

MUSKOGEE INDUSTRIAL TRUST

MUSKOGEE, OKLAHOMA

FINANCIAL STATEMENTS
TOGETHER WITH AUDITOR'S REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2013

MUSKOGEE INDUSTRIAL TRUST
Muskogee, Oklahoma

TABLE OF CONTENTS

Independent Auditor's Report	1-2
Government Wide Statement of Net Assets	3-4
Government Wide Statement of Activities and Changes in Net Assets	5
Government Wide Statement of Cash Flows	6
Notes to Financial Statements	7-10
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	11-12
Schedule of Projects Balance Sheet - Assets	13
Schedule of Projects Balance Sheet - Liabilities & Net Assets	14
Schedule of Minimum Lease Payments to be Received	15

BASIC FINANCIAL STATEMENTS

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

Certified Public Accountant

918.682.8529 • Fax 918.682.4176

web: kathyhewittcpa.com • email: khewitt@hewittcpainc.com

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 activities and primary government statement of net assets for the year ended September 30, 2013 and the related statements of the business type and primary government activities and changes in net assets and cash flow for the year then ended and the related notes to the financial statements, which collectively comprise the Muskogee Industrial Trust's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

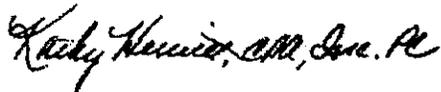
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of net assets of Muskogee Industrial Trust as of September 30, 2013, and the activities, changes in net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other 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. The *Schedule of Projects-Balance Sheet* and the *Schedule of Minimum Lease Payments to be Received* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such information has 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 basic financial statements or to the basic 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 basic financial statements as a whole.



Kathy Hewitt, CPA, Inc., PC
March 18, 2014

MUSKOGEE INDUSTRIAL TRUST
Government Wide Statement of Net Assets
As of September 30, 2013

ASSETS	Business Type Activities- Enterprise Fund	Total Primary Government
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 179,194	\$ 179,194
Trustee Investment Accounts	\$ 2	\$ 2
Account Receivable - Current Portion	\$ 61,221	\$ 61,221
Short Term Investments	\$ 566,963	\$ 566,963
Current Portion of Net Investment in Direct Financing Leases	\$ -	\$ -
Total	\$ 5,331,811	\$ 5,331,811
 OTHER ASSETS		
Minimum Lease Payments Receivable	\$ 136,676,713	\$ 136,676,713
Less Unearned Income	\$ (30,387,262)	\$ (30,387,262)
Less Current Portion	\$ (4,524,431)	\$ (4,524,431)
Note Receivable-Muskogee City/County Port Authority	\$ 424,817	\$ 424,817
Accrued Interest Receivable-Muskogee City/Cty Port Authority	\$ 81,933	\$ 81,933
Net	\$ 102,271,770	\$ 102,271,770
 TOTAL ASSETS	 \$ 107,603,581	 \$ 107,603,581

The accompanying notes are an integral part of these statements

MUSKOGEE INDUSTRIAL TRUST
Government Wide Statement of Net Assets
As of September 30, 2013

LIABILITIES	Business Type Activities- Enterprise Fund	Total Primary Government
CURRENT LIABILITIES		
Accounts Payable-Current Portion	\$ 6,100	\$ 6,100
Bond Proceeds Due Lessors	\$ 61	\$ 61
Current Maturities of Mortgages & Bonds Payable	\$ 1,460,000	\$ 1,460,000
Total Current Liabilities	<u>\$ 1,466,161</u>	<u>\$ 1,466,161</u>
LONG TERM LIABILITIES		
Unearned Bond Costs	\$ 2,856,900	\$ 2,856,900
Mortgages & Bonds Payable on Capital Leases	\$ 89,632,521	\$ 89,632,521
Less Current Maturities of Mortgages & Bonds Payable	\$ (1,460,000)	\$ (1,460,000)
Total Long Term Liabilities	<u>\$ 91,029,421</u>	<u>\$ 91,029,421</u>
 Total Liabilities	 \$ 92,495,582	 \$ 92,495,582
NET ASSETS		
UNASSIGNED NET ASSETS BEGINNING OF YEAR	\$ 16,037,083	\$ 16,037,083
PRIOR PERIOD ADJUSTMENT	\$ -	\$ -
LESS EXCESS EXPENSES OVER REVENUES-CURRENT	\$ (929,084)	\$ (929,084)
UNASSIGNED NET ASSETS AT YEAR END	<u>\$ 15,107,999</u>	<u>\$ 15,107,999</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$ 107,603,581</u></u>	 <u><u>\$ 107,603,581</u></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, 2013

