

THE TULSA REGION



CLAREMORE INDUSTRIAL AND ECONOMIC DEVELOPMENT AUTHORITY

(a Component Unit of the City of Claremore, Oklahoma)

ANNUAL FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORTS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2011



Board of Trustees

June 30, 2011

Jerry Feese	Chairman
Steve Neely	Vice Chairman
Scott Thomas	Secretary/Treasurer
Tim Fleetwood	Assistant Secretary/Treasurer
Ray Brown	Member
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Table of Contents

Board of Directors	2
Financial Statements:	
Independent Auditor's Report	4
Management's Discussion and Analysis	5
Statement of Net Assets	8
Statement of Revenues, Expenses, and Changes in Net Assets	9
Statement of Cash Flows	10
Notes to Financial Statements	11
Other Reports:	
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 <i>Government Auditing Standards</i>	17

Anne Marie Elfrink, MS, CPA

Certified Public Accountant

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Independent Auditor's Report

Board of Trustees
Claremore Industrial and Economic Development Authority
Claremore, Oklahoma

I have audited the accompanying statements of net assets of the Claremore Industrial and Economic Development Authority (CIEDA) (a Component Unit of the City of Claremore, Oklahoma), as of and for the year ended June 30, 2011, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of CIEDA's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in the Comptroller General of the United States' Government Auditing Standards. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of CIEDA as of June 30, 2011, and the change in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated October 24, 2011, on my consideration of CIEDA's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While I did not opine on the internal control over financial reporting or on compliance, that report describes the scope of my testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in assessing the results of my audit.

The management's discussion and analysis on pages 5 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, I did not audit the information and express no opinion on it.



Anne Marie Elfrink, MS, CPA
Tulsa, Oklahoma

October 24, 2011

MANAGEMENT DISCUSSION AND ANALYSIS

The management of the Claremore Industrial and Economic Development Authority (CIEDA) is pleased to provide this annual financial report to report users to demonstrate its accountability and communicate CIEDA's financial condition and activities as of and for the year ended June 30, 2011. Management of CIEDA is responsible for the fair presentation of this annual report, for maintaining appropriate controls over financial reporting, and for complying with applicable laws, regulations, and provisions of grants and contracts.

FINANCIAL HIGHLIGHTS

- CIEDA's total net assets decreased by \$104,733 and the assets of CIEDA exceeded its liabilities at June 30, 2010 by \$2,789,375 (net assets). Of this amount, \$940,469 (unrestricted net assets) is available to meet CIEDA's ongoing needs.
- During the year, the carrying value of land held for development at the Claremore Industrial Park increased by \$146,091, reflecting the purchase of additional adjacent acres planned for future expansion.

ABOUT THE AUTHORITY

The Claremore Industrial and Economic Development Authority (CIEDA) was created September 16, 1968 as a public trust on behalf of the City of Claremore, Oklahoma, naming the City as beneficiary.

The purpose of CIEDA is to promote, stimulate, encourage and finance the growth and development of the commercial and industrial resources within and without the territorial limits of the City of Claremore. In addition, CIEDA is under contract with the City to manage the Claremore Regional Airport.

The Board of Trustees of CIEDA is comprised solely of members of the Board of Directors of Claremore, Incorporated, a predecessor corporation formed in 1948 for the same general purpose as CIEDA.

This annual report includes all activities for which CIEDA's Board of Trustees is financially accountable. CIEDA is a component unit of the City of Claremore and CIEDA's financial statements will be discretely presented in the City of Claremore, Oklahoma's basic financial statements.

FINANCIAL STATEMENTS

CIEDA's activities are entirely business-type and are reported as an enterprise fund. Enterprise funds are proprietary funds used to report business-type services provided to the general public. Proprietary funds are reported using an economic resources measurement focus. For example, proprietary fund capital assets are capitalized and depreciated and principal payments on long-term debt are recorded as a reduction to the liability. CIEDA reports under a full accrual basis of accounting, similar to a commercial enterprise.

