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**AVARD REGIONAL RAIL PARK AUTHORITY**  
**ANNUAL FINANCIAL STATEMENTS**  
**SIXTEEN MONTHS ENDED JUNE 30, 2012**

AVARD REGIONAL RAIL PARK AUTHORITY  
TABLE OF CONTENTS  
SIXTEEN MONTHS ENDED JUNE 30, 2012

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	Page
<b>INTRODUCTORY SECTION:</b>	
Table of Contents	i
<b>FINANCIAL SECTION:</b>	
Independent Auditor's Report	1
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>	2-4
Financial Statements:	5
Statement of Assets, Liabilities and Net Assets	6
Statement of Revenues and Expenses and Changes in Net Assets	7
Statement of Cash Flows	8
Notes to Financial statements	9-12

# Kimberlye R. Mayer, CPA, P.C.

723 West Doolin

Blackwell, OK 74631

(580) 363-1453  
Fax (580) 363-0068

## Independent Auditor's Report

Board of Trustees  
Avard Regional Rail Park Authority

We have audited the accompanying statements of assets, liabilities and net assets of the Avard Regional Rail Park Authority as of June 30, 2012 and the related statements of revenues and expenses, and changes in net assets and cash flows for the sixteen months then ended. These financial statements are the responsibility of the Avard Regional Rail Park Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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 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 statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the assets, liabilities and net assets of the Avard Regional Rail Park Authority, as of June 30, 2012, and its revenues and expenses and changes in net assets and cash flows for the sixteen months then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 5, 2014 on our consideration of Avard Regional Rail Park Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Avard Regional Rail Park Authority has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board requires to supplement, although not be a part of the basic financial statements. The omission of this information does not affect the opinion expressed on the financial statements as a whole.



Kimberlye R. Mayer, CPA, P.C.  
Blackwell, Oklahoma  
September 5, 2014

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*

Board of Trustees  
Avarad Regional Rail Park Authority

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We have audited the financial statements of Avarad Regional Rail Park Authority as of and for the sixteen months ended June 30, 2012 and have issued our report thereon dated September 5, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 Avarad Regional Rail Park Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Avarad Regional Rail Park Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Avarad Regional Rail Park Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Avarad Regional Rail Park Authority's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Avarad Regional Rail Park Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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*.

Avarad Regional Rail Park Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the board of trustees, and others within the Authority and is not intended to be and should not be used by anyone other than these specified parties.

*Kimberly R. Mayer CPA, PC*

Kimberly R. Mayer, CPA, P.C.

Blackwell, Oklahoma

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September 5, 2014

AVARD REGIONAL RAIL PARK AUTHORITY  
SCHEDULE OF FINDINGS AND RESPONSES  
SIXTEEN MONTHS ENDED JUNE 30, 2012

**Material Weakness in Internal Control Over Financial Reporting: Inadequate Segregation of Duties:**

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Criteria: The segregation of duties and responsibilities between different individuals and the reconciliation of those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

Condition: Presently, the same individual is responsible for all revenues and receiving payments; making and recording deposits; maintaining billing registers; and reconciling the monthly bank statements. Only limited oversight is provided over this individual in the conduct of their daily functions.

Cause: The entity's limited size has made it difficult for management to fully segregate the duties.

Effect or Potential Effect: Without sufficient segregation of duties, the risk significantly increases that errors and/or fraud related to the sales and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: The Authority should evaluate the risks associated with the lack of segregation of duties and consider implementing controls that could mitigate these risks.

Board's Response: The Authority has concluded that due to the limited number of personnel, an adequate segregation of duties is not achievable and that the cost of correcting the weakness would exceed the benefits that would be derived from it.

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FINANCIAL STATEMENTS

AND

NOTES

AVARD REGIONAL RAIL PARK AUTHORITY  
STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS  
JUNE 30, 2012

ASSETS

Current Assets:	
Cash and cash equivalents (Note 2)	\$ 10,956
Certificates of deposit	172,671
Accounts receivable	16,075
Prepaid insurance	14,426
Total Current Assets	214,128
Land and Property (net of accumulated depreciation) (Note 3)	919,948
Work in process	441,401
Total Assets	\$ 1,575,477

