

MUSKOGEE INDUSTRIAL TRUST

MUSKOGEE, OKLAHOMA

FINANCIAL STATEMENTS
TOGETHER WITH AUDITOR'S REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2012

MUSKOGEE INDUSTRIAL TRUST
Muskogee, Oklahoma

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INDEPENDENT AUDITOR'S REPORT

To the Trustees of
The Muskogee Industrial Trust
Muskogee, Oklahoma

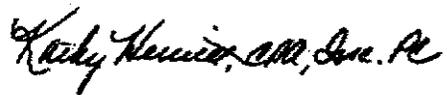
We have audited the accompanying financial statements of the government-wide statement of net assets for the year ended September 30, 2012 and the related statements of the government-wide statement of activities and changes in net assets and cash flows for the year then ended which collectively comprise 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. 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 respective financial position of the government-wide activities and the business type activities of the Muskogee Industrial Trust as of September 30, 2012, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management has not presented Management's Discussion and Analysis or budgetary comparison information that governmental 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 the 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. They are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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.

A handwritten signature in black ink that reads "Kathy Hewitt, CPA, Inc., PC". The signature is written in a cursive, flowing style.

Kathy Hewitt, CPA, Inc., PC
October 20, 2012

BASIC FINANCIAL STATEMENTS

MUSKOGEE INDUSTRIAL TRUST
Government Wide Statement of Net Assets
As of September 30, 2012

ASSETS	Business Type Activities- Enterprise Fund	Total Primary Government
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 101,512	\$ 101,512
Trustee Investment Accounts	\$ 2	\$ 2
Account Receivable - Current Portion	\$ 65,165	\$ 65,165
Short Term Investments	\$ 559,876	\$ 559,876
Current Portion of Net Investment in Direct Financing Leases	\$ -	\$ -
Total	\$ 3,267,986	\$ 3,267,986
 OTHER ASSETS		
Minimum Lease Payments Receivable	\$ 127,186,122	\$ 127,186,122
Less Unearned Income	\$ (32,928,693)	\$ (32,928,693)
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	\$ 64,940	\$ 64,940
Net	\$ 92,205,755	\$ 92,205,755
 TOTAL ASSETS	 \$ 95,473,741	 \$ 95,473,741

The accompanying notes are an integral part of these statements

MUSKOGEE INDUSTRIAL TRUST
Government Wide Statement of Net Assets
As of September 30, 2012

LIABILITIES	Business Type Activities- Enterprise Fund	Total Primary Government
CURRENT LIABILITIES		
Accounts Payable-Current Portion	\$ 5,600	\$ 5,600
Bond Proceeds Due Lessors	\$ 61	\$ 61
Current Maturities of Mortgages & Bonds Payable	\$ 5,835,000	\$ 5,835,000
Total Current Liabilities	<u>\$ 5,840,661</u>	<u>\$ 5,840,661</u>
LONG TERM LIABILITIES		
Unearned Bond Costs	\$ 99,978	\$ 99,978
Mortgages & Bonds Payable on Capital Leases	\$ 79,331,019	\$ 79,331,019
Less Current Maturities of Mortgages & Bonds Payable	\$ (5,835,000)	\$ (5,835,000)
Total Long Term Liabilities	<u>\$ 73,595,997</u>	<u>\$ 73,595,997</u>
 Total Liabilities	 \$ 79,436,658	 \$ 79,436,658
NET ASSETS		
UNASSIGNED NET ASSETS BEGINNING OF YEAR	\$ 17,060,234	\$ 17,060,234
PRIOR PERIOD ADJUSTMENT	\$ (3,918)	\$ (3,918)
LESS EXCESS EXPENSES OVER REVENUES-CURRENT	\$ (1,019,233)	\$ (1,019,233)
UNASSIGNED NET ASSETS AT YEAR END	<u>\$ 16,037,083</u>	<u>\$ 16,037,083</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 95,473,741</u>	 <u>\$ 95,473,741</u>

The accompanying notes are all integral part of these statements

MUSKOGEE INDUSTRIAL TRUST
Government Wide Statement of Activities and Changes in Net Assets
For the Twelve Months Ended September 30, 2012