The notes provide additional information that is essential to gain an understanding of the data provided in the financial statements and can be found on pages 11-16 of this report.

MANAGEMENT DISCUSSION AND ANALYSIS – CONT'D***Condensed Statement of Net Assets - June 30, 2011***

Assets:

Current and other assets	\$	993,049
Capital assets, net		<u>2,098,505</u>
Total assets		<u>3,091,554</u>

Liabilities:

Current liabilities		125,026
Notes payable - long term portion		<u>180,607</u>
Total liabilities		<u>305,633</u>

Net assets:

Invested in capital assets, net		1,848,906
Unrestricted		<u>940,469</u>
Total net assets	\$	<u>2,789,375</u>

66% of CIEDA's net assets reflect its investment in capital assets, less any related debt used to acquire those assets that is still outstanding.

For the year ended June 30, 2011, CIEDA's net assets decreased by \$104,733, or 4%.

Change in Net Assets - Year ended June 30, 2011

Operating Revenues:

Charges for goods and services	\$	445,569
Misc revenue		<u>591</u>
Total operating revenue		<u>446,160</u>

Operating Expenses:

Cost of goods sold - airport fuel		239,963
Salaries and benefits		231,421
Other operating expenses		<u>274,745</u>
Total operating expenses		<u>746,129</u>
Operating loss		<u>(299,969)</u>

Nonoperating revenues (net of expenses):

Transfers from the City of Claremore		200,000
Transfers to the City of Claremore		-
Retail incentives and promotions		-
Other nonoperating revenues (net)		<u>(4,764)</u>
Total nonoperating revenues (net)		<u>195,236</u>

Change in net assets		(104,733)
Net assets - beginning		<u>2,894,108</u>
Net assets - ending	\$	<u>2,789,375</u>

MANAGEMENT DISCUSSION AND ANALYSIS – CONT'D

ECONOMIC FACTORS AND OTHER POTENTIALLY SIGNIFICANT MATTERS

OVERVIEW

As the national, state and local economy participated in a global recession, several local factors emerged that significantly affected economic development effort. Beginning with the fiscal year ended June 30, 2008, CIEDA incurred reductions from its primary revenue source of use tax transferred from the City of Claremore to a contract with service fees negotiated annually. The transfer in the fiscal year ended June 30, 2008 was \$400,000 and increased to \$450,000 in the fiscal year ended June 30, 2009. For the fiscal year ended June 30, 2010, the transfer decreased to \$350,000 and then decreased again for the fiscal year ended June 30, 2011 to \$200,000.

BUDGET

Transfers from the City of Claremore have been negotiated at \$200,000 for the fiscal year ended June 30, 2012.

During the fiscal year 2011, CIEDA determined and began a transformational relationship combining the management and marketing functions of CIEDA and RCIDA (Rogers County Industrial Development Authority) into the Claremore Rogers County Partnership. Each authority continues to function as public trusts whereby financing economic development projects, developing and building properties and managing the financial transactions of the respective authorities. When the legal and practical matters of the shared services partnership are completed, each authority will pay proportionate costs of the management and marketing functions.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Claremore Industrial and Economic Authority's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Mickey Thompson
Executive Director
1503 N Lynn Riggs Blvd, Suite D
Claremore, OK 74017
918-343-8959

CLAREMORE INDUSTRIAL AND DEVELOPMENT AUTHORITY
(a Component Unit of the City of Claremore, Oklahoma)
STATEMENT OF NET ASSETS
June 30, 2011

ASSETS

Current assets:		
Cash and cash equivalents	\$	393,001
Investments		502,951
Other receivables		16,188
Prepaid expenses		17,997
Inventories		62,912
Total current assets		<u>993,049</u>
Noncurrent assets:		
Loan costs, net		3,454
Capital assets:		
Land held for development		1,379,727
Property and equipment, net		<u>718,778</u>
Total noncurrent assets		<u>2,098,505</u>
Total assets		<u><u>3,095,008</u></u>