LIABILITIES AND NET ASSETS

Current Liabilities:	
Accounts payable	\$ 72,650
Notes payable (current portion) (Note 4)	40,444
Total Current Liabilities	113,094
Non-current Liabilities:	
Notes payable, long term (Note 4)	1,111,556
Total Non-current Liabilities	1,111,556
Total Liabilities	1,224,650
Net Assets:	
Invested in capital assets, net of related debt	209,349
Unrestricted	141,478
Total Net Assets	350,827
Total Liabilities and Net Assets	\$ 1,575,477

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

AVARD REGIONAL RAIL PARK AUTHORITY  
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN NET ASSETS  
SIXTEEN MONTHS ENDED JUNE 30, 2012

Operating Revenue:	
Donations	\$ 57,244
Lease income	16,075
Rail car charges	10,120
Total Operating Revenue	83,439
Operating Expense:	
Advertising and promotion	348
Bank service fees	640
Closing costs	4,928
Development expenses	5,867
Office and postage	48
Insurance	10,900
License and permits	1,000
Professional fees	7,500
Depreciation	2,052
Total Operating Expense	33,283
Operating Income (Loss)	50,156
Non-Operating Revenue (Expense):	
Interest income	671
County funds	300,000
Total Non-Operating Revenue (Expense)	300,671
Change in Net Assets	350,827
Net Assets, beginning of year	_____
Net Assets, end of year	\$ 350,827

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

AVARD REGIONAL RAIL PARK AUTHORITY  
STATEMENT OF CASH FLOWS  
SIXTEEN MONTHS ENDED JUNE 30, 2012

Cash Flows From Operating Activities:	
Cash receipts from customers	\$ 26,195
Other operating cash receipts	57,244
Cash payments to suppliers for goods and services	(61,732)
Payments from supplies	72,650
Net cash provided (used) by operating activities	94,357
Cash flows from non-capital financing activities:	
Cash flows from capital and related financing activities:	
Loan proceeds	1,152,000
County funds	300,000
Net cash provided (used) by financing activities	1,452,000
Cash flows from investing activities:	
Increase in certificate of deposits	(172,671)
(Increase) decrease in fixed assets	(1,363,401)
Interest on cash and investments	671
Net cash provided (used) by investing activities	(1,535,401)
Net increase (decrease) in cash and cash equivalents	10,956
Beginning cash and cash equivalents	
Ending cash and cash equivalents	\$ 10,956
Reconciliation of income (loss) from operations to	
net cash provided (used) by operating activities:	
Income (Loss) from operations	\$ 50,156
Adjustments to reconcile income (loss) from operations	
to net cash provided (used) by operating activities:	
Depreciation	2,052
Changes in assets and liabilities:	
(Increase) decrease in receivables	(16,075)
(Increase) decrease in prepaid fees	(14,426)
Increase (decrease) in payables	72,650
Net cash provided (used) by operating activities	\$ 94,357

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

AVARD REGIONAL RAIL PARK AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
SIXTEEN MONTHS ENDED JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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Nature of Organization

Avard Regional Rail Park Authority was created under the provisions of Title 60 of the Oklahoma Statutes, 1981, the Oklahoma Trust Act, and the laws of the State of Oklahoma. The purpose of this Authority is to develop a rail served industrial park to expand the economic opportunities and increase the number of good paying jobs in Woods County, Oklahoma for the purpose of retaining and expanding our population and quality of life.

Avard Regional Rail Park Authority is governed by an elected Board of Trustees that acts as the authoritative and legislative body of the entity.

Basis of Accounting

The accounting policies of Avard Regional Rail Park Authority conform to the basic principles of governmental accounting and financial reporting set forth by the Governmental Accounting Standards Board.

Avard Regional Rail Park Authority is classified as an Enterprise Fund. The costs of providing services to the public are financed mainly through user charges. The financial statements of Avard Regional Rail Park Authority have been prepared using the accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred.

Cash and Deposits

Cash is maintained in financial institutions, which provide coverage to depositors through the Federal Deposit Insurance Corporation.

The State of Oklahoma allows government entities to invest in the following: direct obligations of the United States Government, its agencies or instrumentalities; collateralized or insured certificates of deposit; insured savings accounts or savings certificates; or county, municipal or school district direct debt.

Income Taxes

As provided in Title 60, Oklahoma Statutes, Avard Regional Rail Park Authority is a tax-exempt public trust; consequently, no provision as been made for income taxes.

