

ANNUAL FINANCIAL REPORT
OMULGEE COUNTY DEVELOPMENT AUTHORITY
OKMULGEE COUNTY, OKLAHOMA
FOR THE YEAR ENDED JUNE 30, 2012

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

**OKMULGEE COUNTY DEVELOPMENT AUTHORITY
OKMULGEE, OKLAHOMA
JUNE 30, 2012**

TABLE OF CONTENTS

	Page
Report of Independent Auditor	1
Basic Financial Statements	
Statement of Net Assets.....	2
Statement of Revenues, Expenses, and Changes in Net Assets	3
Statement of Cash Flows	4
Notes to the 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>	8
Schedule of Audit Results and Findings.....	9
Summary of Prior Audit Results and Findings	10

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Okmulgee County Development Authority
Okmulgee County, Oklahoma

I have audited the basic financial statements of Okmulgee County Development 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 Okmulgee County Development 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 standards applicable to financial audits contained in *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 Okmulgee County Development Authority are not being depreciated over their useful lives to conform with accounting principles generally accepted in the United States of America.

Okmulgee County Development Authority has not presented a Management Discussion and Analysis with the financial statements that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Okmulgee County Development Authority has not prepared or presented a budgetary comparison schedule that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

In my opinion, except for the effects of not depreciating capital assets as explained in the third paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Okmulgee County Development Authority as of June 30, 2012, and the results of its operations for the year then 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 date, on my consideration of the Okmulgee County Development Authority's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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. 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.

Kerry John Patten, C.P.A.
date

BASIC FINANCIAL STATEMENTS

**OKMULGEE COUNTY DEVELOPMENT AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2012**

	<u>Enterprise Fund</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$ 14,758.44
Capital assets	
Land	3,750.00
Property and equipment	<u>1,250,578.89</u>
Total Assets	\$ <u>1,269,087.33</u>
<u>LIABILITIES</u>	
Notes payable	\$ 18,954.19
Interest payable	<u>44.70</u>
Total Liabilities	\$ <u>18,998.89</u>
<u>NET ASSETS</u>	
Invested in Capital Assets, net of related debt	\$ 1,231,624.70
Unrestricted	<u>18,463.74</u>
Total Net Assets	\$ <u><u>1,250,088.44</u></u>

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

**OKMULGEE COUNTY DEVELOPMENT AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR YEAR ENDING JUNE 30, 2012**

Operating Revenues

Rental revenue	\$ <u>57,775.00</u>
Total operating revenues	\$ <u>57,775.00</u>

Operating Expenses

Accounting fees	\$ <u>-</u>
Total operating expenses	\$ <u>-</u>
Operating Income (Loss)	\$ 57,775.00

Non-Operating Revenues (Expenses)

Interest expense	\$ <u>(2,623.87)</u>
Total non-operating revenues (expenses)	\$ <u>(2,623.87)</u>
Net income	\$ 55,151.13
Net Assets - Beginning of Year	\$ 1,194,937.31
Net Assets - End of Year	\$ <u><u>1,250,088.44</u></u>

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

**OKMULGEE COUNTY DEVELOPMENT AUTHORITY
STATEMENT OF CASH FLOWS
FOR YEAR ENDING JUNE 30, 2012**

Cash Flows from Operating Activities

Cash received for rent	\$ 57,775.00
Cash payments for accounting fees	<u>-</u>
Net cash provided by (used for) operating activities	<u>\$ 57,775.00</u>

Cash Flows from Financing Activities

Principal paid on debt	\$ (43,405.91)
Interest paid	<u>(2,816.29)</u>
Net cash provided by (used for) investing activities	<u>\$ (46,222.20)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 11,552.80
Cash and Cash Equivalents, Beginning of Year	\$ 3,205.64
Cash and Cash Equivalents, End of Year	<u><u>\$ 14,758.44</u></u>

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

Operating income (loss)	\$ 55,151.13
Adjustments to reconcile operating income (loss) to net cash used by operating activities:	
Interest expense	<u>2,623.87</u>
Net cash provided by operating activities	<u><u>\$ 57,775.00</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS

**OKMULGEE COUNTY DEVELOPMENT AUTHORITY
OKMULGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

1. Organization

The Okmulgee County Development Authority (the Authority) was organized on September 7, 1999, as a public trust under Title 60, *Oklahoma Statutes* 1991, sections 176 to 180.4, the Oklahoma Trust Act, and other statutes and laws of the State of Oklahoma. The purpose of the Authority is to assist the Okmulgee County, the State of Oklahoma, governmental agencies, municipalities, and citizens make the most efficient use of all of their economic resources and powers in accord with the needs and benefit of the State of Oklahoma and the County to lessen the burden on government and to stimulate economic development and growth.