LIABILITIES

Current liabilities:		
Accounts payable and accrued expenses		47,641
Due to City of Claremore		7,161
Accrued interest payable		1,232
Current portion of notes payable		68,992
Total current liabilities		<u>125,026</u>
Noncurrent liabilities:		
Notes payable, net of current portion		180,607
Total liabilities		<u><u>305,633</u></u>

NET ASSETS

Invested in capital assets, net of related debt		1,848,906
Unrestricted		<u>940,469</u>
Total net assets	\$	<u><u>2,789,375</u></u>

The notes to the financial statements are an integral part of this statement

CLAREMORE INDUSTRIAL AND ECONOMIC DEVELOPMENT AUTHORITY
(A Component unit of the City of Claremore)
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2011

Operating revenues:

Charges for services:	
Airport fuel sales	\$ 315,554
Airport hangar and land rent	92,955
Administrative fees - conduit debt	36,101
Other charges for services	959
Total charges for services	<u>445,569</u>
Miscellaneous revenue	591
Total operating revenues	<u>446,160</u>

Operating expenses:

Cost of goods sold - airport fuel	239,963
Salaries and benefits	231,421
Contract labor	13,842
Airport general operating	68,404
Marketing and development	34,650
Depreciation	76,251
Legal and accounting fees	17,212
Repairs and maintenance	26,333
TIF organization cost	9,000
Insurance	10,403
Rent	7,119
Miscellaneous operating	11,531
Total operating expenses	<u>746,129</u>
Operating loss	<u>(299,969)</u>

Nonoperating income (expense):

Transfers from the City of Claremore, Oklahoma	200,000
Interest and investment income	12,927
Amortization of loan issuance costs	(1,263)
Interest expense	<u>(16,428)</u>
Total nonoperating income, net of expense	<u>195,236</u>

Change in net assets	(104,733)
Net assets - beginning	<u>2,894,108</u>
Net assets - ending	<u>\$ 2,789,375</u>

The notes to the financial statements are an integral part of this statement

CLAREMORE INDUSTRIAL AND ECONOMIC DEVELOPMENT AUTHORITY
(A Component Unit of the City of Claremore)
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2011

Cash flows from operating activities:

Receipts from customers and users	\$ 453,774
Payments to suppliers	(451,824)
Payments to employees	(231,421)
Net cash used in operating activities	<u>(229,471)</u>

Cash flows from noncapital financing activities:

Transfers from the City of Claremore	200,000
Retail incentive paid	-
Net cash provided by noncapital financing activities	<u>200,000</u>

Cash flows from capital and related financial activities:

Purchases of capital assets	(167,519)
Principal paid on capital debt	(64,827)
Interest paid on capital debt	(16,422)
Net cash used in capital and related financing activities	<u>(248,768)</u>

Cash flows from investing activities:

Proceeds from maturities of investments	541,073
Purchase of investments	(250,000)
Net cash provided by investing activities	<u>291,073</u>

Net decrease in cash and cash equivalents **12,834**

Cash and cash equivalents - beginning of year **380,167**

Cash and cash equivalents - end of year **\$ 393,001**

Reconciliation of operating loss to net cash used by operating activities:

Operating loss	\$ (299,969)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	76,251
Decrease in receivables	7,614
Decrease in prepaid expense	1,306
Increase in inventories	(31,227)
Increase in accounts payable and accrued expense	16,554
Net cash used by operating activities	<u>\$ (229,471)</u>

Noncash investing, capital and financing activities:

Increase in fair value of investments	12,921
Amortization of loan costs	1,263

The notes to the financial statements are an integral part of this statement

CLAREMORE INDUSTRIAL AND ECONOMIC DEVELOPMENT AUTHORITY
(a Component Unit of the City of Claremore, Oklahoma)
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

I - Summary of significant accounting policies

The following notes to the financial statements are an integral part of Claremore Development Authority's financial statements.

