

THOMAS ECONOMIC
DEVELOPMENT AUTHORITY
THOMAS, OKLAHOMA

FINANCIAL STATEMENTS
AND AUDITOR'S REPORT

JUNE 30, 2012 AND 2011

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Thomas Economic Development Authority
Thomas, Oklahoma

We have audited the accompanying financial statements of the Thomas Economic Development Authority, as of and for the years ending June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the Authority prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position-modified cash basis of Thomas Economic Development Authority, as of June 30, 2012 and 2011, and the respective

changes in financial position-modified cash basis and its cash flows-modified cash basis for the years then ended, in conformity with the basis accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 20, 2013, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 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 important for assessing results of our audit.

McCulley & McCulley

Weatherford, Oklahoma

August 20, 2013

THOMAS ECONOMIC DEVELOPMENT AUTHORITY
STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS
MODIFIED CASH BASIS
JUNE 30, 2012 AND 2011

	ASSETS	2012	2011
Current Assets			
Cash and Cash Equivalents		\$ 99,467	\$ 86,910
Restricted Cash and Cash Equivalents		199,034	184,118
Total Cash and Cash Equivalents		<u>298,501</u>	<u>271,028</u>
Notes Receivable		6,579	5,874
Capital Lease Receivable		11,008	
Total Current Receivables		<u>17,587</u>	<u>5,874</u>
Total Current Assets		<u>316,088</u>	<u>276,902</u>
Noncurrent Assets			
Capital Assets, Net of Accumulated Depreciation		1,838,211	1,913,169
Notes and Bond Issue Costs, Net of Accumulated Amortization		9,264	11,821
Notes Receivable		20,102	26,681
Capital Lease Receivable		112,074	
Total Noncurrent Assets		<u>1,979,651</u>	<u>1,951,671</u>
TOTAL ASSETS		<u>\$ 2,295,739</u>	<u>\$ 2,228,573</u>
LIABILITIES AND NET ASSETS			
LIABILITIES			
Current Liabilities			
Bonds and Notes Payable		\$ 162,407	\$ 195,066
Total Current Liabilities		<u>162,407</u>	<u>195,066</u>
Noncurrent Liabilities			
Bonds and Notes Payable		569,309	607,806
Total Long-Term Liabilities		<u>569,309</u>	<u>607,806</u>
TOTAL LIABILITIES		<u>731,716</u>	<u>802,872</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt		1,115,759	1,122,118
Invested in Community Development Projects		149,763	32,555
Restricted		199,034	184,118
Unrestricted		99,467	86,910
TOTAL NET ASSETS		<u>1,564,023</u>	<u>1,425,701</u>
TOTAL LIABILITIES AND NET ASSETS		<u>\$ 2,295,739</u>	<u>\$ 2,228,573</u>

The accompanying notes are an integral part of these statements.

**THOMAS ECONOMIC DEVELOPMENT AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS - MODIFIED CASH BASIS
YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
Operating Revenues		
Rental/Lease Income	\$ 170,277	\$ 179,810
Administrative Bond Fees	4,255	4,640
Donations	3,405	
Miscellaneous	456	359
	<u>178,393</u>	<u>184,809</u>
Total Operating Revenues		
Operating Expenses		
Administration/General	19,256	15,889
Economic Development	1,200	38,311
Depreciation	84,281	112,950
Amortization	2,557	2,557
	<u>107,294</u>	<u>169,707</u>
Total Operating Expenses		
Income from Operations	<u>71,099</u>	<u>15,102</u>
Non-operating Revenues (Expenses)		
Investment Income	2,879	3,664
Interest Income on Capital Lease Receivable	1,431	
Interest Expense	(32,022)	(42,961)
	<u>(27,712)</u>	<u>(39,297)</u>
Total Non-operating Revenues (Expenses)		
Net Income (Loss) before Contributions and Transfers	43,387	(24,195)
Transfers In - Pledged Sales Tax Revenue from City of Thomas	<u>94,935</u>	<u>79,630</u>
Change in Net Assets	138,322	55,435
Net Assets - Beginning of Year	1,425,701	1,401,719
Prior Period Adjustment		(31,453)
Net Assets - End of Year	<u>\$ 1,564,023</u>	<u>\$ 1,425,701</u>

The accompanying notes are an integral part of these statements.

