

WAGONER COUNTY DEVELOPMENT AUTHORITY  
A PUBLIC TRUST

FINANCIAL AND COMPLIANCE AUDIT

JUNE 30, 2015 AND 2014

WAGONER COUNTY DEVELOPMENT AUTHORITY  
A PUBLIC TRUST  
INDEX TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014

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### INDEPENDENT AUDITORS' REPORT

March 14, 2016

To the Trustees  
Wagoner County Development Authority

We have audited the accompanying financial statements of the Wagoner County Development Authority (the Authority), a component unit of Wagoner County, Oklahoma which comprise the statements of net position as of June 30, 2015 and 2014 and the related statements of revenues, expenses and changes in net position, and statements of cash flows for the years then ended, and the related notes to the financial statements which collectively comprise the Wagoner County Development Authority's basic financial statements.

#### 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.

#### Auditors' Responsibility

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 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 auditors' 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



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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 opinion.

## **Opinion**

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities of the Wagoner County Development Authority as of June 30, 2015 and 2014, and the results of its operations and the cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

Management has omitted the Management's Discussion and Analysis that is required supplemental information by the Government Accounting Standards. Although not a part of the basic financial statements it has been determined the information is an essential part of the 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 the missing information.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2016, on our consideration of the Wagoner County Development Authority's internal control over financial reporting and on our 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 the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Wagoner County Development Authority's internal control over financial reporting and compliance.

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WAGONER COUNTY DEVELOPMENT AUTHORITY  
STATEMENTS OF NET POSITION  
JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Assets		
Investments	\$ 24,606	\$ 24,815
Fixed assets, net of depreciation	<u>354,455</u>	<u>368,634</u>
Total Assets	<u>379,061</u>	<u>393,449</u>
Liabilities		
Accrued interest payable	1,273	1,483
Deferred rent revenue	22,955	22,955
Bonds payable, net of discount		
Due within one year	40,656	40,745
Due in more than one year	<u>192,641</u>	<u>231,896</u>
Total Liabilities	<u>257,525</u>	<u>297,079</u>
Net Position Restricted for Bond Programs	<u>\$ 121,536</u>	<u>\$ 96,370</u>

The accompanying notes are an integral part of these financial statements.

WAGONER COUNTY DEVELOPMENT AUTHORITY  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Operating revenues		
Building lease income	\$ 63,167	\$ 62,228
Total operating revenues	<u>63,167</u>	<u>62,228</u>
Operating expenses		
Depreciation expense	14,179	14,178
Audit fees	4,600	4,600
Servicers' fees	<u>2,250</u>	<u>1,025</u>
Total operating expenses	<u>21,029</u>	<u>19,803</u>
Operating Income	<u>42,138</u>	<u>42,425</u>
Nonoperating revenues and expenses		
Interest expense	(16,317)	(18,686)
Discount accretion	<u>(655)</u>	<u>(745)</u>
Total nonoperating revenues	<u>(16,972)</u>	<u>(19,431)</u>
Change in Net Position	25,166	22,994
Net Position, beginning of year	<u>96,370</u>	<u>73,376</u>
Net Position, end of year	<u>\$ 121,536</u>	<u>\$ 96,370</u>

The accompanying notes are an integral part of these financial statements.

WAGONER COUNTY DEVELOPMENT AUTHORITY  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities:		
Rents received	\$ 56,317	\$ 56,603
Net Cash Provided (Used) by Operating Activities	<u>56,317</u>	<u>56,603</u>
Cash Flows from Capital and Related Financing Activities:		
Payments on bonds	(40,000)	(35,000)
Interest paid	<u>(16,525)</u>	<u>(18,868)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(56,525)</u>	<u>(53,868)</u>
Cash Flows from Investing Activities:		
Purchase of investments	(84,788)	(79,973)
Proceeds from sales and maturities of investments	<u>84,996</u>	<u>77,238</u>
Net Cash Provided (Used) by Investing Activities	<u>208</u>	<u>(2,735)</u>
Change in Cash	-	-
Cash at Beginning of Year	<u>-</u>	<u>-</u>
Cash at End of Year	<u>\$ -</u>	<u>\$ -</u>
Reconciliation of Change in Net Position to Net Cash Provided (Used) by Operation Activities:		
Change in Net Position	\$ 25,166	\$ 22,994
Adjustments to reconcile change in net assets to net cash provided (Used) by operating activities:		
Depreciation	14,179	14,178
Non-operating revenues and expenses	<u>16,972</u>	<u>19,431</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 56,317</u>	<u>\$ 56,603</u>

The accompanying notes are an integral part of these financial statements.