EXPENDITURES	Business Type Activities Enterprise Fund	Total Primary Government
Interest on Bonds and Mortgages	\$ 1,858,077	\$ 1,858,077
Legal and Audit Fees	\$ 364	\$ 364
Total Expenditures	<u>\$ 1,858,441</u>	<u>\$ 1,858,441</u>
REVENUES		
Administrative fees	\$ 62,795	\$ 62,795
Earned Income	\$ 768,692	\$ 768,692
Interest Income from Investments	\$ 7,721	\$ 7,721
Total Revenues	<u>\$ 839,208</u>	<u>\$ 839,208</u>
Net Income (Loss)	\$ (1,019,233)	\$ (1,019,233)
Net Assets, Beginning of Year	\$ 17,060,234	\$ 17,060,234
Prior Period Adjustment	\$ (3,918)	\$ (3,918)
Net Assets, End of Year	<u><u>\$ 16,037,083</u></u>	<u><u>\$ 16,037,083</u></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, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from lessees	\$ 831,487
Cash paid to bondholders and trustees	\$ (1,858,077)
Cash paid for operating expenses	\$ (364)
Net cash used by operating activities	<u>\$ (1,026,954)</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Principal Received on Capital Leases and Mortgages	\$ 6,740,000
Change in Accounts Receivable	\$ 3,577
Change in Accounts Payable	\$ -
Change in Unearned Bond Costs	\$ 99,996
Deferred debt defeasement costs	\$ 1,106,502
Net cash used by capital financing activities	<u>\$ 7,950,075</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
New Loans and Accrued Interest	\$ (16,993)
Principal Paid on Capital Leases and Mortgages	\$ (6,740,000)
Amortization of Unearned Bond Costs	\$ (99,996)
Interest Income from Investments	\$ 7,721
Change in Short Term Investments	\$ (7,721)
Net cash flows from investing activities	<u>\$ (6,856,989)</u>
PRIOR PERIOD ADJUSTMENT	\$ (3,918)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 62,214
CASH AND CASH EQUIVALENTS AT OCTOBER 1, 2011	\$ 39,298
CASH AND CASH EQUIVALENTS AT SEPTEMBER 30, 2012	<u>\$ 101,512</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Net Loss	\$ (1,026,954)
Adjustment to reconcile net income (loss) to net cash provided by operating activities	
Changes in assets and liabilities	
Increase in interest due from lessor	\$ (2,541,431)
Decrease in unearned income	\$ 2,541,431
Net cash used by operating activities	<u>\$ (1,026,954)</u>

The accompanying notes are an integral part of these statements

NOTES TO FINANCIAL STATEMENTS

MUSKOGEE INDUSTRIAL TRUST
Notes to Financial Statements
September 30, 2012

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 used 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 Firststar Bank, 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, 2012

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 three leases outstanding at September 30, 2012, 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 30th of said year are as follows:

Years 2013 and 2014 are \$8,619,418 and \$2,541,431 respectively.
Thereafter they total \$115,935,589.

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.

SUBSEQUENT EVENTS

Subsequent events have been considered through the date of the Independent Auditor's Report on page 1, which is the date the financial statements were issued.

OTHER REPORTS

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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

Muskogee Industrial Trust
Muskogee, OK

We have audited the financial statements of the government-wide statement of activities as of and for the year ended September 30, 2012, which collectively comprise Muskogee Industrial Trust's basic financial statements and have issued our report thereon dated October 20, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Muskogee Industrial Trust, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the 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 the Muskogee Industrial Trust'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.

Our 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. 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 the Trustees, 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.

A handwritten signature in black ink that reads "Kathy Hewitt, CPA, Inc. PC". The signature is written in a cursive, flowing style.

Kathy Hewitt CPA, Inc., PC

October 20, 2012

SUPPLEMENTARY INFORMATION

MUSKOGEE INDUSTRIAL TRUST
Schedule of Projects - Balance Sheet
As of September 30, 2012