**THOMAS ECONOMIC DEVELOPMENT AUTHORITY
STATEMENT OF CASH FLOWS
YEARS ENDED JUNE 30, 2012 AND 2011**

	2012	2011
Cash Flows from Operating Activities		
Receipts from Customers	\$ 170,277	\$ 179,810
Donations	3,405	
Other Operating Cash Receipts	4,711	4,999
Payments to Suppliers	(19,256)	(15,889)
Payments for Economic Development	(1,200)	(38,311)
Net Cash Provided by Operating Activities	157,937	130,609
 Cash Flows from Noncapital Financing Activities		
Tranfers in - Pledged Sales Tax Revenue	94,935	79,630
Net Cash Provided by Noncapital Financing Activities	94,935	79,630
 Cash Flows from Capital and Related Financing Activities		
Purchase of Capital Assets	(9,323)	
Cash Outlay for Capital Lease Receivable	(126,600)	
Repayment of Capital Lease Receivable	3,518	
Interest Received on Capital Lease Receivable	1,431	
Proceeds from Note Payable	126,600	
Principal paid on Bonds and Notes Payable	(197,756)	(143,823)
Interest Paid on Bonds and Notes Payable	(32,022)	(42,961)
Net Cash (Used for) Capital and Related Financing Activities	(234,152)	(186,784)
 Cash Flows from Investing Activities		
Cash Outlay for Notes Receivable		(11,349)
Repayment of Notes Receivable	5,874	6,221
Interest and Dividends	2,879	3,664
Net Cash Provided by (Used for) Investing Activities	8,753	(1,464)
 Increase in Cash and Cash Equivalents	27,473	21,991
 Balance of Cash and Cash Equivalents		
Beginning of Year	271,028	249,037
End of Year	\$ 298,501	\$ 271,028
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$ 71,099	\$ 15,102
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation Expense	84,281	112,950
Amortization Expense	2,557	2,557
Net Cash Provided by Operating Activities	\$ 157,937	\$ 130,609

The accompanying notes are an integral part of these statements.

**THOMAS ECONOMIC DEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING JUNE 30, 2012 AND 2011**

Note 1 - Summary of Significant Accounting Policies.

The accounting policies of the Thomas Economic Development Authority (the Authority) do not conform to accounting principles generally accepted in the United States of America as applicable to governments. These standards are set by the Governmental Accounting Standards Board (GASB). The Authority uses the modified cash basis of accounting as described below. The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates. The following is a summary of the more significant policies.

A. The Reporting Entity.

The Thomas Economic Development Authority was created as a public trust under and pursuant to the laws of the State of Oklahoma on March 16, 1987. The Authority was created for the use and benefit of the City of Thomas, Oklahoma (the beneficiary). The trust indenture establishing the Authority was amended on December 9, 1998, and it specifies the purposes of the trust. The five trustees of the Authority are appointed by the City Council of the City of Thomas. The City Council of the City of Thomas may also remove any trustee from office, without cause, by a majority vote. The Authority uses the City of Thomas office space and employees to conduct its business. It also manages and leases some of the City's properties and receives financial revenue from the City for debt service payments. Based upon the criteria for a component unit, the Authority is a component unit of the City of Thomas, Oklahoma, and its financial statements has previously been included as a component unit of the City of Thomas, Oklahoma's, financial statements. The City of Thomas, Oklahoma's, financial statements can be obtained from the City or from the Oklahoma State Auditor's web site.

B. Basis of Presentation - Accounting.

The financial statements of the Authority are presented on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting

THOMAS ECONOMIC DEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING JUNE 30, 2012 AND 2011

Note 1 - Summary of Significant Accounting Policies.

