,768. This represents a funded ratio of 80.7 percent for the plan as a whole.

Optional Plan Description- The Authority employees are also offered participation in a defined contribution plan administered by Nationwide Retirement Solutions. There is no matching provision of contributions.

NOTE 6 – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, errors and omissions. The Authority carries property and general liability insurance for major risks.

Report on Internal Control and Compliance

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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 of
McClain County 911 Trust Authority
Purcell, Oklahoma 73080

We have audited the modified cash basis financial statements of the business-type activities of the McClain County 911 Trust Authority, a component unit of McClain 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 November 14, 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 McClain County 911 Trust Authority, McClain County, Oklahoma, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered McClain County 911 Trust Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on effectiveness of the Authority's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the schedule of findings, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings as item 12-01 to be a material weakness.

Compliance and Other Matters

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

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

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

Angel, Johnston + Blasingame, P.C.

Angel, Johnston and Blasingame, P.C.
Certified Public Accountants
Chickasha, Oklahoma
November 14, 2012

McClain County 911 Trust Authority
Schedule of Findings
For the Year Ended June 30, 2012

12-01 *Criteria* – The segregation of duties and responsibilities between different individuals for custody of assets, record keeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

Condition – Presently the same individual performs all accounting functions; receives cash, makes bank deposits, writes checks, reconciles the monthly bank statements and prepares 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.