

**MCINTOSH COUNTY PUBLIC FACILITIES AUTHORITY
EUFAULA, OKLAHOMA
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED JUNE 30, 2012**

**Audited By:
KERRY JOHN PATTEN, C.P.A.**

**MCINTOSH COUNTY PUBLIC FACILITIES AUTHORITY
EUFAULA, OKLAHOMA
JUNE 30, 2012**

TABLE OF CONTENTS

| | Page |
|---|------|
| Report of Independent Auditor | 1 |
| Financial Statements | |
| Statement of Net Assets..... | 2 |
| Statement of Revenue, Expenditures and Changes in Fund Net Assets..... | 3 |
| Statement of Cash Flows..... | 4 |
| Notes to Financial Statements..... | 5 |
| Reports Required by <i>Government Auditing Standards</i> | |
| Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements performed in Accordance With <i>Government Auditing Standards</i> | 11 |

**MCINTOSH COUNTY PUBLIC FACILITIES AUTHORITY
EUFAULA, OKLAHOMA
TRUSTEES
JUNE 30, 2012**

| | |
|---------------------|-----------------|
| Chairman | Tim Pendlet |
| Member | Ernie Moore |
| Secretary/Treasurer | Diana Curtis |
| Member | Winford Chiles |
| Member | Allen Mayhar |
| Member | Kevin Ledbetter |

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
McIntosh County Public Facilities Authority
Eufaula, Oklahoma

I have audited the basic financial statements of McIntosh County Public Facilities Authority as of June 30, 2012, and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the McIntosh County Public Facilities Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I 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 general purpose 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. I believe that my audit provides a reasonable basis for my opinion.

As described in Note 2 to the financial statements, capital assets of the McIntosh County Public Facilities Authority, are not being depreciated over their useful lives to conform with account principal generally accept in the United States of America.

In my opinion, except for the effects of not depreciating capital assets as explained in the third (3) paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of McIntosh County Public Facilities Authority as of June 30, 2012, and the results of its' operations and its' cash flows for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued a report dated March 26, 2013, on my consideration of the McIntosh County Public Facilities Authority's internal control over financial reporting and on its' compliance with certain provisions of laws, regulations, 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 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 my audit.

The McIntosh County Public Facilities Authority has not presented the "Management 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.


Kerry John Patten, C.P.A.
March 26, 2013

FINANCIAL STATEMENTS

MCINTOSH COUNTY PUBLIC FACILITIES AUTHORITY
A Component Unit of the County of McIntosh, Oklahoma
STATEMENT NET ASSETS
JUNE 30, 2012

| | <u>Enterprise Fund</u> |
|---|----------------------------|
| <u>ASSETS</u> | |
| Current Assets | |
| Restricted cash and cash equivalents | \$ 1,048,696 |
| Unrestricted cash | 224,573 |
| Sales tax receivable | 240,003 |
| Use tax receivable | 4,010 |
| Total Current Assets | <u>1,517,282</u> |
| Noncurrent Assets | |
| Land | 82,423 |
| Capital Assets | 7,558,640 |
| Total Noncurrent Assets | <u>7,641,063</u> |
| Total Assets | <u>9,158,345</u> |
| <u>LIABILITIES</u> | |
| Current Liabilities | |
| Accounts payable | 4,420 |
| Interest payable | 12,895 |
| Current portion of Long Term Liabilities | |
| Capital lease payable | 96,004 |
| Revenue bonds payable | 278,196 |
| Total Current Liabilities | <u>391,515</u> |
| Noncurrent Liabilities | |
| Capital lease payable | 99,691 |
| Revenue bonds payable | 6,397,670 |
| Total Noncurrent Liabilities | <u>6,497,361</u> |
| Total Liabilities | <u>6,888,876</u> |
| <u>NET ASSETS</u> | |
| Invested in capital assets, net of related debt | 769,502 |
| Restricted | 1,048,696 |
| Unrestricted | 451,271 |
| Total Net Assets | <u>\$ 2,269,469</u> |

The notes to the financial statements are an integral part of this statement.

