

**WAGONER COUNTY DEVELOPMENT AUTHORITY  
A PUBLIC TRUST**

**FINANCIAL AND COMPLIANCE AUDIT**

**JUNE 30, 2011 AND 2010**

**WAGONER COUNTY DEVELOPMENT AUTHORITY  
A PUBLIC TRUST  
INDEX TO FINANCIAL STATEMENTS  
JUNE 30, 2011 and 2010**

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June 30, 2011 and 2010
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For the Years Ended June 30, 2011 and 2010
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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*



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### INDEPENDENT AUDITORS' REPORT

November 21, 2011

To the Trustees  
Wagoner County Development Authority

We have audited the accompanying statements of net assets of Wagoner County Development Authority (the Authority), a component unit of Wagoner County, as of June 30, 2011 and 2010 and the related statements of revenues, expenses and changes in net assets, and statements of cash flows for the years then ended. These financial statements are the responsibility of the Authority's trustees. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards 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 the trustees, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Wagoner County Development Authority has not presented the Management Discussion and Analysis, which is supplemental information that the Government Accounting Standards Board has determined is necessary, but not required to be part of the basic financial statements.

In our opinion the component unit financial statements referred to above present fairly, in all material respects, the financial position of Wagoner County Development Authority as of June 30, 2011 and 2010, 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.



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To the Trustees  
Wagoner County Development Authority  
November 21, 2011  
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In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2011 on our consideration of Wagoner County Development Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 or on compliance and the results of that testing and not to provide and opinion on the internal control over financial reporting or on compliance. 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 our audit.

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WAGONER COUNTY DEVELOPMENT AUTHORITY  
STATEMENTS OF NET ASSETS  
JUNE 30, 2011 AND 2010

ASSETS

	<u>2011</u>	<u>2010</u>
Current Assets		
Investments	\$ 19,502	\$ 19,658
Rent receivable	<u>24,395</u>	<u>19,795</u>
Total Current Assets	43,897	39,453
Noncurrent Assets		
Fixed assets, net	<u>411,168</u>	<u>425,346</u>
Total Assets	<u>\$ 455,065</u>	<u>\$ 464,799</u>

LIABILITIES AND NET ASSETS

Current Liabilities		
Accrued interest payable	\$ 2,002	\$ 2,158
Due to general fund	46,350	39,600
Bonds payable - current, net of discount	<u>30,932</u>	<u>31,000</u>
Total Current Liabilities	79,284	72,758
Noncurrent Liabilities		
Bonds payable, net of discount	<u>339,261</u>	<u>368,261</u>
Total Liabilities	418,545	441,019
Net Assets (Deficit)	<u>36,520</u>	<u>23,780</u>
Total Liabilities and Net Assets	<u>\$ 455,065</u>	<u>\$ 464,799</u>

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

WAGONER COUNTY DEVELOPMENT AUTHORITY  
 STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
 FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Operating revenues		
Building lease income	\$ <u>59,406</u>	\$ <u>60,850</u>
Total operating revenues	<u>59,406</u>	<u>60,850</u>
Operating expenses		
Depreciation expense	14,178	14,178
Audit fees	4,600	4,600
Servicers' fees	<u>2,153</u>	<u>-</u>
Total operating expenses	<u>20,931</u>	<u>18,778</u>
Operating Income	38,475	42,072
Nonoperating revenues and expenses		
Investment income	3	-
Interest expense	(24,806)	(26,650)
Discount accretion	<u>(932)</u>	<u>(1,000)</u>
Total nonoperating revenues	<u>(25,735)</u>	<u>(27,650)</u>
Change in Net Assets	12,740	14,422
Net Assets (Deficit) , beginning of year	<u>23,780</u>	<u>9,358</u>
Net Assets (Deficit), end of year	<u>\$ 36,520</u>	<u>\$ 23,780</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, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<b>Cash Flows from Operating Activities:</b>		
Rents received	\$ 54,806	\$ 56,650
Cash paid to suppliers	<u>(3)</u>	<u>-</u>
Net Cash Provided (Used) by Operating Activities	<u>54,803</u>	<u>56,650</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Payments on bonds	(30,000)	(30,000)
Interest paid	<u>(24,962)</u>	<u>(26,800)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(54,962)</u>	<u>(56,800)</u>
<b>Cash Flows from Investing Activities:</b>		
Interest received	3	-
Purchase of investments	(104,954)	(96,375)
Proceeds from sales and maturities of investments	<u>105,110</u>	<u>96,525</u>
Net Cash Provided (Used) by Investing Activities	<u>159</u>	<u>150</u>
Change in Cash	-	-
Cash at Beginning of Year	<u>-</u>	<u>-</u>
Cash at End of Year	<u>\$ -</u>	<u>\$ -</u>
<b>Reconciliation of Change in Net Assets to Net Cash Provided (Used) by Operation Activities:</b>		
Change in Net Assets	\$ 12,740	\$ 14,422
<b>Adjustments to reconcile change in net assets to net cash provided (Used) by operating activities:</b>		
Depreciation	14,178	14,178
Non-operating revenues and expenses	25,735	27,650
Decrease (increase) in rent receivable	(4,600)	(4,200)
Increase (decrease) in amount due to general fund	<u>6,750</u>	<u>4,600</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 54,803</u>	<u>\$ 56,650</u>

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

WAGONER COUNTY DEVELOPMENT AUTHORITY  
A PUBLIC TRUST  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011 and 2010

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 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.

#### 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, 2011 and 2010 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 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.

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.