	Oklahoma Gas & Electric 1976 Refunded 1995	1982 Refunded 1987 & 1997	I-20 School District	Muskogee City/County Port Auth.	Administration	Total
ASSETS						
CURRENT ASSETS						
Cash	\$ -	\$ -	-	\$ -	\$ 101,512	\$ 101,512
Investment-Certificate of Deposit	\$ -	\$ -	-	\$ -	\$ 559,876	\$ 559,876
Account Receivable - Current Portion	\$ 23,819	\$ 41,346	-	-	-	\$ 65,165
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	\$ 1,319,820	\$ 1,286,778	\$ -	\$ -	\$ 661,388	\$ 3,267,986
NET INVESTMENT IN DIRECT FINANCING LEASES						
Loan Receivable-Muskogee City/Cty Port Authority	\$ -	\$ -	-	\$ 424,817	\$ -	\$ 424,817
Accrued Interest Receivable-Muskogee City/Cty Port Auth.	\$ -	\$ -	-	\$ 64,940	\$ -	\$ 64,940
Total Minimum Lease Payments Receivable	\$ 48,276,000	\$ 72,975,144	\$ 5,934,978	\$ -	\$ -	\$ 127,186,122
Less Unearned Income	\$ (15,876,000)	\$ (17,052,693)	\$ -	\$ -	\$ -	\$ (32,928,693)
Less Current Portion	\$ (1,296,000)	\$ (1,245,431)	\$ -	\$ -	\$ -	\$ (2,541,431)
Net Investment in Direct Financing Leases	\$ 31,104,000	\$ 54,677,020	\$ 5,934,978	\$ 489,757	\$ -	\$ 92,205,755
Total Assets	\$ 32,423,820	\$ 55,963,798	\$ 5,934,978	\$ 489,757	\$ 661,388	\$ 95,473,741

The accompanying notes are an integral part of these statements

MUSKOGEE INDUSTRIAL TRUST
Schedule of Projects - Balance Sheet
As of September 30, 2012

	Oklahoma Gas & Electric 1976 Refunded 1995	1982 Refunded 1987 & 1997	I-20 School District	Muskogee City/County Port Auth.	Administration	Total
LIABILITIES						
CURRENT LIABILITIES						
Account Payable-Current Portion	\$ -	\$ -	\$ -	\$ -	\$ 5,600	\$ 5,600
Bond Proceeds Due Lessees	\$ -	\$ -	\$ -	\$ -	\$ 61	\$ 61
Current Portion of Mortgages & Bonds Payable	\$ -	\$ -	\$ 5,835,000	\$ -	\$ -	\$ 5,835,000
Total Current Liabilities	\$ -	\$ -	\$ 5,835,000	\$ -	\$ 5,661	\$ 5,840,661
LONG TERM LIABILITIES						
Mortgages & Bonds Payable on Capital Leases-Net of Current Portion	\$ 32,400,000	\$ 56,000,000	\$ -	\$ -	\$ -	\$ 88,400,000
Less Deferred Debt Expense - Net	\$ (3,971,175)	\$ (10,932,806)	\$ -	\$ -	\$ -	\$ (14,903,981)
Unearned Bond Costs	\$ -	\$ -	\$ 99,978	\$ -	\$ -	\$ 99,978
Total Long Term Liabilities	\$ 28,428,825	\$ 45,067,194	\$ 99,978	\$ -	\$ -	\$ 73,595,997
Total Liabilities	\$ 28,428,825	\$ 45,067,194	\$ 5,934,978	\$ -	\$ 5,661	\$ 79,436,658
NET ASSETS						
Total Liabilities and Net Assets	\$ 28,428,825	\$ 45,067,194	\$ 5,934,978	\$ -	\$ 16,037,083	\$ 95,473,741

The accompanying notes are an integral part of these statements

MUSKOGEE INDUSTRIAL TRUST
 Schedule of Minimum Lease and Bond Payments to be Received

PROJECT	2013	2014	2015	2016	2017	Later Years
I-20 School District	\$6,077,987	\$ -	\$ -	\$ -	\$ -	\$ -
Oklahoma Gas & Electric-1976 Refunded 1995	\$ 1,296,000	\$ 1,296,000	\$ 1,296,000	\$ 1,296,000	\$ 1,296,000	\$ 41,796,000
Oklahoma Gas & Electric-1982 Refunded 1987 & 1997	\$ 1,245,431	\$ 1,245,431	\$ 1,245,431	\$ 1,245,431	\$ 1,245,431	\$ 66,515,296
Total	\$ 8,619,418	\$ 2,541,431	\$ 2,541,431	\$ 2,541,431	\$ 2,541,431	\$ 108,311,296

The accompanying notes are an integral part of these statements