The Claremore Industrial and Economic Development Authority (CIEDA) was created September 16, 1968, as a public trust under and pursuant to the laws of the State of Oklahoma, generally, but not exclusively, under the provision of Title 60, Oklahoma Statutes 1981, Sections 176-180.4, inclusive, as amended and supplemented, (the "Oklahoma Public Trust Act"); Title 11, Oklahoma Statutes 1981, Section 40-101 through 40-115, inclusive, as amended and supplemented (the "Central Business District Redevelopment Act"); and other applicable statutes and laws of the State of Oklahoma. The trust was created on the behalf of the City of Claremore, Oklahoma, naming the City as beneficiary. CIEDA is to promote, stimulate, encourage and finance the growth and development of the agriculture, commercial and industrial resources within and without the territorial limits of the City of Claremore, Oklahoma.

The Board of Trustees of CIEDA is comprised solely of members of the Board of Directors of Claremore Incorporated, a predecessor corporation formed in 1948 for the same general purpose as CIEDA. Claremore Incorporated has been inactive in promoting industrial development since the formation of CIEDA. Under the agreement for services with the City of Claremore, when current board terms expire on the CIEDA board, the City Council will be given an opportunity to make suggestions for possible candidates. The CIEDA Board will decide the final nomination which will be brought to the Claremore City Council for final approval.

A. Financial reporting entity

CIEDA complies with GASB Statement No. 14 "*The Financial Reporting Entity*". This statement establishes standards for defining and reporting on the financial reporting entity. It defines component units as legally separate organizations for which the elected officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

CIEDA considered all potential component units in determining what organizations should be included in the financial statements. Based on these criteria, there are no component units to include in the Authority's financial statements.

CIEDA is a component unit of the City of Claremore, Oklahoma and will be included in the City of Claremore, Oklahoma's basic financial statements. Therefore, these financial statements present only the activities of CIEDA and are not intended to present the financial status of the City of Claremore, Oklahoma as a whole.

B. Basis of presentation

CIEDA's fund is an enterprise fund. Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

C. Measurement focus and basis of accounting

Measurement focus is a term used to describe *which* transactions are recorded within the various financial statements. Basis of accounting refers to *when* transactions are recorded regardless of the measurement focus applied.

The proprietary funds utilize an “*economic resources*” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

CIEDA has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as sales of goods, rental fees, and service fees.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions such as transfers, gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* investment income.

D. Assets, liabilities, and net assets

1. Deposits and investments

CIEDA’s cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments consist of long-term certificates of deposit and are reported at cost plus accrued interest.

2. Receivables

CIEDA’s receivables consist of revenues earned at year-end but not yet received, including hangar rentals, accrued investment interest, and administrative fees and reimbursements related to the conduit debt activity.

3. Inventories and prepaid items

CIEDA’s inventories consist of aviation fuel and are valued at cost using the first-in/first-out (FIFO) method. Inventories of other insignificant items are expensed as incurred.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. CIEDA’s prepaid amounts are primarily related to insurance policies that are paid in advance.

Costs associated with the issuance of long-term debt are capitalized and amortized over the life of the loan.

4. Fixed assets

Fixed assets include computer hardware and software, furniture, and automobiles which are being depreciated over their five-year useful lives; hangars, fuel facilities and improvements which are being depreciated over useful lives ranging from twenty to thirty-seven years. CIEDA only capitalizes items with a value of \$500 or more. All depreciation is computed on the straight-line method.

5. Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

6. Net assets

CIEDA's net assets are classified as follows:

Invested in capital assets, net of related debt – consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

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 and regulations of other governments; or (2) law through constitutional provisions and enabling legislation.

Unrestricted net assets – all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

II – Stewardship, compliance and accountability

Stewardship, compliance, and accountability are key concepts in defining the responsibilities of the Claremore Industrial and Economic Development Authority. The use of budgets and monitoring of equity status facilitate CIEDA's compliance with legal requirements. Although CIEDA is required by State statutes to file an annual budget with the City of Claremore, CIEDA's budget is not appropriated.