MCINTOSH PUBLIC FACILITIES AUTHORITY
A Component Unit of the County of McIntosh, Oklahoma
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND NET ASSETS
FOR YEAR ENDING JUNE 30, 2012

Operating Revenues

| | |
|--------------------------|------------------|
| Sales Tax | \$ 1,222,318 |
| Use Tax | <u>45,294</u> |
| Total Operating Revenues | <u>1,267,612</u> |

Operating Expenses

| | |
|-------------------------------|----------------|
| Personel | 361,268 |
| Maintenance and Operation | 40,487 |
| Financial Administration | <u>3,500</u> |
| Total Operating Expenditures | <u>405,255</u> |
| Income (Loss) from operations | 862,357 |

Non-Operating Revenue (Expenses)

| | |
|---------------------------------------|------------------|
| Investment Interest | 1,702 |
| Interest Expense | <u>(373,832)</u> |
| Total Non-Operating Revenue (Expense) | <u>(372,130)</u> |

| | |
|------------------------------|----------------------------|
| Change in Net Assets | 490,227 |
| Net Assets-Beginning of Year | <u>1,779,242</u> |
| Net Assets-Eng of Year | <u><u>\$ 2,269,469</u></u> |

The notes to the financial statements are an integral part of this statement.

MCINTOSH PUBLIC FACILITIES AUTHORITY
A Component Unit of the County of McIntosh, Oklahoma
STATEMENT OF CASH FLOWS
FOR YEAR ENDING JUNE 30, 2012

Cash Flows from Operating Activities

| | |
|--|----------------|
| Cash received for sales tax | \$ 1,114,410 |
| Cash payments for use tax | 48,864 |
| Cash payments for operating expenses | (398,342) |
| Cash payments for admin fees | <u>(3,500)</u> |
| Net cash provided by (used for) operating activities | <u>761,432</u> |

Cash Flows from Financing Activities

| | |
|--|------------------|
| Principal paid on debt | (356,997) |
| Interest paid | <u>(366,086)</u> |
| Net cash provided by (used for) investing activities | <u>(723,083)</u> |

Cash Flows from Investing Activities

| | |
|--|--------------|
| Interest Received | <u>1,702</u> |
| Net cash provided by (used for) investing activities | <u>1,702</u> |

| | |
|--|-------------------------|
| Net Increase (Decrease) in Cash and Cash Equivalents | 40,051 |
| Cash and Cash Equivalents, Beginning of Year | <u>1,233,218</u> |
| Cash and Cash Equivalents, End of Year | <u><u>1,273,269</u></u> |

**Reconciliation of Operating Income (Loss) to
Net Cash Used by Operating Activities**

| | |
|-------------------------|---------|
| Operating income (loss) | 862,357 |
|-------------------------|---------|

**Adjustments to reconcile operating income (loss) to
net cash used by operating activities:**

| | |
|---------------------------------|--------------|
| Increase in Accounts Receivable | (104,339) |
| Increase in Accounts Payable | <u>3,414</u> |

| | |
|---|--------------------------|
| Net cash provided by operating activities | <u><u>\$ 761,432</u></u> |
|---|--------------------------|

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

**MCINTOSH COUNTY PUBLIC FACILITIES AUTHORITY
EUFAULA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2012**

1. Organization

A. Creation of Trust

The McIntosh County Public Facilities Authority was created under the statutory provision of 60 O.S. 2001, Sections 176-180.4, inclusive, as amended, pursuant to the provisions of a declaration of trust dated as of October 30, 1968, as amended, and the Oklahoma Trust Act for the use and benefit of McIntosh County, Oklahoma. The purpose of the Authority is to assist McIntosh County, Governmental Agencies and private entities in making the most efficient use of all their economic resources and powers to stimulate economic growth and development.

