

Ardmore Main Street Authority
Financial Statements
Year-End June 30, 2015

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ARDMORE MAIN STREET AUTHORITY
For the Year Ended June 30, 2015

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Independent Auditor's Report

To the Board of Trustees
Ardmore Main Street Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund, of Ardmore Main Street Authority (the Authority) a component unit of the City of Ardmore, Oklahoma, as of and for the year ended June 30, 2015, and the related notes to the financial statements which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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 opinions 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 of 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

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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 opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Ardmore Main Street Authority as of June 30, 2015, and the respective changes in financial position for the year ended in conformity with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, and historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2016 on our consideration of Ardmore Main Street Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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* in considering Ardmore Main Street Authority's internal control over financial reporting and compliance.

Rakhal Henderson Johnson, PLLC

Ardmore, Oklahoma
February 1, 2016

BASIC FINANCIAL STATEMENTS

ARDMORE MAIN STREET AUTHORITY
Government-Wide Statement of Net Position and
Governmental Funds Balance Sheet
June 30, 2015

	<u>General Fund</u>	Adjustments <u>(Note 6)</u>	<u>Statement of Net Position</u>
<u>ASSETS</u>			
Current Assets:			
Cash	\$ 95,531	\$ -	\$ 95,531
Accounts receivable	1,850	-	1,850
Inventory	4,359	-	4,359
Land	-	127,524	127,524
Construction in Progress	-	68,525	68,525
Capital Assets, Net of Accumulated Depreciation	<u>-</u>	<u>799,061</u>	<u>799,061</u>
 Total Assets	 <u>\$ 101,740</u>	 <u>\$ 995,110</u>	 <u>\$ 1,096,850</u>
 <u>LIABILITIES</u>			
Current Liabilities:			
Accounts Payable	\$ 4,059	\$ -	\$ 4,059
Rental Deposits Held	2,400	-	2,400
Payroll Liabilities	<u>2,380</u>	<u>-</u>	<u>2,380</u>
 Total Liabilities	 <u>\$ 10,839</u>	 <u>\$ -</u>	 <u>\$ 10,839</u>
 <u>FUND BALANCE/NET POSITION</u>			
Fund Balances:			
Nonspendable	\$ 4,359	\$ (4,359)	\$ -
Unassigned	<u>86,542</u>	<u>(86,542)</u>	<u>-</u>
Total Fund Balances	<u>90,901</u>	<u>(90,901)</u>	<u>-</u>
 Total Liabilities and Fund Balances	 <u>\$ 101,740</u>		
Net Position:			
Net Investments in Capital Assets		995,110	995,110
Unrestricted		<u>90,901</u>	<u>90,901</u>
 Total Net Position		 <u>\$ 1,086,011</u>	 <u>\$ 1,086,011</u>

The accompanying notes are an integral part of the financial statements

ARDMORE MAIN STREET AUTHORITY
Government-Wide Statement of Activities and
Governmental Fund Statement of Revenues, Expenditures and
Changes in Fund Balances
For the Year Ended June 30, 2015

<u>Functions/Programs</u>	<u>General Fund</u>	<u>Adjustments (Note 6)</u>	<u>Statement of Activities</u>
Expenditures/expenses:			
Cultural and Recreational	\$ 338,556	\$ 68,226	\$ 406,782
Capital Outlay	<u>74,654</u>	<u>(74,654)</u>	<u>-</u>
Total Expenditures/Expenses	<u>413,210</u>	<u>(6,428)</u>	<u>406,782</u>
Program Revenues			
Charges for Services	33,017	-	33,017
Operating Grants and Contributions	252,446	-	252,446
Capital Grants and Contributions	<u>43,820</u>	<u>-</u>	<u>43,820</u>
	<u>329,283</u>	<u>-</u>	<u>329,283</u>
Net program expense			<u>(77,499)</u>
General Revenues:			
Interest income	117	-	117
Nonoperating expenses		(109,821)	(109,821)
Miscellaneous	<u>2,800</u>	<u>-</u>	<u>2,800</u>
Total general revenues	<u>2,917</u>	<u>(109,821)</u>	<u>(106,904)</u>
Excess of revenues and transfers in over expenditures and transfers out	(81,010)	81,010	
Net Change in Net Position		(184,403)	(184,403)
Fund Balance/Net Position:			
Beginning of Year, Restated	<u>171,911</u>	<u>1,098,503</u>	<u>1,270,414</u>
End of Year	<u>\$ 90,901</u>	<u>\$ 995,110</u>	<u>\$ 1,086,011</u>