B. Basis of Presentation - Accounting (continued).

principles. Revenues are reported as earned when cash is received and expenses are reported when the related liability is paid in cash, except as noted below. Generally accepted accounting principles require the Authority to report on the accrual basis. Under the accrual basis, revenues are recognized when earned and expenses are recognized when the liability is incurred.

C. Cash and Cash Equivalents.

Cash and cash equivalents consist of demand deposit accounts, interest-bearing checking accounts, and trustee debt service accounts.

D. Notes Receivable.

Notes receivable are loans made to third parties for community development. No allowance for doubtful accounts has been established since management believes all are collectible.

E. Capital Lease Receivable.

Capital lease receivable is a lease purchase agreement with a third party to transfer title to capital assets providing all lease payments have been made as agreed.

F. Capital Assets.

Capital assets are valued at historical cost or estimated historical cost if actual is unavailable, or if donated, at the estimated fair value on the date of donation. Generally, the organization only capitalizes assets that have an estimated life greater than one year and a cost of \$1,500 or more. Depreciation is provided over the assets' estimated useful lives

THOMAS ECONOMIC DEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING JUNE 30, 2012 AND 2011

Note 1 - Summary of Significant Accounting Policies.

F. Capital Assets (continued).

using the straight-line method of depreciation. The estimated useful lives by type of asset are as follows:

Buildings	40 years
Land Improvements	20 years
Leasehold Improvements	20 years
Machinery and Equipment	5-20 years
Water, Sewer, and Drainage Systems	20 years
Furniture and Fixtures	5-10 years

G. Loan and Bond Issue Costs.

Loan and Bond Issue costs are capitalized and amortized using the straight-line method over the life of the respective loan and bond issue. At June 30, 2012 and 2011, accumulated amortization of loan costs is \$22,309 and \$20,431, respectively. At June 30, 2012 and 2011, accumulated amortization of bond issuance costs is \$10,182 and \$9,503, respectively.

GASB has issued Statement No. 65 - Items Previously Reported as Assets and Liabilities in March, 2012. This statement requires debt issuance costs to be recognized as an expense. The effect of this statement would be to adjust these unamortized balances as a restatement of the beginning net asset balance. It is effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged. The Authority has not elected to implement this standard early.

H. Bonds and Notes Payable.

Bonds and Notes Payable incurred by the Authority are recorded as liabilities.

THOMAS ECONOMIC DEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING JUNE 30, 2012 AND 2011

Note 1 - Summary of Significant Accounting Policies.

I. Net Assets.

Net assets are classified into three components:

1. Invested in capital assets, net of related debt - Consists of capital assets, net of accumulated depreciation, plus loan and bond issue costs, and reduced by the outstanding balances of any notes payable attributable to these assets.

2. Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional revisions or enabling legislation.

3. Unrestricted net assets - All other net assets that do not meet the definition of the other two above. These include amounts designated by management for a particular purpose.

J. Operating Revenues and Expenses.

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the Authority. Operating revenues consist primarily of rental and administrative fees. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from nonexchange transactions or ancillary activities.

K. Policy Regarding Use of Financial Accounting Standard Board (FASB) Pronouncements.

The Authority applies all applicable Government Accounting Standards Board (GASB) pronouncements as well as the pronouncements issued on or before November 30, 1989, by the FASB or predecessor Boards, unless those pronouncements conflict with or contradict GASB pronouncements.

**THOMAS ECONOMIC DEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING JUNE 30, 2012 AND 2011**

Note 2 - Cash and Cash Equivalents.

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority uses the state statutes as a deposit policy for custodial credit risk. All funds in a noninterest-bearing transaction accounts are insured in full by the Federal Deposit Insurance Corporation (FDIC) from December 31, 2010, through December 31, 2012. This temporary unlimited coverage is in addition to, and separate from, the coverage of at least \$250,000 available to depositors under the FDIC's general deposit insurance rules.