III – Detailed notes concerning the fund

A. Deposits and investments

State statutes govern CIEDA's investment policy. Permissible investments include direct obligations of the United States Government and Agencies; certificates of deposit of savings and loan associations, and bank and trust companies; and savings accounts or savings certificates of savings and loan associations and trust companies. Collateral is required for demand deposits and certificates of deposit for all amounts not covered by federal deposit insurance. Investments are stated at cost plus accrued interest.

At June 30, 2011, all of CIEDA's investments were certificates of deposit with original maturities of 13 months or less and annual interest rates ranging from 1.15% to 1.50%.

As of and for the Year Ended June 30, 2011

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that, in the event of bank failure, CIEDA's deposits may not be returned to it. CIEDA's cash deposits are maintained in financial institutions. As of June 30, 2011, none of CIEDA's deposits were exposed to custodial credit risk.

Interest Rate Risk – This is the risk that changes in market interest rates will adversely affect the fair value of an investment. CIEDA's investment policy limits maturities to a maximum of five years from date of acquisition; no more than 90% of its portfolio may be invested in instruments with a maturity exceeding one year; and pledged collateral may not have maturity dates exceeding ten years. At June 30, 2011, CIEDA's investments did not include marketable securities that would be subject to interest rate risk.

B. Capital assets

Capital asset activity for the year ended June 30, 2010 was as follows:

	6/30/2010			6/30/2011
	Balance	Increases	Decreases	Balance
Capital assets not being depreciated:				
Land held for development	\$ 1,233,636	\$ 146,091	\$ -	\$ 1,379,727
Capital assets being depreciated:				
Land improvements	90,852	-	-	90,852
Infrastructure	299,773	15,663	-	315,436
Buildings	946,369	-	-	946,369
Equipment and furniture	298,364	5,765	-	304,129
Total capital assets being depreciated	1,635,358	21,428	-	1,656,786
Less accumulated depreciation	(861,757)	(76,251)		(938,008)
Total capital assets being depreciated, net	773,601	(54,823)	-	718,778
Capital assets, net	<u>\$ 2,007,237</u>	<u>\$ 91,268</u>	<u>\$ -</u>	<u>\$ 2,098,505</u>

C. Long-term debt

For the year ended June 30, 2011, CIEDA's long-term debt changed as follows:

Balance			Balance	Due Within
June 30, 2010	Additions	Reductions	June 30, 2011	One Year
<u>\$ 314,426</u>	<u>\$ -</u>	<u>\$ 64,827</u>	<u>\$ 249,599</u>	<u>\$ 68,992</u>

At June 30, 2010 CIEDA had the following debt outstanding:

Note payable to the Oklahoma Industrial Finance Authority executed on September 30, 1997 in the amount of \$500,000, bearing interest at 6.4% per annum, payable in 180 monthly installments of \$4,328 with the final payment due October 1, 2012, and secured by airport buildings and fuel facilities.

Note payable to the Oklahoma Industrial Finance Authority executed on December 22, 2003 in the amount of \$300,000, bearing interest at 5.75% per annum, payable in 180 monthly installments of \$2,491 with the final payment due January 22, 2019, and secured by airport buildings and fuel facilities.

Payment requirements to maturity:

Year ended		
June 30,	Principal	Interest
2012	\$ 68,992	\$ 12,840
2013	38,124	9,082
2014	22,283	7,611
2015	23,599	6,296
2016	24,992	4,903
Thereafter	71,609	5,621
Total	<u>\$ 249,599</u>	<u>\$ 46,353</u>

D. Noncancelable Leases

CIEDA has entered into ground leases with private parties for purposes of building private hangars at the airport. The standard lease is for 20 years with two options for renewal of 20 year periods each. Minimum future rentals are:

Year ended	Lease
June 30,	Revenue
2012	\$ 30,062
2013	30,062
2014	30,062
2015	30,062
2016	30,062
Thereafter	260,012
Total	<u>\$ 410,322</u>