The Authority is a component unit of Okmulgee County as defined by Governmental Accounting Standards. A component unit includes a legal entity that is a separate governmental organization, but has the same board as the primary government.

2. Summary of Significant Accounting Policies

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

For financial reporting purposes, the Authority is considered a special purpose government entity engaged only in business-type activities. Accordingly, the Authority's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. The Authority applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

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 as a 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.

Financial Reporting Entity

The Authority by virtue of common control and dependence is a component unit of Okmulgee County, Oklahoma. The Authority's board of trustees is made up of the Okmulgee County commissioners. The financial activities of Okmulgee County are not included in the financial statements of the Authority.

**OKMULGEE COUNTY DEVELOPMENT AUTHORITY
OKMULGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

For financial statement purposes, cash and cash equivalents include bank checking and money market accounts and investments with a maturity term of 90 days or less.

Property

All costs associated with the Authority's remodeling project of the Okmulgee County Health Department Building have been capitalized at cost. The costs include construction, legal, architectural, and interest. Assets which have been donated are recorded at fair market value on the date of donation. Fixed assets are not being depreciated as required by accounting principles generally accepted in the United States of America.

Income Taxes

The Authority was established as a public trust under the laws of the State of Oklahoma and is exempt from income taxes under Section 115(a) of the *Internal Revenue Code*.

Deposits, Investments, and 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. All deposits were covered by Federal Deposit Insurance Corp. (FDIC).

3. Property

The following schedule summarizes the Authority's capitalized assets. These amounts represent funds invested for expansion and improvement of facilities leased to the Okmulgee County Health Department.

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012
Land	\$ 3,750.00	\$ -	\$ -	\$ 3,750.00
Building	1,250,578.89	-	-	1,250,578.89
Investment in Capital Assets	\$ 1,254,328.89	\$ -	\$ -	\$ 1,254,328.89

**OKMULGEE COUNTY DEVELOPMENT AUTHORITY
OKMULGEE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

4. Long Term Debt

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

	Balance July 1, 2011	Additions	Retirements	Balance June 30, 2012
Notes Payable	\$ 62,360.10	\$ -	\$ 43,405.91	\$ 18,954.19
Total	\$ 62,360.10	\$ -	\$ 43,405.91	\$ 18,954.19
Amount due within one year \$				18,954.19

The annual payments for retirement of note principal and interest are as follows:

Year Ending June 30, 2013	Principal	Interest	Total
	18,954.19	304.53	19,258.72
Total	\$ 18,954.19	\$ 304.53	\$ 19,258.72

The debt consists of a Lease Revenue Note Series 2000 to a local bank. The original principal sum was \$400,000.00 with interest at an annual rate of 5.75%. Monthly installments of \$3,851.85 began on November 15, 2000, and the final installment due November 15, 2012. The monthly installments include both principal and interest. The proceeds of the note were used to construct an addition to the Okmulgee County Health Department clinic and office building in Okmulgee, Oklahoma.

5. Leases

Okmulgee County Development Authority leases facilities to the Okmulgee County Health Department. Lease payment amounts necessary to fund amortization of the Authority's debt obligations are received from the Health Department on a monthly basis. Payments under the lease agreement are subject to year-to-year appropriation.

REPORT REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

**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 Board of Trustees
Okmulgee County Development Authority
Okmulgee, Oklahoma

I have audited the financial statements of Okmulgee County Development Authority (the "Authority"), Okmulgee, Oklahoma, as of and for the year ended June 30, 2012, and have issued my report thereon dated date. 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

In planning and performing my audit, I considered Okmulgee County Development Authority's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Okmulgee County Development Authority's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Audit Results and Findings, I identified a certain deficiency in internal control over financial reporting that I consider to be a material weakness.

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. I consider the deficiency described in the Schedule of Audit Results and Findings to be a material weakness (Finding 2012-01).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Okmulgee County Development Authority's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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.

This report is intended solely for the information and use of the audit committee, management 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.

Kerry John Patten, C.P.A.
date

**OKMULGEE COUNTY DEVELOPMENT AUTHORITY
SCHEDULE OF AUDIT RESULTS AND FINDINGS
JUNE 30, 2012**

2012-01 - Lack of Segregation of Duties

The inherent limitations resulting from one person performing functions that would normally be divided among employees were a larger number available to prevent a proper segregation of accounting functions, which is necessary in order to assure adequate internal accounting records.

**OKMULGEE COUNTY DEVELOPMENT AUTHORITY
SUMMARY OF PRIOR AUDIT FINDINGS
JUNE 30, 2012**

2011-01 - Lack of Segregation of Duties

The inherent limitations resulting from one person performing functions that would normally be divided among employees were a larger number available to prevent a proper segregation of accounting functions, which is necessary in order to assure adequate internal accounting records.

For the FY 2012, the finding was applicable again.