At June 30, 2012 and 2011, the Authority's cash and cash equivalents consisted of demand deposits and mutual funds as follows:

	June 30,	
	2012	2011
Demand Deposits	\$ 99,467	\$ 86,910
Restricted Demand Deposits	122,149	116,496
Total Demand Deposits	\$221,616	\$203,406
Restricted Mutual Funds	76,885	67,622
Total Cash and Cash Equivalents	<u>\$298,501</u>	<u>\$271,028</u>
Total Demand Deposits:		
Carrying Balance	\$221,616	\$203,406
Bank Balance	222,262	219,376
Insured Balance	222,262	219,376

The Thomas Economic Development Authority has cash and cash equivalents restricted by a bond indenture. The bond indenture agreement is with the Bank of Oklahoma (the trustee) and restricts the use of monies for the payment of principal and interest on the 1998 Series Bonds discussed below. The trustee bank has these funds invested in a short-term mutual fund. Cost

**THOMAS ECONOMIC DEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING JUNE 30, 2012 AND 2011**

Note 2 - Cash and Cash Equivalents (continued).

equals market value of the mutual funds. The bond indenture agreement also created a gross revenue account with the funds on deposit with a local banking institution. All revenues derived by the authority related to the bond indenture are deposited into this account. The indenture specifies that these monies are to be used for principal and interest payments on the Authority's bonds and other indebtedness discussed in the bond indenture, maintenance of the asset pledged under the bond indenture, and certain other proper purposes.

Note 3 - Notes Receivable.

Notes receivable consists of loans made to third parties for community development. The following briefly describes these receivables:

JDP Senior Housing Investments, LP - On February 20, 2008, a loan in the amount of \$35,057 was made. The loan is to be repaid over 120 consecutive monthly payments of \$372 each. The note has a stated interest rate of 5%. Payments began March 2008 with the final payment being due in February 2018. The promissory note is secured by a mortgage on real estate located at 601 E. Frisco, Thomas, Oklahoma. The balance on this note as of June 30, 2012 and 2011 was \$20,250 and \$23,931, respectively. This loan was subsequently paid off in December 2012.

Sue Hutchinson - A loan in the amount of \$11,349 was made with the stated repayment amount to be \$12,000. The imputed interest rate is 5.41%. The loan is to be repaid over 24 consecutive monthly payments of \$500 each. Payments began January 2011 with the final payment being due on December 10, 2012. On July 18, 2011, an addendum to the promissory note specified that payments for the months of August, September, and October, 2011, would be deferred. Payments will resume on November 10, 2011 in the amount of \$250.00 for 32 consecutive months until the total principal amount is paid in full. The balance on this note as of June 30, 2012 and 2011 was \$6,432 and \$8,626, respectively.

**THOMAS ECONOMIC DEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING JUNE 30, 2012 AND 2011**

Note 3 - Notes Receivable (continued).

A summary of notes receivable activity follows:

	Balance 6/30/10	New Notes Rec.	Repay- ments	Balance 6/30/11	Repay- ments	Balance 6/30/12	Due With- in One Year
JDP Senior	\$27,427	\$	\$3,497	\$23,930	\$3,680	\$20,250	\$3,860
Hutchison		11,349	2,724	8,625	2,194	6,431	2,719
Total	\$27,427	\$11,349	\$6,221	\$32,555	\$5,874	\$26,681	\$6,579

Note 4 - Capital Lease Receivable.

Capital lease receivable is a lease-purchase loan made to a third party with a bargain purchase option.

Schrock Automotive, LLC - On February 13, 2012, the Authority entered into a capital lease agreement for the building and equipment. The capital lease agreement has a principal amount of \$126,600 to be repaid over 120 consecutive monthly installments of \$1,237 with payments beginning March 13, 2012. The stated interest rate is 3.25%. At the end of the lease, Schrock Automotive may purchase the building and equipment for \$1. This lease is secured by the building and equipment. The building and equipment has a first mortgage to Kiwash Electric Cooperative who loaned the Authority the funds to purchase the building and equipment as noted in Note 6. The balance on this note as of June 30, 2012 is \$123,082.

