

Independent Auditor's Report

McClain County Economic Development Authority

Year Ending June 30, 2011

**McCLAIN COUNTY ECONOMIC
DEVELOPMENT AUTHORITY**
PURCELL, OKLAHOMA
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June 30, 2011

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INDEPENDENT AUDITOR'S REPORT

Members of the Board
McClain County Economic Development Authority
Purcell, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the McClain County Economic Development Authority, a component unit of McClain 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 generally accepted accounting principles.

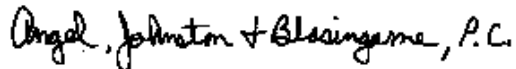
In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position-modified cash basis of the business-type activities of McClain County Economic Development Authority as of June 30, 2011, and the respective changes in financial position-modified cash basis and cash flows-modified cash basis, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

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McClain County Economic Development Authority
January 3, 2012

In accordance with *Government Auditing Standards*, we have also issued a report dated January 3, 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.

The McClain County Economic 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
January 3, 2012

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

	<u>Enterprise Fund</u>
<u>ASSETS</u>	
Current Assets:	
Checking Account	\$ <u>42,630</u>
<i>Total Current Assets</i>	<u>42,630</u>
Fixed Assets	
Building and Equipment	392,008
Land	<u>40,000</u>
<i>Total</i>	<u>432,008</u>
Less Accumulated Depreciation	<u>(122,236)</u>
<i>Total Fixed Assets</i>	<u>309,772</u>
<i>Total Assets</i>	<u>352,402</u>
<u>LIABILITIES</u>	
Current Liabilities:	
Due to County	7,899
Notes Payable	<u>42,030</u>
<i>Total Current Liabilities</i>	<u>49,929</u>
Non-Current Liabilities:	
Notes Payable	<u>95,502</u>
<i>Total NonCurrent Liabilities</i>	<u>95,502</u>
<i>Total Liabilities</i>	<u>145,431</u>
<u>NET ASSETS</u>	
Invested in Capital Assets net of Related Debt	164,341
Restricted	0
Unrestricted	<u>42,630</u>
<i>Total Net Assets</i>	\$ <u><u>206,971</u></u>

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

McCLAIN COUNTY ECONOMIC DEVELOPMENT AUTHORITY
STATEMENT OF REVENUE AND EXPENSES AND CHANGES IN NET ASSETS
MODIFIED CASH BASIS - PROPRIETARY FUND
Year Ended June 30, 2011

	<u>Enterprise Fund</u>
Operating Revenue:	
Administration Fees	\$ 16,072
Donations	3,000
Total Operating Revenue	<u>19,072</u>
Operating Expenses:	
Professional Fees	2,395
Contracting	139,611
Depreciation Expense	6,367
Total Operating Expenses	<u>148,373</u>
Net Operating Income (Loss)	(129,301)
Non-Operating Revenue(Expense)	
Interest Income	185
Interest Expense on Loan	<u>(4,792)</u>
Total Non-Operating Revenue (Expense)	(4,607)
Net Income (Loss)	(133,908)
Net Assets-Beginning of Year	<u>340,879</u>
Net Assets-End of Year	<u>\$ 206,971</u>

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

McCLAIN COUNTY ECONOMIC DEVELOPMENT AUTHORITY
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
PROPRIETARY FUND TYPES
Year Ended June 30, 2011

Cash flows from operating activities:

Cash received from customers	\$ 16,072
Cash received from contributions	3,000
Cash paid to vendors	<u>(142,006)</u>
Net Cash provided (used) by operating activities	(122,934)

Cash flows from capital and related financing activities:

Interest Expense	(4,792)
Purchase of capital assets	(3,000)
Principal paid on capital debt	(40,789)
County deposit error	<u>7,899</u>
Net Cash provided (used) by capital & related financing activities	(40,682)

Cash flows from investing activities:

Interest income	185
Net Increase (Decrease) in cash and cash equivalents	(163,431)
Cash & Cash equivalents at beginning of year	<u>206,062</u>
Cash & Cash equivalents at end of year	<u><u>42,630</u></u>

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

Operating Income	(129,301)
Adjustment to Reconcile Operating Income to Net Cash Provided	
Depreciation Expense	<u>6,367</u>
Net Cash Provided (used) by Operating Activities	<u><u>\$ (122,934)</u></u>

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

McCLAIN COUNTY ECONOMIC DEVELOPMENT AUTHORITY
PURCELL, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1.B., 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 Economic Development Authority, McClain County, Oklahoma was established September 20, 1979, pursuant to Title 60 of Oklahoma State Law, 1971, Section 176 to 180.4, inclusive. The purpose of this trust is to promote the economic development of the McClain County, Oklahoma, by participating to the greatest degree possible in promoting and attracting new business and industry to McClain 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 McClain County so long as such actions are consistent with state and federal statutes and constitutional limitations.

Related Organization

McClain County: McClain County is the trust beneficiary and will receive all residual trust assets upon termination of the trust. The County Commissioners are the Authority's Trustees. Therefore the Authority is considered to be a component unit of McClain County.

1.B. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus- All the financial statements of the Authority are presented using the economic resources measurement focus, within the limitation of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determination of the 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.

McCLAIN COUNTY ECONOMIC DEVELOPMENT AUTHORITY
PURCELL, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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

Basis of Accounting- The Authority's 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. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, 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) 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.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. These 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 balance (net assets), 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 Funds

1. **Enterprise Funds** - 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 (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The Authority includes only the following enterprise fund:

General Fund Account- Accounts for all the activity of the Authority.