WAGONER COUNTY DEVELOPMENT AUTHORITY  
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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014

Note 1 - Summary of Significant Accounting Policies

Organization

The Wagoner County Development Authority (the Authority), a component unit of Wagoner County, was created as a public trust under applicable Oklahoma statutes on September 28, 1998, with Wagoner County, Oklahoma named as the beneficiary thereof. The Trustees of the Authority, the County Commissioners of Wagoner County, is the same governing body of Wagoner County. The purpose of the Authority is primarily to promote, stimulate, encourage and finance the growth and development of the utility, agricultural, commercial, health care and industrial resources of Wagoner County, Oklahoma, and to promote the development of adequate housing within Wagoner County, Oklahoma. The provisions of the Trust Indenture basically provide that the Authority is authorized to promote, develop, and finance projects and facilities related to any of the above areas, to acquire by lease, purchase, production, reduction to possession or otherwise, and to plan, establish, develop, construct, enlarge, improve, extend, maintain, equip, operate, furnish, provide, supply, regulate, hold, store and administer any and all physical properties (real, personal or mixed), rights, privileges, immunities, benefits and any other thing of value, designated or needful for utilization in furnishing, providing or supplying the aforementioned services, utilities, buildings, and facilities, and to make loans to organizations or persons, and to participate in any housing programs, to assist in providing housing to the residents of Wagoner County, Oklahoma.

On December 16, 1999, the Authority determined to issue, sell and deliver its Public Facilities Lease Revenue Bonds (County Health Department Project), Series 1999, in the aggregate principal amount of \$630,000, pursuant to the Bond Indenture. These bonds were issued for the purpose of constructing a facility to be leased and used by the Wagoner County Health Department. The ongoing operations and transactions of the program are accounted for by trust operations of Bank of New York Mellon Trust Company, NA (the Trustee bank).

Fund Accounting

A description of the funds and accounts created by the Bond Indenture on December 16, 1999 and which are currently maintained by the Authority and the Trustee Bank are as follows:

#### Revenue Fund

All lease payments received by the Authority from the lessee derived from the facility leased pursuant to the lease shall be collected by the Authority and deposited in the Trustee Bank. These deposits shall be made into a Revenue Fund. The Trustee then transfers to the Bond Fund on or before the 20<sup>th</sup> day of each month, from funds on deposit in such Revenue Fund, a sum of equal to one-sixth of the interest payable on the next ensuing interest payment date and one-sixth of the principal payable on the next ensuing principal payment date.

#### Bond Fund

Two subaccounts shall be established in the Bond Fund, a Principal Account and an Interest Account. The Trustee will make payments in the following order of priority: (i) into the Interest Account, an amount equal to one-sixth of the interest due on the next December 1 or June 1, less the credit balance, if any, of the Interest Account on such date of payment, and (ii) into the Principal Account, an amount equal to one-sixth of the principal maturing or subject to Mandatory Redemption on the next December 1, less the credit balance, if any, of the Bonds maturing or being redeemed.

#### Payments from the Principal and Interest Accounts of the Bond Fund

On the fifth business day prior to each interest payment date, the Trustee will withdraw from the Interest Account of the Bond Fund an amount equal to the interest due on the Bonds on the interest payment date, and apply the same to the payment of interest due.

Prior to each date on which any principal amount of the Bonds is to mature or are to be redeemed, the Trustee will withdraw from the Principal Account of the Bond Fund an amount equal to the amount of the Bonds maturing or being redeemed and apply the same to the payment of the maturing principal or redemption price of Bonds being redeemed, as applicable.

#### Bond Proceeds Fund

The Bond Proceeds Fund received the proceeds of the Bonds. The costs and expenses of the Bond issuance and sale of the Bonds were paid from the Bond Proceeds Fund to the persons entitled, as certified to the Trustee by the Authority in accordance with the provisions of the Bond Indenture.

Wagoner County Development Authority  
Notes to Financial Statements  
June 30, 2015 and 2014

Cash and Investments

All amounts held under the Bond Indenture by the Trustee Bank are invested and are continuously and fully secured for the benefit of the Authority and the owners of the Bonds, primarily by the investment thereof in investment securities meeting the strict criteria of the Bond Indenture. These investments are held by the Trustee Bank in the Authority's name. Cash balance in each fund at June 30, 2015 and 2014 was covered by federal depository insurance or by collateral held by the Trustee Bank.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents are defined as demand deposits.

Fixed Assets

Property and equipment are capitalized at cost and depreciated using the straight-line method over the estimated useful lives of the assets.

Basis of Accounting

These financial statements are prepared using economic resources measurement focus and the accrual basis of accounting, which recognizes revenues when earned and expenses when incurred. These financial statements apply Financial Accounting Standards Board pronouncements and Accounting Principles Board opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Government Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Events

Subsequent events have been evaluated through the issuance date of this report and no significant events were noted.