Minimum lease payments receivable at June 30, 2012	\$143,898
Less Interest to be Earned	<u>(20,816)</u>
Capital Lease Receivable	<u>\$123,082</u>
Principal Due Within One Year	<u>\$ 11,008</u>

THOMAS ECONOMIC DEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING JUNE 30, 2012 AND 2011

Note 5 - Capital Assets.

All the Authority's capital assets are either leased or held for leasing. Capital asset activity for the fiscal years ending June 30, 2012 and 2011 follows:

	Balance at 6/30/2011	Additions (Deletions)	Balance at 6/30/2012
Capital Assets Not Being Depreciated:			
Land, including Leasehold			
Land Improvements	\$ 91,967	\$ 9,323	\$ 101,290
Depreciable Capital Assets:			
Buildings	2,141,977		2,141,977
Drainage System	2,406		2,406
Furniture and Fixtures	50,482		50,482
Land Improvements	314,728		314,728
Leasehold Improvements	125,421		125,421
Machinery and Equipment	386,969		386,969
Water and Sewer System	61,200		61,200
Total Depreciable Capital Assets	3,083,183		3,083,183
Less Accumulated Depreciation:			
Buildings	(576,206)	(53,550)	(629,756)
Drainage System	(1,263)	(120)	(1,383)
Furniture and Fixtures	(50,038)	(197)	(50,235)
Land Improvements	(161,298)	(15,736)	(177,034)
Leasehold Improvements	(68,026)	(6,272)	(74,298)
Machinery and Equipment	(373,785)	(5,346)	(379,131)
Water and Sewer System	(31,365)	(3,060)	(34,425)
Total Accumulated Depreciation	(1,261,981)	(84,281)	(1,346,262)
Depreciable Capital Assets, Net	1,821,202	(84,281)	1,736,921
Net Capital Assets	\$ 1,913,169	\$(74,958)	\$ 1,838,211

**THOMAS ECONOMIC DEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING JUNE 30, 2012 AND 2011**

Note 5 - Capital Assets (continued).

	Balance at 6/30/2010	Additions (Deletions)	Balance at 6/30/2011
Capital Assets Not Being Depreciated:			
Land, including Leasehold			
Land Improvements	\$ 91,967		\$ 91,967
Depreciable Capital Assets:			
Buildings	2,141,977		2,141,977
Drainage System	2,406		2,406
Furniture and Fixtures	50,482		50,482
Land Improvements	* 314,728		314,728
Leasehold Improvements	125,421		125,421
Machinery and Equipment	386,969		386,969
Water and Sewer System	61,200		61,200
Total Depreciable Capital Assets	3,083,183		3,083,183
Less Accumulated Depreciation:			
Buildings	(522,657)	(53,549)	(576,206)
Drainage System	(1,143)	(120)	(1,263)
Furniture and Fixtures	(46,184)	(3,854)	(50,038)
Land Improvements	* (145,561)	(15,737)	(161,298)
Leasehold Improvements	(61,756)	(6,270)	(68,026)
Machinery and Equipment	(343,425)	(30,360)	(373,785)
Water and Sewer System	(28,305)	(3,060)	(31,365)
Total Accumulated Depreciation	(1,149,031)	(112,950)	(1,261,981)
Depreciable Capital Assets, Net	1,934,152	(112,950)	1,821,202
Net Capital Assets	\$ 2,026,119	\$(112,950)	\$ 1,913,169

* As restated for 2010

THOMAS ECONOMIC DEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING JUNE 30, 2012 AND 2011

Note 6 - Bonds and Notes Payable.

