

**MUSKOGEE INDUSTRIAL TRUST**

**MUSKOGEE, OKLAHOMA**

**FINANCIAL STATEMENTS**  
**TOGETHER WITH AUDITOR'S REPORT**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

## INDEPENDENT AUDITOR'S REPORT

To the Trustees of  
The Muskogee Industrial Trust  
Muskogee, Oklahoma

We have audited the accompanying financial statements of the business type and primary government statement of net assets for the year ended September 30, 2011 and the related statements of the business type and primary government activities and changes in fund balance and cash flows for the year then ended which collectively comprise the Muskogee Industrial Trust's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Muskogee Industrial Trust's management. Our responsibility is to express an opinion on these financial statements based on our audit.

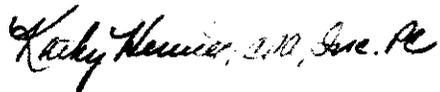
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of Muskogee Industrial Trust as of September 30, 2011, and the activities, changes in fund balance and cash flows for the year then ended in conformity with generally accepted accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Management has omitted the management's discussion and analysis as well as other required supplementary information such as budget comparison schedules, infrastructure condition data and data that might be required by other GASB pronouncements that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic

financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Muskogee Industrial Trust's basic financial statements as a whole. The *Schedule of Projects-Balance Sheet* and the *Schedule of Minimum Lease Payments to be Received* are presented for purposes of additional information and are not a required part of the basic financial statements. These reports have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Kathy Hewitt, CPA, Inc., PC  
December 2, 2011

MUSKOGEE INDUSTRIAL TRUST  
Government Wide Statement of Net Assets  
As of September 30, 2011

<b>ASSETS</b>	<b>Business Type Activities- Enterprise Fund</b>	<b>Total Primary Government</b>
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 39,298	\$ 39,298
Trustee Investment Accounts	\$ 2	\$ 2
Account Receivable - Current Portion	\$ 68,741	\$ 68,741
Short Term Investments	\$ 552,155	\$ 552,155
Current Portion of Net Investment in Direct Financing Leases	\$ - \$ 2,541,431	\$ - \$ 2,541,431
Total	\$ 3,201,627	\$ 3,201,627
 <b>OTHER ASSETS</b>		
Minimum Lease Payments Receivable	\$ 136,567,549	\$ 136,567,549
Less Unearned Income	\$ (35,470,124)	\$ (35,470,124)
Less Current Portion	\$ (2,541,431)	\$ (2,541,431)
Note Receivable-Muskogee City/County Port Authority	\$ 424,817	\$ 424,817
Accrued Interest Receivable-Muskogee City/Cty Port Authority	\$ 47,947	\$ 47,947
Net	\$ 99,028,758	\$ 99,028,758
 <b>TOTAL ASSETS</b>	 \$ 102,230,385	 \$ 102,230,385

The accompanying notes are an integral part of these statements

MUSKOGEE INDUSTRIAL TRUST  
Government Wide Statement of Net Assets  
As of September 30, 2011

<b>LIABILITIES</b>	<b>Business Type Activities- Enterprise Fund</b>	<b>Total Primary Government</b>
<b>CURRENT LIABILITIES</b>		
Accounts Payable-Current Portion	\$ 5,600	\$ 5,600
Bond Proceeds Due Lessors	\$ 61	\$ 61
Current Maturities of Mortgages & Bonds Payable	\$ 6,740,000	\$ 6,740,000
Total Current Liabilities	<u>\$ 6,745,661</u>	<u>\$ 6,745,661</u>
<b>LONG TERM LIABILITIES</b>		
Unearned Bond Costs	\$ 199,974	\$ 199,974
Mortgages & Bonds Payable on Capital Leases	\$ 84,964,516	\$ 84,964,516
Accounts Payable-Net of Current Portion	\$ (6,740,000)	\$ (6,740,000)
Total Long Term Liabilities	<u>\$ 78,424,490</u>	<u>\$ 78,424,490</u>
 Total Liabilities	 \$ 85,170,151	 \$ 85,170,151
<b>FUND BALANCE</b>		
FUND BALANCE BEGINNING OF YEAR	\$ 18,077,049	\$ 18,077,049
LESS EXCESS EXPENSES OVER REVENUES-CURRENT	\$ (1,016,815)	\$ (1,016,815)
FUND BALANCE AT YEAR END	<u>\$ 17,060,234</u>	<u>\$ 17,060,234</u>
 Total Liabilities & Fund Balance	 <u>\$ 102,230,385</u>	 <u>\$ 102,230,385</u>