The trustees of the Authority consist of five (5) persons, which shall include the current chairman of the McIntosh Board of County Commissioners; the current sheriff of McIntosh County, Oklahoma, or his/her designee; and three (3) residents of McIntosh County, Oklahoma, none of which shall be elected officials, and one of which shall be nominated to serve by the current McIntosh County Commissioners.

The County Clerk of McIntosh County serves as Secretary-Treasurer of the Authority.

The Authority has adopted the period July 1 through June 30, as its fiscal year.

2. Summary of Significant Accounting Policies

A. Component Unit

The Authority is a component unit of McIntosh County, Oklahoma. A component unit includes a legal entity that is a separate governmental organization but has the same board of trustees as the primary government

B. Basis of Presentation

The accounts of the Authority are organized on the basis of 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 that comprise its assets, liabilities, revenues, and expenses.

Proprietary Funds

Proprietary funds are made up of either Enterprise or Internal Service funds. The Authority operates the Enterprise fund.

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through uses charges.

C. Basis of Accounting

The financial statements of the Authority are prepared in accordance with generally accepted accounting principles ("GAAP") as applied to government units. The Governmental Accounting Standards Board ("GASB") is the standard-setting body for governmental accounting and financial reporting. Pronouncements of the Financial Accounting Standards Board ("FASB") issued after November 30, 1989, are not applied in the preparation of the financial statements of proprietary funds in accordance with an election made by the Authority under GASB Statement No. 20. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

**MCINTOSH COUNTY PUBLIC FACILITIES AUTHORITY
EUFAULA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2012**

D. Measurement Focus

The financial statements of the Authority have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place. The Authority first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

E. Cash and Investments

For purposes of reporting cash flows, the Authority considers all highly liquid debt instruments with an original maturity of three months or less when purchased. The only cash and cash equivalents at June 30, 2012, was being held by the trustee or fiscal agent.

Investments consist primarily of obligations of the U.S. Treasury and various federal agencies, investment agreements with financial institutions and money market funds. These investments are held by bond trustees and invested in accordance with the requirements and terms of various bond indentures.

F. Capital Assets

All cost associated with the jail construction project has been capitalized at cost. The cost includes construction, legal, architectural, and interest. Fixed Assets are not being depreciated as required by accounting principles generally accepted in the United States of America.

G. Depreciation

Capital assets are not depreciated by the Authority.

H. Income Taxes

With regards to federal income taxes, the Authority is nontaxable as a political subdivision under Section 115(1) of the Internal Revenue Code, as amended.

I. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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, expenses and other changes in net assets during the reporting period.

3. Restricted Net Assets

The note indenture for the public facilities Sales Tax Revenue Note provides that certain reserve accounts be established. The reserve accounts, as of June 30, 2012, are comprised of restricted net assets as follows:

| | | |
|-----------------------------|----|------------------|
| Gross Revenue Fund | \$ | 447,801 |
| Note Interest Fund | | 802 |
| Debt Service Reserve | | <u>600,092</u> |
| Total Restricted Net Assets | \$ | <u>1,048,695</u> |

Interest earned on the Debt Service Reserve fund is transferred to the Note Interest Fund.

**MCINTOSH COUNTY PUBLIC FACILITIES AUTHORITY
EUFAULA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2012**

Restricted Net Assets (continued)

A debt service reserve account has been capitalized in an amount of \$600,000, and that amount shall be maintained until final payment on the note.

The Project Fund was established to pay the cost of acquiring, constructing, and equipping the project.

The Sales Tax Fund receives transfers of sales taxes collected on its behalf by the county; and the Dep. With County is use taxes collected by the county on the Authority's behalf, but has yet to transfer over to Authority.

The Lease Purchase Proceeds is additional funding needing to complete the project.

4. Deposits, Investments, and Collateral

As of June 30, 2012 unrestricted cash balance is a part of McIntosh County's pooled cash account. Cash balances of McIntosh County are either insured or collateralized. All restricted cash balances were either on deposit with the trustee bank or covered with pledge collateral.