The accompanying notes are an integral part of the financial statements

ARDMORE MAIN STREET AUTHORITY
Notes to Financial Statements
June 30, 2015

Note 1 – General Statement and Summary of Significant Accounting Policies

Organization

The Ardmore Main Street Authority (“Authority”) is a trust created April 17, 1989 pursuant to a trust indenture under the Oklahoma Trust Act of Title 60, Oklahoma statutes. The City of Ardmore, Oklahoma is the beneficiary of Ardmore Main Street Authority. The Authority is a component unit of the City of Ardmore, Oklahoma. The Authority is governed by a separate board but is fiscally dependent upon the City of Ardmore, Oklahoma for operating funds. The primary purpose of the trust is to promote economic growth and the well being of Ardmore, preserve and improve the historic value of its downtown area, create a quality business environment for both business and consumer, and create an ever expanding resource for the downtown area.

The Authority’s financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board is responsible for establishing GAAP for state and local governments. The more significant accounting policies established in GAAP and used by the Authority are discussed below.

Basis of Presentation Government-Wide and Fund Financial Statements

Governmental Financial Statements and Fund Type

The Authority operates one fund, general fund, which is a governmental type of activity. Governmental funds are those through which the governmental functions of the Authority are financed. The measurement focus is upon determination of changes in net position, rather than upon net income determination.

In the statement of net position, the governmental activities are reported on a full accrual, economic resource basis which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Authority’s net position is reported in two parts:

Net Investment in Capital Assets – the component of net position that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt, excluding unspent proceeds, that is directly attributable to the acquisition, construction or improvement of these capital assets.

Unrestricted – The difference between assets and liabilities that is not report as restricted for any particular purpose.

ARDMORE MAIN STREET AUTHORITY
Notes to Financial Statements
June 30, 2015

Note 1 -- General Statement and Summary of Significant Accounting Policies – continued

The statement of activities reports both the gross and net cost of each of the Authority's functions. The statement of activities reduces gross expenses (including depreciation) by related program revenues, grants and contributions. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants.

The net costs, by function, are normally covered by general revenue (interest income, intergovernmental revenues).

The government-wide focus is more on the sustainability of the Authority as an entity and the change in the Authority's net position resulting from current year's activities.

When an expenditure is incurred for purposes for which funds both restricted and unrestricted fund balance is available, the Authority considers restricted to have been spent first. When an expenditure is incurred for which committed, assigned or unassigned fund balances are available, the Authority considers amounts to have been spent first out of committed funds, then assigned funds and finally unassigned funds as needed.

The governmental fund financial statements present fund balances based on classification that comprise a hierarchy that is based primarily on the extent to which the Authority is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classification used in the governmental fund financial statements are as follows:

Nonspendable—Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact. The Authority has classified inventories as being nonspendable as these items are not expected to be converted to cash within the next year.

Restricted—Amounts that can be spent only for specific purposes because of state or federal laws, or externally imposed conditions by grantors, sponsors, contributors or creditors. The Authority does not have any funds in this category as of June 30, 2015.

Committed—Amounts that can be used only for specific purposes determined by a formal action by Authority resolution. Commitments may be modified or rescinded only through resolution approved by the Authority board. The Authority does not have any funds in this category as of June 30, 2015.

Assigned—Amounts that are designated by Management for a specific purpose with authorization of the Authority board. The Authority does not have any funds in this category as of June 30, 2015.

Unassigned—All amounts not included in other spendable classifications.

ARDMORE MAIN STREET AUTHORITY
Notes to Financial Statements
June 30, 2015

Note 1 -- General Statement and Summary of Significant Accounting Policies – continued

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to the timing of when revenues and expenditures are recognized in the accounts and reported in the financial statements.

Government fund types use a current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become measurable and available to finance expenditures in the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due.

Capital Assets

Capital assets are primarily buildings, improvements and equipment. Capital assets are defined by the Authority as assets with an initial individual cost of more than \$500 (amount not rounded) and an estimated useful life which extends substantially beyond the year of acquisition. The cost of the expenditure is capitalized and depreciated or amortized over the estimated useful life of the asset utilizing the straight-line method. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Depreciation is computed using the straight line method over the estimated useful lives of five to seven years for equipment and 40 years for building.

Inventories

Inventories consist of bricks available for resale and recorded at cost using first in/first out (FIFO) method. Inventories are recorded as assets when purchased and charged to operations when sold. The nonspendable fund balance at the governmental fund level is equal to the amount of inventories at year-end to indicate the portion of the governmental fund balances that are nonspendable.

