

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, 2012

Board of Trustees

June 30, 2012

Jerry Feese	Chairman
Vacant	Vice Chairman
Scott Thomas	Secretary/Treasurer
Tim Fleetwood	Assistant Secretary/Treasurer
Ray Brown	Member
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Rob Melton	Member

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Independent Auditor's Report

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

I have audited the accompanying statement 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, 2012, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of CIEDA's management. My responsibility is to express opinions 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. 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. 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 respective financial position of CIEDA, as of June 30, 2012, and the respective changes in financial position and cash flows thereof 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 January 11, 2013, on my consideration of the 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. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 7 be presented to supplement the basic financial statements. Such 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 financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Anne Marie Elfrink MS, CPA

Anne Marie Elfrink, MS, CPA
Tulsa, Oklahoma
January 11, 2013

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, 2012. 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 increased by \$585,425 and the assets of CIEDA exceeded its liabilities at June 30, 2012 by \$3,374,800 (net assets). Of this amount, \$682,427 (unrestricted net assets) is available to meet CIEDA's ongoing needs.
- As of June 30, 2012, CIEDA had invested \$631,880 in construction projects that are expected to be completed in the following fiscal year which include a railroad trans-modal facility and a road at the Claremore Industrial Park.
- During the year, the carrying value of land held for development at the Claremore Industrial Park increased by \$157,184, reflecting the purchase of additional adjacent acres.

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,***

	<u>2012</u>	<u>2011</u>
Assets:		
Current and other assets	\$ 764,328	\$ 939,049
Capital assets, net	2,872,979	2,098,505
Total assets	<u>3,637,307</u>	<u>3,037,554</u>
Liabilities:		
Current liabilities	120,025	125,026
Notes payable - long term portion	142,482	180,607
Total liabilities	<u>262,507</u>	<u>305,633</u>
Net assets:		
Invested in capital assets, net	2,692,373	1,848,906
Unrestricted	682,427	940,469
Total net assets	<u>\$ 3,374,800</u>	<u>\$ 2,789,375</u>

80% 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, 2012, CIEDA's net assets increased by \$585,425, or 21%.

Change in Net Assets - Year ended June 30,

	<u>2012</u>	<u>2011</u>
Operating Revenues:		
Charges for goods and services	\$ 469,487	\$ 445,569
Misc revenue	1,481	591
Total operating revenue	<u>470,968</u>	<u>446,160</u>
Operating Expenses:		
Cost of goods sold - airport fuel	278,593	239,963
Salaries and benefits	132,796	231,421
Other operating expenses	346,804	274,745
Total operating expenses	<u>758,193</u>	<u>746,129</u>
Operating loss	<u>(287,225)</u>	<u>(299,969)</u>
Nonoperating revenues (net of expenses):		
Payments from primary government	275,000	200,000
Payments to primary government	(6,407)	-
Federal and state grants	457,940	-
Other nonoperating revenues (net)	146,117	(4,764)
Total nonoperating revenues (net)	<u>872,650</u>	<u>195,236</u>
Change in net assets	585,425	(104,733)
Net assets - beginning	2,789,375	2,894,108
Net assets - ending	<u>\$ 3,374,800</u>	<u>\$ 2,789,375</u>

MANAGEMENT DISCUSSION AND ANALYSIS – CONT'D

Operating loss for the year ended June 30, 2012 decreased by \$12,744 over the prior year primarily due to savings attributable to the implementation of a shared services agreement with the Rogers County Industrial Authority (RCIDA), partially offset by lower gross margins of \$14,712 on airport fuel sales due to decreasing fuel prices.

Nonoperating revenues increased by \$677,414 due to increased capital grant contributions and an additional \$75,000 economic development incentive received from the City of Claremore.

CAPITAL ASSETS

CIEDA's investment in capital assets was \$2,872,979 net of accumulated depreciation, an increase of \$774,474, or 37% over the prior year. Capital asset acquisitions during the year included:

- Construction in progress in the amount of \$631,880 related to a railroad trans-modal facility and construction of a road at the Claremore Industrial Park
- The purchase of additional land adjacent to the Claremore Industrial Park in the amount of \$157,184

ECONOMIC FACTORS AND OTHER POTENTIALLY SIGNIFICANT MATTERS

OVERVIEW

Although at the national level, unemployment declined to 8.2% as of June 30, 2012 and the City of Tulsa reported an unemployment rate of 5.2%, the Claremore regional area continued to struggle which impacted funding available to CIEDA from the City of Claremore due to reduced sales and use tax collections.

CIEDA, in partnership with the City of Claremore, remains committed to the development of business activity in the Claremore area with the completion of new initiatives including the approval of a tax free zone and tax increment district at the industrial park. In addition, new grant-funded construction projects were begun at the industrial park during the fiscal year which will include the addition of a trans-modal rail spur and infrastructure improvements to support the expansion of a commercial tenant.