Deposits and Investments – The Authority does not have a written investment policy.

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of bank failure, the Authority's deposits may not be returned. The Authority does not have a written policy for custodial risk; however, Oklahoma state laws require collateral for all uninsured deposits of public funds in financial institutions. As of June 30, 2012, none of the Authority's bank balances were exposed to custodial credit risk.

5. Accounts Receivable

The Authorities receivables consist of sales taxes and use taxes collected by county and to be remitted to Trust, and the remaining portion of the sales tax revenue bonds held by the trustee bank in a construction fund.

6. Fixed Assets

The Authority is maintaining records of historical costs of its general fixed assets. Generally Accepted Accounting Principles in the U.S. require the capitalization of all fixed assets and the recognition of depreciation on the fixed assets.

| | Balance June 30, 2011 | | Additions | | Reductions | | Balance June 30, 2012 |
|---|-----------------------------|----|-----------|----|------------|----|-----------------------------|
| Governmental activities: | | | | | | | |
| Capital assets, not being depreciated: | | | | | | | |
| Land | \$ 82,423 | \$ | - | \$ | - | \$ | 82,423 |
| Jail Facility | 7,558,640 | \$ | - | \$ | - | \$ | 7,558,640 |
| Total capital assets not depreciated | \$ 7,641,363 | \$ | - | \$ | - | \$ | 7,641,363 |

**MCINTOSH COUNTY PUBLIC FACILITIES AUTHORITY
EUFAULA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2012**

7. Risk Management

The Authority is exposed to various risks of loss related to theft of, damage to, or destruction of assets. Management utilizes commercial insurance as a method of managing these types of losses and believes such coverage is sufficient to preclude any significant uninsured losses to the Authority.

8. Budget

The Authority is not required to prepare a formal budget by Oklahoma law.

9. Economic Dependence

The Authority is dependent on McIntosh County for a large portion of its operating revenues.

10. Note Indenture

On June 1, 2006, McIntosh County Public Facilities Authority authorized the issuance of Sales Tax Revenue Note – Bank Qualified (County Capital Improvement Projects) Series 2006 in the aggregate principal amount of \$7,875,000, for the purpose of financing, constructing and equipping a new county detention facility and certain courthouse improvements.

The Sale Tax Revenue Note bears interest at a variable interest rate equal to 65% of the LIBOR Rate plus one hundred twenty-five (125) basis points payable semi-annually on November 1 and May 1, of each year, forward SWAP at 5.25%. The LIBOR Rate is the rate of interest equal to the rate per annum equal to the British Bankers Association LIBOR rate as published by a commercially available service providing quotations of BBA LIBOR.

The following maturity schedule reflects outstanding principal amounts at June 30, 2012:

| Year ending June 30, | Annual Payments |
|-------------------------|--------------------|
| 2013 | \$ 278,196 |
| 2014 | 292,551 |
| 2015 | 307,646 |
| 2016 | 323,521 |
| 2017 | 340,215 |
| 2018-2022 | 1,983,232 |
| 2023-2027 | 3,150,505 |
| Total | \$ 6,675,866 |

The Sales Tax Revenue Note is secured by sales tax revenue levied and collected by McIntosh County and paid over to the Authority. The Authority has created a security interest in the sales tax revenue which has been assigned to the bank serving as trustee of the note indenture.

**MCINTOSH COUNTY PUBLIC FACILITIES AUTHORITY
EUFAULA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2012**

11. Lease Purchase Financing

On January 12, 2007, the Authority entered into a lease purchase financing agreement with the Banc of America Public Capital Corp. in the amount of \$625,000.00 for the purpose of financing the acquisition of certain equipment for use in the new county detention facility. The annual payment schedule is as follows:

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|------------|----------|------------|
| 2013 | \$ 96,004 | \$ 6,541 | \$ 102,545 |
| 2014 | 99,691 | 2,854 | 102,545 |
| Total | \$ 195,695 | \$ 9,395 | \$ 205,090 |

The lease purchase is secured by sales tax revenue levied and collected by McIntosh County and paid over to the Authority. The Authority pledged the sales tax revenue to the lessor as security for the lease financing. The security is subordinate to the Authority's pledge on a Sales Tax Revenue Note.