At June 30, 2011 and 2010, 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>2011</u>	<u>2010</u>
Bond Fund	\$ <u>19,502</u>	\$ <u>19,658</u>
Total investments	\$ <u>19,502</u>	\$ <u>19,658</u>

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

Note 3 - Rent Receivable

The lease agreement calls for the payment of Additional Rent to cover certain expenses of the Authority. These expenses include annual audit costs and annual Trustee fees. At June 30, 2011 and 2010, Additional rent was posted to books which created a receivable from the Wagoner County Health Department of \$24,395 and \$19,795 respectively.

Wagoner County Development Authority  
 Notes to Financial Statements  
 June 30, 2011 and 2010  
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Note 4 - Due to General Fund

Audit and administrative fees were paid out of the Wagoner County General Fund. The General Fund will be reimbursed for these expenses.

Note 5 - Fixed Assets

There were no additions or disposals of fixed assets for the year ended June 30, 2011 or 2010.

	<u>Accumulated Depreciation</u>			<u>Balance June 30, 2011</u>
	<u>Balance June 30, 2010</u>	<u>Additions</u>	<u>Removals</u>	
Total	<u>\$ 147,395</u>	<u>\$ 14,178</u>	<u>\$ -</u>	<u>\$ 161,573</u>

	<u>Accumulated Depreciation</u>			<u>Balance June 30, 2010</u>
	<u>Balance June 30, 2009</u>	<u>Additions</u>	<u>Removals</u>	
Total	<u>\$ 133,217</u>	<u>\$ 14,178</u>	<u>\$ -</u>	<u>\$ 147,395</u>

Note 6 - 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>
2014	\$140,000	6.25%
2019	235,000	6.50%

The Bonds maturing December 1, 2014 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>
12-01-2011	\$30,000
12-01-2012	35,000
12-01-2013	35,000
12-01-2014	40,000

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, however, the bonds maturing on December 1, 2011 are not subject to this optional redemption. 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 and prior to November 30, 2014, will be 101% of the principle amount plus accrued interest. Bonds maturing on the maturity date will not be subject to any premiums.

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.

Wagoner County Development Authority  
Notes to Financial Statements  
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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, 2011 are as follows:

<u>Bonds Payable</u>			
<u>Balance</u>	<u>Bonds</u>	<u>Bonds</u>	<u>Balance</u>
<u>June 30, 2010</u>	<u>Issued</u>	<u>Paid</u>	<u>June 30, 2011</u>
<u>\$ 405,000</u>	<u>\$ -</u>	<u>\$ 30,000</u>	<u>\$ 375,000</u>

<u>Bond Discount</u>			
<u>Balance</u>	<u>Discount</u>	<u>Current</u>	<u>Balance</u>
<u>June 30, 2010</u>	<u>Taken</u>	<u>Accretion</u>	<u>June 30, 2011</u>
<u>\$ 5,739</u>	<u>\$ -</u>	<u>\$ 932</u>	<u>\$ 4,807</u>

Changes in the Bonds for the year ending June 30, 2010 are as follows:

<u>Bonds Payable</u>			
<u>Balance</u>	<u>Bonds</u>	<u>Bonds</u>	<u>Balance</u>
<u>June 30, 2009</u>	<u>Issued</u>	<u>Paid</u>	<u>June 30, 2010</u>
<u>\$ 435,000</u>	<u>\$ -</u>	<u>\$ 30,000</u>	<u>\$ 405,000</u>

<u>Bond Discount</u>			
<u>Balance</u>	<u>Discount</u>	<u>Current</u>	<u>Balance</u>
<u>June 30, 2009</u>	<u>Taken</u>	<u>Accretion</u>	<u>June 30, 2010</u>
<u>\$ 6,739</u>	<u>\$ -</u>	<u>\$ 1,000</u>	<u>\$ 5,739</u>

Note 7 - Facility Lease Agreement

The Department will occupy and utilize the facility upon 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 is 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, 2011 and 2010.

Note 8 - 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.

Note 9 - Subsequent Events

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



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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

November 21, 2011

To the Trustees  
Wagoner County Development Authority

We have audited the financial statements of Wagoner County Development Authority (the Authority) as of June 30, 2011 and 2010, and have issued our report thereon dated November 21, 2011. The Management Discussion and Analysis, supplemental information, that the Government Accounting Standards Board has determined necessary but not required was not presented. We conducted our audit in accordance with U.S. generally accepted auditing standards, and except as discussed above, we have conducted our audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### 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:

#### Payment of Audit Fees

**Finding:** It was noted during the audit that the audit fees were not being paid by Wagoner County Development Authority as stated in Series 1999 Bond Indenture, Chapter 18, Page 6. Instead, these audit fees were being paid by Wagoner County General Fund, the cumulative amount totaling \$44,200, which is shown as a payable to Wagoner County General Fund.



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Recommendation: The cumulative total of these audit fees equaling \$44,200 should be repaid from the surplus funds that will be accumulated by the trustee in the future.

Response from Wagoner County Development Authority: The Wagoner County Board of Commissioners will request payment of the audit fees out of any excess funds when the Wagoner County Development Authority obligation is completed. If there are no excess funds, then the County will absorb the loss.

#### 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.

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.

Response 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 the required skill set at this time.

#### Internal Control over Financial Reporting

In planning and performing our audit, we considered Wagoner County Development Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Wagoner County Development Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 preceding paragraph of this section and would not necessarily identify all deficiencies in internal control 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. However, we identified certain deficiencies in internal control over financial reporting, described in the above schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. 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.

Wagoner County Development Authority's responses to the findings identified in our audit are described above. We did not audit Wagoner County Development Authority's responses, and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Wagoner County Development Authority, the trustee bank, the County of Wagoner, Oklahoma, and the Office of the Auditor and Inspector of the State of Oklahoma and is not intended to be and should not be used by anyone other than these specified parties.

GRAY, BLODGETT & COMPANY, PLLC  
*Gray, Blodgett & Company, PLLC*