WAGONER COUNTY DEVELOPMENT AUTHORITY
A PUBLIC TRUST

FINANCIAL AND COMPLIANCE AUDIT

JUNE 30, 2013 AND 2012

WAGONER COUNTY DEVELOPMENT AUTHORITY
A PUBLIC TRUST
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JUNE 30, 2013 AND 2012

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INDEPENDENT AUDITORS' REPORT

February 4, 2014

To the Trustees
Wagoner County Development Authority

We have audited the accompanying financial statements of Wagoner County Development Authority (the Authority), a component unit of Wagoner County which comprise the statements of net assets as of June 30, 2013 and 2012 and the related statements of revenues, expenses and changes in net assets, and statements of cash flows for the years then ended, and the related notes to the 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.

Auditor's 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the

circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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, 2013 and 2012, 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

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.

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WAGONER COUNTY DEVELOPMENT AUTHORITY
STATEMENTS OF NET ASSETS
JUNE 30, 2013 AND 2012

ASSETS

	2013	2012
Current Assets		
Investments	$ 22,080	$ 22,263
Total Current Assets	22,080	22,263
Noncurrent Assets		
Fixed assets, net	382,812	396,990
Total Assets	$ 404,892	$ 419,253

LIABILITIES AND NET ASSETS

Current Liabilities		
Accrued interest payable	$ 1,665	$ 1,846
Deferred rent revenue	22,955	22,955
Bonds payable - current, net of discount	35,821	35,883
Total Current Liabilities	60,441	60,684
Noncurrent Liabilities		
Bonds payable, net of discount	271,075	305,193
Total Liabilities	331,516	365,877
Net Assets	73,376	53,376
Total Liabilities and Net Assets	$ 404,892	$ 419,253

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, 2013 AND 2012

	2013	2012
Operating revenues		
Building lease income	$ 61,473	$ 60,448
Total operating revenues	61,473	60,448
Operating expenses		
Depreciation expense	14,178	14,178
Audit fees	4,600	4,600
Servicers' fees	1,000	1,000
Total operating expenses	19,778	19,778
Operating Income	41,695	40,670
Nonoperating revenues and expenses		
Interest expense	(20,874)	(22,931)
Discount accretion	(821)	(883)
Total nonoperating revenues	(21,695)	(23,814)
Change in Net Assets	20,000	16,856
Net Assets, beginning of year	53,376	36,520
Net Assets, end of year	$ 73,376	$ 53,376

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, 2013 AND 2012

	2013	2012
Cash Flows from Operating Activities:		
Rents received	$ 55,873	$ 55,849
Cash paid to suppliers	-	-
Net Cash Provided (Used) by Operating Activities	55,873	55,849
Cash Flows from Capital and Related Financing Activities:		
Payments on bonds	(35,000)	(30,000)
Interest paid	(21,056)	(23,087)
Net Cash Provided (Used) by Capital and Related Financing Activities	(56,056)	(53,087)
Cash Flows from Investing Activities:		
Purchase of investments	(107,349)	(111,697)
Proceeds from sales and maturities of investments	107,532	108,935
Net Cash Provided (Used) by Investing Activities	183	(2,762)
Change in Cash	-	-
Cash at Beginning of Year	-	-
Cash at End of Year	$ -	$ -
Reconciliation of Change in Net Assets to Net Cash Provided (Used) by Operation Activities:		
Change in Net Assets	$ 20,000	$ 16,856
Adjustments to reconcile change in net assets to net cash provided (Used) by operating activities:		
Depreciation	14,178	14,178
Non-operating revenues and expenses	21,695	23,814
Decrease (increase) in rent receivable	-	(4,599)
Increase (decrease) in deferred rent revenue	-	-
Increase (decrease) in amount due to general fund	-	5,600
Net Cash Provided (Used) by Operating Activities	$ 55,873	$ 55,849

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

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 20th 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, 2013 and 2012 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.

Subsequent Events

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

Reclassifications

Certain accounts have been reclassified in the June 30, 2012 financial statements to conform to the current financial statement presentation.

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, 2013 and 2012, investments recorded at cost which approximate market value were comprised of U.S. Treasury money market funds, held in the following fund accounts:

Description	2013	2012
Bond Fund	$ 22,080	$ 22,263
Total investments	$ 22,080	$ 22,263

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

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, 2013 and 2012 are as follows:

	Cost			
	Balance June 30, 2012	Additions	Removals	Balance June 30, 2013
Building	$ 567,128	$ -	$ -	$ 567,128
Furniture and Fixtures	5,613	-	-	5,613
Total	$ 572,741	$ -	$ -	$ 572,741

	Accumulated Depreciation			
	Balance June 30, 2012	Additions	Removals	Balance June 30, 2013
Total	$ 175,751	$ 14,178	$ -	$ 189,929

	Cost			
	Balance June 30, 2011	Additions	Removals	Balance June 30, 2012
Building	$ 567,128	$ -	$ -	$ 567,128
Furniture and Fixtures	5,613	-	-	5,613
Total	$ 572,741	$ -	$ -	$ 572,741

	Accumulated Depreciation			
	Balance June 30, 2011	Additions	Removals	Balance June 30, 2012
Total	$ 161,573	$ 14,178	$ -	$ 175,751

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:

December 1 of the Year	Principal Amount	Interest Rate
2014	$ 75,000	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:

Maturity	Amount
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:

Maturity	Amount
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 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.

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, 2013 are as follows:

Bonds Payable			
Balance June 30, 2012	Bonds Issued	Bonds Paid	Balance June 30, 2013
$ 345,000	$ -	$ 35,000	$ 310,000

Bond Discount			
Balance June 30, 2012	Discount Taken	Current Accretion	Balance June 30, 2013
$ 3,924	$ -	$ 820	$ 3,104

Changes in the Bonds for the year ending June 30, 2012 are as follows:

Bonds Payable			
Balance June 30, 2011	Bonds Issued	Bonds Paid	Balance June 30, 2012
$ 375,000	$ -	$ 30,000	$ 345,000

Bond Discount			
Balance June 30, 2011	Discount Taken	Current Accretion	Balance June 30, 2012
$ 4,807	$ -	$ 883	$ 3,924

Note 6 - 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, 2013 and 2012.

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*

February 4, 2014

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 governmental activities of the Wagoner County Development Authority (the Authority) as of June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Haskell County Public Facilities Authority's basic financial statements, and have issued our report thereon dated February 4, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Haskell County Public Facilities 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.

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. Haskell County Public Facilities 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.

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