12. Lease Agreement

The Authority entered into a facilities lease and operation agreement on June 1, 2006, with McIntosh County, Oklahoma to lease a new county detention facility to the county. Under provisions of the agreement, the county must pay rent annually to the trustee of the Authority's Sales Tax Revenue Note dated June 1, 2006, and must cover a portion of the costs of operation of the new county detention facility for all the years the Sales Tax Revenue Note remains outstanding.

13. Sales Tax Agreement

On May 9, 2006, the electors of McIntosh County approved a proposition authorizing levying a county sales tax of $\frac{1}{2}$ (.50) of 1 cent upon the gross proceeds derived from all sales for the retirement of indebtedness of the McIntosh County Detention Facility and payment of operation and maintenance expenses related thereto.

$\frac{3}{8}$ of 1 cent of such sales tax is obligated for the retirement of indebtedness of the county detention facility and shall have a limited duration of twenty years or until principle and interest of the facility is paid in full. The remaining $\frac{1}{8}$ of 1 cent of such sales tax is obligated for obligation and maintenance expenses of the county detention facility with unlimited duration.

On June 5, 2006, the county authorized the implementation of a use tax at a rate equaling $\frac{1}{2}$ of 1 cent, with proceeds to be used to acquire, construct, equip, and operate a new county detention facility.

On January 1, 2012, the tax payers approved an additional sales and use tax. $\frac{1}{8}$ cent portion of such a sales tax pledge to retirement of indebtedness and limited to a duration of 15 years (ending on December 31, 2026) and the remaining $\frac{3}{8}$ cents to have an unlimited duration and to pay cost of operating and maintaining the McIntosh County Detention Facilities.

**MCINTOSH COUNTY PUBLIC FACILITIES AUTHORITY
EUFAULA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2012**

14. General Long-Term Debt

The Authority's long term debt consisted of revenue bonds and a lease-purchase commitment.

The following is a summary of the long-term debt transactions for the year ended June 30, 2012:

| | Balance July 1, 2011 | Additions | Retirements | Balance June 30, 2012 |
|-----------------------------------|-------------------------|-------------|-------------------|--------------------------|
| Leases Payable | \$ 288,147 | \$ - | \$ 92,452 | \$ 205,090 |
| Revenue Bonds Payable | <u>6,940,411</u> | <u>-</u> | <u>264,545</u> | <u>6,675,866</u> |
| Total | <u>\$ 7,228,558</u> | <u>\$ -</u> | <u>\$ 356,997</u> | <u>\$ 6,880,956</u> |
| Less: Amounts Due Within One Year | | | | <u>374,200</u> |
| Total Long-Term Debt | | | | <u>\$ 6,506,756</u> |

REPORTS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

KERRY JOHN PATTEN, C.P.A.

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Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards

The Board of Trustees
The McIntosh County Public Facilities Authority
Eufaula, Oklahoma

I have audited the financial statements of the McIntosh County Public Facilities Authority (the "Authority"), as of and for the year ended June 30, 2012, and have issued my report thereon dated March 26, 2013. I conducted my 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 McIntosh County Public Facilities Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audit, I considered McIntosh County Public Facilities Authority's internal control over financial reporting as a basis for designing my auditing opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the McIntosh County Public Facilities Authority's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of McIntosh County Public Facilities Authority's internal control over financial reporting.

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.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining the reasonable assurance about whether the McIntosh County Public Facilities Authority's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report intended solely for the information and use of the governing body, management and others within the Authority and is not intended to be and should not be used by anyone other than these specified parties.

Kerry John Patten, C.P.A.
March 26, 2013