The accompanying notes are all integral part of these statements

**MUSKOGEE INDUSTRIAL TRUST**  
**Government Wide Statement of Activities and Changes in Fund Balance**  
**For the Twelve Months Ended September 30, 2011**

<b>EXPENDITURES</b>	<b>Business Type Activities Enterprise Fund</b>	<b>Total Primary Government</b>
Interest on Bonds and Mortgages	\$ 1,266,164	\$ 1,266,164
Legal and Audit Fees	\$ 1,034	\$ 1,034
Total Expenditures	<u>\$ 1,267,198</u>	<u>\$ 1,267,198</u>
<b>REVENUES</b>		
Administrative fees	\$ 66,854	\$ 66,854
Earned Income	\$ 183,529	\$ 183,529
Total Revenues	<u>\$ 250,383</u>	<u>\$ 250,383</u>
Net Income (Loss)	\$ (1,016,815)	\$ (1,016,815)
Fund Balance, Beginning of Year	\$ 18,077,049	\$ 18,077,049
Fund Balance, End of Year	<u>\$ 17,060,234</u>	<u>\$ 17,060,234</u>

The accompanying notes are an integral part of these statements

MUSKOGEE INDUSTRIAL TRUST  
Government Wide Statement of Cash Flows  
For the Twelve Months Ended September 30, 2011

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from lessees	\$ 250,383
Cash paid to bondholders and trustees	\$(1,267,198)
Cash paid for operating expenses	\$ -
Net cash used by operating activities	<u>\$ (1,016,815)</u>
 <b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>	
Principal Received on Capital Leases and Mortgages	\$ 237,490
Change in Accounts Receivable	\$ (5,665)
Change in Accounts Payable	\$ 1,100
Change in Unearned Bond Costs	\$ 99,996
Deferred debt defeasement costs	<u>\$ 1,106,502</u>
Net cash used by capital financing activities	<u>\$ 1,439,423</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
New Loans and Accrued Interest	\$ (106,292)
Principal Paid on Capital Leases and Mortgages	\$ (237,490)
Amortization of Unearned Bond Costs	\$ (99,996)
Change in Short Term Investments	<u>\$ (108,849)</u>
Net cash flows from investing activities	<u>\$ (552,627)</u>
 <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	
	\$ (130,019)
 <b>CASH AND CASH EQUIVALENTS AT OCTOBER 1, 2010</b>	
	<u>\$ 169,317</u>
 <b>CASH AND CASH EQUIVALENTS AT SEPTEMBER 30, 2011</b>	
	<u><u>\$ 39,298</u></u>
 <b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Net Loss	\$(1,016,815)
Adjustment to reconcile net income (loss) to net cash provided by operating activities	
Changes in assets and liabilities	
Increase in interest due from lessor	\$ (2,544,254)
Decrease in unearned income	<u>\$ 2,544,254</u>
Net cash used by operating activities	<u><u>\$ (1,016,815)</u></u>

The accompanying notes are an integral part of these statements

**MUSKOGEE INDUSTRIAL TRUST**

**Notes to Financial Statements**

**September 30, 2011**

**NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Muskogee Industrial Trust is a public trust created pursuant to 60 Oklahoma Statutes 1969, Sections 176 to 180, inclusive for the purpose of permitting the City of Muskogee, as beneficiary, to own, acquire, construct, reconstruct, extend, equip, improve, maintain, sell, lease, contract or deal in or dispose of any lands, buildings or facilities of any nature that can be use in securing or developing industry within or near the City of Muskogee. The following is a summary of the more significant accounting policies employed by the Trust:

**BASIS OF ACCOUNTING**

The Trust utilizes the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses (including depreciation if applicable) are recorded when the liability is incurred or economic asset used.

**CASH AND CASH EQUIVALENTS**

For purposes of the statement of cash flows, the Trust considers all highly liquid investments (including restricted assets if applicable) with maturity of three months or less when purchased to be cash equivalents.