Wagoner County Development Authority  
Notes to Financial Statements  
June 30, 2015 and 2014

Note 2 - Investments

Authorized Investments consist of:

Obligations of, or guaranteed as to principal interest by, the United States of America, or by any agency or instrumentality thereof, limited to: U.S. Treasury Obligations; Farmers Home Administration; General Services Administration; U.S. Maritime Administration, Guaranteed Title XI financing; Small Business Administration guaranteed participation certificates or guaranteed pool certificates; Governmental National Mortgage Association (GNMA) securities, U.S. Department of Housing & Urban Development local authority bonds, and Washington Metropolitan Area Transit Authority guaranteed transit bonds.

Obligations of instrumentalities or agencies of the United States of America, limited to: Federal Home Loan Mortgage Corporation (FHLMC), Federal Home Loan Banks (FHLB), and Federal National Mortgage Association (FNMA) debt obligations or mortgage backed securities.

Federal Housing Administration debentures.

Commercial paper, payable in the United States of America, having original maturities of not more than 92 days and which are rated in the highest rating category by Standard & Poor's Ratings Group and Moody's Investors Service.

Interest bearing demand or time deposits issued by state banks or trust companies, savings and loan associations, federal savings banks or any national banking associations, with maturities of less than 366 days.

Money market mutual funds or portfolios rated AAA by Standard & Poor's Ratings Group.

Wagoner County Development Authority  
Notes to Financial Statements  
June 30, 2015 and 2014

At June 30, 2015 and 2014, investments recorded at cost which approximate market value were comprised of U.S. Treasury money market funds, held in the following fund accounts:

<u>Description</u>	<u>2015</u>	<u>2014</u>
Bond Fund	\$ 24,606	\$ 24,815
Total investments	\$ 24,606	\$ 24,815

Investments purchased and sold during each year were of the same type as the investments held at the end of each year.

Note 3 - Deferred Rent Revenue

Prior to the beginning of the lease term there were five months' rent received of approximately \$4,500 per month.

Note 4 - Fixed Assets

Changes in fixed assets for the years ending June 30, 2015 and 2014 are as follows:

	<u>Cost</u>			
	<u>Balance June 30, 2014</u>	<u>Additions</u>	<u>Removals</u>	<u>Balance June 30, 2015</u>
Building	\$ 567,128	\$ -	\$ -	\$ 567,128
Furniture and Fixtures	5,613	-	-	5,613
Total	\$ 572,741	\$ -	\$ -	\$ 572,741

	<u>Accumulated Depreciation</u>			
	<u>Balance June 30, 2014</u>	<u>Additions</u>	<u>Removals</u>	<u>Balance June 30, 2015</u>
Total	\$ 204,107	\$ 14,179	\$ -	\$ 218,286

Wagoner County Development Authority  
Notes to Financial Statements  
June 30, 2015 and 2014

	Cost		
	Balance June 30, 2013	Additions	Balance June 30, 2014
Building	\$ 567,128	\$ -	\$ 567,128
Furniture and Fixtures	5,613	-	5,613
Total	<u>\$ 572,741</u>	<u>\$ -</u>	<u>\$ 572,741</u>

	Accumulated Depreciation		
	Balance June 30, 2013	Additions	Balance June 30, 2014
Total	<u>\$ 189,929</u>	<u>\$ 14,178</u>	<u>\$ 204,107</u>

Note 5 - Bonds

The Bonds were issued on, and bear interest from, December 16, 1999 and have maturity dates as shown in the following schedule:

<u>December 1 of the Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2019	235,000	6.50%

The Bonds maturing December 1, 2019 are subject to mandatory redemption, in part, at the principal amount thereof, on December 1, in each of the years below described in the principal amounts as follows:

<u>Maturity</u>	<u>Amount</u>
12-01-2015	\$40,000
12-01-2016	45,000
12-01-2017	45,000
12-01-2018	50,000
12-01-2019	55,000

The bonds are subject to redemption prior to the stated maturities. Should the Authority see fit to allow the bonds to mature without using this option then the bonds will be subject to mandatory redemption at the stated maturity dates first. The price of bonds redeemed prior to maturity will be 101% of the principle amount plus accrued interest. Bonds maturing on the maturity date will not be subject to any premiums.

Wagoner County Development Authority  
Notes to Financial Statements  
June 30, 2015 and 2014

The bonds are also subject to special redemption at the option of the Authority if such redemption is made of (a) insurance proceeds; (b) expropriation awards; (c) the proceeds of all or part of the facility being leased; or (d) payments received from the Authority pursuant to an event of default.