ARDMORE MAIN STREET AUTHORITY
Notes to Financial Statements
June 30, 2015

Note 1 -- General Statement and Summary of Significant Accounting Policies - continued

Investments

The Authority's funds are generally invested in (1) direct obligations of the U.S. government, its agencies or instrumentalities to the payment of which the full faith and credit of the U.S. government is pledged, (2) collateralized or insured certificate of deposit and other evidences of deposits in banks, savings and loans associations, and credit unions secured by appropriate collateral and (3) money market funds regulated by the Securities and Exchange Commission consisting of authorized domestic securities in compliance with state law. The Authority does not have a formal policy for reducing concentration of credit risk.

Budgetary Comparison Information

Budgetary comparison information is required to be presented for the general fund if there is a legally adopted budget. The Authority is not legally required to adopt a budget for the general fund. Therefore, budgetary comparison information is not included in the Authority's financial statements.

In-Kind Donations

In-kind donations include contributions of noncash items such as services, materials and supplies. In-kind donations that can be used internally or sold are measured at fair value. During the year, the Authority received \$7,542 in donated supplies, materials and services that were used in carrying out their programs. The revenue related to these in-kind donations has been recorded in the financial statement as Program operating contributions and the expenses have been recorded as Cultural and Recreational Expenditures/expenses on the Government-Wide Statement of Activities and Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance. The Authority received \$14,505 of services that were used towards the development of the depot park. The revenue related to these in-kind donations has been recorded in the financial statements as program capital grants and contributions on the Government-Wide Statement of Activities and Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances. The expenditures related to the \$14,505 in-kind services were recorded as Cultural and Recreational Expenditures on the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance, and as Construction in Progress on the Government Wide Statement of Net Position.

Note 2 - Cash

Custodial Credit Risk. Custodial credit risk for cash deposits is the risk that in the event of a bank failure, the Authority's deposits may not be returned or the Authority will not be able to recover collateral securities in the possession of an outside party. The Authority's policy requires collateral for demand deposits and certificates of deposit for all amounts not covered by federal deposit insurance. Custodial credit risk for deposits not formally addressed by bond indentures require that deposits be maintained by the trustee bank specified in the indenture. Cash deposits of the Authority are insured or collateralized by a pledging bank's agent in the Authority's name with securities consisting of U. S. government, state or municipal securities.

ARDMORE MAIN STREET AUTHORITY
Notes to Financial Statements
June 30, 2015

Note 3 – Capital Assets

Capital assets as of June 30, 2015, consists of the following:

	Beginning Balance	Prior Period Adjustment	Beginning Balance Restated	Increases	Decreases	Ending Balance
<i>Capital assets, not being depreciated</i>						
Land	\$ 127,524	\$ -	\$ 127,524	\$ -	\$ -	\$ 127,524
Construction in progress	14,505	-	14,505	54,020	-	68,525
Total capital assets, not being depreciated	<u>142,029</u>	<u>-</u>	<u>142,029</u>	<u>54,020</u>	<u>-</u>	<u>196,049</u>
<i>Capital assets, being depreciated</i>						
Buildings and Improvments	2,160,757	(250,000)	1,910,757	13,147	918,525	1,255,379
Equipment	220,203	-	220,203	7,488	113,040	114,651
Total capital assets, being depreciated	<u>2,380,960</u>	<u>-</u>	<u>2,130,960</u>	<u>20,635</u>	<u>1,031,565</u>	<u>1,370,030</u>
Less Accumulated Depreciation	<u>(1,318,653)</u>	<u>144,167</u>	<u>(1,174,486)</u>	<u>(67,668)</u>	<u>671,185</u>	<u>(570,969)</u>
Total capital assets, being depreciated, net	<u>1,062,307</u>	<u>(105,833)</u>	<u>956,474</u>	<u>(47,033)</u>	<u>1,702,750</u>	<u>799,061</u>
Governmental activities capital assets, net	<u>\$ 1,204,336</u>	<u>-</u>	<u>\$ 1,098,503</u>	<u>\$ 6,987</u>	<u>\$ 1,702,750</u>	<u>\$ 995,110</u>

Depreciation expense of \$67,668 was charged to the Authority's cultural and recreational activity.

Note 4 – Commitment and Contingencies

The Authority is exposed to various risks of loss (torts, theft of, damage to, or destruction of assets, business interruptions, errors and omissions, job-related illnesses or injuries to employees, and acts of God) and has established a risk management strategy that attempts to minimize losses and the carrying cost of insurance. There have been no significant reductions in insurance coverage from the prior year and settlements have not exceeded coverage in the past three years.

