

Independent Auditor's Report

McClain County Economic Development Authority

Year Ended June 30, 2023

**MCCLAIN COUNTY ECONOMIC DEVELOPMENT AUTHORITY
PURCELL, OKLAHOMA
June 30, 2023**

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INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Trustees
McClain County Economic Development Authority
Purcell, Oklahoma

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying modified cash basis financial statements of the business-type activities of McClain County Economic Development Authority, Purcell, Oklahoma, a component unit of McClain County as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the business-type activities of McClain County Economic Development Authority, Purcell, Oklahoma, as of June 30, 2023, and the respective changes in modified cash basis financial position, and cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of McClain County Economic Development Authority, Purcell, Oklahoma and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter – Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1, and for determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

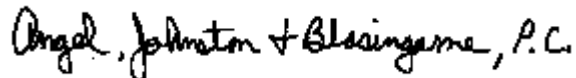
- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatements of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2023, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Chickasha, Oklahoma
September 25, 2023

MCCLAIN COUNTY ECONOMIC DEVELOPMENT AUTHORITY
Statement of Net Position
Modified Cash Basis
June 30, 2023

ASSETS

Current Assets

Cash and cash equivalents	\$ <u>216,716</u>
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Non Current Assets

Land	76,350
Other capital assets, net of depreciation	<u>1,788,041</u>
<i>Total Non Current Assets</i>	<u>1,864,391</u>

<i>Total Assets</i>	<u><u>2,081,107</u></u>
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LIABILITIES

<i>Total Liabilities</i>	<u><u>0</u></u>
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NET POSITION

Net investment in capital assets	1,864,391
Unrestricted	<u>216,716</u>
<i>Total Net Position</i>	\$ <u><u>2,081,107</u></u>

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

MCCLAIN COUNTY ECONOMIC DEVELOPMENT AUTHORITY
Statement of Revenues, Expenses and Changes in Net Position
Modified Cash Basis
For the Year Ended June 30, 2023

Operating Revenues	
Administration/acceptance fees	\$ 42,933
Lease revenue	<u>2,200</u>
<i>Total Operating Revenues</i>	<u>45,133</u>
 Operating Expenses	
Professional fees	5,200
Depreciation expense	<u>54,697</u>
<i>Total Operating Expenses</i>	<u>59,897</u>
<i>Operating Income (Loss)</i>	<u>(14,764)</u>
 Non-Operating Revenues (Expenses)	
Interest income	<u>455</u>
<i>Total Non-Operating Revenues (Expenses)</i>	<u>455</u>
<i>Change in Net Position</i>	<u>(14,309)</u>
<i>Net Position - Beginning of Year</i>	<u>2,095,416</u>
<i>Net Position - End of Year</i>	<u>\$ <u>2,081,107</u></u>

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

MCCLAIN COUNTY ECONOMIC DEVELOPMENT AUTHORITY
Statement of Cash Flows
Modified Cash Basis
For the Year Ended June 30, 2023

Cash flows from operating activities	
Receipts from customers	\$ 45,133
Payment to vendors	<u>(5,200)</u>
<i>Net cash provided (used) by operating activities</i>	<u>39,933</u>
Cash flows from capital and related financing activities	
Purchase of capital assets	<u>(52,901)</u>
<i>Net cash provided by (used for) capital and related financing activities</i>	<u>(52,901)</u>
Cash flows from investing activities	
Interest received	455
<i>Net cash provided by (used for) investing activities</i>	<u>455</u>
<i>Net increase (decrease) in cash and cash equivalents</i>	(12,513)
<i>Cash and cash equivalents at beginning of year</i>	<u>229,229</u>
<i>Cash and cash equivalents at end of year</i>	<u>\$ 216,716</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income (loss)	\$ (14,764)
Adjustment to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	<u>54,697</u>
<i>Net cash provided by (used for) operating activities</i>	<u>\$ 39,933</u>

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

MCCLAIN COUNTY ECONOMIC DEVELOPMENT AUTHORITY
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

Note 1 – Summary of Significant Accounting Policies

1.A. Financial Reporting Entity

McClain County Economic Development Authority, a public trust, was created September 20, 1979, for the benefit of McClain County, Oklahoma, and an agency of the State of Oklahoma. The Authority was created under provisions of the Oklahoma statutes by a Declaration of Trust to furnish the Beneficiary with services and facilities, promote local economic development, 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 Authority may make financial inducements or take other necessary action to attract and retain businesses and industry to McClain County so long as such actions are consistent with state and federal statutes and constitutional limitations. The Authority is empowered to borrow money and to pledge assets, properties and revenue as security against its borrowings.

McClain County Economic Development Authority generally does not acquire any assets or incur any liability when it issues bonds for eligible entities. It may earn and collect administrative fees and must be informed of the unpaid balances. If, however McClain County Economic Development Authority manages the assets and liabilities and does not assign them, then the assets and liabilities would be recognized. Note 4 – Conduit Debt Obligations discloses the outstanding obligation, which the Authority has facilitated.