EXPENDITURES	Business Type Activities Enterprise Fund	Total Primary Government
Interest on Bonds and Mortgages	\$ 1,570,143	\$ 1,570,143
Legal and Audit Fees	\$ 628	\$ 628
Total Expenditures	<u>\$ 1,570,771</u>	<u>\$ 1,570,771</u>
REVENUES		
Administrative fees	\$ 73,781	\$ 73,781
Earned Income	\$ 560,819	\$ 560,819
Interest Income from Investments	\$ 7,087	\$ 7,087
Total Revenues	<u>\$ 641,687</u>	<u>\$ 641,687</u>
Net Income (Loss)	\$ (929,084)	\$ (929,084)
Net Assets, Beginning of Year	\$ 16,037,083	\$ 16,037,083
Prior Period Adjustment	\$ -	\$ -
Net Assets, End of Year	<u><u>\$ 15,107,999</u></u>	<u><u>\$ 15,107,999</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, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from lessees	\$ 634,600
Cash paid to bondholders and trustees	\$ (1,570,143)
Cash paid for operating expenses	<u>\$ (628)</u>
Net cash used by operating activities	<u>\$ (936,171)</u>
 CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Principal Received on Capital Leases and Mortgages	\$ 5,835,000
Lease Payments Receivable	\$(17,967,000)
Bond Payable	\$ 15,030,000
Change in Accounts Receivable	\$ 3,944
Change in Accounts Payable	\$ 500
Earned Bond Cost	\$ 99,978
Change in Unearned Bond Costs	\$ 2,756,922
Deferred debt defeasement costs	<u>\$ 1,106,502</u>
Net cash used by capital financing activities	<u>\$ 6,865,846</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
New Loans and Accrued Interest	\$ (16,993)
Principal Paid on Capital Leases and Mortgages	\$ (5,835,000)
Interest Income from Investments	\$ 7,087
Change in Short Term Investments	<u>\$ (7,087)</u>
Net cash flows from investing activities	<u>\$ (5,851,993)</u>
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	 \$ 77,682
 CASH AND CASH EQUIVALENTS AT OCTOBER 1, 2012	 <u>\$ 101,512</u>
 CASH AND CASH EQUIVALENTS AT SEPTEMBER 30, 2013	 <u><u>\$ 179,194</u></u>
 RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Net Loss	\$ (929,084)
Adjustment to reconcile net income (loss) to net cash provided by operating activities	
Changes in assets and liabilities	
Increase in Short Term Investments	\$ (7,087)
Increase in interest due from lessor	\$ (2,541,431)
Decrease in unearned income	<u>\$ 2,541,431</u>
Net cash used by operating activities	<u><u>\$ (936,171)</u></u>

The accompanying notes are an integral part of these statements

NOTES TO FINANCIAL STATEMENTS

MUSKOGEE INDUSTRIAL TRUST
Notes to Financial Statements
September 30, 2013

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 land, 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, 2013

FAIR VALUE MEASUREMENTS

The Trust accounts for its financial assets and liabilities in accordance with ASC 820-10. This codified standard defines fair value measurement based on an exit price. An exit price, the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, as opposed to an entry price which is the transaction price that would be paid to acquire an asset or received to assume a liability. In most instances these prices are different, however they can be equal. The codified standard also establishes valuation techniques which include the following:

1. Market approach – prices derived from market transactions for identical or comparable assets or liabilities,
2. Income approach – conversion of future amounts such as cash flows or earnings to a single present amount based on current market expectations about those future amounts and/or,
3. Cost approach – the amount that would currently be required to replace the service capacity of an asset.

Finally, the codified standard establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels:

- | | |
|----------|--|
| Level 1: | Quoted prices in active markets for identical assets or liabilities. These include, but are not limited to, cash and cash equivalents, common and preferred stocks, and mutual funds; |
| Level 2: | Inputs that are derived principally from or corroborated by observable market data. These include, but are not limited to, government agency issues, corporate bonds and municipal securities; |
| Level 3: | Inputs that are unobservable and significant to the overall fair value measurement. These include, but are not limited to, non-public common stocks and personally held notes receivable. |

Financial assets and liabilities of the Trust are carried at fair value on a recurring basis in the financial statements. The Trust's financial instruments include investments and beneficial interest in assets, if any, held by others. All financial instruments of the Foundation are valued using inputs qualifying as Level 1 in the above-defined hierarchy.

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.

MUSKOGEE INDUSTRIAL TRUST

Notes to Financial Statements

September 30, 2013

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 two leases outstanding at September 30, 2013, had initial terms of 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 2014 and 2015 are \$2,541,431 and \$2,541,431 respectively.
Thereafter they total \$113,394,158.

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.

On July 31, 2013, the Trust engaged in financing educational facilities lease revenue bonds for the Muskogee Public Schools project.

Future minimum lease payments to be received under educational facilities leases for the years ending September 30th of said year are as follows:

Years 2014 and 2015 are \$1,983,000 each year.
Thereafter they total \$14,001,000.

Net investment in educational facilities 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.

MUSKOGEE INDUSTRIAL TRUST
Notes to Financial Statements
September 30, 2013

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.

On October 1, 2013, the Trust engaged in financing of property for the Independent School District No. 29 of Muskogee County, Oklahoma (Hilldale Public Schools) in the amount of \$6,835,000.