Bonds and notes payable consists of the following:

Sales Tax Revenue Bonds, Series 1998 (Thomas Aviation Building Project) - The Authority issued \$385,000 sales tax revenue bonds on February 1, 1998. The bonds specify interest payments payable semiannually on February 1 and August 1 of each year through maturity with interest rates ranging from 4.1% to 6%. Principal payments range from \$10,000 to \$30,000 and are payable on February 1 through the year 2018. Maturity of the bonds is on February 1, 2018. The bond indenture specifies early redemption procedures and states that any bonds redeemed after January 31, 2005, may be at par. Any early redemption of bonds must be made in multiples of \$5,000 and in inverse order of maturity. During the year ending June 30, 2012, the Authority redeemed an additional \$65,000 of bonds. The bonds maturing on February 1, 2013, through February 1, 2018, shall be subject to mandatory annual sinking fund payments of \$25,000 for each year. The bonds are a special and limited obligation of the Authority and are payable solely from and secured by 1) the parity first leasehold mortgage given to the Bank of Oklahoma to secure the bondholders and other parity debt that may be obtained, 2) the pledged sales tax revenues received from the City of Thomas, Oklahoma, pursuant to a sales tax agreement, and 3) any funds on deposit with the bond trustee, and 4) any other funds legally available to the Authority for payment on the bonds.

The balance on the bonds as of June 30, 2012 and 2011, was \$100,000 and \$185,000, respectively.

Oklahoma Department of Commerce/Division of Community Affairs and Development (ODOC/DCAD) - Under the loan agreement dated August 24, 1999, the Authority obtained financing in the amount of \$400,000. The loan is a 0% interest loan with a term of twenty years. The loan is made to the City of Thomas/Thomas Public Works Authority and has been passed through to the Thomas Economic Development Authority. The Authority is to remit principal payments in

**THOMAS ECONOMIC DEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING JUNE 30, 2012 AND 2011**

Note 6 - Bonds and Notes Payable (continued).

the amount of \$1,667 in two hundred forty equal monthly installments beginning in fiscal year 2002 and makes them directly to the Oklahoma Department of Commerce. The loan is collateralized by the building lease payments. The balance on this loan as of June 30, 2012 and 2011 was \$190,000 and \$208,333, respectively.

Bank of Western Oklahoma - This loan was a construction line of credit up to \$1,000,000 for the purpose of constructing a building. The permanent loan was done on February 1, 2001, principal amount of \$1,000,000 at 9% interest with a term of fifteen years. The interest rate was changed to 6% on November 6, 2008. The note states that the interest rate can be adjusted on the 5th and 10th anniversary of the note. The Authority is to remit monthly principal and interest payments of \$10,217 beginning March 1, 2001. The loan is secured by a title insured first lien on a tract of land, building and site improvements, equipment, assignment of life insurance, and assignments of rents from W. W. Manufacturing, a Kansas Corporation. The balance on this loan as of June 30, 2012 and 2011 was \$317,806 and \$409,539, respectively.

Kiwash Electric Cooperative, Inc. - Revolving Loan Fund - Under the loan agreement dated January 9, 2012, the Authority obtained financing in the amount of \$126,600. The interest rate is 3.25% with a term of ten years. The Authority is to remit payments in the amount of \$1,237 in one hundred twenty equal monthly installments beginning April 1, 2012. The purpose of this loan was to purchase economic development property which was subsequently sold to Schrock Automotive, LLC, under a lease purchase agreement. This loan is collateralized by a real estate mortgage on the building and equipment. The balance on this loan as of June 30, 2012 is \$123,910.

**THOMAS ECONOMIC DEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING JUNE 30, 2012 AND 2011**

Note 6 - Bonds and Notes Payable (continued).