AVARD REGIONAL RAIL PARK AUTHORITY  
 NOTES TO FINANCIAL STATEMENTS  
 SIXTEEN MONTHS ENDED JUNE 30, 2012

NOTE 2 – CASH AND CASH EQUIVALENTS:

The Avarad Regional Rail Park Authority considers all checking and certificates of deposit with a maturity of three months or less to be cash equivalents.

NOTE 3 – PROPERTY AND EQUIPMENT:

Depreciable assets are recorded at cost when purchased or constructed. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not. Depreciation is calculated on a straight-line basis over the estimated useful lives of the depreciable assets. Total depreciation for the sixteen months ended June 30, 2012 was \$2,052. The following is a summary by category of changes in property and equipment:

<u>Category</u>	<u>6/30/11</u>	<u>Additions</u>	<u>Deletions</u>	<u>6/30/12</u>
Land		\$ 762,000	\$	\$ 762,000
Temporary building		160,000		160,000
Accumulated depreciation		(2,052)		(2,052)
Net		<u>\$ 919,948</u>	<u>\$</u>	<u>\$ 919,948</u>

NOTE 4 – NOTES PAYABLE:

The Woods County Industrial Development Authority (WCIDA) adopted a plan to construct an industrial rail park in Avarad, Oklahoma. The WCIDA entered into a series of loan agreements for the purchase of the land and rail infrastructure. On June 11, 2012, the WCIDA transferred these assets to Avarad Regional Rail Park Authority (ARRPA) and entered into an agreement with ARRPA whereby ARRPA makes all of the payments on the promissory notes secured by the mortgages on this property. The principal amount of these loans at June 30, 2012 was \$1,040,000. The annual payments are \$130,000 and begin in February 2014 for eight years.

ARRPA entered into a loan agreement for \$112,000 for the construction of a temporary building. The term of the note is 36 months and the monthly payments are \$3,111.

The following is a summary of the future debt payments:

	<u>Payments</u>
6/30/13	\$ 40,444
6/30/14	167,333
6/30/15	164,223
6/30/16	130,000
6/30/17	130,000
6/30/18 - 6/30/21	520,000
	<u>\$ 1,152,000</u>

AVARD REGIONAL RAIL PARK AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
SIXTEEN MONTHS ENDED JUNE 30, 2012

NOTE 4 – NOTES PAYABLE (continued):

Woods County issued bonds dated July 1, 2011 to provide funds for the Avard Rail Park. The proceeds of these bonds were transferred to ARRPA in August of 2011. Woods County is obligated for the semiannual interest payments beginning in January 2013 and the annual bond payments of \$60,000 beginning in July 2013. ARRPA's board of trustees has agreed to reimburse Woods County for these bonds as they mature. ARRPA has not recorded any indebtedness for these bonds because ARRPA is not under any contractual obligation to repay these funds.

In July 2012, ARRPA entered into a line of credit for \$600,000. At the date of this report, \$600,000 had been advanced from this line of credit. In February 2014, this line of credit was replaced with a promissory note which matures in December 2019. The interest rate is 5%. At the date of this report, the principal balance was \$600,000.

NOTE 5 – ESTIMATES:

The preparation of financial statements in conformity generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Accordingly, actual results could differ from those estimates.

NOTE 6 – RISK MANAGEMENT:

Avard Regional Rail Park Authority is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. Avard Regional Rail Park Authority manages this risk through the purchase of commercial insurance policies. Claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. Avard Regional Rail Park Authority has had no claims that exceeded its insurance coverage.

NOTE 7 – CONTINGENCIES:

As of June 30, 2012, Avard Regional Rail Park Authority did not have any pending litigation or potential non-disclosed liabilities that management believes would have a material effect on the financial statements.

AVARD REGIONAL RAIL PARK AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
SIXTEEN MONTHS ENDED JUNE 30, 2012

NOTE 8 – FAIR VALUE OF FINANCIAL INSTRUMENTS:

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Avard Regional Rail Park Authority's financial instruments include cash and cash equivalents, accounts receivable, accounts payable and notes payable. Avard Regional Rail Park Authority's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of net assets. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments

NOTE 9 – EVALUATION OF SUBSEQUENT EVENTS:

Avard Regional Rail Park Authority has evaluated subsequent events through September 5, 2014, the date which the financial statements were available to be issued.