BUDGET

Contributions from the City of Claremore have been negotiated at \$300,000 for the fiscal year ended June 30, 2013.

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

ANNUAL FINANCIAL REPORT

As of and for the Year Ended June 30, 2012

CLAREMORE INDUSTRIAL AND DEVELOPMENT AUTHORITY

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

STATEMENT OF NET ASSETS

June 30, 2012

ASSETS

Current assets:

Cash and cash equivalents	\$	144,838
Investments		456,649
Grant receivables		54,801
Other receivables		19,375
Prepaid expenses		31,120
Inventories		55,354
Total current assets		<u>762,137</u>

Noncurrent assets:

Loan costs, net		2,191
Capital assets:		
Land held for development		1,536,911
Construction in progress		631,880
Property and equipment, net		<u>704,188</u>
Total capital assets		<u>2,872,979</u>
Total noncurrent assets		<u>2,875,170</u>
Total assets	\$	<u><u>3,637,307</u></u>

LIABILITIES

Current liabilities:

Accounts payable and accrued expenses		40,911
Due to primary government		40,115
Accrued interest payable		875
Current portion of notes payable		<u>38,124</u>
Total current liabilities		<u>120,025</u>

Noncurrent liabilities:

Notes payable, net of current portion		<u>142,482</u>
Total liabilities		<u>262,507</u>

NET ASSETS

Invested in capital assets, net of related debt		2,692,373
Unrestricted		<u>682,427</u>
Total net assets	\$	<u><u>3,374,800</u></u>

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

ANNUAL FINANCIAL REPORT

As of and for the Year Ended June 30, 2012

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, 2012

Operating revenues:

Charges for services:

Airport fuel sales	\$ 347,448
Airport hangar and land rent	90,463
Administrative fees - conduit debt	28,983
Other charges for services	2,593
Total charges for services	<u>469,487</u>

Miscellaneous revenue

1,481

Total operating revenues

470,968**Operating expenses:**

Cost of goods sold - airport fuel	278,593
Salaries and benefits	132,796
Contracted services	68,130
Airport general operating	64,291
Marketing and development	23,169
Depreciation	74,048
Legal and accounting fees	17,223
Repairs and maintenance	19,456
TIF organization cost	23,000
FTZ application	14,750
Insurance	13,269
Office supplies and postage	10,761
Occupancy	3,972
Miscellaneous operating	14,735
Total operating expenses	<u>758,193</u>
Operating loss	<u>(287,225)</u>

Nonoperating income (expense):

Contributions from primary government	275,000
Contributions to primary government	(6,407)
Federal and state grants	457,940
Grant from Rogers County (in kind)	155,335
Interest and investment income	4,751
Amortization of loan issuance costs	(1,263)
Interest expense	<u>(12,706)</u>
Total nonoperating income, net of expense	<u>872,650</u>

Change in net assets

585,425

Net assets - beginning2,789,375**Net assets - ending**\$ 3,374,800

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

ANNUAL FINANCIAL REPORT

As of and for the Year Ended June 30, 2012

CLAREMORE INDUSTRIAL AND ECONOMIC DEVELOPMENT AUTHORITY

(A Component Unit of the City of Claremore)

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2012

Cash flows from operating activities:

Receipts from customers and users	\$ 471,207
Payments to suppliers	(567,070)
Payments to employees	(132,796)
Net cash used in operating activities	<u>(228,659)</u>

Cash flows from noncapital financing activities:

Payments from primary government	315,115
Payments to primary government	(13,568)
Federal and state grant revenue received	403,139
Net cash provided by noncapital financing activities	<u>704,686</u>

Cash flows from capital and related financial activities:

Purchases of capital assets	(693,108)
Principal paid on capital debt	(68,993)
Interest paid on capital debt	(12,706)
Net cash used in capital and related financing activities	<u>(774,807)</u>

Cash flows from investing activities:

Proceeds from maturities of investments	50,000
Interest received	617
Net cash provided by investing activities	<u>50,617</u>

Net decrease in cash and cash equivalents **(248,163)**

Cash and cash equivalents - beginning of year **393,001**

Cash and cash equivalents - end of year **\$ 144,838**

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

Operating loss	\$ (287,225)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	74,048
Increase in receivables	(3,187)
Increase in prepaid expense	(13,123)
Decrease in inventories	7,558
Decrease in accounts payable and accrued expense	(6,730)
Net cash used by operating activities	<u>\$ (228,659)</u>

Noncash investing, capital and financing activities:

Increase in fair value of investments	3,698
Amortization of loan costs	1,263
Grant from Rogers County (in kind)	155,335

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, 2012

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 payments from the primary government, grants from other governments, gifts and contributions, and other revenue sources that are defined as nonoperating 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, 2012, 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%.