The following is a summary of the bonds and notes payable transactions of the Thomas Economic Development Authority for the years ending June 30, 2012 and 2011:

Bonds and Notes Payable	Balance 6/30/10	(Repay- ments)	Balance 6/30/11	New Debt	(Repay- ments)	Balance 6/30/12	Due With- in One Year
Sales Tax Revenue							
Bond	\$205,000	\$(20,000)	\$185,000	\$	\$(85,000)	\$100,000	\$ 25,000
ODOC/DCAD	230,000	(21,667)	208,333		(18,333)	190,000	20,000
Bank of Western Kiwash Electric	511,695	(102,156)	409,539		(91,733)	317,806	106,426
				126,600	(2,690)	123,910	10,981
Totals	\$946,695	\$(143,823)	\$802,872	\$126,600	\$(197,756)	\$731,716	\$162,407

The annual debt service requirements for retirement of principal and payment of interest are as follows:

Year Ending June 30	Principal	Interest	Total
2013	\$ 162,407	\$ 26,038	\$ 188,445
2014	169,166	17,779	186,945
2015	155,276	9,150	164,426
2016	57,104	4,241	61,345
2017	32,503	2,342	34,845
2018-2022	155,260	5,254	160,514
Totals	\$ 731,716	\$ 64,804	\$ 796,520

**THOMAS ECONOMIC DEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING JUNE 30, 2012 AND 2011**

Note 7 - Conduit Debt Obligation.

On September 1, 2007, the Authority issued its Educational Facilities Lease Revenue bonds (Thomas-Fay-Custer Public Schools Project) Series 2007. Bond proceeds are for the benefit of the Thomas-Fay Custer Public School District (the District) and are secured solely by the certain rental and lease purchase payments payable by the District and other funds and accounts established under the indenture relating to the bonds. The Authority has assigned all its rights and interests in the rental and lease purchase payments to the Trustee bank. The District makes its payments directly to the Trustee bank. These bonds do not constitute an obligation, legal or moral, or debts, general or special, of the Authority. As such, the accounts held by the Trustee bank for debt payment and any other assets related to the bonds and related bond payable accounts are not presented in these financial statements. The Authority receives an administrative fee for facilitating these bonds.

The original issue amount was \$5,035,000. The outstanding balance of the bonds as of June 30, 2012 and 2011 was \$3,850,000 and \$4,255,000, respectively.

Note 8 - Risk Management.

The Authority is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; and natural disasters. The Authority purchases commercial insurance or has the lessee purchase commercial insurance to manage these risks. Deductibles range from \$500 to \$2,500, depending upon the insurance coverage. The Authority is also a named plan member effective July 27, 2011, of the City of Thomas liability policy.

**THOMAS ECONOMIC DEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING JUNE 30, 2012 AND 2011**

Note 9 - Commitments.

Short-term Lease Commitments.

The Authority entered into a lease agreement with the City of Thomas, (as lessor), on February 24, 1998, in which the Authority leased real property to develop an industrial facility to be leased to a tenant. No rental payments are required under the terms of the lease. The consideration shall be the installation, construction, and operation of improvements to the leased property. At the end of the lease term, the Authority has the option to renew the lease for a like term.

On November 11, 1998, the Authority, as lessor, entered into a lease agreement for the lease of the industrial facility referred in the above paragraph. The original term of the lease commenced on May 1, 1998. The lease specifies rental payments of \$600 per month. Due to federal monies, the term of the lease may not exceed thirty days; however, the lessee shall have the option to renew the lease agreement for a period of an additional thirty days at the end of each lease term. The lessee's exercise of its renewal option for an additional thirty day period shall be automatic unless lessee or lessor provides written notice to terminate to the other party at least thirty days prior to expiration of this lease agreement. Renewal terms are the same as the original lease agreement.

On February 1, 2008, the Authority, as lessor, entered into a lease agreement for the lease of a portion of the Thomas Medical Clinic (owned by the City of Thomas) to Dr. Richard Carter, lessee. The lease commenced on February 1, 2008, and is for the term of thirty-five months expiring on December 31, 2010. At the time of the expiration of the lease, the lease shall convert to a month-to-month basis versus being renewed. The lease specifies payments of \$855 per month. On October 22, 2012, the City of Thomas has contracted for the sale of the Thomas Medical Clinic through a lease purchase agreement.

**THOMAS ECONOMIC DEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING JUNE 30, 2012 AND 2011**

Note 9 - Commitments (Continued).

Long-term Lease Commitments.