The Trust maintains a variable-percent interest bearing checking account at BancFirst, Muskogee, Oklahoma branch.

All of the leases in which the Trust is involved are accounted for as direct financing leases in accordance with FASB Statement #13. The net investment in the lease is determined by reducing the net minimum lease payments receivable by the unearned income computed by amortizing the income over the term of the lease so as to produce a constant periodic rate of return.

**SHORT TERM INVESTMENTS**

The Trust maintains certificates of deposit at First National Bank of Muskogee, American Bank and Armstrong Bank with maturities of 12 months or more.

**INCOME TAXES**

The Trust as an agent of the City of Muskogee, Oklahoma, is not subject to income taxes. Accordingly, interest paid on obligations by the Trust are not subject to Federal income tax.

**MUSKOGEE INDUSTRIAL TRUST**

**Notes to Financial Statements**

**September 30, 2011**

**USE OF ESTIMATES**

The Trust has made estimates and assumptions required for the preparation of its financial statements on the basis of accounting described in the first note above that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**RECEIVABLES/PAYABLES**

During a prior fiscal year the Trust entered into a loan agreement with the Muskogee City-County Port Authority. The purpose of the loan is to purchase real estate parcels within the Port site. The total loan proceeds available will be \$500,000. The note accrues interest at the rate of 4% per annum and the principal and interest are due April 17, 2017.

**INVESTMENT IN FINANCIAL TRANSACTIONS**

The Trust is engaged in the financing of industrial property including real estate, equipment and furniture and fixtures principally as lessor under direct financing leases. The four leases outstanding at September 30, 2011, had initial terms ranging from six (6) to thirty (30) years.

Future minimum lease payments to be received under direct financing leases for the years ending September 30<sup>th</sup> of said year are as follows:

Years 2012 and 2013 are \$9,810,869 and \$8,619,418 respectively.  
Thereafter they total \$118,477,020.

Net investment in direct financing leases is pledged as collateral on the related mortgage and bonds payable obligations. Earned income consists principally of transfers from unearned income to offset incremental initial direct costs charged to expense.

**KATHY HEWITT, CPA, INC., P.C.**

Certified Public Accountant

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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

The Muskogee Industrial Trust  
Muskogee, Oklahoma

We have audited the financial statements of the business-type activities, primary government statement of net assets as of and for the year ended September 30, 2011, and the related statements of the business type and primary government activities and changes in fund balance and cash flows for the year then ended, which collectively comprise the Muskogee Industrial Trust's basic financial statements and have issued our report thereon dated December 2, 2011. 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 Muskogee Industrial Trust'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 the effectiveness of Muskogee Industrial Trust's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Muskogee Industrial Trust's internal control over financial reporting.

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 Muskogee Industrial Trust'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 Muskogee Industrial Trust's financial statements that is more than inconsequential will not be prevented or detected by the Muskogee Industrial Trust's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Muskogee Industrial Trust's internal control.

Our consideration of 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 or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Muskogee Industrial Trust'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*.

This report is intended solely for the information and use of management, City Council, others within the entity, and 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.

Kathy Hewitt CPA, Inc., PC

A handwritten signature in cursive script that reads "Kathy Hewitt, CPA, Inc. PC".

December 2, 2011

MUSKOGEE INDUSTRIAL TRUST  
Schedule of Projects - Balance Sheet  
As of September 30, 2011