Claremore Industrial and Economic Development Authority
ANNUAL FINANCIAL REPORT

As of and for the Year Ended June 30, 2012

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, 2012, 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, 2012, 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, 2012 was as follows:

	6/30/2011			6/30/2012
	Balance	Increases	Decreases	Balance
Capital assets not being depreciated:				
Land held for development	\$ 1,379,727	\$ 157,184	\$ -	\$ 1,536,911
Construction in progress	-	631,880	\$ -	631,880
Total capital assets not being depreciated	<u>1,379,727</u>	<u>789,064</u>	<u>-</u>	<u>2,168,791</u>
Capital assets being depreciated:				
Land improvements	90,852	1,150	-	92,002
Infrastructure	315,436	2,408	-	317,844
Buildings and leasehold improvements	946,369	4,192	-	950,561
Equipment and furniture	304,129	51,709	-	355,838
Total capital assets being depreciated	<u>1,656,786</u>	<u>59,459</u>	<u>-</u>	<u>1,716,245</u>
Less accumulated depreciation	<u>(938,008)</u>	<u>(74,049)</u>		<u>(1,012,057)</u>
Total capital assets being depreciated, net	<u>718,778</u>	<u>(14,590)</u>	<u>-</u>	<u>704,188</u>
Capital assets, net	<u>\$ 2,098,505</u>	<u>\$ 774,474</u>	<u>\$ -</u>	<u>\$ 2,872,979</u>

C. Long-term debt

For the year ended June 30, 2012, CIEDA's long-term debt changed as follows:

Balance			Balance	Due Within
June 30, 2011	Additions	Reductions	June 30, 2012	One Year
<u>\$ 249,599</u>	<u>\$ -</u>	<u>\$ 68,993</u>	<u>\$ 180,606</u>	<u>\$ 38,124</u>

At June 30, 2012 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.

Payments requirements to maturity:

Year ended		
June 30,	Principal	Interest
2013	\$ 38,124	\$ 9,082
2014	22,283	7,611
2015	23,599	6,296
2016	24,992	4,903
2017	26,468	3,427
Thereafter	45,140	2,194
Total	<u>\$ 180,606</u>	<u>\$ 33,513</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
2013	\$ 32,290
2014	32,290
2015	32,290
2016	32,290
2017	32,290
Thereafter	255,316
Total	<u>\$ 416,766</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. General litigation

CIEDA is subject to claims and lawsuits that arise primarily in the course of ordinary business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the net position, changes in net position, and cash flows of CIEDA.

C. 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, 2012, CIEDA employees had fully utilized all available leave accruals.

D. 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 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.

E. 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 \$42 million at June 30, 2012.

F. Contributions Between the Primary Government (the City) and CIEDA

CIEDA records, as nonoperating revenue, contributions from the City that are primarily provided to subsidize economic development activities and management of the Claremore Regional Airport. Contributions from CIEDA to the City are generally for a pro-rata share of the cost of airport improvements that have been funded by the City or other grant sources that are passed through the City and are shown as nonoperating expenses.

G. Grants receivable

CIEDA has been awarded a grant in the amount of \$1,914,000 from the US Dept of Commerce Economic Development Administration (EDA) to construct a regional railroad-based trans-modal facility in the Claremore North Business Park. As of June 30, 2012, CIEDA had expensed \$426,467 in reimbursable costs and received reimbursements of \$389,267.

In October, 2010, the City of Claremore was awarded a CDBG grant in the amount of \$496,893 from the Oklahoma Department of Commerce funded by the US Department of Housing and Urban Development for industrial street access to support the expansion of a commercial tenant

at the industrial park. At June 30, 2012 CIEDA had incurred unreimbursed expenses related to this grant in the amount of \$17,601.

H. Subsequent events

In November 2012 the City approved the establishment of a “tax increment district” at the Claremore Industrial Park designating CIEDA as the administrator of the project plan. Bonds or notes issued under the plan are special, limited obligations of CIEDA.

Also in November 2012, the City approved the issuance of notes totaling \$3,200,000 to assist the Claremore Public Works Authority in financing a portion of the costs to acquire, finance, and construct utility facilities at the Claremore Industrial Park.

Management has evaluated and disclosed relevant subsequent events through the date of this report.

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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

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, 2012, which collectively comprise CIEDA's basic financial statements and have issued my report thereon dated January 11, 2013. 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

Management of CIEDA is responsible for establishing and maintaining effective 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 January 11, 2013.

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, MS, CPA

Tulsa, Oklahoma
January 11, 2013