The Authority has entered into a lease agreement on January 26, 2000, with an industrial company for the lease of a facility which the Authority constructed with funding from loans, federal grants and federal zero percent interest loans, as well as donated services of state and county governments. The lease payments are to be the amount equal to the amount required to service the debt on loans related to succeeding initial occupancy of the facility, which was April 1, 2003, and shall extend for fifteen years thereafter or until all the loans related to this project have been paid. An addendum to this lease agreement was made on January 23, 2001, to add some equipment to the lease properties. Current monthly lease payments are \$13,133.

On August 20, 2003, the Thomas Economic Development Authority leased from the Thomas Public Works Authority certain real property and equipment for a term of thirty-three years. Consideration for the lease was \$10 plus maintenance and payment of all expenses on the property during the term of the lease. The lease does not have a renewable option, but does allow the Authority to sublease the property. The Authority had several subleases with the latest being entered on December 28, 2010, and commenced February 1, 2011, for a term of three years. The lease specifies payments of \$550 per month and stipulates a \$50 late payment penalty if payment is made more than five days after the due date. Lessee has the option to renew the lease for a three year term upon giving lessor a sixty day notice. The renewed lease would increase the payment to \$600 per month. The following is a schedule by years of minimum future rentals on noncancelable long-term operating leases as of June 30, 2012.

Year Ending June 30	
2013	\$156,700
2014	145,900
2015	142,600
2016	56,328
2017	20,000
2018-2022	99,999
Total	<u>\$621,527</u>

**THOMAS ECONOMIC DEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING JUNE 30, 2012 AND 2011**

Note 10 - Dependency on the City of Thomas, Oklahoma.

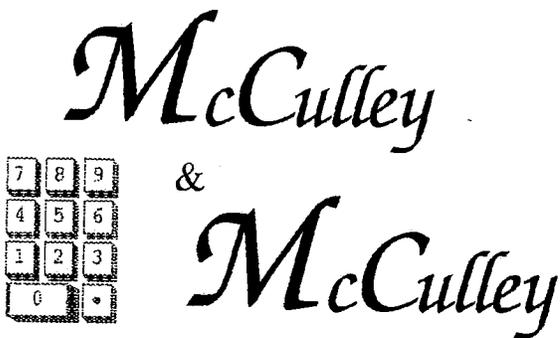
The Authority is dependent upon funding from the City of Thomas to fund its debt service on its bonds payable. The Authority received \$94,935 and \$79,630 from the City during the years ending June 30, 2012 and 2011, respectively. The funds represent a one-percent City sales tax that is transferred from the City's General Fund. Although due to Oklahoma law the City may not obligate beyond its fiscal year, the City has agreed to consider budgeting and appropriating, on a year-to-year basis, this one-percent sales tax to the Authority. If the City were to not budget and appropriate this one-percent sales tax, the Authority may not be able to meet its debt service requirements.

Note 11 - Contingencies.

The Authority participates in various federal or state grant/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability if reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

Note 12 - Prior Period Adjustment.

The Authority had capitalized and depreciated expenses relating to the lighting of the baseball fields in fiscal year 2010. Total amounts capitalized were \$33,108 and accumulated depreciation was \$1,655. The net effect on the financial statements was \$31,453. This amount decreased the land improvements capital asset account and decreased beginning net assets.



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**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 Board of Trustees
Thomas Economic Development Authority
Thomas, Oklahoma

We have audited the accompanying modified cash basis financial statements of the Thomas Economic Development Authority, for the year ended June 30, 2012, which collectively comprise the Thomas Economic Development Authority's financial statements and have issued our report dated August 20, 2013. The Authority reports its financial statements on the modified cash basis of accounting. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Thomas Economic Development Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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 test disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of the Authority in a separate letter dated August 20, 2013.

This report is intended solely for the information and use of the Board of Trustees, management, and federal awarding agencies. It is not intended to be and should not be used by anyone other than these specified parties.

McCulley & McCulley

Weatherford, Oklahoma

August 20, 2013