	Oklahoma Gas & Electric 1976	1982 Refunded 1987& 1997	Hoffman Printing Company	I-20 School District	Muskogee City/County Port Auth.	Administration	Total
<b>ASSETS</b>							
<b>CURRENT ASSETS</b>							
Cash	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 39,298	\$ 39,298
Investment-Certificate of Deposit	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 552,155	\$ 552,155
Account Receivable - Current Portion	\$ 25,106	\$ 43,635	\$ -	\$ -	\$ -	\$ -	\$ 68,741
Trustee Investment Accounts	\$ 1	\$ 1	\$ -	\$ -	\$ -	\$ -	\$ 2
Current Portion of Net Investment in Direct Financing Leases	\$ 1,296,000	\$ 1,245,431	\$ -	\$ -	\$ -	\$ -	\$ 2,541,431
Total Current Assets	\$ 1,321,107	\$ 1,289,067	\$ -	\$ -	\$ -	\$ 591,453	\$ 3,201,627
<b>NET INVESTMENT IN DIRECT FINANCING LEASES</b>							
Loan Receivable-Muskogee City/Cty Port Authority	\$ -	\$ -	\$ -	\$ -	\$ 424,817	\$ -	\$ 424,817
Accrued Interest Receivable-Muskogee City/Cty Port Auth.	\$ -	\$ -	\$ -	\$ -	\$ 47,947	\$ -	\$ 47,947
Total Minimum Lease Payments Receivable	\$ 49,572,000	\$ 74,220,575	\$ -	\$ 12,774,974	\$ -	\$ -	\$ 136,567,549
Less Unearned Income	\$ (17,174,000)	\$ (18,296,124)	\$ -	\$ -	\$ -	\$ -	\$ (35,470,124)
Less Current Portion	\$ (1,296,000)	\$ (1,245,431)	\$ -	\$ -	\$ -	\$ -	\$ (2,541,431)
Net Investment In Direct Financing Leases	\$ 31,102,000	\$ 54,679,020	\$ -	\$ 12,774,974	\$ 472,764	\$ -	\$ 99,028,758
Total Assets	\$ 32,423,107	\$ 55,968,087	\$ -	\$ 12,774,974	\$ 472,764	\$ 591,453	\$ 102,230,385

The accompanying notes are an integral part of these statements

**MUSKOGEE INDUSTRIAL TRUST**  
Schedule of Projects - Balance Sheet  
As of September 30, 2011

		Oklahoma Gas & Electric 1976	1982 Refunded 1987 & 1997	Hoffman Printing Company	I-20 School District	Muskogee City/County Port Auth.	Administration	Total
<b>LIABILITIES</b>								
<b>CURRENT LIABILITIES</b>								
Account Payable-Current Portion	\$	-	\$	-	\$	-	\$	5,600
Bond Proceeds Due Lessees	\$	-	-	-	-	-	\$	61
Current Portion of Mortgages & Bonds Payable	\$	-	-	-	6,740,000	-	-	6,740,000
Total Current Liabilities	\$	-	-	-	6,740,000	-	5,661	\$ 6,745,661
<b>LONG TERM LIABILITIES</b>								
Mortgages & Bonds Payable on Capital Leases-Net of Current Portion	\$	32,400,000	\$ 56,000,000	-	\$ 5,835,000	-	-	\$ 94,235,000
Less Deferred Debt Expense - Net Unearned Bond Costs	\$	(4,295,352)	\$ (11,715,132)	-	-	-	-	\$ (16,010,484)
Total Long Term Liabilities	\$	28,104,648	\$ 44,284,868	-	\$ 6,034,974	-	-	\$ 78,424,490
Total Liabilities	\$	28,104,648	\$ 44,284,868	-	\$ 12,774,974	-	5,661	\$ 85,170,151
<b>FUND BALANCE</b>							\$ 17,060,234	\$ 17,060,234
Total Liabilities and Fund Balance	\$	28,104,648	\$ 44,284,868	-	\$ 12,774,974	-	\$ 17,065,895	\$ 102,230,385

The accompanying notes are an integral part of these statements  
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**MUSKOGEE INDUSTRIAL TRUST**  
Schedule of Minimum Lease and Bond Payments to be Received

PROJECT	2012	2013	2014	2015	2016	Later Years
I-20 School District	\$ 7,269,438	\$ 6,077,987	\$ -	\$ -	\$ -	\$ -
Oklahoma Gas & Electric-1976 Refunded 1995	\$ 1,296,000	\$ 1,296,000	\$ 1,296,000	\$ 1,296,000	\$ 1,296,000	\$ 43,092,000
Oklahoma Gas & Electric-1982 Refunded 1987 & 1997	\$ 1,245,431	\$ 1,245,431	\$ 1,245,431	\$ 1,245,431	\$ 1,245,431	\$ 67,760,727
Hoffman Printing Company	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total</b>	<b>\$ 9,810,869</b>	<b>\$ 8,619,418</b>	<b>\$ 2,541,431</b>	<b>\$ 2,541,431</b>	<b>\$ 2,541,431</b>	<b>\$ 110,852,727</b>

The accompanying notes are an integral part of these statements