McCLAIN COUNTY ECONOMIC DEVELOPMENT AUTHORITY
PURCELL, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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. The Authority has no restricted net assets.

Notes Payable- Notes Payable which are 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 4.

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. 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.B., the Authority reports its financial information on the modified cash basis of accounting rather than the GAAP prescribed accrual basis.

McCLAIN COUNTY ECONOMIC DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 2- CASH AND INVESTMENTS

Deposits and Investments- The Authority's investment policies are governed by state statute. Permissible investments include direct obligations of the United States Government and Agencies; certificate of deposits of savings and loan associations, banks and credit unions. 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. Collateral is required for demand deposits, certificates of deposit, and savings accounts for all amounts not covered by federal deposit insurance. The Authority does not have a written policy for custodial risk. At no time during the year did the Authority's balances exceed FDIC insurance levels. Bank deposits on June 30, 2011 was \$42,630.

NOTE 3- PROPERTY AND EQUIPMENT

The Authority's capital assets are capitalized and stated at cost. Depreciation of exhaustible capital assets is recorded as an expense over the estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	45 years
Heavy Equipment	15 years
Light Equipment	9 years

The following is a summary of the capital assets as of June 30, 2011:

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	Ending <u>Balance</u>
Land (not depreciable)	\$40,000	\$0	\$0	\$40,000
Buildings	364,008	0	0	364,008
Equipment	25,000	3,000	0	28,000
Accumulated Deprec.	<u>(115,869)</u>	<u>(6,367)</u>	<u>0</u>	<u>(122,236)</u>
Total Capital Assets	<u>\$313,139</u>	<u>\$(3,367)</u>	<u>\$ 0</u>	<u>\$309,772</u>

McCLAIN COUNTY ECONOMIC DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 4 - LONG TERM DEBT

The McClain County Economic Development Authority has the following conduit debt outstanding at June 30, 2011.

	<u>Original Issue</u>	<u>Outstanding June 30, 2011</u>
MCEDA – Blanchard Public Schools (2008)	\$24,385,000	\$23,090,000
MCEDA – Newcastle Public School (2006)	12,860,000	6,880,000
MCEDA – Purcell Public Schools (2006)	9,230,000	8,345,000
MCEDA – Purcell Public Schools (2010)	2,780,000	2,780,000
MCEDA – Washington Public Schools (2003)	1,850,000	0
MCEDA – McClain County (Energy Mgmt.)	572,707	363,241
MCEDA – Cleveland Co. Home Loan Authority (Mortgage Backed Securities Program 2009))	<u>20,000,000</u>	<u>20,000,000</u>
Total	<u>\$71,677,707</u>	<u>\$61,458,241</u>

This debt is considered non-commitment (conduit) debt, since the payments are made directly by the recipients to the lender. The Bonds are generally based upon an underlying lease agreement that is the funding source for the bonds. These bonds do not constitute obligation, legal or moral, or debts general or special of the Authority. The Authority receives administrative fees for facilitating these bonds. The Authority has waived receiving administrative fees from Newcastle Public School.

As a result of the non-commitment determination, the Authority's indebtedness and related receivables are not reflected in the financial statements.

The Authority entered into a loan agreement with the Community Energy Education Management Program (CEEMP), of the State of Oklahoma, for the purpose of making improvements to County facilities to improve energy efficiency. The note is a six-year note for \$250,000, at 3% (three percent) annual interest, repayment began on October 15, 2008 and will mature on September 15, 2014.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Principal Paid</u>	<u>Interest Paid</u>	<u>Ending Balance</u>
CEEMP - Note Payable	\$178,321	\$0	\$40,789	\$4,792	\$137,532

Debt Service Schedule:

	<u>Fiscal Year</u>	<u>Principal Payments</u>	<u>Estimated Interest</u>
Current Portion	2011-2012	41,925	3,656
Non-Current Portion	2012-2013	43,200	2,381
	2013-2014	44,514	1,067
	2014-2015	<u>11,340</u>	<u>57</u>
Total		\$99,054	\$3,505

McCLAIN COUNTY ECONOMIC DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 4 - LONG TERM DEBT (continued)

Based on the payment schedule on the CEEMP note payable and projected revenue of the Authority, the Authority may experience cash flow problems in meeting debt service requirements. County officials have expressed intent to use sales tax funds pledged to economic development to fund loan payments. The County utility savings related to this project are pledged as collateral on the loan payments.

NOTE 5 – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, errors and omissions. At this time the Authority carries no surety bonds or other types of insurance.

NOTE 6 – USE OF ESTIMATES

The preparation of financial statements in conformity with modified cash basis of accounting 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.

NOTE 7 – 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 would not have a material effect on the financial condition of the Authority.

NOTE 8 – QUALIFIED MORTGAGE CREDIT CERTIFICATION PROGRAM

The Authority, on December 4, 2006, adopted the “qualified Mortgage Credit Certification Program”. This program issues certified tax credits to qualified applicants under section 25 of the Internal Revenue Code of 1986. There is a \$1,000 fee charged to qualified applicants. The Mortgage Credit Certification Administration Corporation receives \$800 per applicant and the remaining \$200 is for attorney fees.

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**

Members of the Board
McClain County Economic Development Authority
Purcell, Oklahoma

We have audited the accompanying modified cash basis financial statements of the business-type activities of the McClain County Economic Development Authority, a component unit of McClain 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 January 3, 2012. 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 McClain County Economic 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

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 deficiency 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.

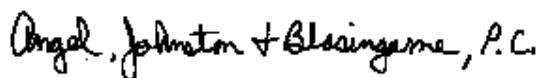
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose 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
January 3, 2012

McClain County Economic Development 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.