IV – Other information

A. Risk management

CIEDA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. CIEDA carries commercial insurance for risk of loss with deductibles ranging from \$0 to \$10,000. There were no significant reductions in insurance coverage from the prior year. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

B. Employee benefits

Full time employees of CIEDA accrue twelve sick leave days per year and ten vacation days per year for the first five years of service and an additional five annual vacation days for every additional five years of service after the first five years. In addition, CIEDA pays the full cost of full time employees' health, dental, and life insurance (\$25,000 face value) and 60% of the cost of dependent health insurance. No retirement program is available to the employees at this time. At June 30, 2011, CIEDA employees had fully utilized all available leave accruals.

C. Airport lease agreement

Prior to 1991, CIEDA and the City of Claremore (City) constructed a general aviation airport known as the "Claremore Regional Airport" on land owned by the City.

In June of 1991, CIEDA entered into an agreement with the City to lease the land on which the airport is located for a period of forty years. The annual lease amount was set at \$10. In July of 1992, the remaining lease obligation for the forty-year period was paid in full. Prepaid expenses on the balance sheet reflect prepaid rent associated with this lease agreement. The lease is properly accounted for as an operating lease. Under the terms of the lease, CIEDA also agrees to assume all responsibility for the operation of the airport throughout the term of the lease, for the benefit of the City and the public interest. All improvements on the airport land will, upon termination of the lease, belong to the City.

D. Conduit Debt Obligations

In support of its primary mission, CIEDA arranges financing to industrial, commercial, governmental, and other various organizations in an effort to promote economic development within and near the territorial limits of the City of Claremore. Over time these transactions have taken on various forms, including the issuance of notes and bonds. CIEDA leases the facilities acquired with the proceeds to the organizations under financing lease arrangements providing for transfer of the property to such organizations at the end of the lease.

The notes and bonds issued by CIEDA are special and limited obligations of CIEDA, payable solely out of revenues derived from and in connection with the underlying loan agreements and the underlying security provided under the loan agreements. CIEDA or any political subdivision thereof is not obligated in any manner for repayment of the notes and bonds. Accordingly, the notes and bonds are not reported as liabilities in the accompanying financial statements nor are the related investments reported as assets.

The aggregate outstanding principal balance due on these notes was approximately \$45 million at June 30, 2011.

E. Transfers from and to the City of Claremore

CIEDA is under contract with the City of Claremore (City) to provide economic development services and manage the operations of the Claremore Regional Airport. The agreement is for successive one year periods, subject to renegotiation annually. The City also considers special recommendations from the CIEDA Board for subsidy of specific economic development efforts, including incentives and asset purchases.

The agreement for the year ended June 30, 2011 provided for an annual fee of \$200,000, payable in equal monthly payments

CIEDA has agreed to provide the local government's cost share required by grants to improve the infrastructure to the Claremore Regional Airport. Since the airport is owned by the City of Claremore, CIEDA records a transfer to the City for the payment of grant cost shares.

Anne Marie Elfrink, MS, CPA

Certified Public Accountant

3119 E 87th Street
Tulsa, Oklahoma 74137

918-361-2133
Fax: 918-512-4280

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
Claremore Industrial and Economic Development Authority
Claremore, Oklahoma

I have audited the financial statements of the business-type activities of the Claremore Industrial and Economic Development Authority (CIEDA) (a component unit of the City of Claremore, Oklahoma) as of and for the year ended June 30, 2011, which collectively comprise CIEDA's basic financial statements and have issued my report thereon dated October 24, 2011. I conducted my 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

In planning and performing my audit, I considered CIEDA's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CIEDA's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the CIEDA's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CIEDA's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

I noted certain matters that I reported to management of CIEDA, in a separate letter dated October 24, 2011.

This report is intended solely for the information and use of management, the Board of Trustees, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Anne Marie Elfrink, CPA

Tulsa, Oklahoma
October 24, 2011