The Authority has secured repayment of the Bonds with a first mortgage on the leasehold interest on the land and improvements thereon which comprise the facility, a pledge of lease rental payments, and an assignment of the lease between the Wagoner County Health Department (the Department) and the Authority for the facility.

Changes in the Bonds for the year ending June 30, 2015 are as follows:

Bonds Payable			
<u>Balance</u> <u>June 30, 2014</u>	<u>Bonds</u> <u>Issued</u>	<u>Bonds</u> <u>Paid</u>	<u>Balance</u> <u>June 30, 2015</u>
<u>\$ 275,000</u>	<u>\$ -</u>	<u>\$ 40,000</u>	<u>\$ 235,000</u>
Bond Discount			
<u>Balance</u> <u>June 30, 2014</u>	<u>Discount</u> <u>Taken</u>	<u>Current</u> <u>Accretion</u>	<u>Balance</u> <u>June 30, 2015</u>
<u>\$ 2,359</u>	<u>\$ -</u>	<u>\$ 656</u>	<u>\$ 1,703</u>

Changes in the Bonds for the year ending June 30, 2014 are as follows:

Bonds Payable			
<u>Balance</u> <u>June 30, 2013</u>	<u>Bonds</u> <u>Issued</u>	<u>Bonds</u> <u>Paid</u>	<u>Balance</u> <u>June 30, 2014</u>
<u>\$ 310,000</u>	<u>\$ -</u>	<u>\$ 35,000</u>	<u>\$ 275,000</u>
Bond Discount			
<u>Balance</u> <u>June 30, 2013</u>	<u>Discount</u> <u>Taken</u>	<u>Current</u> <u>Accretion</u>	<u>Balance</u> <u>June 30, 2014</u>
<u>\$ 3,104</u>	<u>\$ -</u>	<u>\$ 745</u>	<u>\$ 2,359</u>

Wagoner County Development Authority  
Notes to Financial Statements  
June 30, 2015 and 2014

Note 6 - Facility Lease Agreement

The Department has occupied and utilized the facility since its completion. Lease payments in the amount per month to fully amortize the debt will be made by the Department to the Authority for rent of the facility. The monthly lease payment is to be deposited into the Revenue Fund for the payment of the Bonds upon receipt. The base term was December 16, 1999 through June 30, 2000. The Department has the option to renew the lease for 20 additional one-year periods, with the last renewal period ending June 30, 2020. A rental payment schedule with monthly rental payments through December 1, 2019 is included in the lease agreement. The Department may renew the lease for an unlimited number of successive one-year terms, with rental payments to be determined.

The Bond Indenture provides that excess earnings from investments could be used to reduce the monthly rental payments made by the Department. There were no excess earnings credits for the years ended June 30, 2015 and 2014.

Note 7 - Project Site Lease Agreement

The Authority leased the land on which the facility was constructed from Wagoner County for \$10. The lease term is December 16, 1999 through June 30, 2020 or the fulfillment of the Authority's obligations under the Bond Indenture, whichever comes first. At the expiration or termination of the Project Site Lease Agreement, the facility will become the property of the lessor, Wagoner County.



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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

March 14, 2016

To the Trustees  
Wagoner County Development Authority

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 of the Wagoner County Development Authority (the Authority) as of June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Wagoner County Development Authority's basic financial statements, and have issued our report thereon dated March 14, 2018.

#### Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Wagoner County Development Authority'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 Wagoner County Development Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Wagoner County Development Authority'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.



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To the Trustees  
Wagoner County Development Authority  
March 14, 2016

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Wagoner County Development Authority'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses.

#### Wagoner County Development Authority's Response to Findings

Wagoner County Development Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Wagoner County Development Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

#### Auditor Involvement with Financial Statements

Finding: A system of internal control over financial reporting does not stop with relying on the internal controls of the trust department of the trustee bank. It includes controls over financial statement preparation, including footnote disclosures. A lack of competencies to prepare disclosures is considered to be a weakness in controls over financial reporting. Although, as your external auditor, we assist you in the preparation of financial statements and the disclosures; it does not eliminate the control deficiency. As external auditors, we cannot be considered a part of the Authority's system of internal control. This is a repeat finding from the prior year audit.

To the Trustees  
Wagoner County Development Authority  
March 14, 2016

Recommendation: Management should consider obtaining outside support from an individual or group that might provide the expertise to management regarding the preparation of the financial statements and the disclosures in the financial statements.

Responses from Wagoner County Development Authority: We concur with the finding as noted above. However, we feel it would not be cost effective to contract with someone with required skill set at this time.

#### 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.

GRAY, BLODGETT & COMPANY, PLLC

*Gray, Blodgett & Company, PLLC*