Related Organizations

McClain County - McClain County is the beneficiary of this public trust. The elected McClain County Commissioners are the Authority's Trustees. Therefore, the Authority is considered to be a component unit of McClain County.

The accompanying financial statements include all functions and activities over which the Authority exercises financial accountability. McClain County Economic Development Authority is a component unit of the governmental entity of McClain County, Oklahoma. McClain County's financial information is not presented in these financial statements. McClain County financial audits are readily obtainable at, www.sai.ok.gov, the State Auditor's website.

1.B. Basis of Presentation

The Authority's fund is an enterprise fund. Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. All activities of the Authority are business-type activities. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

MCCLAIN COUNTY ECONOMIC DEVELOPMENT AUTHORITY
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

Note 1 – Summary of Significant Accounting Policies, (continued)

1.C. Measurement Focus and Basis of Accounting

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.

The Authority’s financial statements use the economic resources measurement focus and are presented on the modified cash basis of accounting. Revenues are recognized when they are received and expenses are recorded when paid with the following modifications:

- Capital assets are recorded when purchased and related depreciation is recorded

This basis is a basis of accounting other than accounting principles generally accepted in the United States of America. If the Authority utilized the basis of accounting recognized as generally accepted, the financial statements would use the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred.

1.D. Assets, Liabilities and Net Position

Cash & Cash Equivalents - The Authority considers all cash on hand, demand deposit accounts, interest bearing checking accounts and time deposit accounts including certificates of deposit and U.S. Treasury bills with maturities of three months or less to be cash and cash equivalents.

Land – The Authority currently owns land valued at \$76,350.

Capital Assets – Capital assets acquired are capitalized and stated at cost. The Authority does not have a capitalization threshold amount. 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
Equipment & Furniture	4 – 15 years

MCCLAIN COUNTY ECONOMIC DEVELOPMENT AUTHORITY
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

Note 1 – Summary of Significant Accounting Policies, (continued)

1.D. Assets, Liabilities and Net Position, (continued)

Net Position – Net Position is divided into three components:

- a. *Net Investment in Capital Assets* – 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 position* – 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.
- c. *Unrestricted net position* – All other net assets that do not meet the definition of “restricted” or “net investment in capital assets.”

It is the Authority’s policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

1.E. Revenues and Expenses

Operating and Non-operating 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.

Expenses - The Authority reports expenses relating to the use of economic resources.

1.F Estimates

Certain estimates are made in the preparation of the modified cash basis financial statements, such as estimated lives for capital assets depreciation. Estimates are based on management’s best judgment and may vary from actual results.

MCCLAIN COUNTY ECONOMIC DEVELOPMENT AUTHORITY
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

Note 2 – Deposits, Investments and Collateral

Deposits and Investments – The Authority does not have a written investment policy that limits its investment choices. Investments are limited by State statute and declaration of trust.

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, but *Oklahoma Statutes* require collateral for all uninsured deposits of public trust funds in financial institutions. The Federal Deposit Insurance Corporation insures deposits up to \$250,000 at each institution for all demand deposit accounts and up to \$250,000 at each institution for all time and savings accounts. At June 30, 2023 the Authority was not exposed to custodial credit risk.

Note 3 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2023 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Non-depreciable assets:				
Land	\$ 76,350	\$ -	\$ -	\$ 76,350
Total non-depreciable assets:	<u>76,350</u>	<u>-</u>	<u>-</u>	<u>76,350</u>
Depreciable assets:				
Buildings	2,426,675	52,901	-	2,479,576
Equipment	<u>101,690</u>	<u>-</u>	<u>-</u>	<u>101,690</u>
Total depreciable assets:	<u>2,528,365</u>	<u>52,901</u>	<u>-</u>	<u>2,581,266</u>
Less accumulated depreciation:				
Buildings	(653,200)	(52,194)	-	(705,394)
Equipment	<u>(85,328)</u>	<u>(2,503)</u>	<u>-</u>	<u>(87,831)</u>
Total accumulated depreciation:	<u>(738,528)</u>	<u>(54,697)</u>	<u>-</u>	<u>(793,225)</u>
Net depreciable assets:	<u>1,789,837</u>	<u>(1,796)</u>	<u>-</u>	<u>1,788,041</u>
Net capital assets:	<u>\$ 1,866,187</u>	<u>\$ (1,796)</u>	<u>\$ -</u>	<u>\$ 1,864,391</u>

MCCLAIN COUNTY ECONOMIC DEVELOPMENT AUTHORITY
Notes to Basic Financial Statements
For the Year Ended June 30, 2023

Note 4 – Conduit Debt Obligations

MCEDA- Conduit Debt - The McClain County Economic Development Authority has the following conduit debt outstanding at June 30, 2023, in the form of **Lease Revenue Bonds**:

	<u>Original Issue</u>	<u>Outstanding June 30, 2023</u>
MCEDA – Washington Public Schools (2016)	8,645,000	5,315,000
MCEDA – Purcell Public Schools (2018)	19,175,000	17,720,000
MCEDA – Blanchard Public Schools (2019)	24,665,000	20,330,000
MCEDA – MCC Administration Corporation (Mortgage-Backed Securities Program (2020)	1,000,000	1,000,000
MCEDA – Washington Public Schools (2022)	<u>15,945,000</u>	<u>15,945,000</u>
Total	<u>\$ 69,430,000</u>	<u>\$ 60,310,000</u>