OTHER REPORTS

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

Certified Public Accountant

918.682.8529 • Fax 918.682.4176

web: kathyhewittcpa.com • email: khewitt@hewittcpainc.com

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*

To the Trustees of
The Muskogee Industrial Trust
Muskogee, 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 financial statements of the business-type activities and primary government statement of net assets for the year ended September 30, 2013 and the related statements of the business type and primary government activities and changes in net assets and cash flow for the year then ended and the related notes to the financial statements, which collectively comprise the Muskogee Industrial Trust's basic financial statements, and have issued our report thereon dated March 18, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Muskogee Industrial Trust's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of Muskogee Industrial Trust'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

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.

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

Kathy Hewitt, CPA, Inc., PC
March 18, 2014

SUPPLEMENTARY INFORMATION

MUSKOGEE INDUSTRIAL TRUST
Schedule of Projects - Balance Sheet
As of September 30, 2013

ASSETS

	Oklahoma Gas & Electric 1976	Refunded 1987 & 1997	I-20 School District	Muskogee City/County Port Auth.	Administration	Total
CURRENT ASSETS						
Cash	\$ -	\$ -	\$ -	\$ -	\$ 179,194	\$ 179,194
Investment-Certificate of Deposit	\$ -	\$ -	\$ -	\$ -	\$ 566,963	\$ 566,963
Account Receivable - Current Portion	\$ 22,400	\$ 38,821	\$ -	\$ -	\$ -	\$ 61,221
Trustee Investment Accounts	\$ 1	\$ 1	\$ -	\$ -	\$ -	\$ 2
Current Portion of Net Investment in Direct Financing Leases	\$ 1,296,000	\$ 1,245,431	\$ 1,983,000	\$ -	\$ -	\$ 4,524,431
Total Current Assets	\$ 1,318,401	\$ 1,284,253	\$ 1,983,000	\$ -	\$ 746,157	\$ 5,331,811
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.	\$ -	\$ -	\$ -	\$ 81,933	\$ -	\$ 81,933
Total Minimum Lease Payments Receivable	\$ 46,980,000	\$ 71,729,713	\$ 17,967,000	\$ -	\$ -	\$ 136,676,713
Less Unearned Income	\$ (14,580,000)	\$ (15,807,262)	\$ -	\$ -	\$ -	\$ (30,387,262)
Less Current Portion	\$ (1,296,000)	\$ (1,245,431)	\$ (1,983,000)	\$ -	\$ -	\$ (4,524,431)
Net Investment In Direct Financing Leases	\$ 31,104,000	\$ 54,677,020	\$ 15,984,000	\$ 506,750	\$ -	\$ 102,271,770
Total Assets	\$ 32,422,401	\$ 55,961,273	\$ 17,967,000	\$ 506,750	\$ 746,157	\$ 107,603,581

The accompanying notes are an integral part of these statements

MUSKOGEE INDUSTRIAL TRUST
Schedule of Projects - Balance Sheet
As of September 30, 2013

	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	\$ -	\$ -	\$ -	\$ -	\$ 6,100	\$ 6,100
Bond Proceeds Due Lessees	\$ -	\$ -	\$ -	\$ -	\$ 61	\$ 61
Current Portion of Mortgages & Bonds Payable	\$ -	\$ -	\$ 1,460,000	\$ -	\$ -	\$ 1,460,000
Total Current Liabilities	\$ -	\$ -	\$ 1,460,000	\$ -	\$ 6,161	\$ 1,466,161
LONG TERM LIABILITIES						
Mortgages & Bonds Payable on Capital Leases-Net of Current Portion	\$ 32,400,000	\$ 56,000,000	\$ 13,570,000	\$ -	\$ -	\$ 101,970,000
Less Deferred Debt Expense - Net	\$ (3,646,997)	\$ (10,150,482)	\$ -	\$ -	\$ -	\$ (13,797,479)
Unearned Bond Costs	\$ -	\$ -	\$ 2,856,900	\$ -	\$ -	\$ 2,856,900
Total Long Term Liabilities	\$ 28,753,003	\$ 45,849,518	\$ 16,426,900	\$ -	\$ -	\$ 91,029,421
Total Liabilities	\$ 28,753,003	\$ 45,849,518	\$ 17,886,900	\$ -	\$ 6,161	\$ 92,495,582
NET ASSETS						
Total Liabilities and Net Assets	\$ 28,753,003	\$ 45,849,518	\$ 17,886,900	\$ -	\$ 15,107,999	\$ 107,603,581

The accompanying notes are an integral part of these statements

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

PROJECT	2014	2015	2016	2017	2018	Later Years
I-20 School District	\$ 1,983,000	\$ 1,983,000	\$ 1,983,000	\$ 1,983,000	\$ 1,983,000	\$ 8,052,000
Oklahoma Gas & Electric-1976 Refunded 1995	\$ 1,296,000	\$ 1,296,000	\$ 1,296,000	\$ 1,296,000	\$ 1,296,000	\$ 40,500,000
Oklahoma Gas & Electric-1982 Refunded 1987 & 1997	\$ 1,245,431	\$ 1,245,431	\$ 1,245,431	\$ 1,245,431	\$ 1,245,431	\$ 65,269,865
Total	\$ 4,524,431	\$ 113,821,865				

The accompanying notes are an integral part of these statements