Note 5 – Accounts Receivable

Receivables as of June 30, 2015 for the Authority, are as follows:

Other receivables:	\$ 1,850
	<u>\$ 1,850</u>

ARDMORE MAIN STREET AUTHORITY
Notes to Financial Statements
June 30, 2015

Note 6 – Adjustments from Fund Financial Statements to Government-Wide Financial statements

The excess of revenues over expenditures in governmental fund statement of revenues, expenditures and changes in fund balances differs from the change in net position as reported in the government-wide statement of activities. The total difference is \$6,428. The detail of this difference is as follows:

Governmental funds report capital outlay as expenditures. In the statement of activities, the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense	
Capital Outlay	\$ 74,655
Loss on Disposal of Capital Outlay	(559)
Depreciation Expense	(67,668)
	\$ 6,428

The fund balances in the governmental fund balance sheet differs from the net position reported in the government-wide statement of net position. The total difference is \$995,110. The detail of this difference is as follows:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	\$ 995,110
	\$ 995,110

Note 7 – Nonoperating Expenses

In September 2014, the City of Ardmore, Oklahoma informed the Authority that Heritage Hall Building belonged to the City. Management of the facilities would be handled by the City. The nonoperating expenses of \$109,821 reported on the Government Wide Statement of Activities, is the carrying value of the Heritage Hall improvements which were completed by the Authority. Therefore, the Authority contributed the carrying value of Heritage Hall improvements to the City of Ardmore, Oklahoma.

ARDMORE MAIN STREET AUTHORITY
Notes to Financial Statements
June 30, 2015

Note 8 – Restatement and Prior Period Adjustment

The beginning net position of Governmental Activities in the government-wide Statement of Net Position has been restated to record a prior period adjustment to properly state the balance of capital assets since the Depot Building is not actually owned by the Authority.

	As Previously Reported	Restatement	As Restated
Government Wide Level			
Capital Assets, Net of Accumulated Depreciation	\$ 1,062,307	\$ (105,833)	\$ 956,474
Net Position: Net Investments in Capital Assets	1,204,336	(105,833)	1,098,503

Note 9 – Subsequent Events

In December 2015, the Authority signed agreements for landscape architect services related to the Depot Park for approximately \$29,150 and Charles Smith Parking Lot and Plaza for approximately \$14,370. These projects will be financed with private donations.



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
Ardmore Main Street 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 the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and major fund of Ardmore Main Street Authority, a component unit of the City of Ardmore as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Ardmore Main Street Authority's basic financial statements and have issued our report thereon dated February 1, 2016.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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

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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 we consider to be less severe than a material weakness, yet important enough to merit attention to those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses, to be material weaknesses. 2015-1 and 2015-2.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Ardmore Main Street 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Ardmore Main Street Authority's Response to Findings

Ardmore Main Street Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Ardmore Main Street Authority's responses were not subjected to the auditing procedures applied in an audit of the financial statements and, accordingly, we express no opinion on it.

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.

Rakhal Henderson Johnson, PLLC

Ardmore, Oklahoma
February 1, 2016

ARDMORE MAIN STREET AUTHORITY
Schedule of Findings and Responses
June 30, 2015

2015-1 Segregation of duties

Condition – Receipt sequences are not being monitored and reconciled to daily deposits located on bank statement by an independent individual not involved in initial receipt, deposit and recording of funds.

Criteria – The concept of control activities within the COSO Integrated Framework indicates that control policies and procedures ensure management’s directives to mitigate risk.

Cause – The Authority has a small staff which limits the ability to adequately segregate duties- Same individual has the ability to invoice, collect money, prepare deposits, and post the deposits. Individual receipts were tracked but needs to be verified by an independent person from the person invoice, collecting money, preparing

Effect – Receipts are not monitored and reconciled to deposits.

Recommendation – We recommend the following:

1. Receipt sequences should be monitored and reconciled to daily deposit amounts listed on bank statements by an independent individual not involved in initial receipt, deposit and recording of funds.

Views of Responsible Officials – Recommendations will be taken into consideration and new procedures will be implemented.

2015-2 Fixed Assets

Condition – Material Adjustments were required to properly state fixed assets

Criteria – The concept of control activities within the COSO Integrated Framework indicates that control policies and procedures ensure management’s directives to mitigate risk.

Cause – The Authority does not have a procedure in place to recognize fixed assets consistently or a process for disposal of assets.

Effect –Material adjustment related to fixed assets. Risk of misappropriation of assets.

Recommendation – Management needs to verify that all listed fixed assets are still owned and being used by the Authority, and then complete an inventory of all fixed assets on the premises of the Authority to ensure all fixed assets have been captured.

Views of Responsible Officials – Recommendations will be taken into consideration and new procedures will be implemented.