This debt is considered non-commitment debt to the Authority since debt payments are made solely by the listed entities. Payments are made directly by the entities to the trustee banks. In the event of default by the listed entities, the Authority has no obligation, in substance, to make any payments on the debt since the note receivable, financing agreements and mortgages on the property with the entities are the only security for the debt. As a result of the non-commitment determination, the Authority’s indebtedness and related receivables from the entities are not recorded in the accompanying financial statements. Total conduit debt on June 30, 2023 was \$60,310,000.

Note 5 - Risk Management

The Authority is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The County carries the insurance for the Authority’s assets.

Note 6 - Commitments and Contingencies.

The Authority is dependent upon repayment of bonds solely from the beneficiary of the bond issues. If the beneficiary defaulted on the bond payments it would not have a significant impact on the Authority’s financial condition. Conduit debt is non-recourse debt.

MCCLAIN COUNTY ECONOMIC DEVELOPMENT AUTHORITY

Notes to Basic Financial Statements

For the Year Ended June 30, 2023

Note 7 – Qualified Mortgage Certification Programs

The Authority, on August 3, 2020, 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 \$600 per applicant and the remaining \$400 is for attorney fees and McClain County. The final date to issue certificates is December 31, 2022.

Note 8 – Subsequent Events

Management has evaluated subsequent events through the date of the audit report, which is the date the financial statements were available to be issued, and has determined that no additional information needs to be added to the financial statements.

Report on Internal Control and Compliance

**INDEPENDENT AUDITOR'S 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***

The Honorable Board of Trustees
McClain County Economic Development Authority
Purcell, Oklahoma

We have audited, in accordance with the 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, the modified cash basis financial statements of the business-type activities of the McClain County Economic Development Authority, Purcell, Oklahoma, a component unit of McClain County, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated, September 25, 2023. Our report on the financial statements disclosed, that, as described in Note 1 to the financial statements, the Authority prepares its financial statements on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered McClain County Economic Development Authority, Purcell, Oklahoma's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant

deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2023-001 that we consider to be material weaknesses.

Report on Compliance and Other Matters

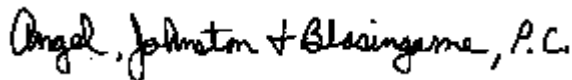
As part of obtaining reasonable assurance about whether McClain County Economic Development Authority, Purcell, Oklahoma's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2023-001.

McClain County Economic Development Authority, Purcell, Oklahoma's, Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the McClain County Economic Development Authority, Purcell, Oklahoma's response to the findings identified in our audit and described in the accompanying corrective action plan. The Authority's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Chickasha, Oklahoma
September 25, 2023

MCCLAIN COUNTY ECONOMIC DEVELOPMENT AUTHORITY
Schedule of Findings and Responses
For the Year Ended June 30, 2023

2023-001 *Criteria* – GAO Standards – Principal 10 – Design Control Activities – 10.12 and 10.14 state “Management considers segregation of duties in designing control activity responsibilities so that incompatible duties are segregated and, where such segregation is not practical, designs alternative control activities to address the risk. If segregation of duties is not practical within an operational process because of limited personnel or other factors, management designs alternative control activities to address the risk of fraud, waste, or abuse in the operational process.”

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

Cause – The Authority’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 error and fraud related to the accounting functions, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation – We recommend that one person receive the checks, prepare the deposit slip and reconcile the bank account. A different person should take the deposit to the bank. A board member should review all bank statements and document approval of each reconciliation. For example: County Clerk – receive checks and prepare deposit slip; County Treasurer – take deposits to the bank; County Clerk – reconcile bank statement; Board Member – review bank statements and approve (sign) reconciliation.

Management Response – See Corrective Action Plan.

MCCLAIN COUNTY ECONOMIC DEVELOPMENT AUTHORITY

Schedule of Prior Year Audit Findings

For the Year Ended June 30, 2023

2022-001 *Condition* – Presently the same individual performs all accounting functions; receives checks, makes bank deposits, writes checks, reconciles the monthly bank statements and prepares financial summaries.

Current Status – Condition still exists.

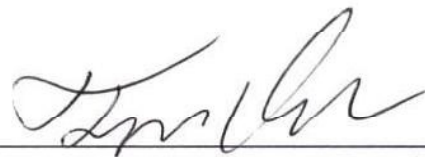
AUTHORITY'S CORRECTIVE ACTION PLAN

**AUDIT FINDINGS
CORRECTIVE ACTION PLAN**

AUDIT YEAR 22/23

AUDIT FINDING REFERENCE NUMBER: pg's E-1 + F-1

MANAGEMENT RESPONSE: We are ^{now} currently doing what was
recommended in order to have proper segregation
of duties.



Board Chairman

9/25/23

Date